H.E. Ali Hasan Khalil  
Minister of Finance  
Ministry of Finance  
Republic of Lebanon

Re: Lebanon: Advance Agreement for Preparation of  
Proposed Strengthening Fiscal Governance Project  
Preparation Advance No. IBRD P4880-LB

Excellency:

In response to the request for financial assistance made on behalf of Republic of Lebanon ("Recipient"), I am pleased to inform you that the International Bank for Reconstruction and Development ("World Bank") proposes to extend to the Recipient an advance out of the World Bank's Project Preparation Facility in an amount not to exceed six million United States Dollars (US$ 6,000,000) ("Advance") on the terms and conditions set forth or referred to in this letter agreement ("Agreement"), which includes the attached Annex, to assist in financing the activities described in the Annex ("Activities"). The objective of the Activities is to facilitate the preparation of a proposed project designed to improve budget transparency, cash management, public debt management, MoF e-services, and the efficiency of public procurement ("Project"), for the carrying out of which the Recipient has requested the World Bank’s financial assistance.

The Recipient represents, by confirming its agreement below, that: (a) it understands that the provision of the Advance does not constitute or imply any commitment on the part of IBRD or IDA to assist in financing the Project; and (b) it is authorized to enter into this Agreement and to carry out the Activities, repay the Advance and perform its other obligations under this Agreement, all in accordance with the provisions of this Agreement.

Please confirm the Recipient’s agreement to the foregoing by having an authorized official of the Recipient sign and date the enclosed copy of this Agreement, and returning it to the World Bank. Upon receipt by the World Bank of this countersigned copy, this Agreement shall become effective as of the date of the countersignature; provided, however, that the offer of this Agreement shall be deemed withdrawn if the World Bank has not received this countersigned copy within 90 days after the date of signature of this Agreement by the World Bank, unless the World Bank has established a later date for such purpose.

Very truly yours,

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

By_  
Saroj Kumar Jha  
Country Director, Lebanon

1818 H Street NW  ·  Washington, DC 20433 USA
AGREED:
REPUBLIC OF LEBANON

By ____________________________
Authorized Representative

Name Ali Hassan Khalil
Title Minister of Finance
Date: March 9, 2018

Enclosures:

(1) "Standard Conditions for Advances Made by the World Bank under its Project Preparation Facility", dated July 31, 2010; and

(2) Disbursement Letter for the Advance of the same date as this Agreement, together with "World Bank Disbursement Guidelines for Projects", dated February 2017.
Article I
Standard Conditions; Definitions

1.01. **Standard Conditions.** The “Standard Conditions for Advances Made by the World Bank under its Project Preparation Facility” dated July 31, 2010 (“Standard Conditions”), constitute an integral part of this Agreement.

1.02. **Definitions.** Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the Standard Conditions or in this Agreement.

Article II
Execution of the Activities

2.01. **Description of the Activities.** The Activities for which the Advance is provided consist of the following parts:

A. **Functional Review of the Ministry of Finance (MoF) and Capacity Building:** Providing technical support for:

   (i) analyzing and assessing the MoF functions to identify opportunities for enhancements in strategy, processes and organization;
   (ii) conducting MoF capacity needs assessment to identify the technical skills of the staff;
   (iii) developing and implementing training programs for MoF staff to respond to the needs identified in the capacity needs assessment and validated learning plan; and
   (iv) effective project management and reform coordination through provision of necessary resources and technical support to the MoF and Central Tender Board (CTB).

B. **Macro-Fiscal Analysis and Budget Management:** Providing technical support for:

   (i) conducting macro-fiscal analysis of the Macro-Fiscal Department (MFD) to enhance its analytical capacity to a more advanced level;
   (ii) updating and publishing budget preparation guidelines; and
   (iii) improving citizen access to budget information to improve budget transparency and strengthening the capacity of the MoF to disclose the information and data on the national budget in timely fashion and in citizen-friendly formats.

C. **Strengthening Accounting, Cash Management and Public Debt Management:** Providing technical support for:

   (i) strengthening accounting and financial reporting through: enhanced treasury operations, transition to centralized treasury single account (TSA) operations, enhanced commitment controls and liquidation, improved
accounting practices and reporting based on new budget classification and chart of accounts, and support to MoF on the implementation of International Public Sector Accounting Standards (IPSAS) cash-based accounting standards;

(ii) making cash management more effective to reduce the debt and the interest costs, and to ensure that the government payment and revenue operations are conducted efficiently; and

(iii) enhancing public debt management through strengthening debt and risk management capacity and institutions.

D. Developing Internal Audit, MoF e-Services, and Public Procurement: Providing technical support for:

(i) developing an internal audit (IA) function of an international standards at the MoF;

(ii) conducting a comprehensive security review of MoF e-Services to improve the delivery of e-Services in line with internal best practices; and

(iii) reforming public procurement through increased transparency in public money allocation and spending, including collecting data to support budget forecasting through procurement planning and cost estimates, simplifying access to public procurement opportunities, and compiling regulations and rules under one platform.

2.02. Execution of the Activities Generally. The Recipient declares its commitment to the objectives of the Activities. To this end, the Recipient shall carry out the Activities through Ministry of Finance in accordance with the provisions of: (a) Article II of the Standard Conditions; (b) this Article II; and (c) the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006 and revised in January 2011 and as of July 1, 2016.

2.03. Institutional and Other Arrangements. Without limitations upon Section 2.02 above, the Recipient shall maintain throughout the implementation of the Activities, the Project Management Unit (PMU), within the Ministry of Finance, with adequate staffing and functions satisfactory to the World Bank to be responsible for the management of the Activities.

2.04. Monitoring, Reporting and Evaluation of the Activities. The Recipient shall monitor and evaluate the progress of the Activities in accordance with the provisions of Section 2.08 of the Standard Conditions.

2.05. Financial Management. (a) The Recipient shall ensure that a financial management system is maintained in accordance with the provisions of Section 2.09 of the Standard Conditions.

(b) The Recipient shall ensure that interim un-audited financial reports for the Activities are prepared and furnished to the World Bank not later than 45 days after the end of each calendar quarter, covering the quarter, in form and substance satisfactory to the World Bank.

(c) The Recipient shall have Project Financial Statements audited in accordance with the provisions of Sections 2.09 (b) of the Standard Conditions. Each such audit of the Financial Statements shall cover the period of one fiscal year of the Recipient, commencing with the fiscal
year in which the first withdrawal under the Advance was made. The audited Financial Statements for such period shall be furnished to the World Bank not later than six months after the end of such period.

2.06. Other Financial Management Arrangements for Lebanon. (a) To facilitate the efficient management of the financial management system, the Recipient shall, through the Ministry of Finance (MoF), channel the proceeds of the Advance from the loans treasury account in the loan currency at Central Bank of Lebanon to the designated account of the Project by a letter signed by both the head of treasury and the central treasury cashier of the MoF. Upon each withdrawal of the proceeds of the Advance the Recipient shall, through the MoF, open additional budget lines (budget classification number 1-8-2-123-14-1-3) equivalent to the amount of such withdrawal of the Advance proceeds, provided that the total amount allocated to all such budget lines during the life of the Project up until the disbursement deadline date (as defined in the Disbursement Guidelines and the additional instructions of the Bank referred to in Section 3.01 of the Annex to this Agreement) shall not exceed the amount of the Advance. For the purposes of this Advance, the said additional budget lines could be opened in the budget of a specific year up until 31st January of the following year and those contracted or not contracted are carried forward per the request of the Recipient.

(b) For the purposes of the Advance, transfer of funds between different budget lines shall be carried out and approved by the Minister of Finance.

(c) The Recipient shall, through MoF, open an account for the Advance in its chart of accounts to record all disbursement amounts that are channeled to the designated account mentioned in paragraph (a) above. The said account shall be settled periodically based on expenditures statements in the Advance currency signed by the Minister of Finance before end of each fiscal year for expenditures incurred up to October 31st of said Fiscal Year, and before end of January 31st of the following year for expenditures incurred in November and December for the previous Fiscal Year.

2.07. Procurement

All goods, consulting services and non-consulting services required for the Activities and to be financed out of the proceeds of the Advance shall be procured in accordance with the requirements set forth or referred to in the “World Bank Procurement Regulations for Borrowers under Investment Project Financing” dated July 1, 2016 (“Procurement Regulations”) and the provisions of the Recipient’s procurement plan for the Activities dated August 31, 2017 (“Procurement Plan”) provided for under Section IV of the Procurement Regulations, as the same may be updated from time to time in agreement with the World Bank.

Article III
Withdrawal of the Advance

3.01. Eligible Expenditures. The Recipient may withdraw the proceeds of the Advance in accordance with the provisions of: (a) Article III of the Standard Conditions; (b) this Section; and (c) such additional instructions as the World Bank may specify by notice to the Recipient (including the “Disbursement Guidelines for Investment Project Financing” dated February 2017, as revised from time to time by the World Bank and as made applicable to this Agreement pursuant to such instructions), to finance Eligible Expenditures as set forth in the following. The table specifies each
category of Eligible Expenditures that may be financed out of the proceeds of the Advance ("Category"), the amount of the Advance allocated to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category:

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Advance Allocated (expressed in Dollars)</th>
<th>Percentage of Expenditures to be Financed (inclusive of Taxes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Goods, consulting services, non-consulting services, Training and Workshops, and Operating Costs</td>
<td>6,000,000</td>
<td>100%</td>
</tr>
<tr>
<td>TOTAL AMOUNT</td>
<td>6,000,000</td>
<td></td>
</tr>
</tbody>
</table>

For the purpose of this Section the terms: (i) "Training and Workshops" means the costs associated with training and workshops, including travel and subsistence costs for training and workshop participants, costs associated with securing the services of trainers and workshop speakers, rental of training and workshop facilities, preparation and reproduction of training and workshop materials, and other costs directly related to training courses and workshop preparation and implementation; and (ii) "Operating Costs" means the incremental operating costs under the project incurred by the Recipient for purposes of the implementation, management, and monitoring and evaluation of the project on account of office supplies and consumables, utilities, bank charges, communications, mass media and printing services, vehicle rental, operation, maintenance and insurance, office space rental, building and equipment maintenance, domestic travel, lodging, and subsistence allowances, and salaries of contractual and temporary staff, but excluding salaries, fees, honoraria, and bonuses of members of the Recipient’s civil service.

3.02. Withdrawal Conditions. Notwithstanding the provisions of Section 3.01 of this Agreement, no withdrawal shall be made for payments made prior to the date of countersignature of this Agreement by the Recipient, except that withdrawals up to an aggregate amount not to exceed US$550,000 equivalent may be made for payments made prior to this date but on or after March 31, 2017, for Eligible Expenditures.

3.03. Refinancing Date. The Refinancing Date is December 31, 2019.

Article IV
Terms of the Advance

4.01. Interest. The Recipient shall pay interest on the Withdrawn Advance Balance at a rate, for each Interest Period, equal to the Reference Rate plus the Fixed Spread; provided, however, that the interest payable shall in no event be less than zero percent (0%) per annum. Interest shall accrue from the respective dates on which amounts of the Advance are withdrawn and shall be paid in arrears in accordance with the provisions of Section 4.02 of this Agreement. The Interest Period Determination Dates are January 1 and July 1 in each year.
4.02. **Repayment.** The Withdrawn Advance Balance, together with interest accrued thereon shall be repaid by the Recipient to the World Bank in accordance with the provisions of Article IV of the Standard Conditions and the following provisions:

(a) **Refinancing under the Refinancing Agreement:** If, on or before the Refinancing Date, a Refinancing Agreement has been executed by all of its parties, then the full amount of the Withdrawn Advance Balance shall be repaid to the World Bank (together with interest accrued on the Advance to the date of repayment) as soon as the Refinancing Agreement becomes effective, by means of a withdrawal by the World Bank of an amount of the Refinancing Proceeds equivalent to the Withdrawn Advance Balance plus such interest, in accordance with the provisions of the Refinancing Agreement.

(b) **Repayment in the absence of a Refinancing Agreement:** If, on or before the Refinancing Date, no Refinancing Agreement has been executed by all of its parties, or if, by this date, it has been so executed but terminates without becoming effective, then:

(i) if the amount of the Withdrawn Advance Balance does not exceed US$50,000, it shall be repaid by the Recipient to the World Bank (together with interest accrued on the Withdrawn Advance Balance to the date of repayment), on such date as the World Bank shall specify in a notice to the Recipient, which shall in no event be earlier than 60 days following the date of dispatch of such notice; and

(ii) if the amount of the Withdrawn Advance Balance exceeds US$50,000, it (together with interest accrued on the Withdrawn Advance Balance to the Notice Date) (the “Aggregate Balance”) shall be paid by the Recipient to the World Bank in ten approximately equal semiannual installments, in the amounts and on the dates (“Payment Dates”) which the World Bank shall specify in a notice to the Recipient. In no event shall the first Payment Date be set earlier than 60 days following the date (“Notice Date”) of dispatch of such notice. The Recipient shall pay interest on the Aggregate Balance at a rate, for each Interest Period, equal to the Reference Rate plus the Fixed Spread, payable in arrears on each Payment Date. Notwithstanding the foregoing, if any amount of the Aggregate Balance remains unpaid when due and such non-payment continues for a period of thirty days, then the Recipient shall pay the Default Interest Rate on such overdue amount in lieu of the interest rate specified above in this subparagraph (ii) until such overdue amount is fully paid. Interest at the Default Interest Rate shall accrue from the first day of each Default Interest Period and shall be payable semi-annually in arrears on each Payment Date.

**Article V**

**Recipient’s Representative; Addresses**

5.01. The Recipient’s Representative referred to in Section 9.02 of the Standard Conditions is minister of finance.
5.02. The Recipient’s Address referred to in Section 9.01 of the Standard Conditions is:

Ministry of Finance
Riad El-Solh Square, Beirut
Lebanese Republic
Facsimile: +961 1 642 762

5.03. The World Bank’s Address referred to in Section 9.01 of the Standard Conditions is:

International Bank for Reconstruction and Development
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable: INTBAFRAD
Telex: 248423 (MCI) or 64145 (MCI)
Facsimile: 1-202-477-6391