

INTERNATIONAL CONFERENCE  
FOR SUPPORT TO LEBANON - PARIS III

4

**FOURTH PROGRESS REPORT - ONE YEAR ON**



REPUBLIC OF LEBANON  
MINISTRY OF FINANCE

INTERNATIONAL CONFERENCE  
FOR SUPPORT TO LEBANON - PARIS III



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31 December 2007

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## EXECUTIVE SUMMARY

Since the International Conference for Support to Lebanon “Paris III” held on January 25, 2007, and during the course of the past year, significant progress was achieved in the implementation of the reform program and in discussions with the donor community attesting to the effectiveness of the institutional structure that was put in place by the Government. This report summarizes the progress achieved during the past year and consolidates information available in the quarterly progress reports issued during the year<sup>1</sup>.

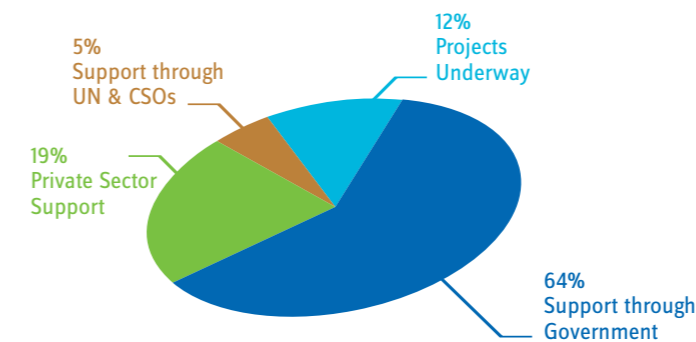
A total of \$7,613 million<sup>2</sup> was pledged in Paris III. By end 2007, agreements were signed for a total of \$3,665 million. These agreements include \$1,292 million for budget support, \$120 million for support through the Central Bank, \$944 million for promoting growth through private sector support, \$1,023 million in project financing and \$285 million in-kind support.

On April 7, 2007 Lebanon entered into an Emergency Post Conflict Assistance (EPCA) agreement with the International Monetary Fund (IMF). This agreement led to three quarterly missions assessing the performance under the agreement during 2007. Each assessment concluded that the program is on track with the Lebanese authorities meeting all end quarter targets. The last mission of November 1 - 9, 2007 reported that the indicative quantitative targets were met with comfortable margins and that throughout the period fiscal adjustment was stronger than anticipated and net debt was reduced quicker than expected. The IMF expects the Government to comfortably meet the fiscal targets set in the EPCA program for the year 2007 as well as the target on international reserves.

To sustain the reform momentum generated at Paris III, the Government has, for the first time, set an institutional structure to conduct, coordinate and monitor the implementation of the socio-economic reform program. The structure ensures strong ownership and shared responsibility among public entities as each natural owner developed and signed a Paris III commitment document which includes: detailed work plans, milestones of key deliverables, key performance indicators in addition to funding and technical assistance requirements. The signed document was submitted by every natural owner to the Prime Minister and has been the basis upon which the concerned Inter-Ministerial Committees have been monitoring reform progress, and will continue to do so.

The Paris III reform program includes 272 initiatives, grouped into 50 programs allocated to 15 natural owners. Despite a difficult operating environment the Government launched 122 short-term initiatives in 2007, which were prioritized based on their expected socio-economic impact, degree of legislative requirements and ease of securing budget. Those were distributed as follows: (i) 44 social initiatives focusing on strengthening social safety nets, and reforming health and education sectors, the labor laws and the pension system; (ii) 37 fiscal adjustment and economic initiatives focusing on streamlining expenditures, reforming state owned enterprises, specifically Electricité du Liban (EdL), and raising revenues in ways that minimize the negative impact on the poor in addition to growth-enhancing structural reforms geared to improving the business climate and competitiveness; and (iii) 41 infrastructure development and privatization initiatives intended to reform the telecommunications and power sectors.

### Updated Distribution of Pledges Total \$7,613 million



Source: MOF collected data by December 31, 2007.

<sup>1</sup> The first three progress reports, published in April, July and October 2007, are part of the Government's policy to provide regular updates on reform implementation and external assistance. These reports are available on [www.finance.gov.lb](http://www.finance.gov.lb).

<sup>2</sup> The same exchange rates have been used as previous progress reports to allow for comparison. In particular €1=\$1.3.

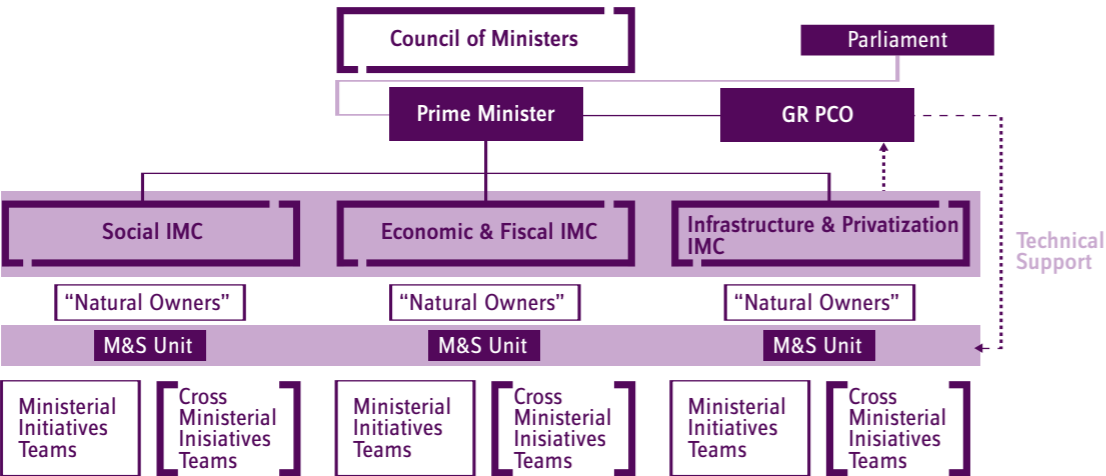
# IMPLEMENTATION OF THE REFORM PROGRAM

Despite continued political and security challenges, natural owners<sup>3</sup> have pushed ahead with the implementation of the government reform program presented at the International Conference for Support of Lebanon - Paris III. To sustain the reform momentum generated at Paris III, the Government established an institutional structure ensuring strong ownership and shared responsibility among public entities. To enhance the chances of success, the Government sequenced the implementation of reforms, giving high priority to those with impact in the short term.

## A. Institutional Structure for Implementing Reforms

The Government established an institutional structure to conduct, coordinate and monitor the implementation of the socio-economic reform program. This institutional structure consists of a Government Reform Program Coordination Office (GR-PCO), based at the Office of the President of the Council of Ministers, entrusted with liaison and support of the work of three Inter-Ministerial Committees (IMCs) (Social, Economic, Infrastructure & Privatization), chaired by the President of the Council of Ministers. The three IMCs consist of the "Natural Owners", i.e. the line ministries and public sector entities directly involved in the implementation of Paris III reform initiatives<sup>4</sup>. The IMCs meet regularly to resolve issues escalated from the natural owners and to prioritize sector initiatives.

GR-PCO Structure



<sup>3</sup> Natural Owners are line ministries and public sector entities that are directly involved in the implementation of Paris III socio-economic reform programs.

<sup>4</sup> The Social Inter-Ministerial Committee includes the Ministers of: Social Affairs, Public Health, Education and Higher Education and Labor, and the Director General of the National Social Security Fund.

The Economic Inter-Ministerial Committee includes the Ministers of: Finance, Economy and Trade, the Minister of State for Administrative Reform and the Central Bank Governor.

The Infrastructure and Privatization Inter-Ministerial Committee includes the Ministers of: Telecommunications, Energy and Water, Transportation, and the Secretary General of the Higher Council for Privatization and the President of the Council for Development and Reconstruction.

Natural owners were trained on the GR-PCO processes and tools. In 2007, each natural owner, supported by a Monitoring and Support Unit:

- Reviewed, updated and finalized Paris III sector initiatives and programs and identified short-term priority initiatives based on expected socio-economic impact, degree of legislative requirements and ease of securing budget. The allocated initiatives were endorsed in the IMC meetings held between May 15 and 17, 2007.
- Developed program charters and detailed work plans that include the objectives, key implementation risks, resource requirements, milestones of key deliverables and key performance indicators. Program charters are intended to establish program monitoring mechanisms in order to manage implementation of own initiatives. Program charters were endorsed in the IMC meetings of July 4 and 5, 2007.
- Developed resource plans, which included funding and technical assistance requirements, classified into short-term (needed before August 2008) and long-term. Those were discussed and filtered in the IMC meetings of August 22 to 24, 2007 and in the quarterly donor briefing held in October 2007.
- Developed a Paris III Commitment Document that includes: detailed work plans, milestones of key deliverables, and key performance indicators, in addition to funding and technical assistance requirements. The documents were signed and submitted by each natural owner to the Prime Minister in November 2007; they will be the basis upon which the IMCs will monitor reform progress.
- Started a steady-state implementation progress reporting in accordance with established mechanisms.
- Monitored performance against targets, identified gaps and resolved potential risks and issues periodically.



Third donor meeting on the implementation of the reform program, October 4, 2007.



## IMPLEMENTATION OF THE REFORM PROGRAM

### B. PROGRESS IN IMPLEMENTING THE REFORM PROGRAM

Despite all hardships that befell the country, the Government has been steadfast in pursuing the reform program and in proceeding with its implementation, making the principles of transparency and accountability cornerstones of its mode of operations.

The socio-economic reform program includes 272 initiatives<sup>5</sup>, grouped into 50 programs allocated to fifteen natural owners. In 2007, the Government launched 122 priority short-term initiatives, which were prioritized based on expected socio-economic impact, degree of legislative requirements and ease of securing budget. Those initiatives were distributed as follows: 44 social sectors, 37 fiscal adjustment and the economy and 41 infrastructure development and privatization.

This section highlights the progress achieved in implementing these reforms. It is testimony that there is a will to reform and that progress of reform is possible even under adverse conditions. The section also lays out the immediate next steps planned to further advance the reforms.

#### 1. SOCIAL REFORM PROGRAM

For the first time ever, the Government developed a Social Action Plan as an integral part of its reform program. The Social Action Plan is being implemented by five natural owners: The Ministries of Social Affairs, Public Health, Education and Higher Education, and Labor, and the National Social Security Fund. The main objectives are to: (i) alleviate poverty and improve the quality of education and health indicators; (ii) improve the efficiency of public social spending and keep it at an appropriate and sustainable level; and, (iii) reduce regional disparities in development indicators through a proper distribution of investment and other resources and encourage investment and other job-creating activities in the more deprived areas.

The social reform program includes 101 initiatives or 37 percent of the total. End 2007, 44 initiatives had been launched with focus on strengthening social safety nets, and reforming health and education sectors, the labor laws and the pension system.

#### Ministry of Social Affairs

The Ministry of Social Affairs has worked towards **enhancing the management of the social sectors**. The Ministry institutionalized coordination among stakeholders by leading and supporting the Social Inter-Ministerial Committee. With a view to elaborating an overall social strategy and eliminating overlapping and duplication in social interventions, the following concrete measures were taken in 2007.

The final version of the social strategy framework was developed and shared with the technical secretariat of the Social Inter-Ministerial Committee in September 2007 for feedback. Subsequent discussions were held among stakeholders and, in November 2007, the framework was submitted to the IMC for endorsement. In the first quarter of 2008, a technical team will be mobilized to develop, on the basis of the framework, a comprehensive social strategy.

The Ministry addressed the duplication in service delivery and program implementation among the Ministries of Social Affairs, Education and Public Health. The relevant data were collected, processed and consolidated in a presentation of findings that will serve as the basis for bilateral meetings among the concerned ministries in the first quarter of 2008.

#### PROGRESS IN IMPLEMENTING THE REFORM PROGRAM

The Ministry has been working on **strengthening the poverty and vulnerability focus of the safety net programs** to improve the effectiveness of social assistance and the access to basic social services. With technical support from the World Bank, and based on the 2004 Multipurpose Household Survey, the major elements to set a targeting mechanism based on proxy means testing were developed. The targeting formula and household application forms were finalized. Piloting in one region will be implemented in the first quarter of 2008 to test the suitability and efficiency of the process and procedures. The pilot will enable further development of the formula after which the national rollout will start.

The Ministry mobilized resources from the UN Lebanon Recovery Fund to expand the delivery of proximity services to the disabled – one of the recommended safety nets included in the Social Action Plan. Rights and Access, in cooperation with UNDP, coordinated the needed procedures to enable delivery of services to be initiated beginning 2008.

The Ministry has also embarked on **enhancing the coordination of local development initiatives**. A mapping of local development projects implemented by government institutions and/or major donors was produced with support from Art Gold by a UNDP local-level development project implemented through CDR. The mapping, which includes details of local development projects executed during the 2001 – 2007 period in addition to planned projects, was reviewed based on comments received from the technical team of the Social IMC and the Art Gold Project. Based on the mapping, an automated database including all local development projects is under development and is expected to be finalized in the first quarter of 2008.

5 The 272 initiatives are divided into 101 social, 108 economic and 63 infrastructure development and privatization initiatives.

## Ministry of Public Health

The Ministry of Public Health (MoPH) has worked towards **upgrading primary healthcare services** in order to improve health outcomes, reduce health equity disparities, reduce unnecessary hospitalization and contain costs. The planned initiatives aim to revitalize primary healthcare (PHC) through the implementation of a five-year action plan based on a recently developed primary healthcare strategy. The number of contracted centers in the PHC network increased from 85 to 117 in 2007.

In parallel, the Ministry developed a PHC accreditation program. The program, which commenced in June 2007, funded by the Italian Development Co-operation and implemented by the Faculty of Health Sciences at the University of Balamand, was finalized in December 2007. A draft accreditation tool was developed and tested on ten pilot centers in October and November 2007. Based on the findings of the field work, two of the ten centers in Tripoli and Nabatiyeh were provided with on-the-job training on its implementation between November 26 and 30, 2007. The training included: (a) the role of the PHC center in the community, (b) the catchment area of the PHC center; and, (c) organizational issues in the PHC center. A national workshop took place on December 14, 2007 to discuss the findings of field work, the suggested list of indicators and action plan for reaching a suitable PHC accreditation system in Lebanon.

## IMPLEMENTATION OF THE REFORM PROGRAM

The next steps before closing the project in January 2008 include: (i) preparing a report on the situation analysis study of the ten pilot health centers; (ii) providing comprehensive feedback on the “developed” data collection tool that includes variables suggested to be used as indicators of quality assurance and performance improvement; (iii) submitting a report on the “on-the-job” training using the information package developed in the two selected pilot health centers; (iv) providing a list of indicators of quality assurance and performance improvement as recommended through the field study and reviewed and approved through the national consensus obtained in the national workshops; and, (v) providing an action plan, subsequent to the development of the list of standards, on how to implement the accreditation process.

The Ministry of Public Health is **implementing and institutionalizing a public hospital accreditation program**, in collaboration with the Ecole Supérieure des Affaires (ESA). The contract was signed in May 2007 and experts from the French Health Authority were mobilized in the third quarter of 2007 to: (i) conduct training on accreditation, (ii) establish a short list of “accredited” certification companies, (iii) update and upgrade accreditation standards, and (iv) conduct a survey of public hospitals.

The training program on accreditation was launched in November 2007 for 27 public hospitals. The first step of the collective training, held at the ESA, was finalized in mid-December 2007 and will be followed by two field visits for each hospital between January and April 2008. The two field visits will consist, each, of two days on-the-job training and coaching on the implementation of accreditation standards and undertaking self-assessment. Public hospitals will then be audited by the experts, between May and July 2008, based on Lebanese accreditation standards.

Towards the **rationalization of health expenditures**, the Ministry is utilizing a World Bank grant signed in October 2007 to introduce a utilization review function at the MoPH, develop 30 hospital admission protocols, and realign MoPH coverage towards more cost-effective healthcare facilities. Activities include: (i) designing and initiating the implementation of a new utilization review system that includes new assessment rules for payment and an upgraded IT function; (ii) developing a set of clinical criteria for more effective management of in-patient admissions; and, (iii) improving the contracting mechanism with hospitals by including new performance indicators and developing a plan to shift MOPH patients to more cost-effective facilities under contract with the MOPH. The grant activities were launched in October 2007 and the terms of reference, cost estimates and implementation plan have been finalized. Recruitment and mobilization of the consulting team will start in January 2008.

The Ministry of Public Health has further **developed common insurance standards, procedures and functions**. Initiatives in 2007 focused on: (i) completing the pilot testing of the visa billing system, and (ii) updating the National Health Accounts to make health expenditure data available for appropriate and targeted health policies.

The ongoing pilot testing of the visa billing system in Dahr el Bashek hospital has been successful. The accounting module of the billing system is being finalized. In parallel, a new program is under implementation at the administrative office of the MOPH hospital department; it aims to establish an on-line link between the administrative office, the audit committee and the Accounting Department.

Matrices for 2004-2005 National Health Accounts are being finalized. Data from all public funds and some of the private health insurance companies were forwarded to the MOPH to institutionalize the collection and extraction of data from each public fund for 2006 and 2007. The collection of the remaining data from the private sector and from the 2004 household survey undertaken by the Central Administration of Statistics is underway.

The reform effort to fully **develop and operationalize the National Expanded Program on Immunization (EPI)** builds on support provided by UNICEF and WHO in order to scale up current activities. The MoPH and UNICEF agreed on a one-year work plan with focus on strengthening routine and supplementary immunization services, and consisting of five components: program management, service delivery, communication, capacity-building and monitoring and evaluation. In 2007, the activities focused on the upgrading of the EPI management information system (MIS). 31 PCs were delivered to 31 vaccine distribution centers and staff was trained on the upgraded MIS. Field visits to follow-up on the installed upgraded EPI MIS will be undertaken. The next step consists of developing a dial-up system to transfer data from vaccine distribution centers to the MOPH.

Further, first and second rounds follow-up of the “Reach Every District” approach were conducted in Bint Jbeil, Baalbeck, Akkar, Minieh - Denniyeh and Hermel districts. The focus is now on initiating the implementation of outreach activities in these five districts through the development of work plans with partner NGOs, which started in December 2007. Also, the Knowledge Attitude, Behavior and Practices (KABP) survey was completed. It covered the barriers to EPI and other health issues. The draft report was submitted in December 2007.

## IMPLEMENTATION OF THE REFORM PROGRAM

Under the **epidemiological surveillance program** and based on the assessment conducted by a WHO consultant, a project is being finalized to develop the capacity of five regional laboratories in Beirut Rafic Hariri Hospital, and in the Nabatiyeh, Tripoli, Zahleh, and Saida public hospitals. The project aims at providing equipment and training to these labs to support surveillance activities. The implementation of the project is pending the availability of funds. Another project under preparation is intended to train 30 surveillance teams.

In addition, the integration of the National Cancer Registry, a formerly independent program, within the routine functions of the MOPH, is conducted through co-financing from the Italian health cooperation project and the MOPH. The updating of the records for 2004 and 2005 was done and records for 2007 are being integrated in parallel. Records for 2008 will be integrated as of January 2008 in parallel with 2006 records.

The Ministry of Public Health has progressed on the **pharmaceutical reform front** by re-pricing all drugs registered between 2000 and 2006. As of beginning December 2007, 56 percent of drug files in this category had been reviewed. As a result, prices of 24 percent of the reviewed drugs were reduced and prices of the remaining 32 percent of drugs did not change. The review of all drugs in this first category will be finalized by mid-January 2007.

With respect to the drug distribution system, the central drug warehouse information system was upgraded to shift to a new logistics support system that serves routine and emergency distribution. Training sessions were held for personnel at the Karantina central warehouse. The next step will be to establish a link between the warehouse and the MOPH and, subsequently, between the warehouse and the peripheral drug distribution centers. Also, the distribution of cancer drugs was decentralized through the establishment of six regional distribution centers.

### Ministry of Education and Higher Education

The educational sector has witnessed significant change, resulting from the implementation of the three-year reform program adopted by the Ministry of Education and Higher Education (MEHE).

A number of initiatives were launched to **consolidate policy, planning and resource allocation**. The Education Sector Strategy document was sent to the Council of Ministers in September 2007 for endorsement. The strategy aims at providing: (a) education on the basis of equal opportunity, (b) quality education that contributes to building a knowledge society, (c) education that contributes to social integration, (d) education that contributes to economic development, and (e) improved governance of education.

The MEHE has worked towards establishing an integrated Policy, Planning, Monitoring and Information Management Unit within the Ministry. The unit will be responsible for developing an evidence-based approach to policy formulation, translating policy goals into national education sector business plans, ensuring the achievement of policy goals through rigorous performance monitoring, and ensuring the adoption of a performance-based approach to budgeting and resource allocation.

Within this context and in close collaboration with the Ministry of Finance and the World Bank, good progress has been made on the development of a Performance-Based Budget / Medium-Term Expenditure Framework. This activity, launched in June 2007, is intended to prepare an "extended" budget request for 2009 based on the Medium-Term Expenditure Framework, combining capital and recurrent budgets and performance budgeting principles. The shadow budget, due by the end of first quarter of 2008, will include forward estimates for the years 2009 through 2011 and key performance indicators aligned with expenditures in a program-based structure, which links the financing proposed to the achievement of education sector objectives. To this end, a technical committee was established at the Ministry to be the core counterpart in preparing a shadow budget; and, a team from the Ministry was sent on a study tour

to Morocco to get acquainted with the Moroccan experience in this context. Further, a consultant was mobilized in October 2007 to assist in the translation of the ministry's strategic plans into a budget proposal within a medium-term framework. The inception and situation analysis reports were submitted on December 7, 2007. A workshop on performance-based budgeting concepts and methodologies is planned to be held jointly by the Ministry of Finance and the Ministry of Education in January 2008.

The Ministry has been implementing the Education Management Information System (EMIS) at MEHE and the School Information System at schools. Technical specifications for providing and installing EMIS hardware were completed. In terms of connectivity, the feasibility study for establishing a National Education Network was finalized. The MEHE signed a Memorandum of Understanding with the Ministry of Telecommunications and OGERO to establish the National Education Network. In the first phase, 200 schools and regional centers will be connected to MEHE's headquarters in the first quarter of 2008. Furthermore, the School Information System was installed in 250 secondary schools and teachers are being trained to use the software. The School Information System will become fully operational when 1500 schools will be linked to the EMIS through one main computer station, one end-user station and related accessories in each school. Towards this end, a contract was signed in September 19, 2007 with a company to supply MEHE with School Information System equipment for the 1500 schools; distribution of the equipment will start in January 2008.

A firm was selected in September 2007, to undertake organizational restructuring and staff development at MEHE and the inception and action plan reports were submitted in December 2007. The new organizational structure and main functions to accompany this structure are expected to be submitted in the first quarter of 2008.

## IMPLEMENTATION OF THE REFORM PROGRAM

The efforts of MEHE to improve the efficiency, effectiveness and competence level of the teaching force resulted in the completion of the Leadership Development Program by 450 school principals (40 percent of public school principals). Among those, 40 selected master trainers completed the "Train the Trainers" program in Canada in October 2007. In order to maintain sustainability and development of this program for school principals, work is in progress to institutionalize the Leadership Program within MEHE and the Lebanese University.

As for instructors' development, 15 regional resource centers were established throughout Lebanon for in-service training and 270 instructors were selected and trained to become Master Trainers. Twenty-four candidates are being trained by NGOs to provide support to students with special needs. Furthermore, MEHE selected a consultant to develop evaluation tools for the Instructors' Continuous Development Program. The needs assessment report on the development of evaluation tools will be submitted in the first quarter of 2008.

There has been good progress towards enhancing the assessment of academic achievement. After the development of the Exam Management System (EMS), the development of EMS software is underway in order to automate the administration of the official examination processes for grades 9 and 12. The EMS will be installed in the Department of Examination. EMS is expected to be implemented for the 2008 official exams. The Question Bank System and the Exam Generation System were tested successfully in the second session of official examinations on 60 percent of subjects for grade 12 (Baccalaureate) in September of 2007. Following the training of 256 question writers and the completion of the Question Bank System development, the system is expected to be fully used in the 2008 official examinations.

MEHE has worked on reviewing and updating the curriculum. A new curriculum was developed by the Education Center for Research and Development for pre-school and cycle 1; the development of curricula for remaining cycles is underway. In addition, MEHE completed the "Dictionary of Competencies", a trilingual glossary of pedagogic terminology related to the adoption of a competency-based approach to education in Lebanon. The launch of the glossary took place on December 12, 2007.

### Ministry of Labor

The Ministry of Labor (MoL) has focused on the following short-term measures, for which it set detailed work plans: (i) revising labor laws to facilitate employment of temporary and seasonal workers, and youth labor, and (ii) enhancing the capacity building and automation at the Ministry of Labor.

In the last quarter of 2007, a committee comprised of specialists, judges and administrators was set in order to review existing labor laws and propose preliminary changes to the procedures. The committee finalized the revision of existing labor laws to facilitate employment of temporary and seasonal workers. The proposals for the laws were submitted to the Minister of Labor in November and were approved by the Consultative Council. The proposals will be submitted to the Council of Ministers for endorsement in the first quarter of 2008.

The Ministry of Labor is also working on human capacity building. Terms of reference for consultants were prepared and the process of launching requests for proposals was initiated. The selection process will be undertaken in coordination with the Office of the Minister for Administrative Reform (OMSAR). However, recruitment of consultants is contingent on the availability of funding.

### National Social Security Fund

The reform of the National Social Security Fund (NSSF) is a priority because of its social, economic and fiscal impacts. Reform initiatives revolve around: (i) rationalizing and expanding the coverage of social insurance system, (ii) strengthening NSSF governance and administration, (iii) improving NSSF financial sustainability and (iv) strengthening income protection policies.

Significant progress was recorded on the different reform initiatives through the following work streams launched in 2007.

The National Social Security Fund makes use of a World Bank grant to support the design and implementation of two key systems over a period of eighteen months: (i) electronic claims processing and utilization control systems, and (ii) registry of plan members and collection of contributions. The grant will also support the following activities: (i) an actuarial valuation of the health insurance branch; (ii) the estimation of the government arrears with the NSSF and the design of a refinancing plan; and, (iii) the design of at least three reform options for the health insurance branch, including assessment of welfare and fiscal impacts.

With regard to electronic claims processing and utilization control systems, the list of assessment rules was further developed and refined through additional workshops with NSSF Medical Controllers. All the current NSSF memos and protocols have been identified and are being translated. They will then be analyzed and, where relevant, incorporated into the rules module. An IT expert has been assessing the rules to identify the most appropriate way to develop them into a module that can then be integrated into the NSSF claims management system.

Enhancing the range of the utilization review program has also progressed. Work is underway to develop the utilization control strategy, including a suite of utilization control programs and a suitable organizational structure. Also, the development of a utilization analysis tool is underway. A standard set of routine reports is being developed to assist in the overall monitoring of the health system managed by the NSSF. In addition, a number of routine reports were identified that are specifically designed to assist the medical controllers to identify and investigate specific types of inappropriate claims. A paper describing these various types of reports was presented in mid December.

Reforms for enhancing the financial stability of the NSSF and developing policy options have progressed. An actuarial model to project the expenditures of the health branch was completed and preliminary baseline simulations were conducted. Work has been ongoing to refine the methodological issues.

Further, a policy note outlining the main challenges facing the health branch at the NSSF and options for reform is being prepared. Building on the actuarial model, the policy note will present alternative (two or three) reform options. The outline of the policy note has been developed by World Bank staff and an international expert. It is expected that a local expert will be recruited in the first quarter of 2008 to work with a team on the policy note.

The auditor, appointed in July 2007, has started work on the audit of the accounts of 2001. The audit report will be ready by March 2008.



Prime Minister Siniora with the Board of NSSF on December 7, 2007.

## 2. ECONOMIC AND FISCAL REFORM PROGRAM

The economic and fiscal reform program includes 108 initiatives or 40 percent of total. This program is implemented by four natural owners: The Ministry of Finance, Ministry of Economy and Trade, Central Bank, and Office of the Minister of State for Administrative Reform. The main objectives of the program are: (i) fiscal adjustment that aims at increasing the primary surplus through streamlining expenditures, reforming state owned enterprises, specifically Electricité du Liban (EdL), and raising revenues in ways that minimize the negative impact on the poor; (ii) a prudent monetary and exchange rate policy aimed at maintaining price stability (and with it social stability), facilitating credit to the private sector, and maintaining a sound banking system; and (iii) growth-enhancing structural reforms geared to improving the business climate and competitiveness.

By the end of 2007, there were 37 economic and fiscal adjustment initiatives launched and in progress. The financial and fiscal pressures resulting from the July 2006 war waged by Israel have been skillfully managed as the authorities were able to meet, for the third consecutive quarter, all end-September quantitative targets under the Emergency Post-Conflict Assistance (EPCA) program supported by the IMF. Throughout this period, fiscal adjustment was stronger than anticipated and the net debt was therefore reduced quicker than expected. The International Monetary Fund mission that visited Lebanon from November 1 to 9, 2007 concluded that “the primary balance and net debt targets for end-September were met with significant margins and the program targets on international reserves and government net borrowing from BDL were also met comfortably”. Due to this strong performance, the mission also concluded that: “fiscal targets for 2007 appear achievable with an ample margin and the target on international reserves is also achievable”.<sup>6</sup>

## IMPLEMENTATION OF THE REFORM PROGRAM

## Ministry of Finance

The Ministry of Finance has recorded tangible progress throughout 2007, most notably in the six programs intended to: (i) **rationalize current expenditures**, (ii) **enhance revenue collection**, (iii) **implement a full-fledged public financial management reform**, (iv) **modernize the revenue administration towards a function-based structure**, (v) **modernize the debt management** and (vi) **improve the business environment**.

The Ministry of Finance has worked towards **rationalizing current expenditures** in order to reduce waste and increase the effectiveness and productivity of spending. The 2008 Budget Proposal was prepared under tight expenditure policy measures that were set and communicated in the 2008 Budget Circular and which stipulated the following: (i) reducing to a minimum official travel expenses and revisiting travel allocations, (ii) reducing waste related to gasoline consumption and communication costs in the public sector, (iii) containing the wage bill through putting hiring freeze into effect, stipulating the need for Council of Ministers decision for any urgent hiring, and (iv) asking spending agencies to reduce by 5 percent their various expenses and to come up with proposals for potential saving areas<sup>7</sup>. As a result, total planned budget spending for 2008 is 3 percent lower compared to the 2007 Budget Proposal. The 2008 Budget Proposal was endorsed by the Council of Ministers and forwarded to the Parliament on November 24, 2007.



Ministry of Finance promotes youth activities, October 8, 2007.

<sup>6</sup> For more detailed information, kindly refer to Appendix A “IMF - Report on Performance Under the Program Supported by Emergency Post-Conflict Assistance”.

<sup>7</sup> The Budget 2008 Proposal and Circular may be found on the Ministry of Finance website: [www.finance.gov.lb](http://www.finance.gov.lb)

The planned phasing-out of the Council of the South and Fund for the Displaced is another important step taken towards containment of current expenditures. Decree # 292 of April 27, 2007 accorded the Council and the Fund a treasury advance of LL 100 billion (LL 40 billion for the former and LL 60 billion to the latter). By end of November, the amounts due to the Fund for the Displaced and the Council of the South as per decree # 292 were paid.

Further, in order to audit and rationalize expenditures on oil, the Ministry of Finance has held working sessions with Electricité du Liban and the oil purchase department at the Ministry of Energy and Water. Subsequent discussions and reporting have resulted in the projection of more accurate spending figures and the formulation of more efficient accounting procedures. The Ministry of Finance has been also involved in the re-negotiation with Algeria's Sonatrach of the terms of the two contracts for fuel oil and gas oil purchases.

The MoF has continued to **enhance revenue collection**. Substantial over-performance was recorded as total revenues increased by around 19 percent for the period January - November 2007 compared to the same period of last year. More specifically, revenues from Casino du Liban increased by 57 percent due to the agreement between the Government and Casino Management, whereby the Treasury's share of Casino revenues increased from 30 percent to 40 percent as of 2007. Also as part of revenue enhancing and administrative reform, synchronization of information systems between the two systems of the Land Registry at the Cadastre and the Built Property Tax Administration was completed in November 2007 (after initial linkages were established on January 1<sup>st</sup>, 2007). As a result, the built property tax database is being updated and becoming more comprehensive; comparative figures indicate that built property tax revenues increased by 19 percent in the period January - November 2007 compared to the same period last year.

<sup>8</sup> Decision # 1281 dated August 20th, 2007.

A technical assistance mission was conducted by the International Monetary Fund in November 2007 to study the options for scaling back subsidies on gasoline (as well as agricultural and electricity subsidies). The mission stressed the importance of aligning domestic prices with international prices, and suggested the possibility of revisiting the fuel pricing formula. It was recommended that the cost structure of the formula be based on efficient operations, with a view of limiting the adverse impact of higher international prices or ultimately higher excises on gasoline retail prices.

The MoF has been **implementing a full-fledged public financial management reform**, in particular with regard to budget coverage and preparation mechanisms. In terms of budget coverage, the budget 2007 proposal enlarged the scope of budget coverage by integrating, for the first time, the largest extra-budgetary entities, namely the Council for Development and Reconstruction (CDR) and the Higher Relief Committee (HRC).



Signature of MOU with Lebanese Transparency Association on October 25, 2007.

## IMPLEMENTATION OF THE REFORM PROGRAM

The Ministry has also launched a top-down budgetary process by including the medium-term expenditure framework as part of the Budget 2008 Circular issued in May 2007. The medium-term expenditure framework constitutes a general guideline for the spending agencies over three-year period and sets a global budget ceiling for 2008. The Ministry held a series of workshops to present the new budget preparation techniques to spending agencies and has worked with the Ministry of Education and Higher Education (MEHE) as pilot ministry to prepare a performance-based budget and medium-term expenditure framework. The MEHE will prepare its budget 2009 in a three-year performance-based budget framework (2009-2011) and present it to the MoF as a shadow budget along with the classical budget by March 2008.<sup>9</sup>

The MoF has worked on improving cash flow forecasting. A Cash Management Unit was established to improve cash management practices across government entities.<sup>8</sup> In the last quarter of 2007, a needs assessment report was prepared to identify the gaps between projected and executed expenditures and revenues with the objective of reducing idle balances through streamlining payments and receipts. Furthermore, work has been in progress to launch the exercise of forecasting with pilot agencies in order to finalize the process and set a schedule of payments for the concerned entities. This planning process, once finalized, will help improve the accuracy of intra-year forecasts for cash positions, which will result in overall fiscal savings and a reduction in debt and debt servicing.

A number of structural measures were undertaken to **modernize the revenue administration towards a function-based structure** with strong headquarters, fully automated business processes, risk-compliance and skilled and professional staff. New departments were organized and staff allocated according to the design of the reformed administration. Further, many related initiatives were launched and progressed throughout 2007 and are expected to be finalized in the first quarter of 2008. First, follow-up collection is being moved from

treasury to tax offices; second, transactions to be processed in satellite offices and related procedures have been prepared; and, satellite offices are being launched gradually starting with the most important sub-regions in terms of fiscal coverage.

Concerning tax administration and modernizing legislation, the draft law for introducing the Global Income Tax was finalized and approved by the Council of Ministers on November 15, 2007. Related regulations, tax policies, forms, guides as well as business processes and procedures are being developed and planned to be finalized in the first quarter of 2008. Further, the Tax Procedure Code, which was approved by the Council of Ministers in the first quarter of 2007, is being finalized by Parliamentary Committees. The related implementation regulations are being developed and expected to be finalized by the end of the first quarter of 2008.

The launch of the e-services, expected to be finalized in the first quarter of 2008, will constitute a major breakthrough for both the citizens and the administration. To those ends, the registration forms and documents have been finalized, the necessary decrees and decisions issued and the required systems and procedures were developed. By the end of the first quarter of 2008, the necessary systems and procedures for e-registration and e-filing will have been finalized, the registration team within tax roll trained, the necessary equipment installed and the communication campaign launched.

Progress has been achieved to put in place a new audit strategy based on risk selection criteria, new audit techniques and a scoring system for the "cease of activity" transactions, in addition to other related deliverables, such as selection criteria, performance indicators and the necessary business processes and procedures. The necessary automated functions will be completed by the end of the first quarter of 2008.

## Ministry of Economy and Trade

The Ministry of Economy and Trade (MoET) throughout 2007 has demonstrated good progress, most notably in growth-enhancing structural reforms intended to: **(i) encourage investment, (ii) promote and strengthen intellectual property, (iii) facilitate trade, and (iv) improve the business climate.**

Within the context of **fostering a climate more conducive for investment in Lebanon**, the MoET adopted two key initiatives, namely reducing the overall effort it takes to open and register a business, and offering strategic support to the small and medium enterprises sector.

Managed by the MoET and funded by the International Finance Corporation (IFC), the initiative to streamline business registration procedures has involved the participation of the Ministries of Finance and Justice as well as LibanPost, the future sites of a one-stop shop for new business registration. A user guide has been finalized to serve as a manual that lays out the details and requirements of the registration process, and further to provide a full picture of the range of options available to investors in this regard. The guide will be published and widely disseminated when the new procedures come into effect towards first quarter of 2008.

An integral component of this reform initiative, and part of the reforms undertaken for accession to the World Trade Organization, is a set of changes in the MoET's internal procedures that belong to the larger inter-governmental clearance process to facilitate foreign company registration in Lebanon. This includes the cancellation of fees that foreign companies are required to pay for their registration and for publication in the Official Gazette, two measures that have been included in the 2007 and 2008 Budget Proposals, respectively. Additionally, the MoET has streamlined its internal procedures by forging deeper coordination among its relevant offices and departments, namely the Boycott Office, the Intellectual Property Protection Office and the Companies Section, which is expected to reduce the MoET's clearance time for business registration to about two days.

The Lebanese Government assigns great and high importance to **modernizing the debt management** due to the high debt burden. The Ministry of Finance is preparing a debt management strategy where public debt management objectives are explicitly articulated. The strategy will lay out: (a) the present size and structure of debt, (b) the risks and the objectives of the management policy, which will eventually lead to minimizing these risks, and (c) updated measures to achieve these objectives. The strategy will be updated annually in accordance with economic developments and market conditions. To increase transparency, the Ministry started publishing quarterly debt reports targeting policy makers, investors and the public. In October 2007, the third quarterly debt report was published and covered the public debt structure, domestic primary market debt and information related to secondary trading.<sup>10</sup>

In contributing to **improving the business environment and the competitiveness of the Lebanese economy**, the Ministry of Finance has undertaken a series of regulatory, financing and promotional measures. Within the context of promoting the creation of venture capital funds to facilitate financing, the BADER Building Block Equity Fund, a \$20 million fund focusing on Lebanese and Lebanese-related Small and Medium Enterprises (SMEs), held its closing ceremony on July 23, 2007 at \$17 million. In August 2007, the Ministry of Finance prepared several decisions for simplifying tax control procedures. Further, in November 2007, a decision<sup>11</sup> was issued to exempt all personal parcels, commercial samples, gifts and spare parts (of value up to LBP 500,000) from all customs, formalities, licenses and procedures. Related application and implementation measures are expected to be finalized in the first quarter of 2008. Furthermore, a joint decision was issued by the Minister of Finance and the Minister of Foreign Affairs stipulating the cancellation of the legalization documents related to the manifest of ships carrying cargo and passengers to Lebanon.<sup>12</sup>

The Ministry of Finance is negotiating a technical assistance program for fiscal reform with the World Bank; negotiations are expected to be completed early in 2008.

<sup>10</sup> The third quarterly debt report can be found on the Ministry of Finance website: [www.finance.gov.lb](http://www.finance.gov.lb)

<sup>11</sup> Decision # 67 dated 10 November 2007.

<sup>12</sup> Decision # 2356/2007/38 dated 27 November 2007.

<sup>9</sup> Kindly refer to the Ministry of Education and Higher Education Section for details.

## IMPLEMENTATION OF THE REFORM PROGRAM

The Integrated Small and Medium Enterprises Support Program of the MoET, funded by the European Union, is designed to improve the business environment and encourage investment in the private sector through (i) elaborating SME-friendly policies, (ii) developing business support services and (iii) improving access to finance. At the policy level, the program completed an extensive review to identify legal and procedural impediments faced by SMEs and has assisted the Ministry to formulate a five-year strategy for the sector's development; the latter of which benefited from extensive multiple stakeholder consultations<sup>13</sup>. In addition, a Lebanon-specific methodology for reporting on competitiveness is now available and may serve as a key function of a Competitiveness Council, as proposed in detail in the strategy document.

One of the main outputs of the SME Program is the establishment of the first nationally sustainable business support infrastructure in Lebanon that helped setting up four Business Development Centers (BDCs) operating across the country. These centers include: (i) Agripole, covering the Bekaa region and the agriculture sector, (ii) Berytech Health and Technology, covering Mount Lebanon and Beirut and the health and IT sectors, (iii) Business Incubation Association of Tripoli (BIAT), and (iv) SouthBic, covering northern and southern Lebanon, respectively, and the main sectors in those regions.

The MoET, through the SME Program, partnered with Kafalat, a loan guarantee company, to improve access to finance for the sector. This effort resulted in the release of Euro 40 million worth of credit guarantees not tied to collateral and, which, for the first time, open the door to innovative start-up enterprises.

Looking ahead, the SME Program will concentrate on proposing further reform amendments to laws affecting this sector, building up the BDCs' operational capacity, and supporting with technical assistance the establishment of non-loan based finance for SMEs in Lebanon. These activities will require additional funding.

To further facilitate trade and enhance trade competitiveness, the National Committee on Trade and Transport Facilitation (NCTTF) was activated in July 2007. During the last quarter of 2007, the NCTTF completed a needs assessment in four key areas: (a) Rafic Hariri International Airport, (b) Beirut Port, (c) multi-modal transport system and (d) land borders. Based on this review, the NCTTF presented recommendations to the Council of Ministers for consideration, and which will require financial support for implementation.

The MoET continues to lead national efforts to reform Lebanon's intellectual property (IP) regime as the Government moved forward in endorsing a set of key laws and amendments, which is also part of the overall effort to prepare for accession to the WTO. This progress includes amendments to the existing Copyright, Trademarks and Industrial Designs laws, the passing of a new Geographical Indications law, and adherence to the Patent Cooperation Treaty that regulates in detail the formal requirements with which any international application must comply. The MoET's capacity in the IP field will be enhanced as the Intellectual Property Protection Office (IPPO), will, in the first quarter of 2008 be able to permanently integrate the human resources that were formerly made available through the Protection of Lebanese Geographical Indications Project, funded by the Swiss Cooperation. Other efforts to enhance the IPPO are pending approval by Parliament.

To improve the business environment, the MoET, among others, prepared two laws which include establishing the Competition Authority and Protecting National Production through the application of anti-dumping, countervailing or safeguard measures, when needed. The Council of Ministers, in the last quarter of 2007, endorsed both the Competition Law, which now awaits Parliament approval, and also the implementation decree of the Law of Protection of National Production (also known as the Trade Remedies Law of December 8<sup>th</sup>, 2006). The decree sets the functions of the investigating authority and the procedures to be followed in the cases of dumping, prohibited subsidies, and sudden and threatening surge of imports, and will become effective as of its publication in the Official Gazette.

<sup>13</sup> More information about the SME Program and the strategy documents may be accessed at: [www.smelebanon.com](http://www.smelebanon.com)

Other activities to improve the business environment have been undertaken by the MoET's Quality Programme, which is funded by the European Union. Beginning in 2004, and expected to last until June 2009, the Quality Programme has sought to strengthen relevant management, capabilities and infrastructure in Lebanon with the chief objective of increasing the quality and safety of Lebanese products and services as well as encourage export opportunities, while conforming to international requirements.

The MoET, through the Quality Programme, has actively collaborated with the Lebanese Standards Institute (LIBNOR) to complete the drafting of a standardization law in both English and Arabic. Additional work has been undertaken towards the review, drafting and amendment of other quality related laws in the fields of technical regulations and conformity assessment, metrology, accreditation, quality infrastructure, which will be works-in-progress through first quarter of 2008.

### Central Bank

The Central Bank (Banque du Liban - BDL) has focused on (i) maintaining the floor on BDL gross reserves, (ii) transferring regulatory authority, and (iii) enhancing access of businesses to credit.

Within the context of maintaining the floor on BDL gross reserves, the figures to be submitted to the IMF were set according to a specific template developed by both parties within the context of EPCA program. As per the IMF "Report on Performance Under the Program Supported by Emergency Post-Conflict Assistance", BDL was able to increase its gross international reserves (excluding gold) by \$400 million in the third quarter to \$12 billion by end September 2007, higher than expected in the IMF EPCA program.

Further, the BDL Governor issued Decision # 9641 to regulate private credit bureaus on June 29<sup>th</sup>, 2007.

BDL has undertaken the following measures to enhance access of businesses to credit: (i) interest subsidy schemes have been introduced to provide favorable conditions for leasing; (ii) interest subsidy schemes have been extended to incubators and (iii) several programs have been launched to encourage banks to on-lend to SME clients through risk-sharing facilities.

Further, BDL in cooperation with the Council for Development and Reconstruction, finalized an agreement with the European Investment Bank (EIB) to provide €100 million in credit to small and medium enterprises in Lebanon. The loan is subsidized by €15 million grant from the European Commission, which will result in lowering the interest rate to the private sector. The loan agreement requires Parliamentary approval to become effective.



Meeting to discuss the economic reforms on January 5, 2008

### Office of the Minister of State for Administrative Reform

To promote governance and transparency in the public sector, the Office of the Minister of State for Administrative Reform (OMSAR) has continued work on modernizing the procurement code to help bring procedures to international standards. The draft law for public procurement and the draft law for the reorganization of the public procurement administration were finalized and endorsed by the Council of Ministers in October 2007.

OMSAR has progressed on the project of addressing corruption in the administration, with the Ministry of Finance and the Ministry of Public Works as the first volunteer public entities. OMSAR drafted the terms of reference for the consultancy that will carry out the anti-corruption project, subject to refinement as per feedback from upcoming meetings with the concerned ministers. The Memorandum of Understanding of the project between OMSAR and the two first candidate ministries was drafted by OMSAR and will be revised based on feedback from the concerned ministries.

OMSAR is developing modalities for outsourcing tasks carried out by the public sector and has already identified the tasks to be outsourced to the private sector in five Ministries (Economy and Trade, Social Affairs, Industry, Agriculture, Public Works).



Meeting on administrative reforms on December 6, 2007.

## IMPLEMENTATION OF THE REFORM PROGRAM

OMSAR has worked on modernizing and upgrading capabilities in the public sector. A consultant was contracted with the support of the Arab Fund for Economic and Social Development for the implementation of the e-Government strategy. Based on the terms of reference developed in July 2007, the consultant started on October 5, 2007 and successfully completed the mission, which included the review and update of the existing e-government strategy and the development of a high-level national action plan. The report was submitted by the Minister of State for Administrative Reform to the Prime Minister on December 6, 2007. In addition, the terms of reference for the e-readiness assessment are under preparation and will be finalized by end of January 2008. However, launching the bidding process for this project is subject to availability of funds.

Finally, in September 2007, OMSAR completed the assessment of training needs for the Ministry of Public Health in order to implement a training program. The preparation of terms of reference is underway.

### 3. INFRASTRUCTURE AND PRIVATIZATION REFORM PROGRAM

The infrastructure and privatization reform program includes 63 initiatives or 23 percent of total. This program is being implemented by six natural owners: the Ministry of Telecommunications, the Telecom Regulatory Authority, the Ministry of Energy and Water, EDL, the Higher Council for Privatization (HCP) and the Council for Development and Reconstruction (CDR).

To date, 41 initiatives, representing 65 percent of the infrastructure and privatization program, were launched.

#### Telecommunications sector

The telecommunications sector reform plan spans three major programs: (i) establishment of the Telecommunications Regulatory Authority (TRA), (ii) corporatization and privatization of Liban Telecom (LT), and (iii) privatization of mobile telecommunications.

The Telecommunications Regulatory Authority (TRA) was appointed on February 21, 2007 and the TRA began its regulatory work as of March 1, 2007. The TRA signed a Memorandum of Understanding with the Higher Council for Privatization on the allocation of regulatory responsibilities in June 2007. By the end of 2007, most telecommunications regulatory functions had been transferred from the Ministry of Telecommunications to the TRA.

The Ministry of Telecommunications has finalized the processes necessary for the establishment of Liban Telecom. Liban Telecom's organizational structure and corporate governance model were defined. The appointment of a Board of Directors for Liban Telecom and the creation of a Program Management Office have been scheduled for January 2008. After the appointment of a Board of Directors, the asset transfer into Liban Telecom and the development of accounting policies will be launched.

The privatization of the mobile operators has also progressed. On November 2, 2007, the Republic of Lebanon, acting through the High Council for Privatization and the TRA, launched the tender process for the sale of the two existing state-owned mobile telecommunications operators and the award of two twenty-year licenses to build, own and operate a mobile telecommunications network and provide mobile telecommunications services in Lebanon. A virtual data room has been open to interested bidders to review relevant documentation. Applications are due on February 1, 2008, and a live auction is scheduled for February 21, 2008.

## Power sector

The power sector reform plan consists of the following three pillars: (i) strengthening sector policy-making capacity, (ii) **improving EDL operational efficiency**, and (iii) **corporatization and privatization of EDL**.

The high-level Inter-Ministerial Committee entrusted with developing solutions to the problems of the electricity sector held several meetings in 2007 to follow-up on the implementation of adopted measures and projects.

**In order to strengthen the sector policy-making capacity**, an international consultant commenced in September 2007 to provide advisory services to the Ministry of Energy and Water, with financing from a World Bank grant. The consultant issued an inception report in December 2007. Furthermore, a grant was secured from Agence Française du Développement (AFD) to finance the execution of a Master Plan for the power sector by Electricité de France (EDF). EDF started work in September 2007, and is scheduled to submit the Master Plan by mid-July 2008.

**To enhance the operational efficiency of EDL**, an international consultant was appointed in August 2007 to provide advisory services to the EDL, with co-financing from the World Bank and Agence Française du Développement. The consultant issued an inception report in December 2007. In parallel, the government has launched a number of initiatives. The government has worked on reinforcing the capacity of the EDL Finance Department. The EDL Board of Directors issued a Request for Proposals to attract local and international accounting firms for undertaking the tasks of organizing, modernizing, and improving the work practice at the accounting department of EDL. Three offers were received by December 10, and the deadline for selecting a winning bid was set by the Board on January 31, 2008. Furthermore, EDL's 2001 audited financial statements were published on-line on both the EDL and Ministry of Finance websites, and an international auditor has started auditing EDL financial statements for 2002-2006. Works related to the establishment of a

## IMPLEMENTATION OF THE REFORM PROGRAM

National Control Center (NCC) are progressing. NCC is expected to be fully operational during the course of 2008. EDL commissioned an international company to assess the technical feasibility of the Zouk power plant, and has received the assessment report in December 2007. As per a Memorandum of Understanding signed between the Lebanese and Egyptian governments, natural gas is expected to reach the Deir Ammar power plant in the first quarter of 2008. EDL has already taken necessary steps to ensure that the plant would be ready to operate on natural gas.

**In order to corporatize and privatize EDL**, a consultant was assigned to the Higher Council for Privatization to assist in the restructuring of the Lebanese power sector. The consultant issued an inception report in December 2007. The Ministry of Energy and Water has also worked with the Presidency of the Council of Ministers to secure a European Union grant to provide technical assistance through "twinning" to the Electricity Regulatory Authority once it is established.

With regard to the project to restructure the electricity distribution by contracting a private company to install and manage remote meters, open pre-bid meetings were held with prequalified applicants on October 19-20, 2007. Due to bidder request, the deadline for the submission of proposals has been postponed till mid-February 2008, and winning bidders are expected to be announced in March 2008.

## Council for Development and Reconstruction

In collaboration with the Prime Minister's Office, the Ministry of Finance, concerned ministries and public institutions, the Council for Development and Reconstruction developed a Public Investment Plan for the period 2009-2012. The plan determines: (i) the priorities in the various sectors in accordance with the Government Reform Program and (ii) the constraints in terms of capital expenditures in local and foreign funds.<sup>14</sup>

With respect to the Independent Power Producer project at the Deir Ammar power plant in North Lebanon, both the technical and accounting advisors were retained, in November 2007. The kick-off meeting for the project implementation was held in the first week of December in the presence of the International Finance Corporation, as the transaction advisor, and the technical, legal and accounting consultants. The design of a model transaction suitable for Lebanon is expected to be ready by end March 2008. The project Information Memorandum will be issued in May 2008, with tendering expected by end-2008.

Applications from four private firms were submitted to the Ministry of Energy and Water to establish Independent Power Producers, pursuant to Law 775 dated November 11, 2006, which entitled the Council of Ministers, upon the proposal of the Ministry of Energy and Water, to issue licenses for new Independent Power Producers for a period of one year, pending the establishment of an Electricity Regulatory Authority. Memorandums of Understanding were signed between the Ministry of Energy and Water and the four firms to develop four private power plants of around 60MW each, to be operated on diesel oil, natural gas or wind energy.



Power sector reform discussions on October 24, 2007.

<sup>14</sup> Appendix F provides the full paper on the Public Investment Program and Financing.

# UPDATED RESULTS OF THE CONFERENCE <sup>15</sup>

Progress on the reforms was accompanied by progress on the discussions with donors regarding resource mobilization. At the Paris III Conference \$7,613 million was pledged in support to Lebanon. The support is classified into: private sector support, support through United Nations Agencies, civil society organizations, and support through the public sector including in-kind contributions, support to BDL, project financing, budget support and projects underway. (Table 1. Updated Paris III Pledges)

Support to enhance growth, the main pillar of Paris III, was the first to be mobilized. Donors worked directly with local financial intermediaries and by end of June 2007, \$710 million or 50 percent of the private sector support was signed. By end of 2007, 64 percent (\$ 944 million) of the private sector support was signed. Meanwhile, the Government worked on mobilizing budget support essential to reducing the debt burden. The budget support for the most part was linked to the implementation of the reform program with a focus on the power and social sectors and privatization. By year end, \$1,292 million in budget support was signed.

Including projects underway, Paris III promised the availability of \$3,641 million in project support, or 48 percent of total pledges. This development and reconstruction support progressed during 2007, albeit at a slower pace. Significant amount of projects were underway at the outset of Paris III particularly after the July War. Projects underway, ie projects under discussion or implementation prior to Paris III, are classified separately for analysis purposes. However, the details are included in project financing. In addition to the large existing pipeline of projects, the absence of Parliamentary sessions added to the delay in mobilizing additional loans.

Donors also worked directly with the United Nations Agencies and Civil Society Organizations on implementing projects that support the government's reform and reconstruction program.

Entering into the Emergency Post Conflict Program (EPCA) with the International Monetary Fund provided assurance to the donor community on the Government's commitment to reforms. At the end of each quarter, an IMF mission visited Lebanon to assess performance under the program and in each assessment found the program on track (Refer to Box I - Update on the IMF EPCA Program).

<sup>15</sup> Appendix B provides a detailed breakdown of all pledges and intended uses.

## UPDATED RESULTS OF THE CONFERENCE

### BOX I. UPDATE ON THE IMF EPCA PROGRAM

The Lebanese Government has continued to meet commitments under the IMF Emergency Post Conflict Assistance (EPCA). During 2007, three missions visited Lebanon to assess performance under the program. The last mission between November 1 and 9, 2007 to assess performance under EPCA against the end-September 2007 indicative targets and monitorable actions and the prospects for the remainder of the 2007.

The IMF "Report on Performance Under the Program Supported by Emergency Post-Conflict Assistance" of November 28, 2007 states that 2007 program was on track despite the political tensions. On the indicative quantitative targets, the primary balance and net-debt targets were met with comfortable margins. Primary balance by end of September 2007 was 3.1 percent of GDP higher than expected in the EPCA program, and the net debt was lower than expected. In addition, continued deposit inflows led to better results on international reserves and government net borrowing from Banque du Liban. All monitorable actions, with the exception of increasing excise on fuel, were met. Fiscal structural reforms achieved included Council of Ministers approval of the Global Income Tax draft law and the creation of a Cash Management Unit at the Ministry of Finance.

Going forward, the IMF expected the Government to comfortably meet the fiscal targets set in the EPCA program for the year 2007 as well as the target on international reserves. The report highlights that the challenge will be to achieve the planned reduction of the government borrowing from the Banque du Liban as much as estimated by the program due to the difficult financing market.

The IMF expected the year 2007 to end with 2 to 3 percent growth in GDP despite the political circumstances. The full mission report is available in Appendix A and on the website of the Ministry of Finance. The next IMF mission is expected in Lebanon during February 2008.

**Table 1. Updated Paris III Pledges (Greater than \$10 million; in US\$ million<sup>16</sup>)**

Donor	Total	Private Sector Support	UN	CSOs	In-Kind	BDL	Grant to Government		Loan to Government		Projects Underway
							Budget Support	Project Financing	Budget Support	Project Financing	
European Investment Bank	1,248	709						20		260	260
Saudi Arabia	1,100						100			1,000	
World Bank Group	975	275							300	400	
United States	890	120	185	50	286		250				
Arab Fund for Economic & Social Development	750	85								328	337
France	650	163							488		
European Commission	486						39	243	65		139
United Arab Emirates	300								300		
Islamic Development Bank	250									245	5
Arab Monetary Fund	250	100				43			107		
Italy	156		13	12				34		98	
Germany	134							91			43
United Kingdom	115		35								80
International Monetary Fund	77					77					
Spain	53		37	11				5			
Egypt	44				15			29			
Belgium	26	13	4					9			
Turkey	20				20						
Canada	17		13					4			
Norway	15		8					8			
Oman	10						10				
Others*	47		11	4	9		1	1			3
<b>TOTAL*</b>	<b>\$7,613</b>	<b>\$1,464</b>	<b>\$305</b>	<b>\$77</b>	<b>\$329</b>	<b>\$120</b>	<b>\$400</b>	<b>\$444</b>	<b>\$1,260</b>	<b>\$2,331</b>	<b>\$867</b>

Source: MOF collected data by December 31, 2007.

\*\$18 million are still under review under "Others"; for a report detailing all pledges including "Others" refer to appendix B.

<sup>16</sup> The same exchange rates have been used as previous progress reports to allow for comparison. In particular €1=\$1.3.

A. UPDATE ON GOVERNMENT SUPPORT

Table 2. Updated summary of pledges for government support (US\$, million)

	Budget Support	Project Financing*	BDL	In-Kind	Total
Grants	400	714		329	1,443
Loans	1,260	2,928	120		4,307
TOTAL	1,660	3,641	120	329	5,750

Source: MOF collected data by December 31, 2007, \* Includes projects underway.

1. Budget Support

Budget support agreements signed reached a total of \$1,292 million at end 2007. The Ministry of Finance is discussing an additional €455 million, of which €375 million with the Agence Française de Développement on behalf of the French Government and €80 million with the European Commission on behalf of the European Union. Both agreements are expected to be finalized by the end of January 2008.

Of the \$ 1,292 million signed, \$ 524 million were received in loans and grants, and \$ 500 million was in the form of debt restructuring with Malaysia. All budget support received was used for debt reduction. Table 3, summarizes the status of budget support pledged in Paris III.

Table 3. Updated summary of budget support (US\$, million)

Donor	Total Pledged	Grant Budget Support	Loan Budget Support	Signed	Received	Details and Status
Saudi Arabia	1,100	100		100	100	Grant received on April 11, 2007. Funds were used to repay \$76 million in Eurobond interest, \$9 million for interest on foreign loans, and \$15 million for Treasury bills interest in LL
World Bank	975		300	100	100	Reform Implementation Development Policy Loan (RIDPL) was received on September 29, 2007; a second RIDPL focused on the social sector is under discussion and expected in April 2008
United States	890	250		250	14	MOU signed on July 5, 2007. Grant agreement for \$75 million signed on August 31, 2007; and increased by \$50 million on December 17, 2007. The first payment of \$14 million for World Bank debt and debt service was made on December 1, 2007. A second payment of \$7 million is expected on January 15, 2008

Donor	Total Pledged	Grant Budget Support	Loan Budget Support	Signed	Received	Details and Status
France	650		488			Budget support: €375 million loan in three tranches. On Dec 25, 2007 the loan was approved by French Parliament. Discussions are at their final stages between MOF and AFD
European Commission	486	39	65			Macro-Financial Assistance of €80 million was approved by EU Parliament on 12 December 2007. Discussions are in their final stages between MOF and the European Commission
United Arab Emirates	300		300	300	300	Three tranches of \$100 million received on November 7, November 29 and December 24, respectively
Arab Monetary Fund	250		107	32		Mission was in Lebanon in November 15 - 20, 2007. Signed loan agreement for \$32 million on December 26, 2007
Oman	10	10		10	10	Grant agreement for \$10 million for debt reduction signed on November 27, 2007. \$10 million was received on December 5, 2007
Slovenia	0.13	0.13		0.13	0.13	Received on October 31, 2007
Malaysia				\$500	\$500	Debt restructuring agreement concluded on July 20, 2007 with expected savings of \$60 million
TOTAL	4,661	400	1,260	1,292	1,024	

Source: MOF collected data by December 31, 2007.

In the fourth quarter, the following developments occurred:

### World Bank Group

The first Reform Implementation Development Policy Loan (RIDPL) of \$100 million was received on September 29, 2007. The proceeds of the loan will benefit reforms in the power sector and were used for the debt reduction (Details in Paris III - Third Progress Report).

The Government of Lebanon is holding continuous discussions on a second RIDPL of \$75 million to benefit the social sector. The Lebanese Delegation to the World Bank/IMF Annual Meetings discussed the loan agreement with high-level officials at the World Bank on October 20 to 22. Two missions to discuss the second RIDPL are expected to be in Lebanon: one on energy reforms starting on January 14 and another on social reforms starting on January 21. Approval of the loan agreement by the Board of Executive Directors of the World Bank is expected in April 2008.

### United States

Within the context of the Memorandum of Understanding on budget support of \$250 million (Paris III - Third Progress Report), on December 17, 2007, USAID - on behalf of the Government of the United States - and MOF - on behalf of the Lebanese Government - amended the grant agreement signed on August 31, 2007 to increase the amount by \$50 million, thereby bringing the total grant signed to \$125 million. USAID made the first payment of \$14 million on December 1, 2007 to cover Lebanese debt and debt service to the World Bank as per USAID's regulations. The second payment is expected on January 15, 2008 for \$7 million equivalent of Lebanese debt and debt service to the World Bank. The remaining amount of the first two tranches - \$104 million - is expected to be used to prepay debt and debt service on World Bank loans before the end of January 2008.

### France

Both the French National Assembly and the Senate approved the budget support of €375 million pledged at Paris III. On December 7, the French National Assembly approved Amendment number 61, which provides the government guarantee for the loan and gives the Agence Française de Développement the mandate to negotiate and sign the loan agreement with the Lebanese Government. Subsequently, the French Senate approved the amendment as article 87 of "LOI n° 2007-1824 du 25 décembre 2007 de finances rectificative pour 2007". The Ministry of Finance is finalizing with AFD and it is expected that the agreement will be signed before the end of January 2008.

## UPDATED RESULTS OF THE CONFERENCE

### European Commission

Several steps were accomplished towards completing an agreement on the Macro-Financial Assistance (MFA) package pledged by the European Commission for Lebanon. The MFA consists of a €50 million loan and €30 million grant.

- A mission from the European Commission to assess the soundness of the public financial management systems was in Lebanon from October 8 -12 and October 24 -26, 2007.
- Agreement on the reforms associated with the disbursement of the Macro-Financial Assistance package was reached on November 21, 2007.
- The Council of EU Ministers, after consultation of the European Parliament, approved the Macro-Financial Assistance on December 10. The Council of EU Ministers decision gives the European Commission the mandate to finalize the agreement with Lebanon.
- The Memorandum of Understanding, Loan Agreement and Grant Agreement are under discussion.
- Final negotiations and signature of the agreements are expected before the end of January 2008.

### United Arab Emirates

Lebanon received the full budget support of \$300 million from the United Arab Emirates (UAE). On December 24, the Lebanese Government received \$100 million from the United Arab Emirates, representing the third and final tranche in accordance with the budget support loan agreement of \$300 million signed with the Abu Dhabi Fund for Development, on behalf of the Government of the UAE, and as per Paris III pledge. The first and second tranches were received on November 7, and November 29, 2007, respectively. The loan was used for debt reduction.

### Arab Monetary Fund

On December 26, the Ministry of Finance signed a loan agreement with the Arab Monetary Fund for an amount equivalent to \$32 million of budget support to benefit structural reforms in the fiscal and monetary sectors.

### Oman

On November 27, the Oman Minister of National Economy on behalf of Oman signed a grant agreement with the Minister of Finance, acting on behalf of the Lebanese Government, for \$10 million. The grant is for debt reduction, and was received on December 6, 2007.

### Slovenia

On October 31, Slovenia transferred a grant of €100,000 to the Lebanese Government for budget support, thereby fulfilling its Paris III pledge.

2. Project Financing

Project financing (including projects underway) received the largest percentage of pledges at \$3,641 million, representing 48 percent of the total. The majority of this financing (80 percent) is in the form of loans. Due to the large pipeline of projects (\$867 million of projects were agreed upon at the outset of the Paris III Conference and listed under projects underway), project

lending agreements progressed at a slower pace than other support. Lack of Parliament sessions also added to the delay. It is estimated that \$1,023 million in project financing was signed by the end of December 2007. Project allocation has focused on the sectors with the highest priority including power, water and waste water, and social. (Refer to Appendix C).

The following table summarizes discussions regarding project support.

Table 4. Updated Summary of Project Support (US\$, million)

Donor	Total Pledged	Grant Project Financing	Loan Project Financing	Projects underway	Signed	Details and Status
European Investment Bank	1,248	20	260	260	260	New project financing: €200 million expected to be spent on €66 million for waste water and €140 million in the power sector Technical Assistance: \$19.5 million (€15 million) may be used for implementing privatization Projects underway: \$260 million (€200 million) loans for waste water, ports and roads projects
Saudi Arabia	1,100		1,000			Under discussion. Possible financing for power sector, cost overruns and indirect budgetary support
World Bank	975		400			Current discussions focus on budget support through RIDPL
Arab Fund for Economic & Social Development	750		328	337	337	About \$337 million in existing project lending is pending Parliament approval

UPDATED RESULTS OF THE CONFERENCE

Donor	Total Pledged	Grant Project Financing	Loan Project Financing	Projects underway	Signed	Details and Status
European Commission	486	243		139	107	Grants in the framework of EC cooperation with Lebanon for the period 2007-2010 total €187 million, of which €50 million allocated for 2007. In addition, €107 million was pledged in the context of Stockholm. The following are agreements signed by the EC . On 26/9/2007 signed with PCM €10 million for technical assistance for support to socio-economic and political reforms; . On 30/8/2007 signed with CDR €15 million facilitating access to finance by subsidizing EIB's loan to DBL, "Enterprise support facility with the EIB" . On 2/8/2007 signed with CDR €18 million for Support for the Economic Recovery and reconstruction of Lebanon . On 23/7/2007 signed with CDR and OMSAR €18 million (for local development, reconstruction and repair of infrastructure . On 2/7/2007 signed with CDR €10 million Reconstruction Assistance Facility . €3 million with UNRWA for EU university scholarship fund for Palestine refugees in Lebanon . On 10/12/2007 signed with Ministry of Interior €4 million for Security and Rule of Law, i.e. technical assistance to the ISF for police training . €4 million with UNRWA for camp improvement in November . €1 million with UNDP for technical assistance to the LMAC, to be followed by 3 million with NGOs for demining

Donor	Total Pledged	Grant Project Financing	Loan Project Financing	Projects underway	Signed	Details and Status
Islamic Development Bank	250		245	5	250	. Waste and waste water sector - Total \$90 million (\$70 million for greater Beirut and \$20 million for Akkar) . Infrastructure: Total \$23 million (Saida \$15 million and Beirut \$8 million) . Health: Total \$32 million (a new hospital in Tyr for \$10 million, and rehabilitation of other hospitals for \$22 million) . Schools - Total \$5 million for building schools in areas where this is a need - Rehabilitation of roads - approximately \$80 million . Contingencies - \$5 million
Italy	156	34	98		13	. €10 million grant for the Lebanese Government for three projects was received by CDR on Dec 18, 2007 . Soft loan of €75 million for non-productive sectors such as social, agriculture . €15 million grant expected in 2008
Germany	134	91		43	57	All project implementation is through German development corporations (GTZ, KfW) . €40 million from various ministries (e.g. border security, coastal radar system, water system) . €30 million Paris III pledge: (2007) under development cooperation for programs related to vocational training, water supply and sanitation, and the environmental sector. These funds comprise €22 million for the continuation of the "Rehabilitation of Water and Wastewater Systems" program; €3 million in additional funding for the "Introduction of Cooperative (Dual) Vocational Training" program; €5 million for activities to address environmental damage. On December 8, 2007 Germany signed agreements for a total €24 million in grants for projects in water, waste water and the power sector

UPDATED RESULTS OF THE CONFERENCE

Donor	Total Pledged	Grant Project Financing	Loan Project Financing	Projects underway	Signed	Details and Status
UK	115			80		\$80 million are UK's contribution to the EC
Spain	53	5				€1.76 million for technical assistance, €1.9 million for project financing
Egypt	44	29				Interested in the power sector
Belgium	26	9				€3 million grant to rehabilitate Tebnin public hospital (equipment and services); €4 million in 2008
Canada	17	4				Programming to be finalized
Norway	15	8				Discussions underway for a project dealing with the impact of the oil spill with the Ministry of Environment
Greece	7			2		
Denmark	4	1				\$1 million in support to implementation of UNSCR 1701, including border management
South Korea	1			1		Signed agreement for construction of 2 schools (in Tibnin and Britel) after the July War
TOTAL	5,380	444	2,331	867	1,023	

Source: MOF collected data by December 31, 2007

In the fourth quarter of 2007, the following progress was achieved:

Saudi Arabia

At the World Bank/IMF Annual Meetings on October 20, 2007, the Ministry of Finance and CDR discussed with HE Eng. Yousef al-Bassam, Vice-Chairman and Managing Director of the Saudi Fund for Development, possible uses of the \$1,000 million pledge, in particular for the power sector, cost overruns and indirect budget support.

Arab Fund for Economic and Social Development

At the end of 2007, the Arab Fund for Economic and Social Development (AFESD) had signed project financing amounting to \$337 million, which were awaiting approval by Parliament. On October 20, 2007, at the World Bank/IMF Annual Meetings, the Minister of Finance and a representative from CDR met with the Arab Fund for Economic and Social Development to review this situation and explore other ways to utilize the funds, including project cost overruns.

Islamic Development Bank

Discussions between the Islamic Development Bank (IDB) and CDR regarding project financing totaling \$245 million have progressed well; the list of projects to be funded was agreed to. In addition, IDB notified CDR that it agreed to postpone all payments due in 2007-2009 for loans on completed projects.

Italy

On November 19, 2007, the Italian ambassador, on behalf of Italy, and CDR, on behalf of Lebanon, signed a grant framework agreement for a total of €30 million. The agreement includes €10 million for the Lebanese Government for three projects: the rehabilitation of Baabda Hospital, the construction of a water distribution system in Dennyeh and a project for children with learning disabilities implemented by the Ministry of Social Affairs. In addition, €1 million is allocated for technical assistance. The remaining amounts are detailed under support through UN Agencies and CSOs.

Germany

On December 8, 2007 Germany signed grant agreements for a total €24 million for projects in the water, waste water and power sectors, as follows:

- . €10 million for the water and waste water sectors and related electrical activities in Nabatieh, and South mohafazas, West Bekaa caza, and Southern Suburbs of Beirut
- . €12 million for a central waste water project in the North benefiting the residents of the Nahr el-Bared and Beddawi camps
- . €2 million for completing the construction of two schools, for cost overruns (benefited from an earlier grant).

Since the July 2006 war, Germany signed agreements totaling €44 million.

3. In-Kind Contribution

Support in the form of in-kind contributions totaled \$329 million. The largest percentage of this contribution (87 percent) is dedicated to support of the armed and security forces. The remaining amounts, \$43 million focuses mainly on providing material and equipment for the power sector (Egypt), the health sector (Turkey and Greece), and other various projects (Greece and China).

In the fourth quarter, progress was achieved in mobilizing the in-kind contributions of Turkey and China. Discussions between Turkey and CDR resulted in the approval by the Council of Ministers on October 27, 2007 of an in-kind grant for building a hospital specialized in war injuries. The COM mandated CDR to sign a memorandum of understanding with Turkey regarding the details of this grant. It is expected that the hospital will be built in Saida.

CDR has discussed with China its in-kind contribution. China has expressed interest in supplying equipment and implementing various projects, including a "Confucius Center" to undertake cultural programs and activities.



Italy and CDR sign grant framework agreement on November 19, 2007.

UPDATED RESULTS OF THE CONFERENCE

Table 5. In-Kind contributions (US\$, million)

Donor	Amount	Status	Details and Status
United States	286	Received	Technical assistance and in-kind contributions were supplied to the Lebanese armed and security forces
Egypt	15	Signed agreement	Agreement signed and under implementation to provide supplies and technical assistance to rehabilitate the power sector, particularly the Jiyeh power plant
Turkey	20	COM approved grant	Hospital specializing in war injuries
Greece	5	Under preparation	In discussions with CDR regarding supplying medical equipment for health centers; projects related to energy efficiency; and pedestrian bridges
China	4	Under preparation	In discussions with CDR regarding supplying equipment and implementing various projects
TOTAL	329		

Source: MOF collected data by December 31, 2007.

4. Support to the Central Bank

A total of \$120 million was allocated to Banque du Liban, from the International Monetary Fund and the Arab Monetary Fund. Within in the context of the EPCA program, a loan of \$77 million for balance of payment support from the IMF was received by Banque du Liban

on April 4, 2007. The AMF and the Banque du Liban signed a loan agreement of \$43 million on December 26, 2007 to support reforms in risk management and mitigation, and accounting system design.

## B. SUPPORT TO THE PRIVATE SECTOR

Immediately after the Paris III Conference, donors worked with local intermediaries on arrangements to provide credit to the private sector. At the end of 2007, agreements totaling \$944 million or 64 percent of Paris III total pledges for private sector development were signed to support private sector development. Details prior to the fourth quarter are reported in previous progress reports.

**Table 6. Summary of Private Sector Support (\$US, million)**

Donor	Total Pledged	Signed by Year End
European Investment Bank	709	286
World Bank Group (IFC)	275	235
United States (OPIC and Citibank)	120	120
Arab Fund for Economic & Social Development	85	85
France	163	111
Arab Monetary Fund (Arab Trade Financing Program)	100	107
Belgium	13	
<b>TOTAL</b>	<b>1,465</b>	<b>944</b>

Source: MOF collected data by December 31, 2007

In the fourth quarter:

- . The European Investment Bank, CDR and Banque du Liban finalized the agreement to provide €100 million in loans to the private sector. This loan is subsidized by €15 million from the European Commission. The loan agreement was signed in Beirut on November 23 and in Brussels on November 29, 2007 and requires approval by Parliament. In addition, on October 20, 2007, the Lebanese Delegation to the World Bank/IMF Annual Meetings and Mr. Philippe de Fontaine Vive, Vice-President of the European Investment Bank, discussed future cooperation between EIB and Lebanon, including for private sector development. Among others, EIB is expected to provide support for the implementation of the power sector reform plan.
- . EIB also signed a loan agreement with Byblos Bank for €60 million to support small and medium enterprises on December 20, 2007. The Global Loan agreement is part of EIB's Private Sector Facilities' project and under the Facility for Euro-Mediterranean Investment and Partnership (FEMIP).

Significant amounts of the private sector support are being withdrawn by the end recipient, namely small and medium term enterprises:

- . Citibank has reported that all loans provided were disbursed (\$120 million)
- . The Central Bank managing the EIB €60 million loan for private sector support noted strong demand for the funds. End 2007, applications amounting to about \$50 million were approved. The first payment from EIB to the Central Bank is expected on January 15, 2008. EIB will transfer the €60 million in four tranches, based on demand. The Central Bank expects the funds to be fully utilized by end of March 2008
- . As of December 14, AFD approved €25 million of loan applications that were transferred to the banks for processing

Information was not available from the other private sector support donors.

C. SUPPORT THROUGH THE UNITED NATIONS

Support channeled through the United Nations agencies is expected to amount to \$305 million. Support to UNIFIL estimates at 62 percent (\$190 million) of this support, while UNRWA is expected to receive a total of \$37 million (12 percent).

Table 7. Updated summary of support through UN

Donor	Amount	Details
United States	185	Support to UNIFIL
Italy	13	Total grant allocated through the United Nations: €10 million: ILO for vocational training (€2 million), FAO for an observatory and assistance to marketing and production in agriculture (€3 million), UNRWA for recovery of the Nahr el Bared camp (€2 million), UNDP for support to the Lebanese municipalities neighboring Nahr el Bared camp affected by the conflict (€1.3 million), UNFPA for a project on domestic violence (€0.7 million) and UNMAS for demining (€1 million)
United Kingdom	35	UNRWA in Lebanon: \$30 million Implementation of UNSCR1701/UNIFIL: \$5 million
Spain	37	UNDG (\$33 million), UNICEF (\$1 million), UNRWA (\$2,6 million)
Belgium	4	€3 million to UNDP for Art Gold program
Canada	13	Programming to be finalized
Norway	8	Environment, mine removal
Sweden	5	. SEK 8 million to the UNDP-project for Peace-building and Reconciliation . SEK 23 million to UNDP-projects for the Municipalities - all over Lebanon, including the North
Denmark	2	\$1 million grant to UNMAS disbursed in February 2007 to support the clearance of unexploded ammunition in South Lebanon \$1 million in grant to UNRWA disbursed in February 2007 to support UNRWA camps for Palestine refugees in Lebanon
Japan	2	\$1 million UNRWA, \$1 million UNMAS
Austria	1	€700,000 via UNDP for small business and farming units; €300,000 via UNRWA
Cyprus	0.7	UN Habitat €170,000 for "Good Governance for Enhanced Post-War Reconstruction: An integrated Approach to respond to Recovery in Southern Lebanon"
Finland	1	
<b>TOTAL</b>	<b>305</b>	

Source: MOF collected data by December 31, 2007.

In the fourth quarter, Italy in its grant framework agreement with CDR allocated €10 million for projects through the United Nations as detailed in table 7.

D. SUPPORT THROUGH CIVIL SOCIETY ORGANIZATIONS

Support channeled through the Civil Society Organizations is expected to amount to \$77 million.

Table 8. Updated summary of support through CSOs

Donor	CSOs	Status
United States	50	Development aid
Italy	12	€9 million grants for projects proposed to the Italian Embassy by NGOs under the ROSS Program "Emergency Initiative for Rehabilitation, Occupation, Services and Development"
Spain	11	International Red Cross and Spanish NGOs
Sweden	1	. SEK 5 million to the Swedish Rescue Agencies-projects in Lebanon . SEK 4 million to Swedish NGO's working in Lebanon (e.g. Swedish Save the Children and Diakonia)
Denmark	1	Danish Refugee Council (NGO) disbursed in February 2007 to protection and promotion of livelihood in South Lebanon
Japan	2	\$1.3 million for 3 Japanese NGOs, \$0.67 million for Lebanese NGOs
<b>TOTAL</b>	<b>77</b>	

Source: MOF collected data by December 31, 2007

Significant progress was achieved in allocating the \$50 million earmarked for development by the US Government for development. \$45 million of this aid is managed by USAID and \$5 million by the State Department Bureau of Democracy, Human Rights, and Labor. By the end of 2007, USAID expects to have disbursed \$23 million (table 9). Description of the programs is available in appendix D.

Table 9. Summary of USAID Development Support (\$US, million)

Program Name	Total	Disbursed by end 2007 (expected)	Status
Support for American Educational Institutions	4	4	Expected by end of 2007
Lebanon Education Assistance for Development	5	5	Funds transferred
Rule of Law	7	7	Competition completed; award by end of 2007
Transparency and Accountability Grants	1	1	Funds transferred
Municipal Capacity Building and Service Delivery	14		Formal competition solicitation will be issued before the end of 207. Award is anticipated in early February
Modernization of Municipal Governance Institutions	2	2	This extension granted
Policy Reform Benchmarks	3		Formal competition solicitation will be issued before the end of 207. Award is anticipated in early February
Small and Medium Enterprise development	4.5		Formal competition solicitation will be issued by end of January 2008. Award is anticipated in early Spring 2008.
Office of Transitional Initiatives program	2	2	Funds transferred
Competitive Grant Program	1.5	0.5	Solicitation for the balance will come out after the New Year
Program Management	1	1	
TOTAL	45	22.5	

Source: USAID

E. UNDER REVIEW

\$18 million is still under review by the donors and their programming is yet to be finalized. These include support from Jordan, Australia, Ireland, Brazil, Luxembourg, and Portugal. This support is expected to be in the form of grants.



## APPENDICES

APPENDICES

A. INTERNATIONAL MONETARY FUND - REPORT ON PERFORMANCE  
UNDER THE PROGRAM SUPPORTED BY EMERGENCY POST-CONFLICT  
ASSISTANCE

Prepared by the Middle East and Central Asia Department  
(In consultation with other departments)  
Approved by Lorenzo Pérez and Scott Brown  
November 28, 2007

- The Executive Board approved Emergency Post-Conflict Assistance (EPCA) for 25 percent of quota, or SDR 50.75 million, in April 2007, and Lebanon drew the full amount shortly thereafter. The EPCA-supported program for 2007 is based on the five-year reform program presented by the authorities at the Paris III conference in January 2007. This report updates Executive Directors on performance under the program relative to the end-September 2007 indicative targets and monitorable actions. A safeguards assessment of the Banque du Liban (BdL) is underway.
- The staff's findings are based on discussions held in Beirut November 1-9, 2007. The mission comprised Messrs. Gardner (head), Schimmelpfennig, Sdravovich, and Sosa (all MCD); and Messrs. Finger (PDR) and Mati (FAD). The mission met with the governor of the central bank, the minister of finance, the minister of economy and trade, and senior government officials.
- This report focuses on developments through September and prospects for the remainder of the 2007 program supported by EPCA. Although the government prepared a draft 2008 budget, key policy measures still need to be identified and the outlook is also dependent on the pace at which the legislative backlog can be absorbed. Staff will update the 2008 projections once the new government announces its policy agenda.
- The 2007 program is broadly on track. Despite a very difficult political environment, all end-September targets were met, except for the monitorable action on raising gasoline excises. Fiscal revenues were stronger than expected, and net debt was contained below the program ceiling. Owing to strong deposit inflows, the central bank accumulated international reserves at a faster pace than targeted, and government net borrowing from the BdL was limited as envisaged, despite shortfalls in expected donor support. The end-December monitorable action on inviting expressions of interest to participate in the privatization of two mobile phone networks was effectively met in November.

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I. BACKGROUND AND RECENT DEVELOPMENTS

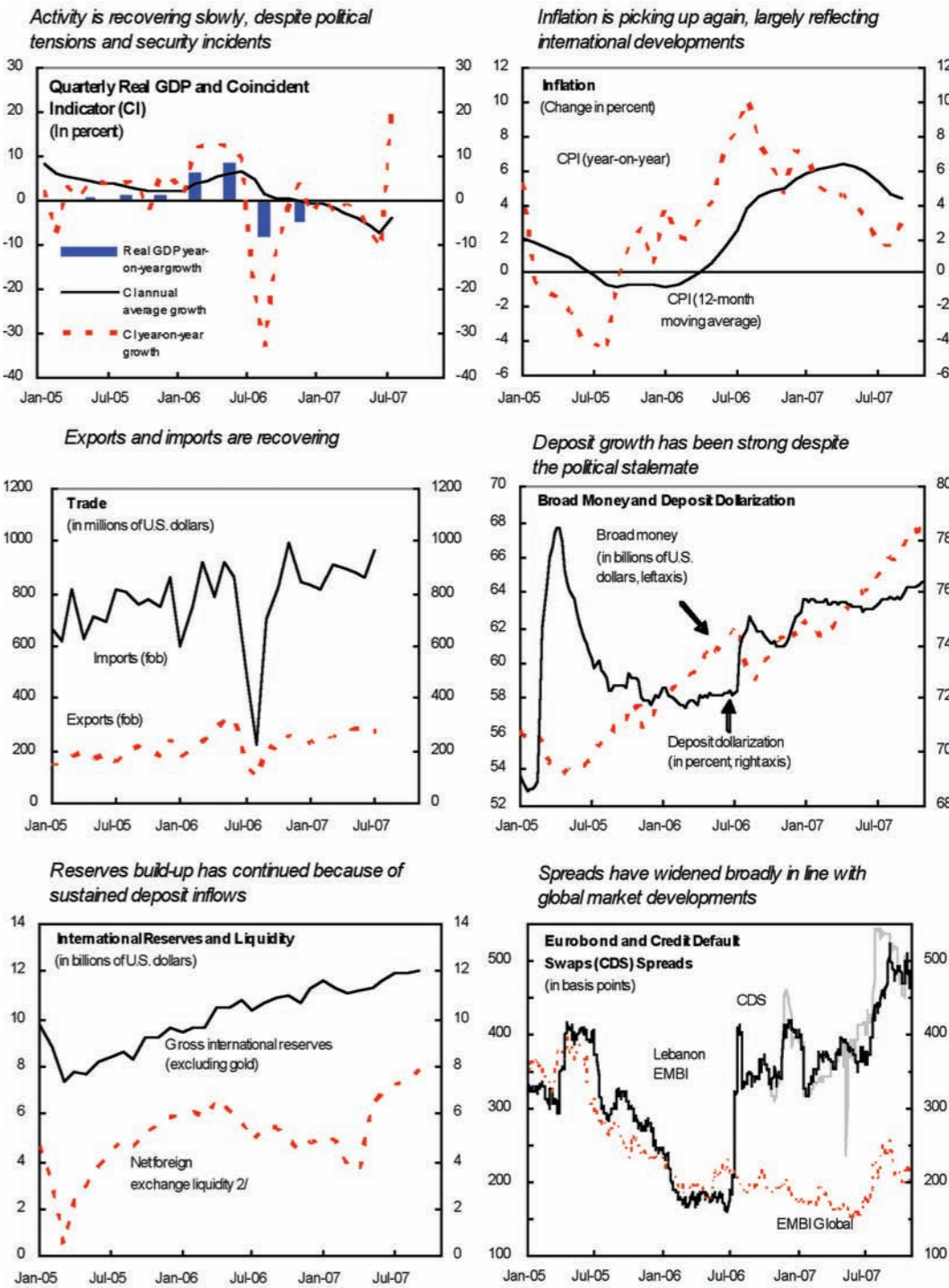
1. The parliamentary majority and the opposition were not able to reach a compromise on a successor to President Lahoud, whose term came to an end on November 23. Constitutionally, the prime minister takes on the presidential responsibilities during this vacuum. Prime Minister Siniora has indicated that, until a new president is elected, his government would be acting in a caretaking role and refrain from taking new political initiatives. The ruling coalition and the opposition are engaged in discussions over the election of a new president who would then appoint a new prime minister and cabinet.

2. Notwithstanding political tensions and repeated security incidents, the economic recovery from the 2006 post-conflict trough has maintained momentum. Developments through July suggest that real GDP could grow by 2–3 percent in 2007 (Figure 1 and Table 1). Exports and imports have been buoyant in the first seven months of 2007, and it is expected that the trade and the current account deficits will widen relative to 2006. With rising international commodity prices and the depreciation of the U.S. dollar against the euro, CPI inflation has risen in the third quarter of 2007, and is projected to reach 5 percent in December 2007 (year-on-year). Inflows of external donor support of the government have continued to fall short of expectations, partly because negotiations have taken longer than envisaged; Paris III disbursements of budgetary grants and loans for 2007 are now projected at \$0.8 billion compared with \$2.0 billion assumed under EPCA (Text Table 1). Most of this inflow is expected to come in at the end of the year.

3. Financial markets have weathered the political impasse and global financial market turbulence quite well. Partly in response to the global repricing of risks, spreads increased over the summer. However, the Eurobond market saw very limited trading, suggesting that investors are generally maintaining their positions pending a resolution of the political situation. Deposit inflows have continued at a sustained pace, with broad money growing at an annual rate of 11 percent. However, deposit dollarization has edged up slowly to over 76 percent. There has been little market reaction to the failure to elect a president by the November 23 deadline, as concerns that the outgoing president would name a second and parallel governments did not materialize.

APPENDICES

Figure 1. Lebanon: Recent Developments, January 2005–November 2007



Sources: Lebanese authorities; J.P.Morgan; Bloomberg; and Fund staff calculations.  
1/ Coincident indicator is a composite indicator of economic activity monitored by the central bank.  
2/ Defined as gross international reserves minus principal and interest due over the next 12 months on all foreign currency liabilities of the central bank to entities other than the government of Lebanon. Excludes long-term foreign exchange liabilities of the central bank.

**Text Table 1. Lebanon: Paris III Aid (In millions of U.S. dollars, unless otherwise specified)**

	Total Pledges	New Grants and Loans to Government					
		Paris III Pledges		Rev. Proj. for 2007 –10 1 /		2007	
		Total	Of Which: Budget Support	Budget Support 2/	Grant Element 3/ (Estimate, in percent)	Proj.	Received Jan–Sept
Total	7,565	5,018	2,327	2,716	47.5	793	200
Multilateral	3,978	2,213	835	667	43.1	174	100
Bilateral	3,587	2,805	1,492	2,048	48.9	619	100

Sources: Lebanese authorities, and Fund staff estimates.

1/ The financial terms of some loans are still uncertain.

2/ Outright budget support plus project loans and grants that support the existing expenditure envelope.

3/ Based on a discount rate of 7.45%, Lebanon's average projected rate for U.S. dollar market financing.

## APPENDICES

**II. PERFORMANCE UNDER EPCA  
AT END-SEPTEMBER**

4. The primary balance and net debt targets for end-September 2007 were met with significant margins (Table 2). The primary balance (cash basis, excluding grants as defined in the program) posted a small surplus of 0.3 percent of GDP, compared with a projected deficit of 2.8 percent of GDP. This substantial overperformance results from better than projected revenue collection (Value-Added Tax and telecom revenues in particular show a stronger trend than expected) and delays in the execution of capital expenditure as well as lower than expected transfers to the power utility, reflecting in part electricity rationing through power cuts. As a result, net debt was contained to below the target despite somewhat higher than projected interest payments. At the same time, it should be noted that the budgetary cost of higher fuel prices will be felt only in 2008 as much of the fuel supplies for Electricité du Liban are financed through letters of credit.

5. The program targets on international reserves and government net borrowing from the BdL were also met comfortably. Given the continued deposit inflows, and in the absence of foreign exchange market pressures, the BdL was able to increase its gross international reserves (excluding gold) by \$400 million during the third quarter to \$12 billion by end-September 2007, somewhat higher than expected, and despite significant shortfalls in donor support relative to program expectations<sup>1</sup>. Despite the ample liquidity in the system, commercial banks were reluctant to roll over government paper at t-bill offer rates which have remained unchanged since early 2005, and the government had to rely on financing from the BdL again during the third quarter, though still below the end-September ceiling.

6. The government did not introduce a floor (of \$0.20 per liter) on gasoline excises by end-September as previously envisaged (Table 3). The increase in international oil prices since May 2007 has been absorbed largely by lowering gasoline excises, which are thus yielding minimal revenue at current oil prices. As such, the planned introduction of a floor on gasoline excises would have required an increase in the retail price of around 30 percent. The authorities did not consider this to be feasible in the current very difficult political circumstances and were also concerned about the possible inflationary impact. However, they did raise retail prices by 2 1/2 to 3 percent in November to prevent the excises from becoming negative. In 2007, the overperformance on other revenue sources is expected to more than offset the resulting shortfall from excises (around 1/2 percent of GDP in the last quarter). However, raising gasoline excises remains an important pillar of the Paris III fiscal adjustment objectives.

7. Progress has also been made on structural reforms. The global income tax law was approved by Cabinet in November. The law significantly improves the tax system, though it leaves important details to be specified by ministerial decrees. Introduction of the global income tax will likely be delayed to 2009—one year later than planned under Paris III—given the technical work still needed on the related administrative measures. On the expenditure side, the new cash management unit is in the process of designing a cash flow plan, while work on multiyear budgeting in pilot ministries is continuing. With respect to the power sector reforms, the authorities expect to switch some production from fuel oil to gas by mid-2008 which should lower production costs significantly. However, the installation of remote meters to improve billing, and thus its budgetary cost, are likely to be delayed into 2008.

<sup>1</sup> In the program definition, reserves (including gold and Lebanese Eurobonds) increased to \$17.8 billion. For program purposes, however, the floor on international reserves is adjusted for changes in the Eurobond portfolio (See the Technical Memorandum of Understanding attached to the EPCA Letter of Intent, EBS/07/33).

### III. OUTLOOK FOR THE REMAINDER OF 2007 AND 2008

8. Given the strong performance through September, fiscal targets for 2007 appear achievable with an ample margin. The authorities expect revenue overperformance through the first three quarters of the year to compensate for the shortfall in excises. In addition, spending is likely to be lower than projected under the program, as the authorities now expect lower transfer payments and low execution of foreign financed capital expenditures. In all, the authorities expect significant overperformance on the primary fiscal balance (excluding grants). This should more than offset the somewhat higher interest spending relative to that projected under EPCA, so that government net debt would also come out below the program ceiling, adjusted for the significant shortfall in budget grants.

9. The target on international reserves is also achievable. Provided the political situation remains manageable, financial inflows are expected to continue at a sustained pace through the remainder of the year, which should allow the BdL to maintain international reserves at their current level or realize a modest further build-up.

10. The challenge in the fourth quarter is to reduce government net borrowing from the BdL as envisaged under the program. In this regard, the exchange of LL 1 trillion (\$667 million) in certificates of deposits for treasury bills effected in October was an important step to reduce the government's reliance on BdL financing in as much as it facilitated the government's ability to tap the market, by raising implicit yields well above the t-bill offer rate. The authorities commitment to the end-year financing target will require deliberate efforts to mobilize additional market financing.

11. The privatization process of the two mobile phone networks has been initiated ahead of schedule. On November 2, the government issued a request for applications to participate in the auction for two thirds of the two existing mobile phone licenses, assets, and contracts, thus effectively meeting the end-December monitorable action under EPCA. The auction is scheduled for the first quarter of 2008, and the transfer of ownership is expected to be completed during 2008. The remaining one third will be sold on the stock exchange through an initial public offering.

12. The authorities restated their commitment to the 2008 objectives outlined in the Article IV staff report, and the mission did not discuss an updated 2008 projection with the authorities. At this stage, policy plans are still too uncertain in regard to key revenue and expenditure issues to provide the basis for a solid projection. Although the outgoing government has adopted a draft 2008 budget, the issue of how to compensate for the loss of fuel excise revenue is still open, and the draft budget does not provide enough guidance on the timing and cost of energy sector reform, or the policies underlying assumed reductions in transfers. Details on fiscal policy plans for 2008 will need to be discussed with the next government.

## APPENDICES

Table 1. Lebanon Selected Economic Indicators, 2003-07

	2003 Act.	2004 Act.	2005 Act.	2006 Prel. Act.	2007	
					EBS/07/33	Proj.
Output and prices						
Real GDP (market price)	4.1	7.5	1.1	0.0	1.0	2.0
GDP deflator	1.6	0.9	-0.6	5.6	...	3.0
Consumer prices (end-of-period)	2.2	2.0	0.5	7.2	2.0	5.0
Consumer prices (period average)	1.3	1.7	-0.7	5.6	3.5	4.0
Investment and saving						
Gross capital formation	19.3	22.0	16.9	11.6	16.6	16.7
Government	3.1	3.3	2.2	2.5	5.0	2.8
Nongovernment	16.2	18.8	14.8	9.1	11.7	13.9
Gross national savings	6.1	6.5	3.4	5.6	5.6	6.3
Government	-10.2	-5.4	-6.2	-8.6	-7.4	-9.3
Nongovernment	16.3	11.9	9.6	14.2	13.1	15.6
Public finances						
Revenue (including grants)	22.1	23.1	22.8	24.7	26.7	25.1
Expenditure (including unidentified measures in 2008)	35.4	31.8	31.2	35.8	39.1	37.1
Budget balance (including grants)	-13.3	-8.6	-8.4	-11.1	-12.4	-12.0
Primary balance (including grants)	3.3	3.5	2.1	1.7	0.0	0.8
Primary balance (excluding grants)	3.3	3.5	2.1	-1.2	-3.7	-0.9
Total government debt	169	167	178	177	176	173
Monetary sector						
Credit to the private sector	0.3	5.2	1.9	6.0	5.0	2.2
Base money	12.3	10.3	4.7	8.2	4.4	12.6
Broad money 1/	15.5	12.3	3.5	6.4	3.5	11.0
Velocity of broad money (level)	0.4	0.4	0.4	0.4	0.4	0.4
Interest rates (period average, in percent)						
Three-month treasury bill rate	6.7	5.2	5.2	5.2	...	...
Two-year treasury bill rate	8.0	7.9	8.5	8.7	8.2	8.7
External sector						
Exports of goods (in US\$, percentage change)	43.2	18.3	11.1	22.5	12.9	19.2
Imports of goods (in US\$, percentage change)	10.4	30.3	-1.2	1.8	17.5	19.0
Merchandise trade balance	-24.2	-30.1	-28.4	-25.3	-29.2	-28.6
Current account excluding official transfers	-13.9	-16.0	-14.2	-7.2	-15.3	-11.5
Current account including official transfers	-13.2	-15.5	-13.6	-6.0	-11.0	-10.4
Foreign direct investment	8.7	10.9	12.2	12.0	7.6	8.7
Total external debt	175	187	190	197	183	209
Gross reserves (in millions of U.S. dollars)	10,271	9,575	9,611	11,353	10,440	12,089
In months of next year imports of goods and services	8.1	7.7	7.2	7.5	6.7	7.3
In percent of short-term external debt 2/	35.6	27.1	28.4	32.2	32.5	30.6
In percent of banking system foreign currency deposits	40.3	31.9	29.0	30.1	26.7	28.4
In percent of total banking system deposits	24.8	21.0	20.1	21.9	19.3	20.7
Memorandum items:						
Nominal GDP (in billions of U.S. dollars)	19.8	21.5	21.6	22.8	23.6	23.9
Net imports of petroleum products (in millions of U.S. dollars)	-1,057	-1,833	-2,082	-2,172	-2,072	-2,361
Local currency per U.S. dollar (period average)	1,508	1,508	1,508	1,508	...	...
Real effective exchange rate (annual average, percent change)	-10.7	-6.8	-4.1	2.2	...	...
Stock market index	457	637	1,309	1,184	...	...

Sources: Lebanese authorities, and Fund staff estimates.

1/ Defined as cash in circulation plus resident and non-resident deposits.

2/ Short-term debt on a remaining maturity basis.

**Table 2. Lebanon: Quantitative Indicative Targets Under the Program Supported  
by Emergency Post-Conflict Assistance, March-December 2007**  
(In billions of Lebanese pounds unless otherwise indicated; end-of-period)<sup>v</sup>

	2006 December Act	2007									
		March		June		September		December		December Prog.	December Prog.
		Prog.	Adj Prog.	Prel Act	Prog.	Adj Prog.	Prel Act	Prog.	Adj Prog.		
I. Gross reserves of the Banque du Liban (stocks) 2/	18,084	17,505	17,263	17,648	17,166	16,167	17,536	16,863	14,946	17,847	17,475
II. Net debt of the government (stocks) 3/	59,212	61,122	61,122	60,606	59,766	59,932	58,702	60,508	61,295	59,955	61,505
III. Primary balance of the government before grants (cumulative flows)	..	-575	-575	-225	-848	-942	225	-1,005	-1,099	104	-1,317
IV. Accumulation of government gross arrears (cumulative flows, continuous)	..	0	..	0	0	..	0	0	0	0	0
V. Accumulation of external arrears by the government and the Banque du Liban (cumulative flows, continuous)	..	0	..	0	0	..	0	0	0	0	0
VI. Government net borrowing from the Banque du Liban (stocks) 4/	9,678	10,696	10,694	10,801	9,237	9,402	7,678	8,696	9,483	8,953	7,630
<i>Memorandum items:</i>											
Letters of credit contracted by Electricité du Liban (stock)	690	..	..	690	..	..	740	..	..	873	..
Disbursements of official grants and loans to the public sector (cumulative flows)	..	0	..	2	620	..	251	2,197	..	445	4,006
Banque du Liban's holdings of Eurobonds (stock)	2,147	..	..	1,963	..	..	1,010	..	..	1,009	..
Disbursements of grants to the government (cumulative flows)	..	0	..	2	318	..	246	983	..	290	1,316
Of which: disbursements of project grants (cumulative flows)	..	0	..	0	0	..	93	43	..	137	91
Receipts from privatization/securitization operations (cumulative flows)	..	0	..	0	0	..	0	0	..	0	0
Transfers of gold valuation gains from Banque du Liban to government (cumulative flows)	..	0	..	0	2,380	..	2,380	2,380	..	2,380	2,380
Projection of revenue from companies slated for privatization (cumulative flows)	..	331	..	..	521	..	..	1,036	..	..	1,566

Source: Lebanese Authorities.

1/ At program exchange rates. Figures reflect data revisions as of November 6, 2007.

2/ In millions of U.S. dollars. Defined as Banque du Liban's foreign exchange deposits abroad, foreign exchange holdings (including SDRs), gold and holdings of liquid foreign currency-denominated securities, less encumbered foreign assets.

3/ Includes the accounts of the Center for Reconstruction and Development and the Higher Relief Council maintained at the Banque du Liban.

4/ Includes a decline in net borrowing of LL2380 billion on account of the gold revaluation transfer which took place in the second quarter of 2007.

## APPENDICES

**Table 3. Lebanon: Monitorable Actions for the Period March-December 2007**

Measure	Target Date	Implementation Status
<b>Fiscal</b>		
Submit to parliament a draft 2007 budget law consistent with the targeted primary balance of the central government, and including detailed HRC operations and CDR foreign financed expenditures. The budget law should not allow budget carryovers for expenditures for which no third part liability already exists, and treasury advances of more than one month after the fiscal year.	End-June 2007	Draft budget consistent with program commitments submitted to parliament on June 13, 2007 (decree # 403)
Appoint auditor for NSSF accounts. Auditor to prepare an audit plan of NSSF for 2001-06.	End-June 2007	Auditor appointed on June 12, 2007. Contract will be extended to cover 2006 once accounts are closed. Audit plan finalized on August 6
Issue a Cabinet of Ministers decision setting a specific floor on gasoline excise of LL 300 per liter of gasoline.	End-September 2007	Not implemented
<b>Power Sector</b>		
Appoint auditor for EdL accounts. Auditor to prepare an audit plan of EdL for 2002-06. Publish 2001 audit report.	End-June 2007	Auditors for 2002-04 appointed on June 1, 2005, and auditors for 2005-06 accounts appointed on March 13, 2007. Audit plan for 2002-06 finalized on July 13. 2001 audit report posted on web-site on August 27
<b>Privatization</b>		
Submit to parliament the draft law to authorize the sale of the mobile sector's assets and relevant operating licenses by the government.	End-June 2007	Based on legal opinion from the ministry of justice, the law is not necessary to proceed with the privatization
Issue an invitation for expression of interest (EOI) in participating in the process of acquiring the licenses and assets of the two mobile telephone companies (MIC1 and MIC2).	End-December 2007	A Request for Application was issued on November 2, 2007. Applications with pre-auction bids are requested for February 1, 2008

**B. PARIS III DETAILED BREAK DOWN OF GRANTS AND LOANS  
(US\$, MILLION) AS OF DECEMBER 31, 2007**

Donor	Total Pledged	Private Sector Support	UN	CSOs	In-Kind	To BDL	Grant to Government		Loan to Government			Under Review	Projects Underway	Details and Status
							Budget Support	Project Financing	Budget Support	Project Financing				
European Investment Bank	\$1,248	\$709						\$20		\$260				a) Projects underway: €200 million in existing projects (waste water, ports and roads) b) Project financing: €200 million expected to be spent on €66 million for waste water and €140 million in the power sector c) Private sector support: \$709 million (€545 million); €60 million signed with CDR and approved by Parliament; €100 million signed with CDR & BDL on November 29, 2007 (subsidized with EC €15 million grant signed on August 30, 2007) for providing credit to the private sector -- subject to Parliament approval. Also invested €12.5 million (€7.5 million Byblos Venture, €5 million in Bader). EIB Board of Directors is considering five global loans under the private sector support for a total of €210 million. On December 20 2007, signed with Byblos Bank €60 million for private sector support d) Technical Assistance: \$19.5 million (€15 million) may be used for implementing privatization
Saudi Arabia	\$1,100						\$100			\$1,000				a) Budget support: \$100 million grant received on April 11 2007. Funds were used to repay \$76 million in Eurobond interest, \$9 million for foreign loans, and \$15 million for Treasury bills interest in LL. b) Project financing: \$1,000 million. Possible financing for power sector, cost overruns and indirect budgetary support.
World Bank	\$975	\$275							\$300	\$400				a) Budget support: \$100 million Reform Implementation Development Policy Loan (RIDPL) was received on September 29, 2007; a second RIDPL focused on the social sector is under discussion and expected in April 2008 b) Private sector support through IFC: signed \$235 million with local banks: Credit line facilities totaling \$90 million: BLOM Bank (\$50 million), Fransabank (\$25 million) and Credit Libanais (\$15 million); Trade Finance agreements totaling \$100 million: Bank Libano-Francaise (\$20 million), Bank of Beirut (\$40 million), and Fransabank (\$40 million); Risk sharing facility with Bank of Beirut of up to \$25 million; An investment of \$20 million was made in a retail institution (ADMIC); \$45 million are under discussion

Donor	Total Pledged	Private Sector Support	UN	CSOs	In-Kind	To BDL	Grant to Government		Loan to Government			Under Review	Projects Underway	Details and Status
							Budget Support	Project Financing	Budget Support	Project Financing				
United States	\$890	\$120	\$185	\$50	\$286		\$250							a) Private sector: \$120 million through OPIC & Citigroup. i) Citigroup and The Overseas Private Investment Corporation (OPIC), extended \$20 million and \$50 million 15-year term loan facilities to Banque Libano-Francaise SAL (Lebanon) and Byblos Bank. These funds will be used for small and medium-sized enterprises (SMEs), real estate and consumer finance. (ii) An agreement for a \$50 million facility has been reached with an undisclosed financial institution b) UNIFIL: \$184.5 million c) Armed forces & Internal Security Forces: Total \$285.5 million received d) Budget support: total \$250 million, MOU signed on July 5, 2007. Grant agreement for \$75 million signed on August 31, 2007 and increased by \$50 million on December 14, 2007. US paid \$14 million to the World Bank for Lebanon debt and debt service on December 1, 2007 e) Development aid through USAID and Bureau of Democracy, Human Rights, and Labor: \$50 million
Arab Fund for Economic & Social Development	\$750	\$85								\$328			\$337	a) Private sector support = KWD 25 million pending Parliament approval b) Projects Underway: Electricity Sector = KWD 35 million; Damaged Infrastructure = KWD 30 million; support for admin reforms = KWD 9 million; water & waste water = KWD 25 million. Pending Parliament approval. Covering previous projects cost overruns under discussion

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France	\$650	\$163							\$488					a) Private sector support: €125 million. Signed €85 million with local intermediaries: AFD has signed agreements with Byblos Bank for €25 million, Société General de Banque au Liban (SGBL) for €10 million, Fransabank for €10 million, Libano-Francaise for €15 million, Banque Audi for €25 million totaling €85 million (\$111 million). AFD is in discussions with other banks for the remaining amount b) Budget support: €375 million loan in three tranches. On December 7, 2007 the National Assembly approved Amendment #61, which provides the French Government guarantee for the loan and gives the Agence Française de Développement the mandate to negotiate and sign the loan agreement with the Lebanese Government. On December 25, 2007 budget support was approved by the French Parliament. MOF and AFD are finalizing the loan agreement
European Commission	\$486						\$39	\$243	\$65				\$139	a) Budget support: €80 million package for Macro-Financial Assistance: €50 million loans and €20-30 million grant to offset the interest payments. The €80 million package was approved by EU Parliament on 12 December 2007 b) Recovery (Grants pledged in Stockholm): €107 million c) Grants in the framework of EC cooperation with Lebanon for the period 2007-2010: total € 187 million - On 26/9/2007 signed with PCM €10 million for technical assistance for support to socio-economic and political reforms; - On 30/8/2007 signed with CDR €15 million facilitating access to finance by subsidizing EIB's loan to DBL, "Enterprise support facility with the EIB" - On 2/8/2007 signed with CDR €18 million for Support for the Economic Recovery and reconstruction of Lebanon - On 23/7/2007 signed with CDR and OMSAR €18 million (for local development, reconstruction and repair of infrastructure - On 2/7/2007 signed with CDR €10 million Reconstruction Assistance Facility - €3 million with UNRWA for EU university scholarship fund for Palestine refugees in Lebanon - €1 Million with UNDP for technical assistance to the LMAC, to be followed by 3 Million with NGOs for demining
United Arab Emirates	\$300								\$300					Budget support: \$300 million. Signed loan agreement. \$300 million received in three tranches each \$100 million on December 24, November 7, and November 29, 2007

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Islamic Development Bank	\$250									\$245				a) Project lending: \$30 million is in a soft loan for social sector projects and \$215 million at a higher interest rate to be determined for each project. Sectors covered: . Waste and waste water sector - Total \$90 million (\$70 million for greater Beirut and \$20 million for Akkar) . Infrastructure: Total \$23 million (Saida \$15 million and Beirut \$8 million) . Health: Total \$32 million (a new hospital in Tyr for \$10 million, and rehabilitation of other hospitals for \$22 million) . Schools - Total \$5 million for building schools in areas where this is a need . Rehabilitation of roads - approximately \$80 million . Contingencies \$5 million b) \$5 million is a grant (\$1.2 million was spent on relief) and the remaining may be spent on some feasibility study
Arab Monetary Fund	\$250	\$100				\$43			\$107					a) Budget support: \$107 million loan linked to fiscal reforms. Mission was in Lebanon in November 15 - 20, 2007. Signed agreement with MOF for \$32 million budget support loan on December 26, 2007 b) \$43 million support for reforms at BDL particularly risk mitigation and accounting system. Signed on December 26, 2007 c) Private sector support: \$100 million support through the Arab Trade Financing Program. \$107 million signed: In April 2007, The Arab Trade Financing Program (ATFP) signed credit line agreements with Credit Libanais s.a.l., Fransabank s.a.l., BankMed s.a.l. and Banque Libano-Francaise s.a.l. for a total of \$57 million. This agreement aims to help finance foreign trade deals. In March 2007, ATFP also signed an agreement with Byblos Bank for \$25 million

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							Budget Support	Project Financing	Budget Support	Project Financing				
Italy	\$156		\$13	\$12				\$34		\$98				a) Project financing: . €10 million grant for the Lebanese Government for three projects: the rehabilitation of Baabda Hospital, the construction of a water distribution system in Danniyeh and a project on treatment of intellectual impairment in schools implemented by the Ministry of Social Affairs. Received by CDR on December 18, 2007 . Soft loan of €75 million for non-productive sectors such as social, agriculture . €15 million grant expected in 2008 b) UN Agencies: €10 million grant including ILO for vocational training (€2 million), FAO for an observatory and assistance to marketing and production in agriculture (3 million), UNRWA for recovery of the Nahr el Bared camp (€2 million), UNDP for support to the Lebanese municipalities neighboring Nahr el Bared camp affected by the conflict (€1.3 million), UNFPA for a project on domestic violence (€0.7 million) and UNMAS for demining (€1 million) c) Civil Society: €9 million grants for projects proposed to the Italian Embassy by NGOs under the ROSS Program "Emergency Initiative for Rehabilitation, Occupation, Services and Development" . €1 million grant for technical assistance
Germany	\$134							\$91					\$43	All project implementation is through German development corporations (GTZ, KfW) . €40 million from various ministries (e.g. border security, coastal radar system, water system); €30 million Paris III pledge: (2007) under development cooperation for programs related to vocational training, water supply and sanitation, and the environmental sector. These funds comprise €22 million for the continuation of the "Rehabilitation of Water and Wastewater Systems" program; €3 million in additional funding for the "Introduction of Cooperative (Dual) Vocational Training" program; €5 million for activities to address environmental damage; €10 million Stockholm Pledge; €2 committed in 2006 for emergency measures; €21 committed before 2006 for ongoing programs  On December 8, 2007 Germany signed agreements for a total €24 million in grants for projects in water, waste water and the power sector. (€10 million for the water and waste water sector and related electrical activity in the Nabatiya, and South Mouhafazas, West Bekka Caza and Southern Suburb of Beirut; €12 million for creating a central waste water project in the North benefiting the residents of the Nahr el-Bared and Baddawi camps; €2 million for the completion of building two schools)

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							Budget Support	Project Financing	Budget Support	Project Financing				
Italy	\$156		\$13	\$12				\$34		\$98				a) Project financing: . €10 million grant for the Lebanese Government for three projects: the rehabilitation of Baabda Hospital, the construction of a water distribution system in Danniyeh and a project on treatment of intellectual impairment in schools implemented by the Ministry of Social Affairs. Received by CDR on December 18, 2007 . Soft loan of €75 million for non-productive sectors such as social, agriculture . €15 million grant expected in 2008 b) UN Agencies: €10 million grant including ILO for vocational training (€2 million), FAO for an observatory and assistance to marketing and production in agriculture (3 million), UNRWA for recovery of the Nahr el Bared camp (€2 million), UNDP for support to the Lebanese municipalities neighboring Nahr el Bared camp affected by the conflict (€1.3 million), UNFPA for a project on domestic violence (€0.7 million) and UNMAS for demining (€1 million) c) Civil Society: €9 million grants for projects proposed to the Italian Embassy by NGOs under the ROSS Program "Emergency Initiative for Rehabilitation, Occupation, Services and Development" . €1 million grant for technical assistance
Germany	\$134							\$91					\$43	All project implementation is through German development corporations (GTZ, KfW) . €40 million from various ministries (e.g. border security, coastal radar system, water system); €30 million Paris III pledge: (2007) under development cooperation for programs related to vocational training, water supply and sanitation, and the environmental sector. These funds comprise €22 million for the continuation of the "Rehabilitation of Water and Wastewater Systems" program; €3 million in additional funding for the "Introduction of Cooperative (Dual) Vocational Training" program; €5 million for activities to address environmental damage; €10 million Stockholm Pledge; €2 committed in 2006 for emergency measures; €21 committed before 2006 for ongoing programs  On December 8, 2007 Germany signed agreements for a total €24 million in grants for projects in water, waste water and the power sector. (€10 million for the water and waste water sector and related electrical activity in the Nabatiya, and South Mouhafazas, West Bekka Caza and Southern Suburb of Beirut; €12 million for creating a central waste water project in the North benefiting the residents of the Nahr el-Bared and Baddawi camps; €2 million for the completion of building two schools)

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Donor	Total Pledged	Private Sector Support	UN	CSOs	In-Kind	To BDL	Grant to Government		Loan to Government			Under Review	Projects Underway	Details and Status
							Budget Support	Project Financing	Budget Support	Project Financing				
United Kingdom	\$115		\$35										\$80	Contribution to European Commission: \$80 million UNRWA in Lebanon: \$30 million Implementation of UNSCR1701/UNIFIL: \$5 million
International Monetary Fund	\$77					\$77								Balance of payments support received on April 4, 2007
Spain	\$53		\$37	\$11				\$5						Total pledged €40 million: a) UN Agencies and CSOs: total of €36.34 million (UNDP, UNICEF, IRC, UNRWA and Spanish NGOs) b) Project support: €1.76 million for technical assistance, €1.9 million for project financing
Egypt	\$44				\$15			\$29						Signed agreement with PCM on \$14.6 million as an in-kind grant to rehabilitate the Jiyeh Power plant (execution by Petrojet)
Belgium	\$26	\$13	\$4					\$9						a) Private sector support: €10 million export credit yet to be formalized; b) UN Agencies: €3 million to UNDP for Art Gold programme c) Project Financing: €3 million grant to rehabilitate Tebnin public hospital (equipment and services); €4 million in 2008
Turkey	\$20				\$20									In-kind contribution: hospital for war injured. On October 27, 2007, in-kind grant was approval by the Council of Ministers. Programming to be finalized
Canada	\$17		\$13					\$4						Programming to be finalized
Norway	\$15		\$8					\$8						Humanitarian assistance NOK 57,442,117 Environmental projects: NOK 13,125,027 Mines: NOK 7,500,000 Reconstruction of houses in the South: NOK 7,200,000 UN coordinator Pedersen's office: NOK 5,700,000 Organizational development: NOK 4,860,000 Oil for Development: NOK 2,450,000
Oman	\$10						\$10							Budget support: \$10 million for debt reduction on received on December 5, 2007
Jordan	\$8											\$8		
Greece	\$7				\$5								\$2	In-kind contribution: In discussions with CDR regarding supplying medical equipment for health centers; projects related to energy efficiency; and pedestrian bridges

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Donor	Total Pledged	Private Sector Support	UN	CSOs	In-Kind	To BDL	Grant to Government		Loan to Government			Under Review	Projects Underway	Details and Status
							Budget Support	Project Financing	Budget Support	Project Financing				
Sweden	\$6		\$5	\$1										. SEK 8 million to the UNDP-project for Peace-building and Reconciliation . SEK 23 million to UNDP-projects for the Municipalities - all over Lebanon, including the North - SEK 5 million to the Swedish Rescue Agencies-projects in Lebanon - SEK 4 million to Swedish NGO's working in Lebanon (e.g. Swedish Save the Children and Diakonia)
Australia	\$5											\$5		
China	\$4				\$4									China has expressed interest in supplying equipment and implementing various projects including a "Confucius Center", that will provide cultural activities.
Denmark	\$3.5		\$2	\$0.5				\$1						UN Agencies and CSOS: . \$500.000 in grant to the Danish Refugee Council (NGO) disbursed in February 2007 to protection and promotion of livelihood in South Lebanon . \$1 million grant to UNMAS disbursed in February 2007 to support the clearance of unexploded ammunition in South Lebanon . \$1 million in grant to UNRWA disbursed in February 2007 to support UNRWA camps for Palestine refugees in Lebanon . \$1 million in support to implementation of UNSCR 1701, including border management (in cooperation with Germany)
Ireland	\$3											\$3		
Japan	\$4		\$2	\$2										UN Agencies and CSOs: \$1.3 million for 3 Japanese NGOs, \$0.67 for Lebanese NGOs, \$1 million UNRWA, \$1 million UNMAS
Austria	\$1		\$1											UN Agencies: €700,000 via UNDP for small business and farming units; €300,000 via UNRWA
Cyprus	\$0.65		\$0.7											UN Agencies: UN Habitat €170,000 for "Good Governance for Enhanced Post-War Reconstruction: An integrated Approach to respond to Recovery in Southern Lebanon"
Finland	\$1		\$1											
Brazil	\$1											\$1		
Malaysia	\$1						\$1							Housing
South Korea	\$1												\$1	Signed agreement for 2 schools (in Tibnin and Britel) after the July War
Luxemburg	\$1											\$1		
Portugal	\$1											\$1		
Slovenia	\$0.13						\$0.13							Received support on October 30, 2007
<b>TOTAL</b>	<b>\$7,613</b>	<b>\$1,464</b>	<b>\$305</b>	<b>\$77</b>	<b>\$329</b>	<b>\$120</b>	<b>\$400</b>	<b>\$444</b>	<b>\$1,260</b>	<b>\$2,331</b>		<b>\$18</b>	<b>\$867</b>	

## C. SECTOR ALLOCATION

Country	Sector
European Investment Bank	Private Sector, Power, Water, Ports, Roads, Privatization
Saudi Arabia	Budget Support; Other
World Bank	Budget Support, Private Sector, Power, Social, Water
United States	Budget Support, Private Sector, Security, Development
Arab Fund for Economic & Social Development	Private Sector, Power, Roads, Water, Admin reforms
France	Budget Support, Private Sector,
European Commission	Budget Support, Political Reforms, Social, Economic and Recovery, De-mining
United Arab Emirates	Budget Support
Islamic Development Bank	Social (Hospitals & Schools), Roads, Water
Arab Monetary Fund	Budget Support, Fiscal Reforms, Private Sector
Italy	Employment, Social, Infrastructure
Germany	Security, Education, Water, Environment
United Kingdom	Palestinian refugees
International Monetary Fund	Balance of payment
Spain	Development projects
Egypt	Power
Belgium	Private Sector; Reconstruction
Turkey	Social
Canada	Social, Economic Development, Governance
Norway	Environment, Humanitarian
Oman	Budget Support
Jordan	Housing
Sweden	Peace building, Recovery, Development
Denmark	Security, Humanitarian
Japan	Development
Austria	Development
Finland	Development
Malaysia	Budget support; Housing
Slovenia	Budget support

Source: CDR, MOF collected data by December 31, 2007.

The above table does not include countries where sector information is not available as of publication of the report.

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### D. US DEVELOPMENT CONTRIBUTION THROUGH USAID

The following is a description of the allocation of the \$45 million pledged for development by the US Government through USAID.

- Support for American Educational Institutions (AEIs): \$4.0 million of additional funds will supplement the \$6.0 million advanced to AEIs under the regular FY 2007 funding.
- Lebanon Education Assistance for Development (LEAD) for \$5.0 million to continue the work on public schools' rehabilitation to improve the learning environment with provision of laboratories, books, computers, and classroom furniture and materials.
- Rule of Law, with \$7.0 million of additional funding, we will develop the capacity and infrastructure of the Judicial Training Institute for initial and continuing training. The programs also seek to enhance judicial independence, support efforts by the Ministry of Justice to improve court administration, improve access to justice; and provide technical and financial assistance to the Bar Associations to increase their capacity in terms of quality and quantity to provide legal services to Lebanon's poor and disenfranchised, thereby improving access to justice.
- Transparency and Accountability Grants, for \$1.0 million, will provide for extension of the current cooperative agreement with the Grantee.
- Municipal Capacity Building and Service Delivery for \$14 million. Designed to build on success in three industry sectors—ICT, tourism, and agribusiness, as well as promoting the effectiveness of municipal governments. This new approach will focus on the Municipality as a nucleus for economic development and good governance which will drive the revival of peri-urban and rural areas. The program will also provide grant funds to municipalities to improve service delivery and strengthen the relationship between local government and the community.

- Modernization of Municipal Governance Institutions for \$2 million, to support the democratic character of Lebanese local government institutions.
- Policy Reform Benchmarks for \$3 million to provide technical assistance for the release of cash transfers with emphasis on technical assistance and equipment to the Telecommunications Regulatory Authority.
- Small and Medium Enterprise development, \$4.5 million will support Lebanese non-governmental organizations to strengthen their ability to provide services and employment opportunities. The program will integrates the existing Micro-credit and Small and Medium Enterprise programs.
- Office of Transitional Initiatives program for \$2 million supplementing \$5 million for a total of \$7 million. A community based grant program aimed at protecting and expanding national, democratic space in Lebanon. This is a USAID / Office of Transition Initiative joint program.
- Competitive Grant Program for \$1.5 million managed by USAID providing support to Lebanese non-governmental organizations. This will consist of unsolicited proposals received from local entrepreneurs, NGOs, etc.
- Program Management, \$1.0 million will be used to supplement the Operating Expense account for the management of the Supplemental Program.

## E- DONOR COORDINATION STRATEGY AND MECHANISMS

### 1. OBJECTIVE

Based on a review of recent practice and experience, this note focuses on donor coordination processes and mechanisms and outlines a way forward. It aims to rationalize, streamline and focus donor coordination.

### 2. RATIONALE

At the Paris III International Conference (January 2007), a large number and range of donors made important pledges of financial aid in support of Lebanon's reform program. Consequently, the Government has recognized that a donor coordination system is now needed to ensure aid harmonization and alignment of funds with established priorities. Donor coordination is also needed to streamline funding channels and to increase the use of new funding modalities with a view to achieving increased efficiency. In particular, donor coordination is required to meet the important concern of donors about aid effectiveness, which implies a well functioning government-donor architecture and partnership, based on mutual trust and open dialogue focused on policy and harmonization issues. Donor coordination also contributes to increasing development effectiveness.

### 3. CONTEXT

The Government leads and oversees the reform and development process. To enable the bilateral and multi-lateral partners to effectively support the Government in this process, several planning, institutional and coordination arrangements are required or to be reinforced by the national institutions concerned with national planning/programming and public finance. These requirements are mentioned here for information:

- Formulation of a long-term vision and national development strategy
- Completion of the on-going work to formulate a coherent, rolling multi-year reform and development program
- Undertaking a focused effort to achieve increased aid effectiveness based on national policies, procedures and structures through ownership, harmonization, alignment, results, and mutual accountability of government and donors
- Reinforced donor coordination at different levels (internal, donor, government -donor), subject of the present note
- Monitoring and evaluation framework and annual progress reporting and review
- Mobilization of adequate financial resources through the creation and management of increased fiscal space (increased national revenues, better use through rationalization and increased efficiency of national resources, private sector investment including FDI, increased ODA, and remittances)
- Support for democratic governance and good economic and corporate governance in the public, private and civil society sectors through increased capacity and accountability

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Donor coordination concerns aid extended to Lebanon by donor countries and international institutions. Aid is delivered through different channels and modalities and consists of different types: financial assistance, technical assistance and humanitarian assistance, provided mainly as subsidized loans and grants. Financial assistance is provided as budget support, pooled funding, subsidized loans guaranteed by the Government for project financing, and grants. Technical assistance is provided as expertise and professional services, training, equipment, technology, in kind and in the form of loans and grants. Humanitarian aid is provided in the form of emergency assistance, both food and non-food products, financial and technical assistance. Main donors of development aid to Lebanon include Saudi Arabia, EIB, World Bank, USA, AFESD, France, EC, UAE, Kuwait, Qatar, IDB, AMF, Italy, Germany, United Kingdom, IMF, Spain, and Oman.

### 4. STRATEGY

Donor coordination involves a continuum from information exchange, systematic division of labour, common policy and institutional frameworks, and a common process of performance monitoring and assessment at macro-economic and sector levels.

Donor coordination is built around the follow-up to Paris III, which, as indicated above, generated an impressive donor response. The government reform program and the related institutional set-up (reviewed below) provide the policy and institutional frameworks for donor coordination. Strong ownership and leadership of the Government in implementing the reform program have generated synergy among donor efforts. A monitoring and reporting system with regular feedback to donors is in place.

The donor coordination architecture and mechanisms being developed enable regular information exchange at different levels and on a variety of issues. Transparency and accountability of aid management will be boosted and ensured by the establishment and operation of an aid information financial management system linked and integrated with budget process (mid 2008) that will cover all types of aid provided to Lebanon.

Transparency of aid delivery and performance together with the agreement on sector strategies will contribute to division of labour among donors at the sector level.

Aid management aims to promote national systems, rules and procedures for funding and implementation.

### 5. LEVELS OF DONOR COORDINATION

To be effective, donor coordination needs to be established and nurtured at different levels:

- Internal (intra-government) coordination
- Government - donors
- Donor - donor

## 6. MECHANISMS OF DONOR COORDINATION

### a. Intra-Government Coordination

Successful donor coordination in the first place hinges on coordination within government, around the long-term national objectives and the medium-term framework and program.

**Development:** The Government is committed to make optimal use of the increased resources pledged at Paris III with the objective of pursuing its reform and development programs, including the achievement of the MDGs. To be in a good position to do so, the Government seeks to mobilize all relevant government entities and establish and develop a well functioning internal coordination structure for implementation, monitoring and evaluation, annual progress review and reporting and related policy and strategic decision taking.

**Policy and program coordination** at the level of the government, including follow-up to Paris III, takes place through the Council of Ministers.

Within this context, the President of the Council of Ministers, supported by the **Government Reform Program Coordination Office (GRPCO)**, undertakes overall coordination of the implementation of the socio-economic reform program (comprising more than three hundred initiatives assigned to Natural Owners – selected line ministries and agencies). The GRPCO liaises with and supports the work of three **Inter Ministerial Committees (IMCs)**: Economic, Social, and Infrastructure and Privatization, reporting to the Council of Ministers. The IMCs review program development, recalibrate and reprioritize initiatives brought forward by line ministries, oversee coordination and integration with ongoing government activities, approve programs and resource plans, filter requests for technical assistance and decide on TA/funding allocation, and monitor and report on progress. To enable the GRPCO to implement its mandate, a strong, dedicated internal capacity is essential.

Coordination of the public investment program takes place through the **Council for Development and Reconstruction (CDR)**, reporting directly to the Council of Ministers. The CDR is also entrusted with, among others, national planning and programming of reconstruction and development, and aid mobilization and funding, in particular for the implementation of the public investment program.

#### Within this frame

- A short-term (2007-2008) and medium-term (2008-2012) program, including for each identified project performance indicators and financial requirements, were finalized by the GRPCO/IMCs in cooperation with concerned government ministries and public institutions; and,

- A public investment program (2008/9-11/12) was prepared by the Council for Development and Reconstruction (CDR), in accordance with set guidelines, taking into account the macro-economic constraints.

Together, the government reform program and the public investment program provide the framework for donor coordination and the basis for managing and executing government strategy for mobilization of external assistance and foreign investment in the short term.

Both programs specify the requirements for, and will be financed through, foreign aid, preferably budget support and program support. The reform program requires mainly free-standing technical assistance and some financial assistance. The public investment program requires mainly capital investment (projects and investment-related technical assistance).

**Debt management:** Is undertaken as a joint effort, led by the Banque du Liban (BdL) and involving the Ministry of Finance and CDR. With a view to streamlining government operations, it is important that the MoF develop

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the capacity to assume the lead role in debt management in the short to medium term.

**Emergency relief:** The Prime Minister's Office through the High Relief Committee (HRC) is entrusted with coordination of relief and humanitarian assistance at the national level and interaction with donors. The High Relief Committee consists of representatives of concerned government ministries and institutions. The HRC is following up on the implementation of the pledges made at the Stockholm Conference of September 2006.

HRC action would be greatly facilitated by organizing a permanent support structure and core capacity to manage and support the relief and humanitarian consequences of disasters and conflict.

There would be merit in regular Government - Parliament briefings on the government reform program and progress in its implementation, on the one hand, and the emergency relief, humanitarian and rehabilitation program and its implementation, on the other.

### b. Government - Donors

#### i. Global and regional levels

**International donor forum:** The main mechanism at the global level has been the international conferences organized from time to time (latest, Paris III) with a view to mobilizing donors and obtaining pledges for the government priority needs. To replace these international conferences, consideration could be given to organize locally an international donor forum to review achievements and progress, to discuss government policy, and to review aid effectiveness. Such meetings could be held annually/biennially; a first meeting could take in autumn 2008 (Responsibility: PCM with MoF).

**The WB/IMF Spring and annual meetings:** Held twice a year, these meetings provide an opportunity to the Government to review and discuss strategy and policy issues with the core group of donors at ministerial level. (Responsibility: MoF)

**Regional donor briefings:** To galvanize the important regional contributions, consideration should be given to organize, from time to time, a regional donor briefing to review progress in the implementation of reform and development programs, regional contributions to results, and further requirements (for instance, this could be done within the context of the annual meeting of Arab funding institutions). (Responsibility: MoF)

#### ii. National level

**Quarterly Government - donor information meetings** (thus far, April, July and October 2007), are organized by the Ministry of Finance, at the level of ambassadors, to review and discuss government policy and aid coordination, report on achievements and progress of the reform program, review aid delivery and highlight priority aid requirements. A representative of Parliament and the Economic and Social Council, on behalf of civil society, may be invited to participate.

**Thematic/sector coordination:** A series of thematic (social sector) donor coordination meetings has been organized, jointly by the Minister of Finance and the concerned line minister, at the level of development cooperation focal points/aid managers, to elicit interest and to mobilize further support for the sector.

and consultations at high level involve the Prime Minister and other senior government officials. The focal point and first point of call for these meetings and consultations is the Minister of Finance. In all cases, the MoF Donor Coordination Unit needs to be fully kept informed and provided timely with feedback.

### c. Donor - Donor Coordination

Aid effectiveness benefits from coherence of relations and coordination among donors and from harmonization of donor processes. Regular formal meetings of donors could be beneficial in achieving an increased and improved response to reform and development needs of both public sector and civil society. Such meetings would be useful, among others, to prepare common positions before quarterly meetings and annual donor forum. At present, the EC has taken the initiative to promote such process.

A few mechanisms aiming to promote coordination of sub-sets of donors exist, including:

- UN system, through the UN Resident Coordinator System and UN Country Team meetings (Common Country Assessment and UN Development Assistance Framework; WB Country Assistance strategy; joint programs; emergency and humanitarian assistance / Lebanon Relief and Reconstruction Fund ...)
- European Union (EC and member States), through the meetings at the Delegation of the European Commission
- Small grants programs coordination, through meetings of donors executing such programs

## 7. MANAGING DONOR COORDINATION

In follow-up to the Paris III international conference, the Ministry of Finance was given the responsibility for

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donor coordination by the Council of Ministers. This corresponds to the mission of the Ministry of Finance, which includes the mobilization and proper use of all public resources.

**Donor Coordination Unit (DCU)** A Donor Coordination Unit has been established at the MoF as the focal entity within the government dedicated to mobilizing, contributing to programming, monitoring and reporting on external assistance allocated to Lebanon; aligning the aid provided by all donors (official and non-official, bilateral, international, private and non-governmental) with national goals and priorities; harmonizing donor practices with government systems; and, promoting and establishing partnerships with donors and national stakeholders. To manage to best advantage new funding modalities, including budget support, SWAps, and pooled funding will require a special effort. The DCU will develop and strengthen aid coordination and aid management processes with a view to ensuring transparency and accountability of resource use and achieving a stronger impact of aid on national development outcomes.

DCU activities will be based on an aid information management system that will link and integrate aid with the budget process and that will be able to meet both reporting requirements and financial management requirements of government and donors. To be effective, the scope of the system will cover all assistance to Lebanon (economic reform program, public investment program, relief program, and any other programs and projects supported by donors such as aid to civil society organizations). The system is presently being established.

Successful aid coordination and aid management require coherence and cohesiveness of the relationships among PCM/GRPCO, CDR and MoF, a clear distribution of roles, and adequate institutional capacity. A strengthened working relationship between MOF (DCU)

and CDR on donor coordination requires an alignment of processes to meet respective requirements. CDR continues to assume its present functions of funding mobilization and aid management, in particular for the public investment program, whereas the MoF (DCU) focuses on donor relations, aid strategy, financial management of aid, integration of aid to the budget, and promotion of aid effectiveness.

**Aid Management Working Group** With a view to promoting confidence building and smooth interaction among the main program management entities and the MOF, an Aid Management Working Group has been established (at the policy level and at the senior working level).

At the policy level, the working group will review and consider aid management and aid effectiveness issues and take relevant decisions and or bring to the attention of government. The working group will also prepare common position for coordination of external assistance (see below Partnership Committee). The working group will be chaired by the Minister of Finance and will consist of the President of CDR, Director GRPCO (PCM), and Secretary-General of HRC.

At the senior working level, the working group will provide policy support and submit options for solutions to issues, in addition to review of progress on aid information management and resolving related issues and review and discussion of the strengthening of the relation between aid information and aid coordination. The working group will be chaired by the Director of the DCU and will consist of representatives of PCM GRPCO, HRC, CDR, and MoF (based on the present bi-weekly coordination meetings).

**Partnership Committee** A Partnership Committee of key actors of both government and donors is being established to guide and oversee the coordination of external assistance to Lebanon. The Partnership Committee will provide space for in-depth discussion of strategic issues and specific interventions concerning aid. The committee will consist of representatives of gov-

F- PUBLIC INVESTMENT PROGRAM AND ITS FINANCING

THE USE OF PARIS CONFERENCE PLEDGES  
October 2007

ADFD	Abu-Dhabi Fund for Development
AFESD	Arab Fund for Economic and Social Development
AMF	Arab Monetary Fund
BdL	Banque du Liban (Central Bank of Lebanon)
BOT	Build-Operate-Transfer
CAS	Central Administration for Statistics
CDR	Council for Development and Reconstruction
EdL	Électricité du Liban
EIB	European Investment Bank
EPCA	Emergency Post Conflict Assistance
EU	European Union
GDP	Gross Domestic Product
IBRD	International Bank for Reconstruction and Development (the World Bank)
IDB	Islamic Development Bank
IMF	International Monetary Fund
KFAED	Kuwait Fund for Arab Economic Development
KV	Kilo-Volt
LNG	Liquefied Natural Gas
MOF	Ministry of Finance
MW	Megawatt
NGO	Non-Governmental Organization
OFID	OPEC Fund for International Development
RWA	Regional Water Authority
SFD	Saudi Fund for Development
SME	Small and Medium-Scale Enterprises
UAE	United Arab Emirates
UN	United Nations
UNDP	United Nations Development Program
USA	United States of America

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INTRODUCTION AND BACKGROUND

1. **Introduction.** On the occasion of the International Conference for Support to Lebanon held in Paris in January 2007, the Government of Lebanon presented its economic reform program that aimed at stimulating growth, creating employment, reducing poverty, and maintaining social and political stability. More specifically the aim of the reform program was to raise the real growth rate to at least 4-5% over the next five years, improve social indicators, and reduce regional inequalities. Since the main source of economic vulnerability in Lebanon was related to the large public debt, placing this debt on a downward trajectory towards sustainability—while protecting the most vulnerable segments of the population—was considered a prerequisite for achieving the objectives of the program. The latter was to be achieved in part by a strong domestic fiscal effort and privatization, with a steady reduction in the overall fiscal deficit over the medium term, after an increase in 2008 resulting from post-war reconstruction outlays, complemented with external support, in particular grants and highly concessional loans (in the form of budget support) that could substitute for part of the new market borrowing.

2. Within the limits of the need for fiscal adjustment, the Government's program envisaged a modest increase in the level of capital expenditures from the depressed levels in recent years to close to 3% of GDP in the medium term, with a higher ratio during 2007-08 (reflecting the post-war reconstruction needs) in order to provide for adequate levels of expenditures to maintain existing infrastructures and prevent its rapid deterioration and to invest in much needed new investment projects<sup>1</sup>. The program also envisaged that the share of investments funded from foreign project loans could be increased so as to reduce the need for market borrowing to fund the local share of capital expenditures. In addition, as part of the government's overall strategy, the private sector was to play a greater role in infrastructure investments and in the provision of public services through various arrangements and in partnership with the public sector. Whereas the public investment program during the 1990s had focused heavily on rebuilding the country's physical infrastructure, in particular transport, power and telecommunications, after the 15 year war, the future program was to put greater emphasis on providing basic public services.

1 Maintenance expenditures are funded from the Government's Capital Budget.

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3. During the 1990s, the Government had undertaken the massive task of reconstruction of public infrastructure after 15 years of war. Given the magnitude of destruction<sup>2</sup>, and in the absence of private sector options at the time, the Government had to provide all basic public services. The key infrastructure sectors—power, transport and telecommunications—accounted for about two-thirds of total public investment, which averaged over 6% of GDP during 1993-2000 (and as much as 7.9% during the five year period 1994-98). While there was significant international support for reconstruction during the 1990s, primarily in the form of concessional loans, overall more than two-thirds of all capital expenditures during the 1990s were funded by market borrowing at high interest rates. Total public sector interest payments were double the size of capital expenditures during the 1990s. This underlied the debt dynamics that evolved.

4. With reconstruction from the 15-year war substantially completed and increasing fiscal constraints, and implementation difficulties in the unsettled political situation, the level of public investment slowed down significantly, to as low as just about 2.5 % of GDP in the three years before the July/August 2006 war. As before, more than two-thirds were financed from the budget.

Table 1. Capital Expenditures 1993-2006

	1993-2000	2001-2006
Annual Average (US\$million)	854.5	660.8
Foreign Financing (project loans) (%)	27.9	30.0
Domestic Financing (%)	72.1	70.0
Share of GDP (%)	6.3	2.7
For information: Interest Payments (% of GDP)	12.6	14.1

2 Damage to physical assets had been estimated by the United Nations at \$25 billion, equivalent to six to seven times the Gross Domestic Product (GDP) in 1990.

5. **Post-War Reconstruction and Financing.** As indicated in the document presented to the Conference in Paris, the total **direct cost** of early recovery and reconstruction following the July/August 2006 war was estimated at around \$2.8 billion. The cost of reconstruction included the cost of rebuilding and repairing private and public infrastructure, replacing lost assets, and compensating for private housing, which was by far the largest component of the losses. The total direct cost to the Lebanese Government, to be covered by the Central Government budget, i.e. excluding the private sector's and NGO's contribution to the reconstruction effort, was estimated at about \$1.75 billion.

6. The international community reacted quickly and generously to support Lebanon's relief, recovery and reconstruction efforts after the war, with major contributions from Saudi Arabia and Kuwait and, subsequently, many other donors on the occasion of the Conference for Lebanon's Early Recovery in Stockholm hosted by the Swedish Government at the end of August 2006. These contributions cover all of the estimated cost to the Government of the direct cost of early recovery and reconstruction, except for a remaining gap for the housing compensation component.

7. The total cost of housing compensation payments by the Government, excluding housing reconstruction executed directly by donors (in particular Qatar) in selected towns and villages, is estimated at about \$950 million, of which \$500 million represents the first payment to beneficiaries during 2007, which is fully covered by grants that have been received. However, with respect to the second payment of **housing compensation** of about \$450 million to be paid in 2008, at this time a **funding gap of about \$400 million** remains, which would have to be covered from the Government's budget.

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**Table 2. Paris Conference Pledges (US\$ million)**

Country	Total Pledged	Projects Underway	New	Of Which:			BDL	Under Review	Government
				Private Sector Support	UN System/ UNIFIL/ NGOs	Technical Assistance / In-kind			
EIB	1,248.0	260.0	988.0	708.5		19.5			260.0
Saudi Arabia	1,100.0		1,100.0						1,100.0
World Bank	975.0		975.0	275.0					700.0
United States	890.0		890.0	120.0	234.5	285.5			250.0
AFESD	750.0	336.6	413.4	85.0					328.4
France	650.0		650.0	162.5					487.5
EU	486.2	139.1	347.1						347.1
UAE	300.0		300.0						300.0
IDB	250.0	5.0	245.0						245.0
AMF	250.0		250.0	100.0					150.0
Italy	156.0		156.0		26.0				130.0
Germany	133.9	42.9	91.0						91.0
United Kingdom	115.0	80.0	35.0		35.0				0.0
IMF	77.0		77.0				77.0		0.0
Spain	52.5	32.5	20.0		15.5	2.0			2.5
Egypt	44.0		44.0			14.6			29.4
Belgium	26.0		26.0	13.0					13.0
Turkey	20.0		20.0			20.0			0.0
Canada	17.0		17.0		13.0	4.0			0.0
Norway	15.0		15.0		7.5				7.5
Oman	10.0		10.0						10.0
Jordan	8.0		8.0					8.0	0.0
Greece	6.5		6.5					6.5	0.0
Sweden	5.8		5.8		5.8				0.0
Australia	5.0		5.0					5.0	0.0
China	4.0		4.0					4.0	0.0
Denmark	3.5		3.5		2.5	1.0			0.0
Ireland	2.6		2.6					2.6	0.0
Japan	4.0		4.0		4.0				0.0
Austria	1.3		1.3		1.3				0.0
Cyprus	1.1		1.1					1.1	0.0
Finland	1.0		1.0		1.0				0.0
Brazil	1.0		1.0					1.0	0.0
Malaysia	1.0		1.0						1.0
South Korea	1.0		1.0					1.0	0.0
Luxemburg	0.8		0.8					0.8	0.0
Portugal	0.7		0.7					0.7	0.0
Slovenia	0.1		0.1					0.1	0.0
<b>Total</b>	<b>7,613.0</b>	<b>896.1</b>	<b>6,716.9</b>	<b>1,464.0</b>	<b>346.1</b>	<b>346.6</b>	<b>77.0</b>	<b>30.8</b>	<b>4,452.4</b>

Lebanon: Public Investment Program and its Financing.

8. **Donor Pledges.** On the occasion of the Conference in Paris in January 2007, there was very significant donor support for Government's reform program, beyond the needs for early recovery and reconstruction. Table 2 gives an overview of the pledges made on that occasion. It reflects clarifications provided by donors subsequent to the Conference.

9. As mentioned above (paragraph 1) the document presented to the Paris Conference indicated that the need for external support for the reform program, to complement the Government's effort, related in particular to grants and concessional loans, in the form of budget support, that could substitute for market borrowing to

fund the budget (including debt service). In the event, exclusive of pledges for projects that were already underway, an amount of \$6.7 billion was pledged (see Table 2), of which about one-fifth, \$1.4 billion, for the private sector. Pledges for the Government totaled \$4,452 million<sup>3</sup>(about two-thirds of the total), of which \$849 million in grants. Out of this total, \$1,703 million, about a quarter of total pledges, is earmarked for budget support and \$2,750 million (about 60% of pledges for Government and 40% of total pledges) is earmarked for projects (see Table 3 below). An additional \$200 million was pledged for projects subsequent to the Conference<sup>4</sup>.

**Table 3. Paris conference pledges - Government (US\$ million)**

Donor	Grant to Government		Loan to Government		Total
	Budgetary Support	Project Financing	Budgetary Support	Project Financing	
EIB				260.0	260.0
Saudi Arabia	100.0			1,000.0	1,100.0
World Bank			300.0	400.0	700.0
United States	250.0				250.0
AFESD				328.4	328.4
France			487.5		487.5
EU	39.0	243.1	65.0		347.1
UAE			300.0		300.0
IDB		30.0		215.0	245.0
AMF			150.0		150.0
Italy		32.5		97.5	130.0
Germany		91.0			91.0
Spain		2.5			2.5
Egypt		29.4			29.4
Belgium		13.0			13.0
Norway		7.5			7.5
Oman	10.0				10.0
Malaysia	1.0				1.0
<b>TOTAL</b>	<b>400.0</b>	<b>449.0</b>	<b>1,302.5</b>	<b>2,300.9</b>	<b>4,452.4</b>

<sup>3</sup> As per Table 2 above. This excludes projects in the column "Projects Underway".

<sup>4</sup> Representing the proposed lending program by Kuwait Fund for Arab Economic Development (KFAED) for three years.

## APPENDICES

10. As of end-September 2007, about half of the nearly \$1.5 billion in pledges for the private sector had resulted in signed agreements<sup>5</sup>. With respect to the pledges made for Government, total of \$100 million in grants for budget support had been received (and used for debt service payments), and an agreement for a further \$250 million in grants had been formally signed (memorandum of understanding). A total of \$400 million in loans for budget support had been formally signed, of which \$100 million had been disbursed by end-September 2007. In addition, Malaysia, which had pledged to provide debt relief, reprofiled the amortization structure of Lebanon's debt (Paris II bonds totaling \$500 million) with Malaysia and reduced interest rates, resulting in a reduction of \$286.5 million in payments due during the 2008-11 period<sup>6</sup>. New project loans signed or firmly committed since the Paris Conference, other than loans for the private sector, amounted to \$575 million as of end-September 2007. About 60% of this amount related to pledges made on the occasion of the Stockholm Meeting.

11. **Macroeconomic Program.** The Government's macroeconomic program is being supported by an Emergency Post-Conflict Assistance (EPCA) Program with the International Monetary Fund (IMF), in amount of \$77 million (disbursed to the Banque du Liban-BdL). Despite the continued unsettled political situation throughout 2007, and its adverse effects, the three-month battle against terrorism in the Nahr el-Bared camp, and the continued high international oil prices, Lebanon has met all the Program's targets for the quarters ending March and June 2007 and current prospects are that the (one-year) Program will be successfully completed<sup>7</sup>. It is expected that Lebanon will enter into a successor medium-term program arrangement before the end of 2007, with final decisions to be taken by the Government that takes office after the upcoming Presidential elections.

12. Pending possible modifications in the context of a successor program, and with adjustments to reflect the actual outcome for 2007, the medium-term macro-economic scenario envisaged in the EPCA Program provides the context for the public investment program in terms of its overall size and financing. This scenario envisages total capital expenditures<sup>8</sup> of \$3.44 billion during 2007-10 (excluding grant-funded capital expenditures), equivalent to 3.3% of GDP on average, of which 55% is foreign financed. This total includes outlays for post-war reconstruction and the size of the remainder of the program is therefore very constrained relative to Lebanon's needs for public investment, even in the context of a much greater role for the private sector in the provision of public services.

13. The completion of projects that are underway or for which external financing has already been obtained would represent a major proportion of the medium term public investment program<sup>9</sup> as will be discussed below. A program of the magnitude now envisaged in the EPCA scenario should be considered a core program, with a larger program to be considered if incremental concessional financing can be utilized for additional investment expenditures, without a need for incremental domestic co-financing. The possibility for a larger program would also arise if the actual outcome of the reform program, in terms of the primary fiscal balance and privatization, exceeds the targets in the medium program that will be formulated by the end of this year.

<sup>5</sup> These included agreements for about \$160 million for SME investment projects and war rehabilitation that had been signed prior to the Paris Conference.

<sup>6</sup> Of which \$260 million on account of reprofiling amortization payments.

<sup>7</sup> An update on the outcome with respect to the quarter ending September 2007 will be provided on the occasion of the Core Group Meeting.

<sup>8</sup> Including maintenance expenditures.

<sup>9</sup> In this document public investment and capital expenditures are the same, and include maintenance expenditures.

14. As will be discussed below, the **key financial constraint with respect to public investment relates to the capacity for domestic (budget) financing of the investment program**, including the provision of local counterpart funds for the portion of project costs not covered by foreign project loans. Cost overruns have significantly increased the counterpart funding requirements.

15. **Existing Financing for Public Investment.** As mentioned above, in recent years project implementation has been relatively slow due to a wide range of difficulties and constraints, and consequently utilization of foreign loans extended before the war has been much lower than should be expected. As of end 2006, a total of \$1.8 billion (79% of the original loan amounts) was undisbursed on account of loans and protocols that had been ratified by Parliament<sup>10</sup>. In addition, as of end-September 2007 there was a total of \$842 million in loans that had not yet been ratified by Parliament<sup>11</sup>. Except for a pledge of \$215 million that has been committed (by IDB), these loans are not related to pledges made at the Paris Conference. Table 4 shows a breakdown of all loans by sector and by lender.

16. In addition, as of end-September 2007, nearly \$600 million in grants, mainly related to pledges made before the Paris Conference, were earmarked for public investment (including war repairs and reconstruction, with roads and bridges accounting for close to half of the total), of which about \$250 million for financing of the Government's program, with the balance executed directly by donors (Table 5).

<sup>10</sup> No commitments to contracts can be made until loans are ratified by Parliament.

<sup>11</sup> This includes \$277.5 million in loans that had been signed before the war, and \$319.3 million in post-war loans that have not yet been formally signed but firmly committed by lenders. Details are in Annex Table 3.

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**Table 4. Loans by Sector with Distribution by Lender-Total Undisbursed (US\$ million)**

ALL LOANS	ADFD	AFESD	EIB	France	Germany	IBRD	IDB	Iran	Italy	Japan	KFAED	OFID	SFD	TOTAL
Electricity		167.0						22.5	2.7					192.2
Roads (incl. Urban Transport)	10.0	203.6	75.0			70.7	250.4	41.3			91.2	29.4	90.0	861.7
Airports and Ports			36.4	1.8							4.8			43.0
Water Supply	10.0	96.2		67.2		33.9	102.5	20.0	61.9		45.9	0.0	17.8	455.3
Wastewater	17.5		192.9	30.1	20.3		58.2	5.0	88.6	68.1				480.7
General Education						24.4	23.6				57.1		6.3	111.4
Higher Education		9.0					56.2						15.2	80.4
Vocational and Technical Schools		35.4					3.1					0.4		39.0
Health							70.7					1.8		72.6
Agriculture, Rural Development, and														0.0
Environment		98.4		14.6		43.3			12.9		66.8			235.9
Other		39.5					5.0	23.8						68.3
<b>TOTAL</b>	<b>37.5</b>	<b>649.1</b>	<b>304.3</b>	<b>113.7</b>	<b>20.3</b>	<b>172.3</b>	<b>569.7</b>	<b>112.5</b>	<b>166.1</b>	<b>68.1</b>	<b>265.8</b>	<b>31.7</b>	<b>129.4</b>	<b>2640.4</b>
<b>RATIFIED LOANS ONLY 1/</b> (undisbursed end-2006)														
Electricity		39.0						22.5	2.7					64.2
Roads (incl. Urban Transport)	10.0	127.6	75.0			70.7	95.2	41.3			41.1	19.4	90.0	570.4
Airports and Ports			36.4	1.8							4.8			43.0
Water Supply	10.0	0.7		29.7		33.9	28.0	20.0	61.9		30.3		17.8	232.2
Wastewater	17.5		192.9	30.1	20.3		38.2	5.0	88.6	68.1				460.7
General Education						24.4	9.7				32.0		6.3	72.4
Higher Education		9.0					14.2							23.2
Vocational and Technical Schools		35.4					3.1					0.4		39.0
Health							21.9					1.8		23.8
Agriculture, Rural Development, and														0.0
Environment		98.4		14.6		43.3			12.9		66.8			235.9
Other		9.5						23.8						33.3
<b>TOTAL</b>	<b>37.5</b>	<b>319.6</b>	<b>304.3</b>	<b>76.2</b>	<b>20.3</b>	<b>172.3</b>	<b>210.3</b>	<b>112.5</b>	<b>166.1</b>	<b>68.1</b>	<b>175.0</b>	<b>21.7</b>	<b>114.2</b>	<b>1798.0</b>
<b>NOT-RATIFIED LOANS 2/</b>														
Electricity		128.0												128.0
Roads (incl. Urban Transport)		76.0					155.2				50.1	10.0		291.3
Airports and Ports														0.0
Water Supply		95.5		37.5			74.5				15.6			223.1
Wastewater							20.0							20.0
General Education							13.9				25.1			39.0
Higher Education							42.0						15.2	57.2
Vocational and Technical Schools														0.0
Health							48.8							48.8
Agriculture, Rural Development, and														0.0
Environment														0.0
Other		30.0					5.0							35.0
<b>TOTAL</b>	<b>0.0</b>	<b>329.5</b>	<b>0.0</b>	<b>37.5</b>	<b>0.0</b>	<b>0.0</b>	<b>359.4</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>90.8</b>	<b>10.0</b>	<b>15.2</b>	<b>842.4</b>

1/ Undisbursed portion of ratified loans and protocols as of end - 2006

2/ As of September 30, 2007. Includes \$319.3 million loans not yet signed as of Sept 30, 2007 (IDB \$244m, KFAED \$50.1m, OFID \$10m, SFD 15.2m).

**Table 5. Grants for public investment by sector with distribution by donor (US\$ million)<sup>1</sup>**

	Execution by GOL							Execution by Donors								
	China	EU	France	IBRD	Italy	Oman	S. Arabia/ SFD	TOTAL	Germany	Kuwait	Iran	Italy	Qatar	UAE	USA	TOTAL
	2/				3/		3/4/		3/		3/5/					
Electricity			1.9	5.0				6.9		6.0						6.0
Roads (incl. Urban Infrastructure)				30.0	6.3		90.0	126.3	75.0	28.0					30.0	133.0
Airports and Ports								0.0								0.0
Water Supply		5.0		15.0				20.0	3.8	43.3						47.1
Wastewater		10.0						10.0	2.5	14.0						16.5
General Education							17.5	17.5		10.0				15.0		25.0
Higher Education								0.0								0.0
Vocational and Technical Schools								0.0	10.6							10.6
Health								0.0		4.0		5.2				9.2
Agriculture, Rural Development, and								0.0								0.0
Environment								0.0	5.6			0.7				6.3
Other/Multisectoral	13.9	37.5	1.3	5.0		15.0		72.7	2.5	32.7		3.8	50.0			89.0
TOTAL	13.9	52.5	3.1	55.0	6.3	15.0	107.5	253.3	25.0	185.0	28.0	9.7	50.0	15.0	30.0	342.7

1/ Excludes grants for post-war relief, housing, NGOs and private sector, UN system, and budget support.

2/ Excludes ongoing pre-Paris programs (mainly technical assistance).

3/ Excludes contributions to housing compensation.

4/ An amount of \$75 million (roads) is earmarked for financing of cost overruns of projects supported with SFD loans.

5/ Estimated component of public infrastructure (including also public education and health facilities) of total program of \$300 million (incl.housing).

## APPENDICES

## THE ONGOING PUBLIC INVESTMENT PROGRAM

17. **Projects with ratified loans.** The completion of ongoing projects, in particular those that are well advanced, is among the priorities that the Government has for its public investment program. As mentioned above, a total of about \$1.8 billion was undisbursed as of end-2006 for loans that were ratified by Parliament before it ceased to convene 11 months ago. Annex Tables 1 and 2 show details by project, and Table 6 below provides a summary by sector. Close to 40% of the total amount is allocated to the water and wastewater sectors, which are the priority sectors in infrastructure, while close to one-third is allocated to roads (including urban transport and infrastructure).

18. Nearly \$1.1 billion of the total (of undisbursed amounts from ratified loans) is for projects that are well underway (with, on average, about 80% of the loan amounts committed to contracts and 40% disbursed as of end-2006). However, more than \$700 million in ratified loans is for projects that had not, or barely, started (disbursements of 5% of loan amount or less and commitments of 15% or less – See Annex Table 2).

19. **Many of the existing projects with foreign funding, including many that have not yet started, face significant cost overruns** for a variety of reasons, e.g (i) delays have added to project costs because of inflation and contractors claims; (ii) competition for bids (particularly for civil works) has been reduced because of the war and the unsettled political situation and contractors' risk premia have increased; (iii) high oil prices have increased costs particularly in the roads sector (e.g. asphalt prices); (iv) the appreciation of the Euro vis-à-vis the US Dollar has increased prices, in particular for equipment and consulting services components.

20. The total of cost overruns for projects supported by ratified foreign loans is estimated at around \$560 million (through project completion), of which \$75 million will be covered from grants allocated for cost overruns. On this basis, the cost of completing all projects that already have ratified foreign loans (which represent two-thirds of all of the undisbursed amounts of foreign loans, including loans that have been signed or committed but not yet ratified), is estimated at \$2.85 billion, of which \$2.3 billion during 2007-10. Less than two-thirds of this amount would be covered from existing foreign funding (see Table 7).

21. In addition, **outlays for local programs and projects** (i.e. without foreign loans), to be funded from the Government's capital expenditures budget (and thus financed by market borrowing)<sup>12</sup>, based on commitments made as of end-2006<sup>13</sup> and with minimally needed allocations for maintenance (which is a higher priority than new investments) of about \$100 million p.a., are in the order of \$1.0 billion<sup>14</sup> during 2007-10 (Table 7).

<sup>12</sup> Since total current expenditures exceed revenues, the entire capital budget not covered by external project loans is de-facto financed from market borrowing.

<sup>13</sup> Unpaid portion of budget appropriations against Program Laws as of end-2006, including amounts committed but not yet paid.

<sup>14</sup> Also includes an allocation for expenditures on various small projects/programs.

**Table 6. Undisbursed loans by sector and status (US\$ million) and sectoral distribution (%)**

	>5% disbursed 2/	Ratified 1/ no/low disbursements	Subtotal Ratified	Not Ratified 3/	Total
<b>US\$ million</b>					
Electricity	39.0	25.2	64.2	128.0	192.2
Roads (incl. Urban Transport)	414.1	156.3	570.4	291.3	861.7
Airports and Ports	43.0	0.0	43.0	0.0	43.0
Water Supply	127.9	104.3	232.2	223.1	455.3
Wastewater	224.2	236.5	460.7	20.0	480.7
General Education	72.4	0.0	72.4	39.0	111.4
Higher Education	18.2	5.0	23.2	57.2	80.4
Vocational and Technical Schools	39.0	0.0	39.0	0.0	39.0
Health	23.8	0.0	23.8	48.8	72.6
Agriculture, Rural Development, and Environment	57.9	178.0	235.9	0.0	235.9
Other	23.2	10.0	33.2	35.0	68.3
<b>Total (US\$ million)</b>	<b>1082.7</b>	<b>715.3</b>	<b>1798.0</b>	<b>842.4</b>	<b>2640.4</b>
<b>Sectoral Shares (%)</b>					
Electricity	3.6	3.5	3.6	15.2	7.3
Roads (incl. Urban Transport)	38.2	21.8	31.7	34.6	32.6
Airports and Ports	4.0	0.0	2.4	0.0	1.6
Water Supply	11.8	14.6	12.9	26.5	17.2
Wastewater	20.7	33.1	25.6	2.4	18.2
General Education	6.7	0.0	4.0	4.6	4.2
Higher Education	1.7	0.7	1.3	6.8	3.0
Vocational and Technical Schools	3.6	0.0	2.2	0.0	1.5
Health	2.2	0.0	1.3	5.8	2.7
Agriculture, Rural Development, and Environment	5.3	24.9	13.1	0.0	8.9
Other	2.1	1.4	1.8	4.2	2.6
<b>Total (%)</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

1/ Undisbursed as of end-2006.

2/ Also includes loans with less than 5% disbursed but more than 15% committed to contracts (See Annex Table 1 and 2 for details).

3/ Signed or firmly committed as of September 30, 2007 (See Annex Table 3 for details).

## APPENDICES

22. On this basis the overall public investment program for 2007-10, **without initiating any new projects (including projects for which loans have already been committed, but not yet ratified)**, would amount to about \$3.35 billion<sup>15</sup>, which is very close to the overall magnitude that is envisaged in the current macroeconomic scenario. More seriously **the requirements for domestic financing (which would have to met by incremental market borrowing), far exceed the amount envisaged in the current macroeconomic scenario**. This excess, of about \$325 million (for 2007-10 only), results from the project cost overruns (an amount of nearly \$450 million during 2007-10, less the cost overruns that would be covered from disbursements of committed loans and grants during 2007-10). The public investment program without adjustments to the existing portfolio and without new projects (with not yet ratified or new loans) is summarized in Table 7.

23. As indicated above, as of end-September there was a total of \$842 million in new loans that had not yet been ratified. About \$135 million of this is earmarked for financing of cost overruns of projects that have ratified loans. The balance of about \$700 million is for war repair and reconstruction and for new projects, including some of the projects for which financing will also will be sought from Paris Conference pledges as will be discussed in the next section. Because of the macro-financial constraints, this financing for new projects will require only about a quarter of the pledges made for projects, even with adjustments to the existing portfolio of projects.

<sup>15</sup> Excluding grant-funded expenditures.

**Table 7. Ongoing Public Investment Program (US\$ illion)**  
Existing projects with ratified foreign loans and local projects only

Ratified Loans (US\$ million)			
Undisbursed end-2006	1798.0		
more than 15% committed	1082.7		
less than 15% committed	715.3		
Project Cost to Completion (US\$m) after 2006	Total	2007-10	2011-13
Projects with Ratified Loans (\$m), including cost overruns	2808	2220	588
more than 15% committed	1689	1604	84
less than 15% committed	1119	616	504
Land acquisition	120	120	0
Total	2928	2340	588
less: cost overruns funded from grants 1/	70	38	38
Total, net of grants	2858	2302	551
Budget Part II (local only) 2/		1050	515
Existing commitments/appropriations 3/		550	0
Maintenance		400	420
Miscellaneous		100	95
TOTAL EXPENDITURES 4/		3352	1066
domestic financing (residual)		1860	625
foreign project loan financing (disbursements)		1492	441
ratified loans		1422	376
not ratified loans 5/		70	65
EPCA Capital Expenditures (US\$m)		3442	
domestic financing		1536	
foreign financing		1906	

1/ Part of Saudi grant allocated to existing projects.

2/ This excludes requirements for counterpart funds (including cost overruns and land acquisition) for projects with foreign loans. These are included in "Project Cost to Completion".

3/ Amounts appropriated against Program Laws but not yet paid (as of end-2006), of which about \$300 million unpaid commitments.

4/ With adjustments to the existing portfolio of projects.

5/ Not-ratified loans allocated to existing projects (KFAED, IDB and OFID).

## APPENDICES

### THE MEDIUM TERM PUBLIC INVESTMENT PROGRAM

24. Given the level of public investment in the ongoing public investment program relative to the overall macro-financial constraints, as well as implementation capacity, the new component of the public investment program will be fairly limited. It comprises projects supported by loans that have already been signed or firmly committed, but not yet ratified (as Parliament has not convened), in an amount of about \$700 million<sup>16</sup> and by new loans for new projects for which donor commitments will be sought from the pledges made at the Paris Conference in an amount of about \$600 million, as will be discussed below.

#### Complementary Projects

25. Beyond the completion of projects whose implementation is well advanced, with some possible down-scaling, a key priority will be the initiation of new, generally small, projects that have the prime purpose of ensuring that benefits from past investments (and from projects that are underway) are fully realized by addressing missing links and complements that are needed for this purpose. The key needs are in the roads and wastewater sectors. With respect to the latter, according to the 2004 Household Living Conditions Survey by the Central Administration for Statistics (CAS), as much as nearly one-third of Lebanese households had no access to a public sewerage network.

26. The total cost of the complementary projects to be selected as part of the public investment program is about \$300 million (See Table 8). It is expected that, in consultation with donors, about \$75 million of this program can be covered from loans that have already been signed or committed but not yet ratified (for roads), and that about \$50 million could be available from reallocations under existing ratified loans for roads. This would leave an un-financed balance (exclusive of local counterpart funds) of \$150 million for which Government will seek financing from pledges made at the Paris Conference. This loan would be used for complementary projects in the wastewater sector and thus have a significant positive environmental impact.

<sup>16</sup> Not yet ratified loans excluding the portion that is earmarked for cost overruns (see paragraph 23).

Table 8. Complementary Projects (US\$ million)

Sector	Estimated cost	Financing
Roads	125	from existing loans
Wastewater	150	new loan
Subtotal	275	
Local Counterpart Funds	25	Government budget
<b>TOTAL</b>	300	

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Sectoral Programs

27. **Physical Infrastructure.** Beyond the completion of projects underway or about to be started the need for new investments by the public sector in physical infrastructure—telecommunications, power and transport—will be relatively limited. Future investments in telecommunications will be left to the private sector as the Government's privatization program is implemented. In transport, Lebanon now has sufficient modern air transport facilities and new investments in port facilities would be left to the private sector. Similarly, with the completion of projects in the ongoing investment program, Lebanon will count with an extensive network of roads with a density that is high by international standards. However, road conditions have suffered from inadequate maintenance and rehabilitation, resulting in part from the fiscal constraints, and public transport is virtually non-existent. In the power sector, although the planned corporatization and unbundling of the sector and the subsequent preparation for privatization of the generation and distribution components will only be completed in the medium term, all new investments for the expansion of the generation capacity will be left to the private sector, initially under Independent Power Producer (IPP) arrangements.

28. **Roads.** As indicated in Table 6 above, roads (including urban transport and infrastructure) account for about one-third of all undisbursed loans, or \$862 million<sup>17</sup>. This, together with ongoing locally projects (other than maintenance) represents total investments in the order of close to \$1.5 billion during 2007-13<sup>18</sup>, of which in the order of \$1.1 billion during 2007-10, before any adjustments following the review discussed below.

29. Considering overall macro-financial constraints and relative priorities, as well as overall implementation capacity (both with respect to public institutions and the civil works contracting industry), no projects for new road construction will be initiated over the next several years. However, maintenance (both routine and periodic) and rehabilitation need to be increased from recent levels. Maintenance allocations (from the budget) are reflected in the ongoing program presented in Table 7 above, and the Government will seek donors' agreement to allocate part of the non-ratified loans (or, where feasible, ratified loans) for the sector to rehabilitation. In addition **new funding** (from pledges made at the Paris Conference) in amount of **about \$100 million** will be sought for **road rehabilitation** and Government also will request donors to consider **funding maintenance programs** to substitute for local funding through the budget (paragraph 49). It is clear that funding alone will not address the problems of adequate rehabilitation and maintenance. At the same time, the Government intends to improve the sector' capacity and effectiveness by establishing systems of performance-based rehabilitation and maintenance (to be carried out by private contractors).

30. **Power Sector.** The power sector is the Achilles heel of the Government's medium-term program in terms of fiscal targets and debt reduction objectives. The further rise in oil prices during 2007 has added to the sectors losses. The overall objectives in terms of reforms, including private sector participation, remain along the lines indicated in the document presented to the Paris Conference and in paragraph 27 above. However even in the scenario of reforms and privatization, there are some urgent public investment requirements that need to be addressed if the Government is to achieve its objectives with respect to reducing transfers to EdL, a core component of the envisaged fiscal adjustment. (The envisaged reduction in transfers to EdL, accounts for as much as two-thirds of the increase in the primary fiscal surplus between 2008 and 2012).

17 Including the undisbursed balances of ratified loans as of end-2006 and loans that had not yet been ratified by end-September 2007.  
18 Inclusive of counterpart funds, overruns, and land acquisition.

31. The required investments are expected to, among others, increase the output efficiency of the existing generating capacity and reduce physical system losses, as well improve the transmission system, which would remain under public ownership in the unbundling and privatization scenario that is being implemented. In parallel, as part of the program to reduce distribution losses and improve billing and collection, a metering system is to be introduced, with investments to be undertaken by the private sector, on a BOT basis or through other arrangements.

32. The envisaged reduction in operating costs as part of the overall reform program for the sector is to be achieved in part by the conversion from fuel to gas for the two main combined-cycle generating facilities. Lebanon has an agreement with Egypt for the supply of gas from mid-2008, and arrangements for its transit through Syria are being finalized between Egypt and Syria. Initially gas would be supplied to the plant at Baddawi in the North, close to the border, but the extension of a gas pipeline to the Zahrani plant in the South would require investments in the order of about \$150-200 million. The alternative, of establishing a LNG facility for the latter plant is also being considered. In either case, Government will pursue BOT options as a preferred alternative, and will also consider leaving the investment to the future investors in the context of privatization of the generation component of the power system.

**Table 9. Power Sector Program (US\$ million)**

Sub-Sector	Phase I	Phase II	TOTAL
Generation (Rehabilitation)	117.5	0.0	117.5
Transmission	122.3	93.0	215.3
Distribution	82.7	0.0	82.7
<b>Total Cost 1/</b>	<b>322.5</b>	<b>93.0</b>	<b>415.5</b>
Of which ongoing projects 1/	63.9	0.0	63.9
<b>Financing</b>			
Existing Loans 2/	192.2	0.0	192.2
Balance 3/	130.3	93.0	223.3
1/ Cost excludes expenditures made prior to 2007 on ongoing projects.			
2/ Includes undisbursed portion of existing loans and \$116 million from AFESD (not yet ratified).			
3/ Includes counterpart funds.			

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33. The priority investment program for the power sector is summarized in Table 9 above; it excludes any component that could be left to private sector investment and more than half of the total is for transmission. The Government will seek financing from pledges made at the Paris Conference in amount of about \$200 million to complete financing for the power sector emergency investment program.

34. The water and wastewater sectors are the ones with the largest gaps in terms of providing basic public services. According to the 2004 Household Living Conditions Survey by the CAS, about a quarter of Lebanon's population did not have access to the public water network, while those with access did have so only for parts of the day, particularly during the summer (an average of 13 hours during the winter and 6 hours during the summer). At the same time, as much as nearly one-third had no access to a public sewerage network, representing a severe environmental threat. This situation is expected to improve significantly with the completion of projects that are currently underway or to be started in the near future.

**Table 10. Water and wastewater services**

Mohafazat	Households Without Access to Public Network (%)		Households w/o Access Share of Total Population		Total Population ('000)	Share of Population (%)
	Water	Sewerage	Water	Sewerage		
Total Beirut and Mount Lebanon	22.2	20.1	49.0	32.8	1892	50.4
Beirut	9.0	0.8	4.3	0.3	391	10.4
Mount Lebanon	25.6	25.1	44.7	32.5	1501	40.0
North	33.4	38.8	25.5	22.0	769	20.5
Bekaa	25.6	54.2	12.4	19.5	471	12.5
South and Nabatieh	19.7	51.9	13.1	25.7	623	16.6
<b>AVERAGE/TOTAL</b>	<b>24.2</b>	<b>32.6</b>	<b>100.0</b>	<b>100.0</b>	<b>3755</b>	<b>100.0</b>

35. As indicated in Table 6 above, the water and wastewater sectors account for over one-third of all undisbursed loans, or \$936 million<sup>19</sup>. This represents total investments in the order of close to \$1.5 billion during 2007-13<sup>20</sup>, of which in the order of \$1.0 billion during 2007-10. The sector also faces operational problems with a high level of water losses in the distribution

system and limited cost recovery. The investments in physical infrastructure will be complemented by strengthening of the four Regional Water Authorities (RWAs) that were established some years ago so as to improve their operational capacity. Government will also pursue private sector participation in the sector through concession arrangements.

<sup>19</sup> Including the undisbursed balances of ratified loans as of end-2006 and loans that had not yet been ratified by end-September 2007.

<sup>20</sup> Inclusive of counterpart funds, overruns, and land acquisition.

36. The need for financing for new projects in the water supply and wastewaters sector is limited in the short term, except for the complementary projects discussed above, and a major new project to address the issue of water supply to the Greater Beirut area. As shown in Table 10 above, the Mohafazats<sup>21</sup> of Beirut and Mount Lebanon<sup>22</sup> account for half of the country's population and of households without access to the public water network. Water supply is limited to only 3 hours a day in summer. While improvements can be made with the completion of ongoing and planned investments (with existing foreign loans) in the distribution system, including through a reduction in the high level of water losses, the Greater Beirut area<sup>23</sup> faces an increasing shortfall in water supply.

37. To address this problem over the medium term, Government proposes to undertake the construction of a water conveyer to Beirut for the transport of water from the Awali river in Mount Lebanon, and related infrastructure (treatment plant and reservoirs), and a dam to harness water resources (Bisri Dam) in the South. Once completed, the conveyer would initially convey 250,000 m<sup>3</sup> a day (during the summer), with an increase by 500,000 m<sup>3</sup> a day once construction of the dam is completed. The dam would also serve as a source for irrigation development (about 20% of the total water). The option of undertaking the project on a BOT basis by the private sector has been considered but a range of factors, including not only legal and guarantee issues related to water input at the source and output take-off, but also the risk of future damage from external attacks, made this not feasible.

38. The project would be undertaken in two-stages over a 6-7 year period. The first stage, the conveyer itself and related infrastructure to connect to the Greater Beirut water supply system, has an estimated cost (including cost of land) of about \$250 million, while the dam is estimated to cost around \$150 million. Since construction if the dam would not need to be initiated until 1-2 years prior to completion of the conveyer (i.e. after 2010), this component has not been included in the public investment program presented below (and no financing is required at this stage). About \$70 million has already been allocated to the project from a committed loan from the IDB. The Government will seek funding of the balance of the first stage of the project, less minimally required counterpart funds, or about \$150 million from pledges made at the Paris Conference.<sup>24</sup>

39. In the social sectors (education and health), the need for new physical investments will be limited. Significant investments have been made in buildings, facilities and equipment and projects that are ongoing or about to start, with loans already committed as well as locally funded projects, represent investments in the order of \$350 million<sup>25</sup>. Government's efforts will rather be aimed at improving the sectors' performance through implementation of the reform program outlined in the documented presented to the Paris Conference.

40. Projects with not yet ratified and new loans for new projects. The component of the public investment program that would be financed by not yet ratified signed and committed foreign loans and new loans is summarized in Table 11 below. In terms of total expenditures it would add only 16% to the ongoing program for 2007-10 presented in Table 7 above.

<sup>21</sup> Governorates.

<sup>22</sup> Beirut and Mount Lebanon are covered by one of the four RWAs.

<sup>23</sup> The Great Beirut area covers the population of the Mohafazat of Beirut and about half of the population of Mount Lebanon, including the Beirut Suburbs, or about one-third of Lebanon's total population.

<sup>24</sup> It is envisaged that about 90% of project cost would be covered from foreign concessional loans. While the RWA for Beirut and Mount Lebanon is expected to generate operating surpluses, these would need to be applied to meeting its outstanding obligations with the Central Government and other outstanding liabilities. It is therefore unlikely to be able to make a contribution to the financing of this project during 2007-00.

<sup>25</sup> Exclusive of expenditures for ongoing projects prior to 2007.

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Table 11. Public investment program (US\$ million)

PROJECTS WITH NOT-RATIFIED AND NEW FOREIGN PROJECT LOANS			
Loans (US\$ million)			
Not Ratified Loans (as of September 30, 2007)	842.3		
Cost Overrun Financing Existing Projects 1/	-135.0		
Net	707.3		
New Loans (after September 30, 2007)	600.0		
<b>TOTAL</b>	<b>1307.3</b>		
Project Cost to Completion (US\$m) after 2007	<b>TOTAL</b>	<b>2008-10</b>	<b>2011-13</b>
Total Expenditures	1553	536	1017
domestic financing	245	144	102
counterpart funds 2/	145	44	102
land acquisition	100	100	0
foreign financing (project loan disbursements)	1307	392	915
1/ Included in Program of Ratified Loans			
2/ Based on 90/10 foreign/domestic financing ratio			

41. **The overall public investment program**, comprising the ongoing program (Table 7), without adjustments, and the new component (Table 11) is summarized in Table 12 below<sup>26</sup>. Total expenditures during 2007-10 would be equivalent to about 3.7% of GDP<sup>27</sup> (and 3.4% exclusive of maintenance expenditures), and would exceed the total of capital expenditures in the EPCA scenario by about \$446 million (13%). While the foreign financed portion of the program would be in line with the level envisaged in that scenario, the requirements for domestic financing (which would have to be met by incremental market borrowing) would exceed the level envisaged in the EPCA scenario by as much as \$468 million and the program would thus not be compatible with the current scenario, and with the overall fiscal and debt objectives of the Government's program (in particular the latter), unless adjustments are made to the ongoing program and concessional loans are available (from pledges made for projects) to substitute for part of the total domestic financing requirements resulting from this program. Incremental concessional foreign financing, over the level envisaged in the macroeconomic scenario, with a reduction in domestic financing from the level envisaged in the scenario, equivalent to about half of the incremental concessional foreign financing, would leave the overall interest bill on public debt unchanged.

42. **Rationalization of the Existing Portfolio.** Against the above background, there may be a need to adjust the public investment program, in particular (but not only) projects with ratified loans, so that high priority new investments envisaged in the program's new component can go ahead, within the overall macroeconomic and fiscal constraints. The Government is currently reviewing the portfolio of existing projects, with a prime focus on those projects with ratified foreign loans that have not, or barely started, with undisbursed loans balances of \$715 million (as of end-2006)—see Annex 2—, and estimated completion costs, including land acquisition, of about \$1.2 billion (of which nearly \$700 million during 2007-10). Several of these do face significant cost overruns. However, other projects are also being considered (both projects with ratified loans that are underway or projects

with loans that have not yet been ratified). Some of the existing projects currently have a lower priority than the new projects that need to be undertaken. In other cases, the cost increases that have taken place make projects may make them no longer viable or justified. In some cases, it may be possible to reduce the scope of existing projects (particularly when they are faced with large cost overruns or have barely started), and in other cases implementation faces obstacles that cannot easily be overcome.

43. However any final decisions with respect to adjustments that would be identified based on this review should be left to the Government that takes office after the Presidential elections. Obviously, it is likely that in many cases adjustments would have political implications that cannot be resolved by the current Government at this time, on the eve of elections and with a new Government expected in about two months. Moreover, as mentioned above, final decisions with respect to a successor program to the EPCA arrangement would also be taken by the new Government, and the macroeconomic scenario would be reviewed in the course of preparation and discussion of such program. In this context, the medium term investment program would be reviewed and updated as well.

44. For illustrative purpose, with an overall adjustment of 8% of the total program for 2007-10, it would exceed the level envisaged in EPCA by just 4%. This would involve loan cancellations in the order of \$250-300 million, which is equivalent to around 10% of all existing (ratified, signed, and committed) loans.

45. In the case of adjustments that involve cancellations of all or part of existing loans, it is expected that Government will request lenders and donors to consider reallocating such funds to cost overruns of other projects which they are supporting or to high priority new projects in the same, or possibly other, sectors. In that case the need for new financing would be reduced correspondingly.

<sup>26</sup> This program excludes grant-funded public investment (Table 5).

<sup>27</sup> The ratio to GDP is 3.9% inclusive of grant-funded public investment (during 2007-10) by Government, and 4.2% inclusive of both Government and donor-executed projects.

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**Table 12. Medium Term Public Investment Program (US\$ million)**

Loans			
Ratified Loans (undisbursed end-2006)	1798.0		
Non-Ratified Loans (incl. 2007 loans) as of September 30, 2007	842.4		
New Loans (after September 2007)	600.0		
Project Cost to Completion (US\$m) after 2006			
Total	2007-10	2011-13	
Projects with Ratified Loans (\$m) 1/	2858	2302	551
Budget Part II (local only) 2/	1565	1050	515
Subtotal	4423	3352	1066
Projects with Not Ratified and New Loans (\$m) 3/	1553	536	1017
TOTAL EXPENDITURES 1/			
domestic financing (residual) 4/		3888	2082
foreign project loan financing (disbursements)		2004	726
ratified loans		1884	1356
not ratified and new loans 5/		1422	376
		462	980
EPCA Capital Expenditures (US\$m)			
domestic financing		3442	1536
foreign financing		1536	1906
TOTAL EXPENDITURES WITH ADJUSTMENTS			
		3579	

1/ Without adjustments (see paragraphs 38-41). Excludes part of Saudi grant allocated to cost overruns for existing projects (\$75 million).

2/ This excludes requirements for counterpart funds (including cost overruns and land acquisition) for projects with foreign loans. These are included in "Project Cost to Completion".

3/ Includes projects with new loans of \$600 million.

4/ Domestic (budget financing required in the absence of foreign financing beyond loans for new projects (i.e. without direct or indirect budget support).

5/ Excludes not-ratified loans for cost overruns of existing projects (KFAED, IDB, OFID).

46. **Institutional development.** The rate of utilization of foreign loans for the Government's investment program has been relatively low, particularly in recent years. Institutional capacity constraints have played an important role. These are being addressed on all fronts. In particular, in the case of CDR, which has prime responsibility for the implementation of the public investment program, institutional strengthening is now underway.

47. More broadly, the sustainability of public investments is at risk in terms of capacity for operations and maintenance and cost recovery in essentially all main infrastructure and basic services sectors, as well as in the social sectors. Operational capacity needs to be strengthened in companies in the power, water and wastewater sectors, as well as in rehabilitation and maintenance of roads. These sectors account for about three-quarters of all public investment. In most of these sectors, cost recovery is currently relatively low, and there is no capacity for self-financing of investments, but with improvements in sector operations and quality of service, with a greater role for the private sector in a range of sectors, the Government intends to address this issue as well, as it is important as it is part of the fiscal and debt sustainability objectives.

## REQUEST TO DONORS

48. Total pledges made at the Paris Conference for **loans to Government for projects**, that are not yet formally committed to projects (as of end-September 2007), amount to about \$2.1 billion<sup>28</sup>, and a further \$200 million has been pledged outside the framework of the Conference. **Just over a quarter of the total amount of loans pledged but not yet committed, or \$600 million, is needed for the financing of new projects (including complementary projects) that would start over the next few years.** The Government is keen to use the balance of the pledges for projects (\$1.7 billion) in a way that best supports the overall objectives of the Government's reform program, including the achievement of macroeconomic objectives with respect to fiscal deficits and debt, and that ensures the financing of a public investment program that underpins longer term growth and socio-economic progress.

49. The macro-financial viability of the public investment program for 2007-10 suggests a need for **financing of \$400 million for components of existing projects that are not covered by existing project loans.** This amount represents (i) cost overruns (through completion) for existing projects with ratified loans (after rationalization of the portfolio) that are not covered by financing allocated for cost overruns in loans and grants that have already been committed (about \$300 million)<sup>29</sup>, and (ii) an increase in the share of foreign financing of total project costs (before cost overruns) by about 5% points on average (\$100 million). This project financing would be disbursed as project implementation proceeds and would reduce the domestic financing requirements (i.e. the market borrowing requirements) for the 2007-10 public investment program<sup>30</sup> to approximately the level envisaged in the EPCA scenario. With such financing, the share of foreign financing of total costs for existing projects with ratified loans through their completion during 2007-12 (including cost overruns, but excluding the cost of land) would be raised from an average of about 64%<sup>31</sup> to 80%<sup>32</sup>.

<sup>28</sup> Equals the amount indicated in Table 3 ("Project Financing"), less the amount of pledges that have been formally committed (loan approved).

<sup>29</sup> After adjustments to the program in the magnitude indicated in paragraph 44 above.

<sup>30</sup> This is the amount of domestic financing over the EPCA level of a program with adjustments (paragraph 44).

<sup>31</sup> The share of undisbursed balances of existing loans as of end 2006 in total cost to completion during 2007-12.

<sup>32</sup> A further 5.5% would be covered by not yet ratified loans allocated to cost overruns.

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50. Furthermore, financing from project pledges made at the Paris Conference for projects and project components that are currently envisaged to be financed from the Government's budget, over and above the above-mentioned \$400 million, would also allow Government to substitute concessional foreign funding for market borrowing and thus help it achieve its overall fiscal targets and debt reduction objectives. The public investment program includes \$320 million for maintenance (the minimum required) and \$80 million for local projects during 2008-10 and about \$200 million for land acquisition for projects with foreign loans during 2008-09. The Government requests donors to consider financing about half of the total of these capital expenditures or about \$250 million for 2008-10.

51. Thus, overall a total of \$1,250 million of the pledges<sup>33</sup>, or more than half, would be used for projects, of which no more than \$600 million for new projects. With respect to the balance of \$1,050 million, the Government requests donors to provide indirect and direct budget support as follows.

52. Unrelated to the public investment program per se, as mentioned above (paragraph 7) the Government faces a **financing gap of about \$400 million for the committed housing compensation payment in 2008 to households to finance part of the cost of the repair and reconstruction of war-damaged houses**, which in the absence of foreign financing, would also need to be covered from the Government's budget and financed by incremental market borrowing. With respect to the remainder of \$650 million pledged for projects, the Government requests donors to convert this amount to direct budget support, considering that the amount of direct budget support pledged fell short of the financing requirements for the reform program presented at the Paris Conference.

53. Finally, the macroeconomic scenario in the Government's reform program supported by EPCA, envisages that all pledges for budget support that have not yet been formally committed, or \$950 million, will become available. **The Government therefore requests donors to formally commit the pledges for budget support that have not yet been signed as soon as possible.** As indicated in Table 3 and paragraph 10 above, out of total pledges of \$1.7 billion (loans and grants) for budget support, \$750 million had been signed by end-September 2007, of which \$200 million had been received.

54. **Summary of Request to Donors.** On the basis of the above, the Government request donors to:

(I) **commit \$600 million of the pledges made for new projects (paragraphs 25-38).**

(II) **convert the balance of the pledges made for financing of new (public sector) projects, or \$1.7 billion, to indirect and direct budget support by:**

(i) financing of components of the public investment program that would otherwise have to be covered from the Government's budget (through market borrowing) for a total amount of \$650 million (paragraphs 49 and 50);

(ii) financing of the remaining gap for financing of war-related expenditures, in particular housing compensation of \$400 billion, and converting about \$650 million in pledges for new projects to direct budget support (paragraph 52), including also "policy-based" loans in support of implementation of key policy and institutional reforms to help Government achieve the objectives envisaged in the reform program presented to the Paris Conference.

(III) **formally commit the portion of pledges for budget support that has not yet been signed (\$950 million).**

<sup>33</sup> Total pledges at the Paris Conference, less the amount already committed, plus the amount pledged subsequent to the Conference, i.e. \$2.3 billion.

## ANNEX. Existing projects loans

Annex Table 1. Loans with &gt; 5% disbursed or &gt; 15% committed 1/ by sector end-2006 (US\$ million)

Project Name	Agreement Date	Ratification Date	Lender	Loan Amount	Undisbursed	% Disbursed	% Committed	Undisbursed Sector Share (%)
Electricity High Voltage Connection with Syria	2000	2001	AFESD	26.7	17.7	33.9	50.0	
Electricity National Control Center	2002	2002	AFESD	23.4	21.3	8.9	90.9	
Total Electricity				50.1	39.0	22.2	69.1	3.6
Roads Seer Aldenieh - Jbaba Alhoumer	1998	1999	AFESD	20.0	14.7	26.7	73.0	
Beirut City Infrastructure	2002	2003	AFESD	56.8	38.9	31.4	54.7	
National Main Roads and Crossings	2005	2006	AFESD	100.2	74.0	26.2	51.2	
Beirut-Border/Tripoli Ring Road	2005	2006	EIB	75.0	75.0	0.0	76.9	
Urban Transport Development (CDR/Ministry)	2002	2003	IBRD	65.0	51.9	20.1	110.9	
First Municipal Infrastructure	2000	2000	IBRD	80.0	18.8	76.5	90.7	
Roads in Akkar	2003	2003	IDB	10.4	4.7	54.7	52.2	
Motorway Section Between Tripoli and the Syrian Border	2000	2001	IDB	35.0	21.4	38.7	41.8	
Sour - Nakoura Road	2005	2005	IDB	12.2	8.2	32.5	76.8	
Roads in North Lebanon	2005	2005	IDB	7.0	6.3	10.0	100.0	
Main Infrastructure in South West of Beirut	2003	2004	IDB	37.5	36.3	3.2	93.9	
Southern Coastal Highway	2005	2005	IDB	32.4	18.2	43.7	76.3	
Northern Coastal Entrance to Beirut	1999	2001	KFAED	16.7	9.2	44.8	58.6	
Eastern Entrance to Beirut	2000	2001	KFAED	36.2	31.9	11.9	70.9	
Northern Coastal Road Syrian Border - Al Arida	2002	2002	OFID	10.0	4.4	55.9	100.0	
Total Roads (incl. Urban Transport)				594.5	414.1	30.3	74.2	38.2
Protocol Airport	1997	1997	France	4.8	1.8	62.8	62.8	
Port of Tripoli	2002	2003	EIB	56.3	36.4	35.4	85.5	
Western Runway Beirut International Airport	1995	1995	KFAED	50.1	4.8	90.3	96.7	
Total Airports and Ports				111.1	43.0	61.3	89.5	4.0
Water Projects in Saida and Sour	1996	1996	AFESD	33.4	0.7	97.9	100.0	
Water Tripoli	2001	2002	France-AFD	25.0	14.8	40.6	96.3	
Water and Wastewater in the Bekaa	2002	2003	IBRD	43.5	33.9	22.1	59.7	
Water Supply and Network for Akkar	1999	1999	IDB	19.9	8.5	57.3	66.7	
Water Taibeh	2000	2001	IDB	12.2	6.9	43.0	64.5	
Water Supply Bekaa	2003	protocol	Iran	15.0	15.0	0.0	69.9	
Water Supply in Greater Beirut	1997	1999	KFAED	33.4	7.2	78.3	94.5	
Water for Mount Lebanon	2001	2001	KFAED	33.4	23.0	31.0	100.0	
Water in Akkar	2000	2001	OFID	5.0	0.0	100.0	100.0	
Water in Akkar	2000	2001	SFD	11.7	7.3	37.4	50.1	
Dam in North Lebanon	2001	2001	SFD	10.0	3.6	63.5	83.5	
Water in Minieh	2002	2003	SFD	8.0	6.8	14.7	63.6	
Total Water Supply				250.5	127.9	48.9	81.6	11.8
Protocol Wastewater	1997	1997	France	46.4	30.1	35.0	99.6	
Waste Water in Tripoli	1997	1999	EIB	125.0	61.7	50.7	84.5	
Wastewater in Karoun Lake	2001	2001	IDB	27.7	23.1	16.5	84.8	
Wastewater in Ghadir	2000	2001	IDB	22.4	15.0	32.9	100.0	
Wastewater in Zahle	2005	protocol	Italy	28.0	26.0	7.0	70.1	
Wastewater in Zahle-design	2000	protocol	Italy	0.5	0.1	89.7	97.4	
Coastal Pollution and Water Supply	1997	1997	Japan	108.5	68.1	37.2	80.2	
Total Wastewater				358.5	224.2	37.5	85.0	20.7

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Project Name	Agreement Date	Ratification Date	Lender	Loan Amount	Undisbursed	% Disbursed	% Committed	Undisbursed Sector Share (%)
General Education (CDR/Ministry)	2000	2000	IBRD	44.6	24.4	45.2	79.5	
Primary Schools in South Lebanon	2000	2001	IDB	4.3	1.0	76.9	79.4	
Scientific and Educational Equipment for Public Schools	2000	2001	IDB	12.5	8.7	30.8	55.3	
Educational Buildings in Beirut	2002	2003	KFAED	51.4	32.0	37.7	66.3	
Public Schools (12)	2003	2003	SFD	11.1	6.3	42.8	98.9	
Total General Education				123.9	72.4	41.5	73.3	6.7
Lebanese University City in Hadath	2003	2003	AFESD	20.0	9.0	55.1	93.0	
Training and Equipment of the Lebanese University	1996	1996	IDB	11.0	6.8	38.5	34.5	
Equipment for the Lebanese University	2001	2002	IDB	15.0	2.4	83.9	100.0	
Total Higher Education				46.0	18.2	60.5	81.3	1.7
Vocational and Technical Schools	1996	1996	AFESD	50.1	35.4	29.2	77.1	
Civil Works for Technical and Vocational Schools	1997	1999	IDB	8.3	3.1	62.4	59.1	
Vocational and Technical Schools	1997	1999	OFID	4.0	0.4	89.5	100.0	
Total Vocational and Technical Schools				62.4	39.0	37.5	76.2	3.6
Medical Equipment for the Zahle and Saida Public Hospital	1998	1999	IDB	18.2	7.7	57.7	81.6	
Equipment/Supplies Hospitals in Hemel, Siblme, and Hasbaia	2001	2002	IDB	9.4	2.1	77.7	92.3	
Health Centers in Khiam, Rmeish, and Chibaa	2005	2005	IDB	1.5	1.2	18.7	100.0	
Equipment/Furniture Hospitals and Health Centers in the South	2005	2005	IDB	11.0	10.9	0.9	55.9	
Hospital in Mount Lebanon (Kesrouan)	1996	1997	OFID	6.2	1.8	70.3	71.2	
Total Health				46.3	23.8	48.7	76.9	2.2
Cultural Heritage and Urban Development Project	2003	2004	France-AFD	15.0	14.6	2.7	18.1	
Community Development	2001	2002	IBRD	20.0	16.7	16.5	100.0	
Cultural Heritage and Tourism	2003	2004	IBRD	31.5	26.6	15.6	53.1	
Total Agriculture, Rural Development, and Environment				66.5	57.9	13.0	59.3	5.3
Infrastructure Damage Repair (1996 hostilities)	1996	1998	AFESD	45.1	6.6	85.3	93.9	
Administrative Reform	1996	1996	AFESD	20.0	2.9	85.7	91.6	
Slaughter House Tripoli	2003	protocol	Iran	13.8	13.8	0.0	97.2	
Total Other				78.9	23.2	70.5	93.9	2.1
Total				1788.8	1082.7	39.5	78.8	100.0

1/ % of loan amount committed to signed contracts (includes paid/disbursed portion of contracts).

**Annex Table 2. Ratified loans with no/low disbursements by sector end-2006 (US\$ million)<sup>1</sup>**

Project Name	Agreement Date	Ratification Date	Lender	Loan Amount	Undisbursed end-2006	% Disbursed	% Committed 2/	Undisbursed Sector Share(%)
Power South Lebanon	2003	protocol	Iran	22.5	22.5	0.0	0.0	
Power Connection Zouk-Dbayeh	NS	protocol	Italy	2.7	2.7	0.0	0.0	
Total Electricity				25.2	25.2	0.0	0.0	3.5
Elevated Bridges in Beirut	2005	2005	ADFD	10.0	10.0	0.0	0.0	
Road South Lebanon	NS	protocol	Iran	25.0	25.0	0.0	0.0	
Rail Road Line (Tripoli-Syria)	NS	protocol	Iran	16.3	16.3	0.0	0.0	
Pan Arab Highway	2003	2004	OFID	15.0	15.0	0.0	0.0	
Road in Akkar	2005	2005	SFD	15.0	15.0	0.0	0.0	
Roads in Mount Lebanon	2005	2006	SFD	11.0	11.0	0.0	0.0	
Beirut-Damascus Road	2000	2001	SFD	45.0	45.0	0.0	2.9	
Tannourine Road (North)	2006	2006	SFD	7.1	7.1	0.0	0.0	
Metn Highway (Mount Lebanon)	2003	2005	SFD	12.0	11.9	0.6	3.1	
Total Roads (incl. Urban Transport)				156.3	156.3	0.0	1.1	21.8
Total Airports and Ports				0.0	0.0			0.0
Water Network in Nabatieh	2005	2005	ADFD	10.0	10.0	0.0	0.0	
Water in South Lebanon	2002	2002	France-AFD	15.0	14.9	0.9	2.8	
Water Station in Jabal Ammel	2005	2006	IDB	12.6	12.6	0.2	2.1	
Water Supply Bekaa	NS	protocol	Iran	5.0	5.0	0.0	0.0	
Water/Wastewater Jbel	NS	protocol	Italy	48.9	48.9	0.0	0.0	
Water Treatment Dbayeh	NS	protocol	Italy	3.6	3.6	0.0	0.0	
Water Dams Studies	NS	protocol	Italy	1.9	1.9	0.0	0.0	
Water Supply Koura	NS	protocol	Italy	7.5	7.5	0.0	0.0	
Total Water Supply				104.4	104.3	0.2	0.7	14.6
Wastewater Network and Treatment Plant-Koura and Ehden	2005	2005	ADFD	10.0	10.0	0.0	0.0	
Wastewater Network and Treatment Plant-North Lebanon	2005	2005	ADFD	7.5	7.5	0.0	0.0	
Wastewater Treatment and Network in Sour	2004	2006	EIB	56.3	56.3	0.0	0.0	
Greater Beirut Water	2006	2006	EIB	75.0	75.0	0.0	0.0	
Wastewater Al Ghadir	2005	2006	Germany	20.3	20.3	0.0	0.0	
Wastewater Bekaa	2003	protocol	Iran	5.0	5.0	0.0	0.0	
Wastewater	NS	protocol	Italy	62.5	62.5	0.0	0.0	
Total Wastewater				236.5	236.5	0.0	0.0	33.1

## APPENDICES

Project Name	Agreement Date	Ratification Date	Lender	Loan Amount	Undisbursed end-2006	% Disbursed	% Committed 2/	Undisbursed Sector Share(%)
Total General Education				0.0	0.0			0.0
Electro Mechanical Equipment for the Lebanese University	2001	2002	IDB	5.0	5.0	0.0	0.0	
Total Higher Education				5.0	5.0	0.0	0.0	0.7
Total Vocational and Technical Schools				0.0	0.0			0.0
Total Health				0.0	0.0			0.0
Litani Water Conveying to the South	2001	2002	AFESD	103.5	98.4	5.0	13.5	
Cultural Heritage	2006	protocol	Italy	12.9	12.9	0.0	0.0	
Litani Water Conveying to the South	2002	2002	KFAED	66.8	66.8	0.0	0.0	
Total Agriculture, Rural Development, and Environment				183.2	178.0	2.8	7.6	24.9
Slaughter House Nabatieh	NS	protocol	Iran	10.0	10.0	0.0	0.0	
Total Other				10.0	10.0	0.0	0.0	1.4
Total 3/				720.7	715.3	0.7	2.3	100.0
Loans with commitments over 15% 4/								
Beirut-Border/Tripoli Ring Road	2005	2006	EIB	75.0	75.0	0.0	76.9	
Main Infrastructure in South West of Beirut	2003	2004	IDB	37.5	36.3	3.2	93.9	
Water Supply Bekaa	2003	protocol	Iran	15.0	15.0	0.0	69.9	
Equipment/Furniture Hospitals and Health Centers-South	2005	2005	IDB	11.0	10.9	0.9	55.9	
Cultural Heritage and Urban Development Project	2003	2004	France-AFD	15.0	14.6	2.7	18.1	
Slaughter House Tripoli	2003	protocol	Iran	13.8	13.8	0.0	97.2	
Total				167.3	165.5	1.0	75.1	

1/ Loans with disbursements of 5% or less.

2/ % of loan amount committed to signed contracts (includes paid/disbursed portion of contracts).

3/ Excludes loans with commitments over 15%.

4/ These loans are included in Annex Table 1.

NS= Project Agreement Not Signed (Protocol Ratified).

**Annex Table 3. Not-Ratified Project Loans by Lender (US\$ million)<sup>1</sup>**

Project Name	Agreement Date	Lender	Total	Of Which:			Sector
				Before War Signed	After War Signed	After War Not Signed <sup>2/</sup>	
Administrative Reform	2006	AFESD	30.0	30.0			Other
Water and Wastewater Bekaa, Mount Lebanon, North	2006	AFESD	83.5	83.5			Water Supply
Power Sector	2006	AFESD	116.0		116.0		Electricity
Power Sector	2006	AFESD	12.0		12.0		Electricity
Roads/Bridges	2006	AFESD	76.0		76.0		Roads (incl. Urban Transport)
Water	2006	AFESD	12.0		12.0		Water Supply
Total AFESD (excl. private sector)			329.5	113.5	216.0	0.0	
Water and Wastewater North	2005	France-AFD	37.5	37.5			Water Supply
Total France			37.5	37.5	0.0	0.0	
School Construction and Equipment(Bekaa)	2006	IDB	8.9	8.9			General Education
Equipment Beirut Hospital	2002	IDB	8.3	8.3			Health
Tripoli Infrastructure	2006	IDB	43.2	43.2			Roads (incl. Urban Transport)
Higher Education Tripoli	2006	IDB	42.0	42.0			Higher Education
Health (Equipment for Hospitals and Health Centers)	2006	IDB	8.5	8.5			Health
Education	Not Signed	IDB	5.0			5.0	General Education
Health	Not Signed	IDB	32.0			32.0	Health
Roads	Not Signed	IDB	112.0			112.0	Roads (incl. Urban Transport)
Water	Not Signed	IDB	70.0			70.0	Water Supply
Wastewater North	Not Signed	IDB	20.0			20.0	Wastewater
Other	Not Signed	IDB	5.0			5.0	Other
Greater Beirut Water Supply (preparation)	2007	IDB	4.5		4.5		Water Supply
Total IDB			359.4	110.9	4.5	244.0	
Water Supply Mount Lebanon, Bekaa and North (additional loan)	2006	KFAED	15.6	15.6			Water Supply
Education (School Buildings)	2007	KFAED	25.1		25.1		General Education
Beirut-Damascus Road	Not Signed	KFAED	50.1			50.1	Roads (incl. Urban Transport)
Total KFAED			90.7	15.6	25.1	50.1	
Northem Coastal Road Syrian Border - Al Aida Supplement	Not Signed	OFID	10.0			10.0	Roads (incl. Urban Transport)
Total OFID			10.0	0.0	0.0	10.0	
Tripoli University	Not Signed	SFD	15.2			15.2	Higher Education
Total SFD			15.2	0.0	0.0	15.2	

1/ As of September 30, 2007. Excludes loans for private sector.

2/ Loan agreement not yet signed, but loan firmly committed.



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