Loan Agreement

(Second Fiscal Management Reform Project)

between

LEBANESE REPUBLIC

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated January 21, 2015
LOAN AGREEMENT

AGREEMENT dated January 21, 2015, between LEBANESE REPUBLIC ("Borrower") and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT ("Bank"). The Borrower and the Bank hereby agree as follows:

ARTICLE I — GENERAL CONDITIONS; DEFINITIONS

1.01. The General Conditions (as defined in the Appendix to this Agreement) constitute an integral part of this Agreement.

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

ARTICLE II — LOAN

2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, the amount of five million two hundred thousand Dollars (US$5,200,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.07 of this Agreement ("Loan"), to assist in financing the project described in Schedule 1 to this Agreement ("Project").

2.02. The Borrower may withdraw the proceeds of the Loan in accordance with Section IV of Schedule 2 to this Agreement.

2.03. The Front-end Fee payable by the Borrower shall be equal to one quarter of one percent (0.25%) of the Loan amount.

2.04. The interest payable by the Borrower for each Interest Period shall be at a rate equal to the Reference Rate for the Loan Currency plus the Variable Spread; provided, that upon a Conversion of all or any portion of the principal amount of the Loan, the interest payable by the Borrower during the Conversion Period on such amount shall be determined in accordance with the relevant provisions of Article IV of the General Conditions. Notwithstanding the foregoing, if any amount of the Withdrawn Loan Balance remains unpaid when due and such non-payment continues for a period of thirty days, then the interest payable by the Borrower shall instead be calculated as provided in Section 3.02 (e) of the General Conditions.

2.05. The Payment Dates are May 15 and November 15 in each year.

2.06. The principal amount of the Loan shall be repaid in accordance with the amortization schedule set forth in provisions of Schedule 3 to this Agreement.

2.07. (a) The Borrower may at any time request any of the following Conversions of the terms of the Loan in order to facilitate prudent debt management: (i) a change of
the Loan Currency of all or any portion of the principal amount of the Loan, withdrawn or unwithdrawn, to an Approved Currency; (ii) a change of the interest rate basis applicable to: (A) all or any portion of the principal amount of the Loan withdrawn and outstanding from a Variable Rate to a Fixed Rate, or vice versa; or (B) all or any portion of the principal amount of the Loan withdrawn and outstanding from a Variable Rate based on a Reference Rate and the Variable Spread to a Variable Rate based on a Fixed Reference Rate and the Variable Spread, or vice versa; or (C) all of the principal amount of the Loan withdrawn and outstanding from a Variable Rate based on a Variable Spread to a Variable Rate based on a Fixed Spread; and (iii) the setting of limits on the Variable Rate or the Reference Rate applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding by the establishment of an Interest Rate Cap or Interest Rate Collar on the Variable Rate or the Reference Rate.

(b) Any conversion requested pursuant to paragraph (a) of this Section that is accepted by the Bank shall be considered a “Conversion”, as defined in the General Conditions, and shall be effected in accordance with the provisions of Article IV of the General Conditions and of the Conversion Guidelines.

(c) Promptly following the Execution Date for an Interest Rate Cap or Interest Rate Collar for which the Borrower has requested that the premium be paid out of the proceeds of the Loan, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amounts required to pay any premium payable in accordance with Section 4.05 (c) of the General Conditions up to the amount allocated from time to time for the purpose in the table in Section IV of Schedule 2 to this Agreement.

ARTICLE III — PROJECT

3.01. The Borrower declares its commitment to the objectives of the Project. To this end, the Borrower shall carry out the Project through MOF in accordance with the provisions of Article V of the General Conditions.

3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Borrower and the Bank shall otherwise agree, the Borrower shall ensure that the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement.

ARTICLE IV — EFFECTIVENESS; TERMINATION

4.01. The Effectiveness Deadline is the date one hundred eighty (180) days after the date of this Agreement.
ARTICLE V — REPRESENTATIVE; ADDRESSES

5.01. The Borrower’s Representative is its Minister of Finance.

5.02. The Borrower’s Address is:

Ministry of Finance
Riad El-Solh Square
Beirut
Lebanese Republic

Facsimile:
+961 1 642 762

5.03. The Bank’s Address is:

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

Cable address: Telex: Facsimile:
INTBAFRAD 248423(MCI) or 1-202-477-6391
Washington, D.C. 64145(MCI)

AGREED at Beirut, Lebanese Republic, as of the day and year first above written.

LEBANESE REPUBLIC

By

Authorized Representative
Name: Ali Hasan Khalil
Title: Minister of Finance

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By

Authorized Representative
Name: Ferid Belhaj
Title: Country Director
SCHEDULE 1

Project Description

The objectives of the Project are to strengthen the Borrower’s capacity in fiscal policy analysis, debt management, and budgetary allocation of public resources; enhance the efficiency of the Borrower’s financial management systems; and tighten the control environment for more effective use of the Borrower’s public resources.

The Project consists of the following parts:


1. Macro-Fiscal Analysis: (i) upgrading the empirical modeling and testing it with various policy scenarios and maintaining a large disaggregated database covering economic sectors beyond the Borrower’s government agencies; (ii) revisiting and updating the existing medium-term fiscal framework on a regular basis and preparing a medium-term budget framework; (iii) preparing a budget framework paper to be incorporated as part of MOF’s annual budget preparation cycle and developing relevant capacity to formulate policy reports on various economic and fiscal issues; and (iv) developing an institutionalized macro-fiscal specific training program aligned with the institutional and regulatory framework.

2. Public Debt Management: Strengthening the capacity of MOF in debt management strategy development and cost-risk analysis, including, but not limited, to the following activities: (i) building tools to analyze operational risk; (ii) debt management strategy implementation, including supporting the development of an effective and transparent primary market for government securities; (iii) organization and staffing of MOF’s Public Debt Directorate, including strengthening its front office function and the development of detailed and targeted training programs; (iv) reporting on public debt management and establishing a dedicated investor relations function; (v) management of contingent liabilities; and (vi) a review of the legal framework for debt management.

Part B: Public Expenditure Management

1. Expenditure Programming and Budget Preparation: (i) providing hands-on training to relevant MOF staff on budget preparation techniques; (ii) supporting enhancements to the budget preparation practices, including: refining the guidelines and parameters of budget circulars, engaging line ministries on budget preparation, and revisiting the budget calendar; (iii) revisiting the institutional framework of the budget directorate, designing a new organization structure, and implementing such restructuring to align the functions of the directorate with a new legal framework; and (iv) providing extensive training for budget officers to work with line ministries on the envisaged reforms.

2. Budget Execution: (i) strengthening the capacity of MOF to enhance its budget execution process and practices, transition to centralized treasury single account operations, enhance commitment controls and liquidation, and improve accounting practices; (ii) providing technical assistance to selected line ministries to improve their cash planning and enhance their control environment; and (iii) strengthening and improving
the related Information Technology (IT) systems in order to improve reporting capabilities and implement International Public Sector Accounting Standards (IPSAS), cash-based accounting standards, and produce technical and functional requirements and a complete bidding package for the eventual procurement of a modern integrated government financial management information system.

3. Public Procurement Reforms: (i) supporting the development of a website platform for procurement; (ii) revising the Borrower’s existing procurement manual and standard bidding documents and developing sector specific standard bidding documents; and (iii) strengthening the Borrower’s Central Tender Bureau and concerned stakeholders’ capacity, through specialized training on procurement’s international best practices.

4. Internal Control and Internal Audit: (i) consolidating existing diagnostic reviews and developing an internal control framework for MOF; (ii) establishing a MOF’s interdepartmental control and audit working group; (iii) piloting an operational internal audit function within MOF; and (iv) raising awareness, knowledge, and training for MOF’s civil servants.
SCHEDULE 2

Project Execution

Section I. Implementation Arrangements

A. Institutional Arrangements.

1. The Borrower shall, through MOF, establish, no later than one (1) month after the Effective Date and thereafter maintain a PMU throughout the life of the Project, with functions, staffing, resources, and terms of reference satisfactory to the Bank, to be responsible for day-to-day Project implementation.

2. The Borrower shall, through MOF, maintain a Reform Steering Committee throughout the life of the Project with functions, composition, resources, and terms of reference satisfactory to the Bank, to provide technical inputs and coordination for Project implementation.

3. The Borrower shall, through MOF, open a Project specific transit sub-account under the Borrower’s treasury account, to channel the Loan proceeds to the Designated Account, and upon each withdrawal of the proceeds of the Loan, the Borrower shall, through MOF, open additional budget lines (budget classification number 1-8-2-123-14-1-3), equivalent to the amount of such withdrawal of the Loan proceeds, provided that the total amount allocated to 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 IV.A.1 of Schedule 2 to this Agreement) shall not exceed the amount of the Loan.

B. Anti-Corruption

The Borrower, through MOF, shall ensure that the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines.

Section II. Project Monitoring Reporting and Evaluation

A. Project Reports

The Borrower shall, through the PMU, monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 5.08 of the General Conditions and on the basis of the indicators acceptable to the Bank. Each Project Report shall cover the period of one calendar semester, and shall be furnished to the Bank not later than forty-five (45) days after the end of the period covered by such report.
B. Financial Management, Financial Reports and Audits

1. The Borrower shall through MOF maintain or cause to be maintained a financial management system in accordance with the provisions of Section 5.09 of the General Conditions.

2. Without limitation on the provisions of Part A of this Section, the Borrower shall, through MOF, prepare and furnish to the Bank interim unaudited financial reports for the Project covering the quarter not later than 45 days after the end of each quarter, in form and substance satisfactory to the Bank.

3. The Borrower shall, through MOF, have its Financial Statements audited in accordance with the provisions of Section 5.09 (b) of the General Conditions. Each audit of the Financial Statements shall cover the period of one fiscal year of the Borrower, commencing with the fiscal year in which the first withdrawal was made under the Preparation Advance for the Project. The audited Financial Statements for each such period shall be furnished to the Bank not later than six months after the end of such period.

Section III. Procurement

A. General

1. Goods and Non-consulting Services. All goods and non-consulting services required for the Project and to be financed out of the proceeds of the Loan shall be procured in accordance with the requirements set forth or referred to in Section I of the Procurement Guidelines, and with the provisions of this Section.

2. Consultants’ Services. All consultants’ services required for the Project and to be financed out of the proceeds of the Loan shall be procured in accordance with the requirements set forth or referred to in Sections I and IV of the Consultant Guidelines and with the provisions of this Section.

3. Definitions. The capitalized terms used below in this Section to describe particular procurement methods or methods of review by the Bank of particular contracts refer to the corresponding method described in Sections II and III of the Procurement Guidelines, or Sections II, III, IV and V of the Consultant Guidelines, as the case may be.

B. Particular Methods of Procurement of Goods and Non-consulting Services

1. International Competitive Bidding. Except as otherwise provided in paragraph 2 below, goods and non-consulting services shall be procured under contracts awarded on the basis of International Competitive Bidding.

2. Other Methods of Procurement of Goods and Non-consulting Services. The following methods, other than International Competitive Bidding, may be used for procurement of goods and non-consulting services for those contracts specified in the Procurement Plan: (a) National Competitive Bidding, subject to the Bank’s procurement procedures and using the Bank’s standard bidding documents, acceptable and cleared by
the Bank; (b) Shopping; (c) procurement under Framework Agreements in accordance with procedures which have been found acceptable to the Bank; and (d) Direct Contracting.

C. Particular Methods of Procurement of Consultants' Services

1. Quality- and Cost-based Selection. Except as otherwise provided in paragraph 2 below, consultants' services shall be procured under contracts awarded on the basis of Quality and Cost-based Selection.

2. Other Methods of Procurement of Consultants' Services. The following methods, other than Quality and Cost-based Selection, may be used for procurement of consultants’ services for those contracts which are specified in the Procurement Plan: (a) Selection under a Fixed Budget; (b) Least Cost Selection; (c) Selection based on Consultants' Qualifications; (d) Single-source Selection of consulting firms; (e) Selection of Individual Consultants; and (f) Sole-source procedures for the Selection of Individual Consultants.

D. Review by the Bank of Procurement Decisions

The Procurement Plan shall set forth those contracts which shall be subject to the Bank’s Prior Review. All other contracts shall be subject to Post Review by the Bank.

Section IV. Withdrawal of Loan Proceeds

A. General

1. The Borrower may withdraw the proceeds of the Loan in accordance with the provisions of Article II of the General Conditions, this Section, and such additional instructions as the Bank shall specify by notice to the Borrower (including the “World Bank Disbursement Guidelines for Projects” dated May 2006, as revised from time to time by the Bank and as made applicable to this Agreement pursuant to such instructions), to finance Eligible Expenditures as set forth in the table in paragraph 2 below.

2. The following table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Loan (“Category”), the allocation of the amounts of the Loan 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 Loan Allocated (expressed in USD)</th>
<th>Percentage of Expenditures to be financed (inclusive of Taxes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Goods, non-consulting services, consultants’ services, Incremental Operating Costs, Training, Workshops and Study Tours</td>
<td>5,187,000</td>
<td>100%</td>
</tr>
<tr>
<td>(2) Front-end Fee</td>
<td>13,000</td>
<td>Amount payable pursuant to Section 2.03 of this Agreement in accordance with Section 2.07(b) of the General Conditions</td>
</tr>
<tr>
<td>(3) Interest Rate Cap or Interest Rate Collar premium</td>
<td>0</td>
<td>Amount due pursuant to Section 2.07(c) of this Agreement</td>
</tr>
<tr>
<td>TOTAL AMOUNT</td>
<td>5,200,000</td>
<td></td>
</tr>
</tbody>
</table>

B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made for payments made prior to the date of this Agreement, except that withdrawals up to an aggregate amount not to exceed $1,040,000 equivalent may be made for payments made prior to this date but on or after September 15, 2013, for Eligible Expenditures under Category 1.

2. The Closing Date is March 31, 2017.
SCHEDULE 3

Amortization Schedule

1. The following table sets forth the Principal Payment Dates of the Loan and the percentage of the total principal amount of the Loan payable on each Principal Payment Date ("Installment Share"). If the proceeds of the Loan have been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined by the Bank by multiplying: (a) Withdrawn Loan Balance as of the first Principal Payment Date; by (b) the Installment Share for each Principal Payment Date, such repayable amount to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

<table>
<thead>
<tr>
<th>Principal Payment Date</th>
<th>Installment Share (Expressed as a Percentage)</th>
</tr>
</thead>
<tbody>
<tr>
<td>On each May 15 and November 15</td>
<td>3.57%</td>
</tr>
<tr>
<td>Beginning November 15, 2018 through November 15, 2031</td>
<td></td>
</tr>
<tr>
<td>On May 15, 2032</td>
<td>3.61%</td>
</tr>
</tbody>
</table>

2. If the proceeds of the Loan have not been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined as follows:

   (a) To the extent that any proceeds of the Loan have been withdrawn as of the first Principal Payment Date, the Borrower shall repay the Withdrawn Loan Balance as of such date in accordance with paragraph 1 of this Schedule.

   (b) Any amount withdrawn after the first Principal Payment Date shall be repaid on each Principal Payment Date falling after the date of such withdrawal in amounts determined by the Bank by multiplying the amount of each such withdrawal by a fraction, the numerator of which is the original Installment Share specified in the table in paragraph 1 of this Schedule for said Principal Payment Date ("Original Installment Share") and the denominator of which is the sum of all remaining Original Installment Shares for Principal Payment Dates falling on or after such date, such amounts repayable to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

3. (a) Amounts of the Loan withdrawn within two calendar months prior to any Principal Payment Date shall, for the purposes solely of calculating the principal amounts payable on any Principal Payment Date, be treated as withdrawn and outstanding on the second Principal Payment Date following the date of withdrawal and shall be repayable on each Principal Payment Date commencing with the second Principal Payment Date following the date of withdrawal.

   (b) Notwithstanding the provisions of sub-paragraph (a) of this paragraph, if at any time the Bank adopts a due date billing system under which invoices are issued
on or after the respective Principal Payment Date, the provisions of such subparagraph shall no longer apply to any withdrawals made after the adoption of such billing system.

4. Notwithstanding the provisions of paragraphs 1 and 2 of this Schedule, upon a Currency Conversion of all or any portion of the Withdrawn Loan Balance to an Approved Currency, the amount so converted in the Approved Currency that is repayable on any Principal Payment Date occurring during the Conversion Period, shall be determined by the Bank by multiplying such amount in its currency of denomination immediately prior to the Conversion by either: (i) the exchange rate that reflects the amounts of principal in the Approved Currency payable by the Bank under the Currency Hedge Transaction relating to the Conversion; or (ii) if the Bank so determines in accordance with the Conversion Guidelines, the exchange rate component of the Screen Rate.

5. If the Withdrawn Loan Balance is denominated in more than one Loan Currency, the provisions of this Schedule shall apply separately to the amount denominated in each Loan Currency, so as to produce a separate amortization schedule for each such amount.
APPENDIX

Definitions


2. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.


5. “Incremental Operating Costs” means reasonable incremental expenditures incurred by the PMU on account of Project implementation, management and monitoring, including office rental and maintenance; operation and maintenance of office equipment; stationary, office supplies and utilities; office consumables; office administration including translation, interpretation, printing and advertising, communication costs, costs associated with the production of bidding documents; reasonable commercial bank charges; reasonable and necessary transportation and travel costs of members of the PMU, maintenance, insurance and fuel of vehicles; costs of carrying out meetings and any other miscellaneous costs directly associated with Project implementation, all based on periodic budgets acceptable to the Bank, but excluding salaries or honoraria of officials and employees of the Borrower’s civil services.

6. “MOF” means the Ministry of Finance and any successor thereto.


8. “Procurement Plan” means the Borrower’s procurement plan for the Project, dated July 15, 2013 and referred to in paragraph 1.18 of the Procurement Guidelines and paragraph 1.25 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.

9. “PMU” means the Project management unit referred to in paragraph A.1 of Section I of Schedule 2 to this Agreement.

10. “Reform Steering Committee” means the committee referred to in paragraph A.2 of Section I of Schedule 2 to this Agreement.

11. “Training, Workshops and Study Tours” means Project related study tours, training courses, seminars, workshops and other training activities, not included under service
providers' contracts, including costs of training materials, space and equipment rental, reasonable and necessary local and international travel by participants in training activities, reasonable lodging and accommodation, subsistence and local and international *per diem* of trainees and trainers, registration, tuition and facilitators' fees, translation and interpretation, and other training related miscellaneous costs, all based on budgets acceptable to the Bank.