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The World Bank

Report No: ICR3072

IMPLEMENTATION COMPLETION AND RESULTS REPORT
(TF-93850)

ON A

GRANT

IN THE AMOUNT OF US\$ 4.0 MILLION

FROM THE TRUST FUND FOR LEBANON

TO THE

LEBANESE REPUBLIC

FOR A

EMERGENCY FISCAL MANAGEMENT REFORM IMPLEMENTATION

SUPPORT PROJECT

May 30, 2014

Poverty Reduction and Economic Management Department
Middle East and North Africa Region

CURRENCY EQUIVALENTS

(Exchange Rate Effective, May 12, 2014)

Currency Unit = Lebanese Pound (LBP)
1.00 US\$ = 1513.0 LBP

FISCAL YEAR

January 1 - December 31

ABBREVIATIONS AND ACRONYMS

AMR	Aid Monitoring Reporting
BdL	Banque du Liban
CPS	Country Partnership Strategy
CDR	Council for Development and Reconstruction
CFAA	Country Financial Accountability Assessment
DA	Designated Account
DECDG	Development Data Group
DMFAS	Debt Management and Financial Analysis System
DPL	Development Policy Loan
EdL	Electricité du Liban
EFMIS	Emergency Fiscal Management Reform Implementation Support Project
EPCA	Emergency Post-Conflict Assistance
ESIA	Economic and Social Impact Assessment
FMIS	Financial Management Information System
FO	Financial Officer
FMRP	Fiscal Management Reform Project
GCA	Grant Control Arrangements
GDP	Gross Domestic Product
GOL	Government of Lebanon
GFS	Government Finance Statistics
HRC	High Relief Commission
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IDF	Institutional Development Fund
ISR	Implementation Status Result
IFC	International Finance Corporation
IFR	Interim Financial Reports
IMF	International Monetary Fund
ISN	Interim Strategy Note
M&E	Monitoring and Evaluation
MFD	Macro-Fiscal Department
MNA	Middle East and North Africa
MoF	Ministry of Finance
METAC	Middle East Technical Assistance Center
MTBF	Medium Term Budget Framework

MTDS	Medium Term Debt Strategy
MTEF	Medium-Term Expenditure Framework
PAD	Project Appraisal Document
PCF	Post Conflict Fund
PDD	Public Debt Department
PDO	Project Development Objective
PEM	Public Expenditure Management
PFM	Public Financial Management
PIP	Public Investment Program
PIU	Project Implementation Unit
PO	Procurement Officer
SOEs	Statement of Expenses
TFGA	Trust Fund Grant Agreement
TFL	Trust Fund for Lebanon
UNDP	United National Development Programme
WA	Withdrawal Applications
WB	World Bank

Vice President: Inger Anderson
 Country Director: Ferid Belhaj
 Sector Manager: Guenter Heidenhof
 Project Team Leader: Fabian Seiderer
 ICR Team Leader: Arun Arya

LEBANESE REPUBLIC
EMERGENCY FISCAL MANAGEMENT REFORM IMPLEMENTATION SUPPORT PROJECT
CONTENTS

Data Sheet

- A. Basic Information
- B. Key Dates
- C. Ratings Summary
- D. Sector and Theme Codes
- E. Bank Staff
- F. Results Framework Analysis
- G. Ratings of Project Performance in ISRs
- H. Restructuring
- I. Disbursement Graph

1. Project Context, Development Objectives and Design.....	1
2. Key Factors Affecting Implementation and Outcomes	13
3. Assessment of Outcomes	19
4. Assessment of Risk to Development Outcome.....	36
5. Assessment of Bank and Borrower Performance	37
6. Lessons Learned	40
7. Comments on Issues Raised by Borrower/Implementing Agencies/Partners	41
Annex 1. Project Costs and Financing.....	43
Annex 2. Outputs by Component	44
Annex 3. Economic and Financial Analysis.....	49
Annex 4. Bank Lending and Implementation Support/Supervision Processes	50
Annex 5. Beneficiary Survey Results	51
Annex 6. Stakeholder Workshop Report and Results.....	52
Annex 7. Summary of Borrower's ICR and/or Comments on Draft ICR.....	53
Annex 8. Comments of Cofinanciers and Other Partners/Stakeholders.....	56
Annex 9. Ministry wise allocations of Budget during 2008-2013.....	57
Annex 10. Budget Execution between 2008-2013.....	62
Annex 11. List of Supporting Documents	69
MAP	

A. Basic Information			
Country:	Lebanon	Project Name:	Lebanon Emergency Fiscal Management Reform Implementation Project
Project ID:	P111602	L/C/TF Number(s):	TF-93850
ICR Date:	01/29/2014	ICR Type:	Core ICR
Lending Instrument:	ERL	Borrower:	GOVERNMENT OF LEBANON
Original Total Commitment:	USD 4.00M	Disbursed Amount:	USD 3.86M
Revised Amount:	USD 4.00M		
Environmental Category: C			
Implementing Agencies: Project Implementation Unit (PIU)			
Cofinanciers and Other External Partners:			

B. Key Dates				
Process	Date	Process	Original Date	Revised / Actual Date(s)
Concept Review:	05/20/2008	Effectiveness:	04/29/2009	
Appraisal:	06/03/2008	Restructuring(s):	06/06/2013	
Approval:	03/12/2009	Mid-term Review:		
		Closing:	09/30/2011	09/15/2013

C. Ratings Summary	
C.1 Performance Rating by ICR	
Outcomes:	Moderately Satisfactory
Risk to Development Outcome:	High
Bank Performance:	Moderately Satisfactory
Borrower Performance:	Moderately Satisfactory

C.2 Detailed Ratings of Bank and Borrower Performance (by ICR)			
Bank	Ratings	Borrower	Ratings
Quality at Entry:	Moderately Unsatisfactory	Government:	Moderately Satisfactory
Quality of Supervision:	Moderately Satisfactory	Implementing Agency/Agencies:	Satisfactory
Overall Bank Performance:	Moderately Satisfactory	Overall Borrower Performance:	Moderately Satisfactory

C.3 Quality at Entry and Implementation Performance Indicators			
Implementation Performance	Indicators	QAG Assessments (if any)	Rating
Potential Problem Project at any time (Yes/No):	Yes	Quality at Entry (QEA):	None
Problem Project at any time (Yes/No):	No	Quality of Supervision (QSA):	None
DO rating before Closing/Inactive status:	Moderately Satisfactory		

D. Sector and Theme Codes		
	Original	Actual
Sector Code (as % of total Bank financing)		
Central government administration	100	100
Theme Code (as % of total Bank financing)		
Debt management and fiscal sustainability	21	13
Macroeconomic management	14	7
Other public sector governance	10	28
Public expenditure, financial management and procurement	55	52

E. Bank Staff		
Positions	At ICR	At Approval
Vice President:	Inger Anderson	Daniela Gressani
Country Director:	Ferid Belhaj	Hedi Larbi
Sector Manager:	Guenter Heidenhof	Farrukh Iqbal
Project Team Leader:	Fabian Seiderer	Sebnem Akkaya
ICR Team Leader:	Arun Arya	
ICR Primary Author:	Arun Arya	

F. Results Framework Analysis

Project Development Objectives (from Project Appraisal Document)

The objective of the project is to contribute to improving the control, allocation and use of public financial resources, by implementing a number of inter-linked measures in budgeting, debt and aid management designed to improve efficiency and transparency in government financial management.

Revised Project Development Objectives (as approved by original approving authority)

(a) PDO Indicator(s)

Indicator	Baseline Value	Original Target Values (from approval documents)	Formally Revised Target Values	Actual Value Achieved at Completion or Target Years
Indicator 1 :	A significant and durable improvement in budget execution (including debt), made possible through a more realistic budget preparation as well as better treasury management and appropriate training.			
Value quantitative or qualitative	76 %	Not Available	Not done	79 %
Date achieved	12/31/2008	09/15/2013		12/31/2012
Comments (incl. % achievement)	<i>Partially achieved.</i> In all 5 fiscal years during project operation, the actual expenditure deviated by +/- more than 15 % of the budget ceiling. The lowest budget execution rate was 67 % in 2009 and 2010 and the highest was 81 % in 2012. Under PEFA PI-1, if in two or all of the last three years, actual expenditures deviated from budgeted expenditures by an amount equivalent to more than 15% of budget expenditure, the country would receive a rating of "D". However, this indicator is marred by numerous defects: there are no baseline or target values, the budget was not voted by the Parliament, and the budget execution figures were not audited by the Supreme Audit Agency (see Para 94-98). As such there is a fundamental measurement issue as to what is meant by 'Budget Execution'. If we consider only the budgeted expenditure, by removing the extra-budgetary expenditure, the budget execution rate equals 97% in 2008, and declines to 89% in 2013.			

(b) Intermediate Outcome Indicator(s)

Indicator	Baseline Value	Original Target Values (from approval documents)	Formally Revised Target Values	Actual Value Achieved at Completion or Target Years
Indicator 1 :	Macro-Fiscal analysis function further developed and fully operational.			
Value quantitative or qualitative	Lack of comprehensive linkage between policy and revenue and expenditure decisions.	Development of a dedicated macro-fiscal analysis and modeling function/team within the Ministry of Finance to provide input in budget preparation and debt management	Not Done	Macro Fiscal Department established and new staff recruited. Macro Fiscal function not yet fully operational due to weak data and absence of expenditure envelopes
Date achieved	03/12/2009	09/15/2013		09/15/2013
Comments (incl. % achievement)	<i>Fully Achieved.</i> The Macro-Fiscal Department has been created, staffed and trained. It is fully functional with a dedicated team. Various activities were conducted to develop the macro-fiscal function (i.e. compiling of a macro-database, meetings with line Ministries (energy, education, health, water) and other public entities (Telecommunications) to integrate programs in macro-forecasting.			

Indicator 2 :	Medium-term macro-economic framework and the medium-term fiscal framework are prepared in coordination with relevant bodies and reflecting GoL policies.			
Value quantitative or qualitative	Linkage between medium term fiscal framework and GoL policies is weak	Macroeconomic programming is strengthened for better aligning the budget with the GoL policies while providing a stronger basis for expenditure control and strategic resource allocation, including through the establishment of hard budget constraints for each ministry and spending agency.		Macro-fiscal framework and Medium Term Fiscal Framework was prepared for the 2014 budget but does not yet reflect relevant GoL policies. The MTEF also does not include expenditure ceilings for different ministries and spending agencies.
Date achieved	03/12/2009	09/15/2013		09/15/2013
Comments (incl. % achievement)	<i>Partially Achieved.</i> A Medium Term Fiscal Framework (MTFF) using an in-house designed forecasting model was prepared and featured in the 2014 budget circular. However, the MTEF is not yet used as a tool to guide the budget preparation process (GoL policies are not yet better aligned with both revenue and expenditure). Indicative sector ceilings were published on the MoF's website in reference to the 2012 budget only. These ceilings were linked to the global expenditure ceiling, but were not enforced at that time.			
Indicator 3 :	Fiscal target closely monitored against quarterly projections and corrective measures are identified as necessary.			
Value quantitative or qualitative	N/A			Fiscal targets are monitored on a monthly and quarterly basis
Date achieved	03/12/2009	09/15/2013		09/15/2013
Comments (incl. % achievement)	<i>Partially Achieved.</i> Fiscal targets are being monitored on a semi-regularly basis since 2013 by the Macro-Fiscal Department (MFD). However, MFD does not identify, and present, corrective measures based on the monitoring of fiscal targets on quarterly projections.			
Indicator 4 :	Selective policy/impact evaluation exercise is undertaken on cross cutting issues with high budgetary impact.			
Value quantitative or qualitative	N/A			Preparation of two policy notes
Date achieved	03/12/2009	09/15/2013		09/15/2013
Comments (incl. % achievement)	<i>Fully Achieved.</i> Preparation of two policy notes with high fiscal impact (Budget Support background note and assessment of macro-fiscal implications of the Syrian crisis).			
Indicator 5 :	Formulation of guidelines for the preparation of fully-costed expenditure programs and their implementation as much as possible to inform the budget preparation process.			
Value quantitative or qualitative	N/A			

Date achieved	03/12/2009	09/15/2013		09/15/2013
Comments (incl. % achievement)	<i>Partially achieved.</i> MoF published budget guidelines as part of the annual budget process and through the budget call circular. Budget costings are part of the budget circular documentation. World Bank recommended adjustments to the Budget Call circular. The preparation and dissemination of these recommended adjustments to Lebanon's Budget Call circular and guidelines as postponed to 2014. The Macro-Fiscal Department (MFD) seeks to submit the 2014-2017 MTEF (including sector expenditure ceilings) to the cabinet for discussion and validation in the first trimester of 2014.			
Indicator 6 :	Formulation of a result-monitoring and evaluation framework for the selected expenditure programs.			
Value quantitative or qualitative				
Date achieved	03/12/2009	09/15/2013		09/15/2013
Comments (incl. % achievement)	<i>Not achieved.</i> Activity was dropped during project implementation due to other priorities			
Indicator 7 :	Inclusion in the budget documentation of financial operations of extra-budgetary funds, in accordance with international good practice			
Value quantitative or qualitative				
Date achieved	03/12/2009	09/15/2013		09/15/2013
Comments (incl. % achievement)	<i>Partially Achieved.</i> Foreign funded projects executed through the Council for Development and Reconstruction (CDR) are being included in general budget. While the expenditure of CDR and several donor funded projects have been brought within the budget framework, extra-budgetary spending remains a problem that needs to be addressed with the considerable number of public administration/agencies that are either receiving transfer from the budget or are receiving donor contribution outside the budget channel. Providing treasury advances to public institutions (and recently to public administration) is a practice that is violating the principle of comprehensiveness and fiscal discipline.			
Indicator 8 :	Define guidelines for public investment programming, of a periodicity equal to that of the aggregate MTEF.			
Value quantitative or qualitative				
Date achieved	03/12/2009	09/15/2013		09/15/2013
Comments (incl. % achievement)	<i>Partially Achieved.</i> A consultant report on public investment was submitted in 2010 analyzing the size and composition of public investment, with recommendations on priorities and a suggestion to prepare a public investment program for 2010-2015. The PIP has not been significantly revised since 2006/07. Regarding the periodicity, since the MTEF does not include disaggregated sector budget ceilings, and was not approved by the cabinet, it was not possible for the PIP to dovetail seamlessly into an MTEF framework.			
Indicator 9 :	Review of accumulated stock of loi programme for water and roads			
Value quantitative or qualitative				
Date achieved	03/12/2009	09/15/2013		09/15/2013
Comments (incl. % achievement)	<i>Fully Achieved.</i> The review was conducted in 2010.			

Indicator 10 :	Coordinate with the efforts done by the other TA providers to review existing budget classification, to bring it into line with GFS 2001 standards, linked with the expected revisions in the chart of accounts			
Value quantitative or qualitative				
Date achieved	03/12/2009	09/15/2013		09/15/2013
Comments (incl. % achievement)	Fully Achieved. The new budget classification based on GFS 2001 was successfully implemented, and budget proposal 2014 was prepared based on this classification. Training sessions on applying the new budget classification were held during May and June 2013 and targeted MoF officials in addition to budgeting staff in line Ministries.			
Indicator 11 :	Development of a budget execution reform strategy and implementation plan			
Value quantitative or qualitative				
Date achieved	03/12/2009	09/15/2013		09/15/2013
Comments (incl. % achievement)	Fully Achieved. The Budget Execution strategy and implementation plan was developed and adopted by the MOF's PFM committee. The Strategy and Implementation plan has been complemented by: (i) a broader PFM reform strategy to ensure a proper sequencing and coordination with the other PFM reforms and donors (METAC, EU); and (ii) a detailed IFMIS implementation plan, informed by the Bank's global IFMIS evaluation and guidance note.			
Indicator 12 :	Development and implementation of an action plan for strengthening treasury management functions, including for linking business process information systems for debt management and the cash forecasting capacity.			
Value quantitative or qualitative	No such systemic approach to improving treasury function	Implementation of the Action Plan is in advance stage.		<i>Implementation by MoF thematic working groups and the IT department is ongoing</i>
Date achieved	03/12/2009	09/15/2013		09/15/2013
Comments (incl. % achievement)	Partially achieved. Action plan was prepared. Financial information was enhanced through the introduction of daily cash flash reports, a unique commitment number and payment profiles/ forecast for each commitment. Reporting requirements were upgraded accordingly. GoL account monitoring has improved through the issuance of a circular preventing opening of public administration accounts without MoF's authorization. MoF has access to the BdL's treasury accounts monitoring system, although in paper form. Implementation of the action plan by MoF thematic working groups and the IT department is ongoing.			
Indicator 13 :	Integrated review of internal and external audit, and recommendations on modalities for introduction of internal audit in MoF and for establishment of a modern auditor general office.			
Value quantitative or qualitative				
Date achieved	03/12/2009	09/15/2013		09/15/2013
Comments (incl. % achievement)	Partially achieved. A Review was conducted and a report submitted to the MoF recommending a roadmap for the Internal Control function including that the internal audit function be established within the Ministry of Finance. However, there was no progress on the integrated review of internal and external audit. Finally, this activity was dropped.			

Indicator 14 :	Medium Term Debt Management Strategy: (i) a debt management strategy is published and (ii) an updated and refined strategy is published.			
Value quantitative or qualitative	A full-fledged medium term debt management strategy is absent	The medium-term debt management strategy is developed		The MTDS has been prepared and submitted to the High debt committee
Date achieved	03/12/2009	09/15/2013		09/15/2013
Comments (incl. % achievement)	Partially achieved: Lebanon's Debt Management Framework for 2010-2015 was prepared in March 2010. The Debt Management Framework is considered to be the Government's Medium Term Debt Strategy (MTDS) document. The objective of this framework is to finance the government and meet servicing obligations while minimizing cost, subject to containing risks. The MTDS was prepared and approved by the High Debt committee (HDC). The MTDS could not be approved by the Cabinet (for various reasons) and therefore could not be published. Nevertheless, the MTDS is being practiced (and implemented) in subsequent Government of Lebanon borrowings. Although the MTDS was not broadly published, or disseminated, GoL is using the MTDS as its strategic borrowing and debt management framework.			
Indicator 15 :	Cost-Risk Analysis: (i) a comprehensive scenario analysis model and (ii) relevant cost-risk tools are identified and developed.			
Value quantitative or qualitative				
Date achieved	03/12/2009	09/15/2013		09/15/2013
Comments (incl. % achievement)	Fully Achieved. The Public Debt Department (PDD) has been doing cost and risk tradeoffs analysis under five scenarios reflecting different currencies and maturities borrowing mix, using Medium Term Debt Strategies (MTDS) Analytical Tool (AT) developed by the Bank and the Fund.			
Indicator 16 :	Strategy implementation : (i) identification of existing financial instruments, loans as well as derivatives that are currently available and (ii) identification of new financial instruments, loans as well as derivatives			
Value quantitative or qualitative				
Date achieved	03/12/2009	09/15/2013		09/15/2013
Comments (incl. % achievement)	Fully Achieved. All existing instruments were mapped as part of the MTDS exercise. Furthermore, the Public Debt Department (PDD) has been preparing debt issuance schedules, working with consultants on buy-back (e.g., potential REPO - like agreements). The PDD is also evaluating the use of swap agreements, including: the signing of a master derivatives agreement. There are now daily contacts regarding issuance and market conditions. External borrowing interest rates have declined, and domestic debt maturities have been extended, (and the secondary market has shown encouraging developments). All of these abovementioned factors have led to a significant reduction in risk to the government's budget. The conclusion is that there have been significant achievements in the identification and implementation of new financial instruments.			

Indicator 17 :	Coordination with BdL: (i) a high level committee with participation from MoF and BdL; and (ii) a Memorandum of Understanding between MoF and BdL, formalizing the relationship in debt management area			
Value quantitative or qualitative				
Date achieved	03/12/2009	09/15/2013		09/15/2013
Comments (incl. % achievement)	Fully Achieved. (i) A High Level Committee has been formed including representatives of Ministry of Finance and Central Bank; (ii) Draft MoUs have been developed with Banque du Liban, Central Administration of Statistics, and concerned line ministries, but these could not be signed. Nevertheless, an MOU does not appear necessary as the High Level Debt Committee has been introduced in a law.			
Indicator 18 :	Data and debt recording: (i) A thorough review of processes and procedures related to the recording of domestic and external debt, and a project plan for possible improvements; (ii) Software that facilitates easy access to comprehensive debt data in a format needed for cost-risk analysis.			
Value quantitative or qualitative				
Date achieved	03/12/2009	09/15/2013		09/15/2013
Comments (incl. % achievement)	Fully Achieved. Sub-indicators (i) and (ii) were dropped in November 2011 following a Bank's supervision mission. The only indicator that remained was: 'Data and debt recording system is strengthened at MoF (back office function)'. Against this indicator, the project has undertaken to improve and streamline the process used to populate the Debt Management and Financial Analysis System (DMFAS) database, which is the main database used to assist debt management offices in the recording, monitoring, analysis and reporting of external debt and other financial flows. The DMFAS system provides the Ministry of Finance, the Council for Development and Reconstruction (CDR) and Banque du Liban (BdL) with status reports on the external debt and frequently revised projections of existing debt.			
Indicator 19 :	Reporting and investor relations: (i) Improved reports on outstanding debt and risks with higher frequency; (ii) An annual report for debt management, 2008, is published; and (iii) A web-site dedicated to public debt is established.			
Value quantitative or qualitative				
Date achieved	03/12/2009	09/15/2013		09/15/2013
Comments (incl. % achievement)	Fully Achieved. This indicator was dropped in November 2011 following a Bank's supervision mission. However, the component made good progress on the originally aimed goals as follows: (i) Improved reports on outstanding debts and risks are being published on a quarterly basis; (ii) The annual reports have been published; and A website dedicated to public debt is established within the Ministry of Finance's website. (http://www.finance.gov.lb/en-US/finance/PublicDebt/Pages/default.aspx).			
Indicator 20 :	Legal Issues and Negotiations: Legal staff contributes to development of regulations underlying the debt management functions, take active part in the negotiations of contract and in monitoring and evaluation of debt transactions, undertake legal research and provide advice.			
Value quantitative or qualitative				
Date achieved	03/12/2009	09/15/2013		09/15/2013
Comments	Partially Achieved. This indicator was dropped in November 2011 following a Bank			

(incl. % achievement)	supervision mission. Legal staff was not appointed. However, the new PDD team reviews loan agreements prepared by third parties (such as the CDR), has prepared legal ceilings for debt issuance in foreign currency, and a comprehensive database has been established on the loan agreements.			
Indicator 21 :	Aid Coordination and Management function/team appropriately developed and fully operational.			
Value quantitative or qualitative	MoF is involved in broader aid coordination but structured aid management function is absent.	A well-structured aid coordination and management team is in place serving as a technical secretariat for donor meetings.		Aid Management team working well at the front office.
Date achieved	03/12/2009	09/15/2013		09/15/2013
Comments (incl. % achievement)	Fully Achieved A working group on Aid Management (composed of 12 staff members of public debt directorate, treasury directorate, budget directorate and IT department) has been established. A front, middle and back office operation have gradually been institutionalized. An aide monitoring and reporting (AMR) has been established and is updated with the legal and financial data. All donor funded accounts now require an approval (visa) from MoF further improving the monitoring and evaluation of donor funds.			
Indicator 22 :	(i) Time-bound training program defined; and (ii) curriculum prepared and courses initiated.			
Value quantitative or qualitative	Institute of Finance provides orientation support and basic training to the MoF staff/ new recruits.	A structured training program has been identified under the project and is being implemented.		Training program was defined.
Date achieved	03/12/2009	09/15/2013		09/15/2013
Comments (incl. % achievement)	Fully Achieved. A training program was developed and several curriculums were prepared and courses initiated.			

G. Ratings of Project Performance in ISRs

No.	Date ISR Archived	DO	IP	Actual Disbursements (USD millions)
1	12/17/2009	Satisfactory	Satisfactory	0.16
2	02/12/2011	Moderately Satisfactory	Moderately Satisfactory	0.98
3	11/17/2011	Moderately Satisfactory	Moderately Satisfactory	1.55
4	06/28/2012	Moderately Satisfactory	Moderately Satisfactory	2.00
5	03/14/2013	Moderately Satisfactory	Moderately Satisfactory	2.83
6	07/11/2013	Moderately Satisfactory	Moderately Satisfactory	3.15

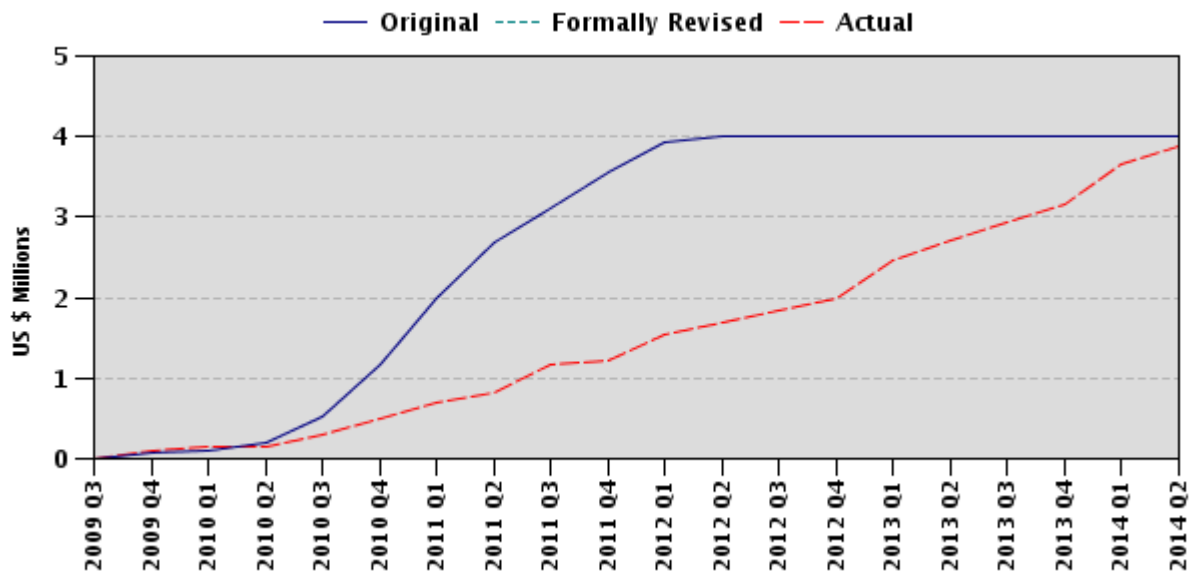
H. Restructuring

A restructuring was carried out to extend the closing date for the Lebanon Emergency Fiscal Management Reform Implementation Support Project (EFMIS) from June 30, 2013 to September 15, 2013 (2.5 months or 10 weeks). The Project had been already extended from September 30, 2011 to June 30, 2013 (21 months) but without being subject to restructuring.

Restructuring Date(s)	Board Approved PDO change	ISR Ratings at Restructuring		Amount Disbursed at Restructuring in USD millions	Reason for Restructuring & Key Changes Made
		DO	IP		
June 4 th 2013	N/A	MS	MS	3.15	The extension aims to consolidate the recent institutional achievements and to minimize the lag between the current project and the Bank's follow up Fiscal Management Reform Project II.

* MS= Moderately Satisfactory

I. Disbursement Profile



1. Project Context, Development Objectives and Design

1.1 Context at Appraisal

1. **Country context.** Lebanon is a small, high-middle-income country of 4.2 million people with a large diaspora of several millions and an average GDP per capita of around US\$7,000 in 2008. Whereas the country is successfully driven by a service-based, open economy with a dynamic private sector and regional linkages with the neighboring Mashreq countries, it is also known for its political instability (Country Partnership Strategy (CPS), 2010). At the time of the project appraisal, Lebanon's political and economic development was marked by the recovery of the July 2006 military hostilities between the Hezbollah paramilitary forces and Israel that caused serious human and physical losses as well as significant damage to the economy. More than 100,000 housing units were damaged or destroyed, followed by losses in the agriculture, and irrigation, and transport sectors. Some estimates suggest that total direct damages were at around US\$2.8 billion with a further US\$700-800 in indirect damages (Project Appraisal Document (PAD) p.2). Even as the international community responded rapidly, pledging US\$7.6 billion in aid at the Paris III Donor conference (henceforth Paris III) in 2007, the country continued to experience major political conflict and violence, affecting security, employment and economic activities well into 2008. The political crisis was resolved at last through the Doha Accord in May 2008 which paved the way for the presidential elections in 2009 and reforms focusing on fiscal consolidation and debt reduction measures.

2. **Sector background.** Despite signs of economic recovery in terms of strong GDP growth (at 6 percent) and higher domestic revenue collection contributing to contain the fiscal deficit (excluding grants) at around 9-10 percent in 2008-2009, gross public debt remained very high (at 166 percent) at the end of 2008 (PAD p. 2). High interest payments (at around 11 percent) continued to feed the high public debt and risk to discourage long-term productive investment. Spending pressure from debt services, together with increased transfers to public agencies, notably Lebanon's electricity company, were the main drivers contributing to rising expenditures. Over the medium-term fiscal adjustments and structural reforms were required to sustain high growth rates and improve Lebanon's unfavorable debt dynamics. At the time of appraisal, the Government had launched its Paris III medium-term reform program that aimed to generate a primary fiscal surplus through the rationalization of current expenditures, improved efficiency of capital expenditures and revenue enhancing measures to sustain debt efforts (PAD p.3). These reforms were complemented by growth-enhancing structural and social sector reforms to improve debt sustainability, create employment and alleviate poverty.

3. GoL's reform agenda was supported by the Trust Fund for Lebanon (TFL) that was created with a transfer of US\$70 million from IBRD surplus in September 2006. It helped in rehabilitating damaged infrastructure and providing technical assistance for jump-starting economic activity. The Emergency Fiscal Management Reform Implementation Support Project (EFMRISP) was funded by the TFL and prepared under emergency procedures as stipulated in the TFL.

4. **Rationale for Bank assistance.** At the time of project's approval, Lebanon's high public debt was a key binding constraint to economic growth and sustainable development (PAD p.4). The Project sought to support an improvement in the efficiency of public resource management and strengthened debt management to facilitate and ensure the sustainability of the needed fiscal adjustment. The Bank was well placed to support the Government in this area as it had: (i) focused in the past on post-war construction and macro and fiscal recovery in Lebanon, including emergency support to the budget; and

(ii) supported the preparation of Government's Paris III program that was informed by the Economic and Social Impact Assessment, prepared jointly by the Bank and the GoL in coordination with key donors. The Project had built on the most recent Public Expenditure Review and supported GoL's request for a flexible framework of actions by facilitating rapid, tangible actions as well as structural reforms. To this end, the Project responded to the World Bank Group's 2008-2009 Interim Strategy Note (ISN) for Lebanon that emphasized the medium-term public expenditure and social reform agenda while focusing on quick and demonstrable reform actions (ISN, World Bank 2007). At the design stage, the project had intended to complement other ongoing Bank-financed operations, such as the Reform Implementation Development Policy Loan (DPL) (which could not be subsequently finalized) and the Emergency Power Sector Reform Capacity Reinforcement that were to support the implementation of the Paris III reform program in reducing fiscal pressure (PAD p. 4). Lastly, the Project was fully aligned with the Bank's 2011-2014 Country Partnership Strategy (CPS) for Lebanon.

1.2 Original Project Development Objectives (PDO) and Key Indicators (as approved)

5. **Project Development Objective.** The Project Development Objective (PDO) was "to contribute to improving the control, allocation and use of public financial resources, by implementing a number of inter-linked measures in budgeting, debt and aid management designed to improve efficiency and transparency in government financial management" (PAD p.5, main text). The wording of the PDO in the Project's Results Framework and Monitoring included in Annex 2 of the PAD (PAD p.20) differs substantially from that in the main text of the PAD. It reads: "to consolidate initial progress in improving budget, debt and aid management while building capacity and introducing orientation to results". The Trust Fund Grant Agreement (TFGA) (Schedule I, p.5) uses the PDO included in the main text of the PAD. Given the legal status of the TFGA, the assessment of the Project's performance in this ICR will be based on the TFGA version of the PDO.

6. The **Key Indicator linked to the PDO** was as follows:

- A significant and durable improvement in budget execution (including debt), made possible through a more realistic budget preparation as well as better treasury management and appropriate training (PAD P.20).

7. The PDO level indicator was to be used for monitoring the progress of public resource management reforms under Paris III.

8. The **Intermediate Outcome Indicators for the Macro-Fiscal function** were as follows:

- Macro-Fiscal analysis function further developed and fully operational.
- Medium-term macro-economic framework and the medium-term fiscal framework are prepared in coordination with relevant bodies and reflecting GoL policies.
- Fiscal target closely monitored against quarterly projections and corrective measures are identified as necessary
- Selective policy impact evaluation exercise is undertaken on cross cutting issues with high budgetary impact.

9. The **Intermediate Outcome Indicators for the Public Expenditure Management** were as follows:

(a) **Expenditure Planning and Budget Preparation:**

- Formulation of guidelines for the preparation of fully-costed expenditure programs and their implementation as much as possible to inform the budget preparation process.
- Formulation of a result-monitoring and evaluation framework for the selected expenditure programs.
- Inclusion in the budget documentation of financial operations of extra-budgetary funds, in accordance with international good practice.
- Define guidelines for public investment programming, of a periodicity equal to that of the aggregate MTEF.
- Review of accumulated stock of loi programme for water and roads.
- Coordinate with the efforts done by the other TA providers to review existing budget classification, to bring it into line with GFS 2001 standards, linked with the expected revisions in the chart of accounts.

(b) **Budget Execution and Audit Control:**

- Development of a budget execution reform strategy and implementation plan.
- Development and implementation of an action plan for strengthening treasury management functions, including for linking business process information systems for debt management and the cash forecasting capacity.
- Integrated review of internal and external audit, and recommendations on modalities for introduction of internal audit in MoF and for establishment of a modern auditor general office.

10. The **Intermediate Outcome Indicators for the Debt Management** were as follows:

- **Medium Term Debt Management Strategy**
 - a Debt Management Strategy is published; and
 - an updated and refined strategy is published.
- **Cost-Risk analysis**
 - a comprehensive scenario analysis model; and
 - relevant cost-risk tools are identified and developed.
- **Strategy implementation**
 - Identification of existing financial instruments, loans as well as derivatives that are currently available and identification of new financial instruments, loans as well as derivatives.
- **Coordination with BdL**
 - a high level committee with participation from MoF and BdL; and
 - a Memorandum of Understanding between MoF and BdL, formalizing the relationship in debt management area.
- **Data and debt recording**
 - A thorough review of processes and procedures related to the recording of domestic and external debt, and a project plan for possible improvements.

- Software that facilitates easy access to comprehensive debt data in a format needed for cost-risk analysis.

- **Reporting and investor relations**

- Improved reports on outstanding debt and risks with higher frequency.
- An annual report for debt management, 2008, is published.
- A web-site dedicated to public debt is established.

- **Legal Issues and Negotiations**

- Legal staff contributes to development of regulations underlying the debt management functions, take active part in the negotiations of contract and in monitoring and evaluation of debt transactions, undertake legal research and provide advice.

11. The **Intermediate Outcome Indicators for the Aid Management** was as follows:

- Aid Coordination and Management function/team appropriately developed and fully operational.

12. The **Intermediate Outcome Indicators for the Training/Capacity Building** were as follows:

- Time-bound training program defined.
- Curriculum prepared and courses initiated

1.3 Revised PDO (as approved by original approving authority) and Key Indicators, and reasons/justification

13. The PDO was not revised during the project implementation. The Outcome Indicator at the PDO level also remained unchanged¹.

14. **There were changes made in the Intermediate Outcome Indicators during the June 2011 supervision mission.** A revised Results Matrix was prepared. However, this change in the Results Framework was not approved in a formal process of project restructuring. The reason cited for not opting for the restructuring was that the changes made in the Intermediate Outcome Indicators were not significant. The Results Framework, as outlined in the PAD [Annex 2], included 1 outcome indicator and 22 intermediate outcome indicators². In the June 2011 mission, several indicators were reformulated, 4 indicators were taken out, and 1 new indicator was added. The revised results matrix during the June 2011 supervision mission contained 19 indicators which were used by the PIU for monitoring the Project's activities in the subsequent years. However, only 5 of these indicators were included in the World Bank's Implementation Status Result (ISR) system and were monitored on a regular basis. There were 4 additional indicators added in the ISR, which were not included in the PAD's results framework. The following Table gives a comparison of 22 intermediate outcome indicators at the time of appraisal, 19 reformulated intermediate outcome indicators as per Results Matrix prepared in the June 2011 mission, and the 9 intermediate outcome indicators that were being monitored in the Bank's ISRs. The inconsistency between the three sets of indicators resulted in the government monitoring the project's

¹ There are a number of issues related to the PDO, which are elaborated throughout the document. While these issues make it difficult to measure the Outcome of the Project, the ICR team finds that substantial positive impacts can be seen by evaluation of the achievement of the Intermediate Outcomes.

² These Indicators were not included in the TFGA.

progress on a different set of indicators than the ones included in the PAD, and those on which the Bank's system was monitoring the project's progress.

Table 1

Intermediate Outcome Indicators

(As specified in PAD's Results Framework, the June 2011 AM and the World Bank's ISR system)

Results Framework and Monitoring [PAD Annex 2] ³	Updated Results Framework and Monitoring [AM June 30 th 2011]	Intermediate Results Indicators [Implementation Status Results 2009-2013] ⁴
Component 1 – Macro-Fiscal Analysis Function		
1) Macro-Fiscal analysis function further developed and fully operational. 2) Medium-term macro-economic framework and the medium-term fiscal framework are prepared in coordination with relevant bodies and reflecting GoL policies. 3) Fiscal target closely monitored against quarterly projections <u>and corrective measures are identified as necessary.</u> 4) Selective policy impact evaluation exercise is undertaken on cross cutting issues with high budgetary impact.	1) Macro-Fiscal analysis function further developed and fully operational. 2) Medium-term macro-economic framework and the medium-term fiscal framework are prepared in coordination with relevant bodies and reflecting GoL policies. 3) Fiscal target closely monitored against quarterly projections 4) Selective policy impact evaluation exercise is undertaken on cross cutting issues with high budgetary impact.	1) Medium-term macro-economic framework and the medium-term fiscal framework are prepared in coordination with relevant bodies and reflecting GoL policies.
Component 2 – Public Expenditure Management		
Subcomponent 1 – Expenditure Planning & Budget preparation		
5) Formulation of guidelines for the preparation of fully-costed expenditure programs and their implementation <u>as much as possible to inform the budget preparation process.</u> 6) Formulation of a result-monitoring and evaluation framework for the selected expenditure programs. 7) Inclusion in the budget documentation of financial operations of extra-budgetary funds, <u>in accordance with international good practice.</u> 8) <u>Define</u> guidelines for public investment programming, <u>of a periodicity equal to that of the aggregate MTEF.</u> 9) Review of accumulated stock of loi programme for water and roads 10) <u>Coordinate with the efforts done by the</u>	5) Formulation of guidelines for the preparation of fully-costed expenditure programs and their implementation 6) Inclusion in the budget documentation of financial operations of extra-budgetary funds 7) Guidelines for public investment programming 8) Review of accumulated stock of loi programme for water and roads 9) Review of existing budget classification, to bring it into line with GFS 2001 standards	

³ The underlined parts of the Intermediate Outcome Indicators in the PAD were deleted while reformulating them during June 2011 Supervision Mission

⁴ The underlined intermediate indicators in the ISR system are the newly introduced ones after the June 2011 supervision mission. They are not part of the Results Matrix of June 2011, on the basis of which, PIU monitors progress. The indicators are also not in the Results Framework in the PAD.

Results Framework and Monitoring [PAD Annex 2] ³	Updated Results Framework and Monitoring [AM June 30 th 2011]	Intermediate Results Indicators [Implementation Status Results 2009-2013] ⁴
<p><u>other TA providers to review existing budget classification, to bring it into line with GFS 2001 standards, linked with the expected revisions in the chart of accounts</u></p>		
Subcomponent 2 – Budget Execution and Audit Control		
<p>11) Development of a budget execution reform strategy and implementation plan</p> <p>12) Development and implementation of an action plan for strengthening treasury management functions, <u>including for linking business process information systems for debt management and the cash forecasting capacity.</u></p> <p>13) Integrated review of internal and external audit, and recommendations on modalities for introduction of internal audit in MoF <u>and for establishment of a modern auditor general office.</u></p>	<p>10) Development of a budget execution reform strategy and implementation plan</p> <p>11) Development and implementation of an action plan for strengthening treasury management functions, linked to debt and cash management</p> <p>12) Integrated review of internal and external audit, and recommendations for the introduction of intern audit in MoF</p>	<p>2) <u>Action Plan for strengthening reporting and monitoring system, and treasury management functions, including the improvement of business process/information is under implementation.</u></p> <p>3) <u>The MoF has established a cash management unit and built adequate capacity</u></p> <p>4) <u>Real-time access of the MoF to the CDR database through smoothly operating interface between the respective databases of two institutions.</u></p> <p>5) <u>The expenditure ceilings for each ministry and spending agency, including the CDR, are specified, consistent with the macroeconomic framework</u></p>
Component 3 – Debt Management		
<p>14) Medium Term Debt Management Strategy</p> <ul style="list-style-type: none"> • a debt management Strategy is published and • <u>an updated and refined strategy is published.</u> <p>15) Cost-Risk analysis</p> <ul style="list-style-type: none"> • a comprehensive scenario analysis model and • relevant cost-risk tools are identified and developed <p>16) Strategy implementation</p> <ul style="list-style-type: none"> • Identification of existing financial instruments, loans as well as derivatives that are currently available <u>and identification of new</u> 	<p>13) Medium Term Debt Management Strategy:</p> <ul style="list-style-type: none"> • a debt management Strategy and its updates are published <p>14) Cost-Risk analysis</p> <ul style="list-style-type: none"> • a comprehensive scenario analysis model • cost-risk tools are developed <p>15) Strategy implementation</p> <ul style="list-style-type: none"> • Identification of existing and new financial instruments, loans as well as derivatives <p>16) Coordination with BdL</p>	<p>6) A medium-term debt management strategy is developed, published and put into implementation, providing a solid framework for day-to-day borrowing decisions and supporting a clear cost-risk trade-off an</p>

Results Framework and Monitoring [PAD Annex 2] ³	Updated Results Framework and Monitoring [AM June 30 th 2011]	Intermediate Results Indicators [Implementation Status Results 2009-2013] ⁴
<p><u>financial instruments, loans as well as derivatives</u></p> <p>17) Coordination with BdL</p> <ul style="list-style-type: none"> • a high level committee with participation from MoF and BdL and • a Memorandum of Understanding between MoF and BdL, <u>formalizing the relationship in debt management area</u> <p>18) Data and debt recording</p> <ul style="list-style-type: none"> • <u>A thorough review of processes and procedures related to the recording of domestic and external debt, and a project plan for possible improvements</u> • <u>Software that facilitates easy access to comprehensive debt data in a format needed for cost-risk analysis</u> <p>19) Reporting and investor relations</p> <ul style="list-style-type: none"> • <u>Improved reports on outstanding debt and risks with higher frequency</u> • <u>An annual report for debt management, 2008, is published</u> • <u>A web-site dedicated to public debt is established</u> <p>20) Legal Issues and Negotiations</p> <ul style="list-style-type: none"> • <u>Legal staff contributes to development of regulations underlying the debt management functions, take active part in the negotiations of contract and in monitoring and evaluation of debt transactions, undertake legal research and provide advice</u> 	<ul style="list-style-type: none"> • a high level committee with participation from MoF and BdL and • a Memorandum of Understanding between MoF and BdL are signed <p>17) Data and debt recording (back office function)</p>	<p>7) Coordination between the MoF and BdL in debt management area is improved through establishment of a high level committee with participation from both institutions based on a MoU</p>
Component 4 – Aid Management		
<p>21) Aid Coordination and Management function/team appropriately developed and fully operational.</p>	<p>18) Aid Coordination and Management function/team appropriately developed and fully operational.</p>	<p>8) A small aid coordination and management team serves as a technical secretariat for high level meetings with donors</p>
Component 5 – Training and Capacity Building		
<p>22) <u>Time-bound training program defined. Curriculum prepared and courses initiated</u></p>	<p>19) Training program defined and carried out too strengthen the above mentioned public finance management functions</p>	<p>9) A training program for key project components is defined and courses initiated.</p>

1.4 Main Beneficiaries

15. The Project's primary beneficiary was the Ministry of Finance (MoF). The project aimed at building and strengthening the institutional capacity of MoF by creating and empowering new departments, formulating new laws and strategies, and improving the business processes to improve the Ministry's efficiency. The primary targeted entities within the MoF include: Macro Fiscal Management Department, Budget, Internal Control, Cash Management Unit, Commitment Control, Accounting, Public Debt Department, Aid Management Team, and Human Resources Working Group. Apart from the MOF, a few line ministries (Ministry of Economy and Trade, Ministry of Energy, Ministry of Education, Ministry of Health, Ministry of Water), the Council for Development and Reconstruction (CDR), the Court of Audits, and the Central Bank of Lebanon (CBL) were also targeted beneficiary institutions.

1.5 Original Components

16. The Project comprised the following five components (PAD, p. 5-7)

- ***Component 1 - Macro-Fiscal Analysis and Policy Advice Function*** (US\$305,000, about 7 percent of total Project cost at appraisal): This component was to help the MoF strengthen its macroeconomic policy evaluation capacity and the preparation of the medium-term macroeconomic framework, providing the foundation for the preparation of the disaggregated expenditure framework needed to provide a multi-annual perspective to the annual budget decisions.
- ***Component 2 - Public Expenditure Management*** (US\$1,784,000 about 44 percent of total Project cost at appraisal): This component was to provide technical assistance to further key improvements in the management of public expenditures under two sub-components:
 - *Sub-component 1- Expenditure Planning and Budget Preparation*: This sub-component was designed to provide assistance and advice to both the MoF and line ministries to improve their capacity and understanding in all areas of expenditure programming and budget preparation, including the development of expenditure ceilings for each ministry and spending agency in the next budget circular, the formulation of guidelines for the preparation of fully-costed expenditure programs, the implementation of initial steps towards the introduction of some results-orientation in the budget process, the improvement of transparent operations of extra-budgetary funds, the integration of capital and current budgeting, the definition of basic procedures for the programming of public investment and the estimation of recurrent costs, reviewing budget classifications, and proposing necessary legislative changes and leading to the eventual formulation of a comprehensive Budget System Law.
 - *Sub-component 2 – Budget Execution and Audit Control*: This sub-component focused on identifying key areas of improvement and implementing them as feasible, in budget execution, treasury management

functions, and the public audit function, which will collectively enhance the control environment, including a rapid diagnostic of the functioning of the budget execution, reporting and monitoring system in actual practice, initiating the process of strengthening the treasury management functions, identifying modalities for introducing internal audit in the MoF on a pilot basis.

- **Component 3 - Debt Management** (US\$535,000 about 13 percent of total Project cost at appraisal): This component was to provide essential advisory services to strengthen the debt management function of the Ministry of Finance and improve coordination with the Central Bank (BdL). More specifically, it was to help: (i) develop a clear and publicly available debt management strategy with a medium term horizon and launch its implementation; (ii) design tools that can help identify and quantify costs and risks, which, in turn, can provide high-quality input to macro-fiscal analysis; (iii) strengthen the coordination with BdL through a high-level committee with representation from the MoF and BdL; (iv) improve data and debt recording; (v) strengthen reporting and investor relations; and (vi) develop the legal function to provide specific legal advice related to debt management issues.
- **Component 4 - Aid Coordination and Management** (US\$292,000 about 7 percent of total Project cost at appraisal): This component aimed to further the work started under the Bank's project supported by the Post Conflict Fund (PCF). In line with this, the project initially supported creation of an Aid Management and Coordination function based in the MoF to coordinate and facilitate contacts between ministries and donors; serve as a technical secretariat for high-level meetings with donors; and, facilitate the incorporation of all foreign-financed expenditures into the budget.
- **Component 5 - Training and Capacity Building** (US\$366,000 about 9 percent of total Project cost at appraisal): This component was to assist in the provision of targeted training and other capacity building specifically connected to the other components of the project. Training was to be channeled and organized by the Institute of Finance with short-term contributions by international experts as required. The experienced budget staff and local consultants in the MoF were expected to contribute and interact regularly with the line ministry staff responsible for budget matters. Finally, a series of workshops were to be organized, to bring together MoF, line ministry, procurement and accounting staff to brainstorm about practical problems in budget execution and to find solutions consistent with existing legislation.

17. The Component wise planned and delivered outputs are presented in **Annex 2** of this ICR.

1.6 Revised Components

18. There were no revisions in the components.

1.7 Other significant changes

19. ***Changes in implementation schedule:*** The project was approved by the World Bank's Board of Directors on March 12, 2009 and became effective on April 29, 2009. Its closing date was extended twice: (1) from September 30, 2011 to June 30, 2013; and (2) from June 30, 2013 to September 15, 2013. The first extension was carried out to complete the implementation of the remaining phases of the project, including the establishment of a macro-fiscal unit⁵. The second restructuring was undertaken to make use of the non-disbursed grant amount to further consolidate reforms implemented under EFMS, and to ensure smooth bridging of activities between EFMS and future WB assistance planned under the Lebanon Fiscal Management Reform Program⁶. The first extension of 21 months was done without a formal restructuring. The second extension of 2.5 months was, however, done through a formal restructuring process.

20. ***Changes in the type of planned activities.*** In 2011, it was agreed with the MoF to reprioritize activities in order to be fully aligned with the Government's reform priorities and to take into account the lessons learned from project implementation. [AM, September 9, 2011]. Overall, the additional activities added a complementary layer to the original project scope and contributed to the Project's achievements. The following changes were made:

- **The World Bank task team and the PIU added activities related to book-keeping and accounting** notably a review of accounting procedures and processes, development of guideline and accounting training modules and advisory services to MoF's task force.
- **The Project assisted the Ministry of Finance to review its IT system, involving: a functional review of current procedures and processes, the documentation of the IT subsystem and their inter-connections and the launch of an external IT security audit.** Although this was not an initial focus of the work under the project, all diagnostic and technical assistance work highlighted the need to address weaknesses in the Ministry's reporting and information system. To this end, the new Minister of Finance requested the Project to provide more support in favor of strengthening budget expenditure reforms.
- **On-the-job mentoring and capacity building took place at the Ministry of Finance.**

⁵ See Letter MoF July 5th 2011

⁶ See letter MoF, May 31st 2013

- **Improved information exchange mechanism between MOF and BDL on the accounts were developed** and implemented, including the reconciliation of bank accounts.
- **Some activities including performance budgeting**, various audit activities and an improved budget law were dropped. These activities were dropped due to their complexity, and the absence of a basic Public Financial Management framework to support them.

21. **Change in staffing.** The Government established a Project Implementation Unit and recruited a Project Manager, a Procurement Officer and Financial Officer.⁷ The PIU encountered several staff changes, notably of the Project Manager and the Financial Officer. The Project Manager resigned for personal reasons in July 2011, leaving the Project with a management void of 2.5 months. A new Project Manager was recruited in December 2011. The management void temporarily affected project implementation, particularly in regard to the launch of new activities such as the IT audit and preparation of training strategy. The Finance Officer was replaced twice in October 2010 and in February 2012 for personal reasons, but the project implementation was less affected by these changes given the relatively timely recruitment process.

22. **Changes in funding allocation.** The project was financed from the Trust Fund for Lebanon (TFL) in the amount of US\$4 million equivalent. Following Government's decision to give more priority to reliable and financial reporting the WB task team and the PIU devoted more resources to strengthen the Ministry's IT system, bookkeeping and accounting functions. [Aide Memoire July 2011]. Consequently, the actual expenditure of US\$2.1 million on Component 2 on Public Expenditure Management was 113% of the original allocation of US\$1.8 million. The extension of project closing date by 23.5 months had an impact on the Project Management and Operating Costs. The actual expenditure on Project Management was US\$0.82 million – 231% of the original allocation of US\$0.35 million. The actual expenditure on Operating Costs was US\$0.09 million - 124% of the original allocation of US\$0.07 million.

23. On the other hand, original allocations on four components were under-utilized: (1) Component 1: Macro-Fiscal Analysis and Policy Advice function (45%); (2) Component 3: Debt Management (81%), (3) Component 4: Aid Coordination and Management (35%), (4) Training and Capacity Building (71%). This reallocation of funds amongst different components did not require a formal restructuring as all funds were under a single disbursement category ("Goods, consultants' services, training workshops and study tours under the Project").

24. **Changes in Government.** Political disputes, leading to the collapse of the Government in January 2011 and a subsequent six-month power vacuum, led to delays of

⁷ Given EFMIS was an emergency operation and basic actions towards project readiness were well underway (the PIU staff was recruited on February 2009), it was decided at the decision-meeting that conditions of effectiveness were not included in the TFGA.

Project implementation. Whereas the formation of a new Government and its vote of confidence on July 7, 2011 revived MoF's public financial management reform agenda, creating opportunities for policy and legislative reforms and supporting the accelerated implementation of EFMS activities, the resignation of the Cabinet in April 2013 hampered the validation and approval by the Cabinet of several project's outcomes delivered after April 2013 (for instance, 2015-2017 Medium Term Expenditure Framework (MTEF), Medium Term Debt Strategy, PFM Reform Strategy, Revised Public Accounting Law, and the Expenditure Reform Strategy).

25. The Cabinet resigned twice during the period of implementation of this project. Although care-taking arrangements were made during those periods the absence of cabinets has a negative impact on timely policy decisions making.

2. Key Factors Affecting Implementation and Outcomes

2.1 Project Preparation, Design and Quality at Entry

26. **Project Preparation.** The grant was prepared under emergency procedures (OP/BP 8.0 Rapid response to crises and emergencies) as stipulated in the TFL. The Project's approval was initially planned for July 2008, but it was approved in March 2009 due to political stalemate and an increase in violence in May 2008. Despite these delays, the Project was able to respond to Government's request for a timely launching of the project as the parliament was convening and general elections were scheduled for summer of 2009. It became effective within 6 weeks after board approval at the end of April 2009, by fulfilling the basic effectiveness condition of recruiting the PIU staff members, which was already done by the MoF in February 2009, owing to flexible and accelerated procedures for emergency response.

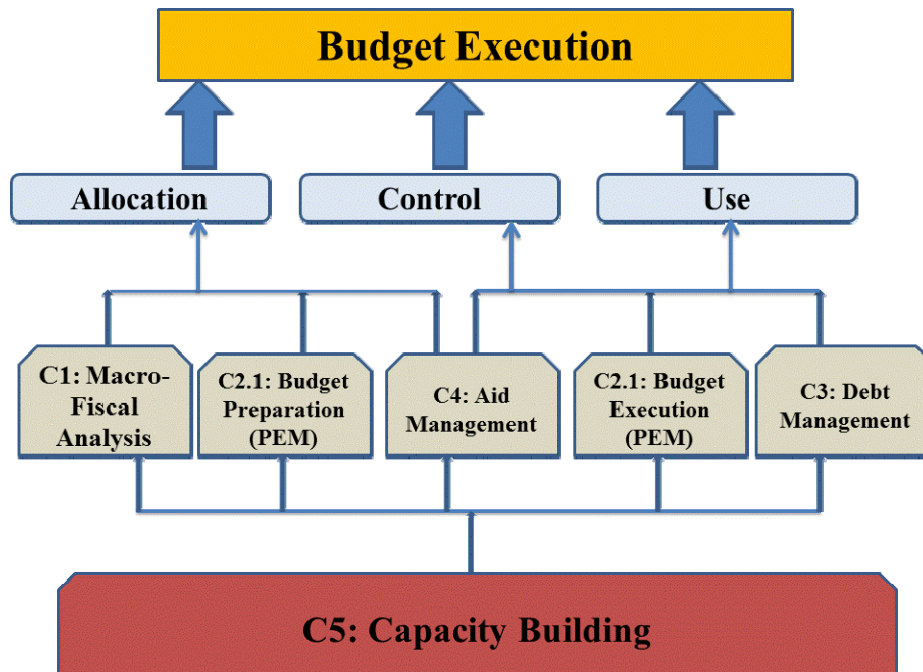
27. **Incorporation of lessons learned.** According to the PAD (p. 9/10), the project design had benefited from lessons learned from the Bank's long-term engagement in Lebanon since the early 1990's and from other post-conflict countries, such as: (i) the importance to support concomitant actions to maintain reform momentum and build capacity owing to the country's political fragmentation that had slowed down implementation of reforms and endorsement; and (ii) the importance of a simple, well defined, and flexible project design to allow for adaptation to changing circumstances. Furthermore, lessons learned from the Bank's experience on public resource management reform were also incorporated in the Project design. Relevant lessons for Lebanon suggested that putting the emphasis on systems and institutions rather than narrow technical reforms, conducting a thorough monitoring of progress to allow for learning, and encouragement of a focus on results and realistic actions to build capacity were considered key prerequisites for a successful implementation of projects.

28. **Project design.** The *Project Development Objective* (PDO) was to contribute to improving the control, allocation and use of public financial resources, by implementing a number of inter-linked measures in budgeting, debt and aid management designed to improve efficiency and transparency in government financial management. The PDO

level Outcome Indicator was a significant and durable improvement in Budget Execution (including debt), made possible through a more realistic budget preparation as well as better treasury (and debt) management and appropriate training.

29. The project design and the underlying results can be schematically reflected as follows.

**Figure1:
Project Design and Results Chain**



30. The project was so designed that strengthening of macro-fiscal analysis, budget preparation and aid management would have contributed to the preparation of more realistic budgets and improved allocation of public financial resources. Improvement in the budget execution through strengthening of commitment controls, cash management, accounting, and payments systems would have improved treasury management which would have led to an improved control and use of public financial resources. Similarly, improved aid management and debt management would have contributed to both improved control and use of public financial process. Underlying improvements in all these systems was the cross-cutting element of capacity building, which aimed to build the capacity of MoF staff that was discharging these functions. The preparation of more realistic budgets and improved treasury and debt management, would have resulted in improved allocation, control and use of public financial resources, together leading to a significant and durable improvement in budget execution.

31. Overall, while Project design was highly relevant for the time and country context (see Section 3.1 – Relevance of Design), the ICR notes some shortcomings, primarily in the elaboration of the indicators:

- The PDO indicator was “a significant and durable improvement in budget execution”, which would have been difficult to achieve, or even measure, as such improvements take time, and the project duration included only one fiscal year.
- The second component on public expenditure management included several structural reforms (for instance, the integrated review of the audit function) that would have taken longer than the initial two-year time frame.
- The Outcome Indicator of the fourth component was: “Aid Coordination and Management function/team appropriately developed and fully operational”. In order to contribute to achievement of the PDO, a higher order outcome of this function could have been considered, such as PEFA indicator D-2 including dimensions: (i) completeness and timeliness of budget estimates by donors for project support; and (ii) frequency and coverage of reporting by donors on actual donor flows for project support. An improvement in these dimensions could have contributed to the achievement of PDO. The use of Results Monitoring was envisaged as “improved aid effectiveness and reduce transaction costs for donors and government”. However, there was no appropriate indicator for measuring aid effectiveness or transaction costs.
- The design of the fourth component on Training and Capacity Building focused only on the definition of a training capacity program, the preparation of a curriculum, and the initiation of respective courses. For the training program to contribute to achievement of the PDO, it would be necessary to ensure that the capacity of MoF staff was enhanced during Project implementation. The ICR commends the team for adding this element in 2011 while extending the Project for 2 years, but notes that including the implementation of the training plan at the design phase is preferable.

32. **Implementation arrangements** were appropriately designed and innovative. The Project was managed by the Ministry of Finance (providing office space for the three PIU staff members). The PIU was responsible for the day-to-day management of Project implementation and was overseen by the MoF. It reported on a regular basis on project progress to the Director General, an arrangement that promoted country ownership and allowed to steer the project in alignment with MoF’s priorities. While it is in general preferable for the PIU to be staffed by permanent public sector officers rather than consultants, the small Unit and its closeness to the MoF allowed an effective working relationship with the MoF staff. Furthermore, international experts under each component were teamed up with national experts and worked closely with thematic working groups, allowing a regular and effective support and knowledge transfer. The full integration of these external experts in the administration was innovative and instrumental in supporting ownership and contributing to the Projects’ achievements in a challenging political economy context.

33. A minor shortcoming was that the institutional arrangements did not specify the involvement of other beneficiary agencies (notably the sector ministries) that turned out to benefit less by the Project than initially envisaged. In hindsight, a more focused and clear definition of the role and involvement of some selected sector ministries might have allowed enhancing the implementation of MoF's public finance reforms at the sector ministry level.

34. **Adequacy of Government commitment.** At the time of appraisal, the Government demonstrated a strong commitment in implementing the EFMIS' public finance management reforms, as evidenced by several initial steps already taken over the past year to move forward the Paris III reform agenda. Efforts focused on taking actions that could be implemented in the difficult Lebanese political circumstances while also preparing the technical ground work for future reforms (i.e. a comprehensive budget system law). Furthermore, an Advisory Committee (Steering Board) was established for progress review and key decision under the project (comprising the Director General of Finance, Directors of all Departments, Institute of Finance (IOF) and UNDP) that allowed for effective institutional coordination and close involvement of the Government in the design and implementation of the Project. As the Committee was institutionalized in 2012 as the MoF's PFM reform committee. One of first tasks of this committee was to review and validate the Ministry's newly developed PFM strategy.

35. **Assessment of Risks.** Several key risks identified during preparation were appropriate (see PAD p.12). The envisaged risk concerning the political environment and the weaknesses in capacity materialized and slowed down project implementation. In contrast, the internal resistance from the UNDP staff was not identified as a risk. The UNDP team worked in the MoF since 1995. The UNDP team focused amongst other things on the macro-fiscal and debt management work, which were also part of the Bank's Project. The overlap in work responsibilities caused internal resistance.

36. Similarly, the risks emanating from the UNDP's parallel organizational structure within the MoF were not acknowledged and mitigated. There were two streams of staff in the MoF: i) one paid by the MoF; and, ii) another, paid for by the UNDP. The UNDP staff reported directly to the Minister of Finance, whereas, the EFMIS PIU staff reported to the General Director. The dual reporting paths created parallel structures with different power centers and agendas; which created substantial project risk.

37. The absence of voted budget through much of the project's life cycle was another important risk to the project. How could the project contribute to the preparation of realistic budgets when the budget was not official voted and legally approved by parliament? How could the project contribute to improving treasury management in absence of a legal reference to budgetary allocations? This major risk was neither identified nor acknowledged in the PAD at design stage and therefore no mitigation measures were prepared.

38. The national budget had not been formerly audit since 1993. Accordingly, no external auditor's report was submitted to parliament, raising doubts on the credibility of government expenditure and financial reporting. This adverse risk was not promptly

identified at the point of entry and remained un-mitigated.

2.2 Implementation

39. **Extension of closing date.** In order to ensure sufficient time for the completion of Project activities, which had been delayed by the political deadlock and frequent government changes, and to minimize the lag between the current project and the Bank's follow up FMRP II, the World Bank task team jointly with the Government decided to extend the closing date twice to June 30, 2014 and September 15, 2014. The extension of the closing date allowed the Project to make use of the remaining undisbursed funds, attaining a disbursement rate of approximately 95 percent. The project extension also enabled the implementation of the IT audit, the development of new accounting procedures, training on the Aid Monitoring and Reporting (AMR) System and the Oracle Business Intelligence tool as well as conducting a job profile work, drafting MoF's training strategy and policy and carrying out a training needs assessment to take place.

40. **Implementation issues.** Even though the Project became effective within 6 weeks after signing the TFGA, it started to encounter critical implementation problems during the first 2 years. This situation changed in the last 2 years of the Project's lifetime with the increased political support for PFM reforms along with the extensive, well targeted capacity building and technical assistance and an effective PIU leading to a considerable increased implementation of activities across all components. A number of reasons can be cited for the slow start:

- The ongoing political conflict and dispute, resulting in the absence of a Government for six months in 2011 and since April 2013 slowed down project implementation, affecting reforms particularly those requiring cabinet approval (notably the 2015-2017 Medium Term Expenditure Framework (MTEF), Debt Management Strategy, Public Accounting Law).
- The lengthy recruitment processes within MoF also imposed implementation constraints that were often linked with cabinet decisions (i.e. the recruitment of the staff for the Macro Fiscal Department and the Debt Management Unit).
- The weak regulatory framework (i.e. an outdated accounting law, lack of coherent control procedures) contributed to the Projects' implementation delays as a range of in-depth diagnostic had to be carried out over a year to identify shortcomings in regulations and procedures.

2.3 Monitoring and Evaluation (M&E) Design, Implementation and Utilization

41. **M&E Framework Design.** The PAD's Results Framework and Monitoring presents a number of shortcomings that affected the measurement of the project's outcome indicators. There was no baseline or target values for the PDO indicator. Furthermore, the formulation of intermediate outcome indicators was complex and needed clarity and focus. To address these shortcomings, the WB task team and PIU revised the Results Framework by simplifying and streamlining several indicators to

better link them with the Project's activities. However, the task team did not revise the PDO, its indicator, or establish a baseline and target values. Whereas the revised Results Framework was used by the PIU to monitor project implementation, the WB task team used a different set of indicators in the Bank's ISR system in the operations portal. This led to discrepancies in the monitoring of indicators between the WB's task team and Government.

42. **M&E Framework Implementation and Utilization.** Supervision was strong, carried out twice a year and complemented by regular video conferences. The strong World Bank supervision resulted in significant achievements of key activities. However, according to the ISRs only 5 out of 22 indicators were formally tracked in the World Bank system during the Project's lifetime. The weaknesses in the M&E framework were acknowledged by the Bank team in 2011 when M&E was downgraded from the initial satisfactory to a moderately satisfactory (in January 2011) and to moderately unsatisfactory (in November 2011). With the preparation of the updated results framework and a revised implementation plan at the end of 2011, M&E was rated moderately satisfactory for the remaining period of the Project. Nonetheless, no data was collected related to the PDO's outcome indicator.

2.4 Safeguard and Fiduciary Compliance

43. **Safeguard.** The project did not trigger any safeguard policies.

44. **Procurement** was rated *Satisfactory* throughout the Project's lifetime. There were no problems associated with procurement activities under the Project. "The documentation and procurement decisions are of generally good quality, reliability, and transparency with minor supervision of corrections needed by the Bank." (AM, September 2013). An updated procurement plan was prepared annually and no misprocurement occurred. The management of the consultancy contracts posed a challenge for the project due to constant amendments (more assignments by the consultants than initially planned) and the extension of the Project. However, the development of good quality ToR remained a matter of concern.

45. The **Financial Management** system in place was adequate and performed appropriately. All audits were unqualified and financial reports were regularly provided by the PIU. Reviews of financial management practices were conducted periodically. The Project's Financial Management performance was rated *Satisfactory* in all supervision reports throughout the Project's lifetime with only one exception of *Moderately Satisfactory* rating in 2009 (ISR No. 2009) owing to flaws in the match between the applied internal controls with the FM chapter of the Project Operational Manual (AM December 2009). The Project experienced several changes in the staffing of the finance officer in October 2010 and in February 2012 due to the resignation of both Financial Officers for personal reasons. Project implementation was, however, not affected by these changes given the relatively timely recruitment process to find a replacement. With the recruitment of the latest Finance Officer in May 2012, the decision was made to hire him on full-time basis compared to the previous part-time contracts, in order to address the increased workload towards the end of the project (AM December 2012).

2.5 Post-completion Operation/Next Phase

46. **Need for additional technical assistance.** The Government has very strongly confirmed the importance of the project's objectives. At the time of Project closure, it was clear that additional technical assistance was needed to sustain reforms and institutional capacity built under EFMIS, notably in the area of macro fiscal analysis, debt management and securing the IT system. In addition, the MOF with the support of EFMIS had also prepared several strategies and action plans (notably a comprehensive PFM strategy (2013-2017), the Budget execution reform action plan and the FMIS implementation strategy); the implementation of these strategies and plans will require further institutional capacity and technical assistance.

47. **Continued partnership in PFM reforms.** The Government remains committed to sustaining and continuing the Project-funded activities, as evidenced by the fact that it has hired the PIU for future public financial management activities with the second Fiscal Management Reform (FMR2) Project that was prepared jointly by the World Bank and the Government in 2013/4. This follow-up project builds on the reforms initiated by EFMIS, consolidates the outcomes achieved under the project while also supporting reform activities supported under the PFM strategy. FMR 2 was approved by the World Bank in May 2014.

48. The new loan of US\$5.2 million is composed of a macro-fiscal analysis and public debt management component as well as a public expenditure management component (including expenditure programming and budget preparation reforms, budget execution, procurement reforms, and internal control and internal audit.

3. Assessment of Outcomes

3.1 Relevance of Objectives, Design and Implementation

- **Relevance of Objectives**

49. The development objective of the Project (PDO) was to contribute to improving the control, allocation and use of public financial resources, by implementing a number of inter-linked measures in budgeting, debt and aid management designed to increase efficiency and transparency in government financial management. This objective was relevant in the context of the ISN for 2008-2009 wherein efficient management of public expenditures was an important element of the bundle of reforms. This Project was designed to support the implementation of reforms in the public expenditure and debt management system, one of the key pillars of which was fiscal adjustment to reverse Lebanon's unfavorable debt dynamics and reduce the debt-to-GDP ratio through rationalization of expenditures, improved efficiency and enhancement of revenues. The project required achieving political agreement and high-level commitment on a number of difficult issues in a very dynamic environment. A number of project reform outcomes, for example those on aligning the budget coding structure to internationally accepted GFS2001, and developing the first steps toward an effective macro-fiscal framework proved relatively effective.

50. Two Development Policy Loans (DPLs) were proposed under the ISN to support the achievement of these policy priorities articulated in the Government's program: 1) **The Reform Implementation DPL I** emphasized initiating administrative reforms of the state-owned enterprise EdL (focusing on improving its capacity and accountability), and high priority actions and investments to reduce cost and improve service; and, 2) **The Reform Implementation DPL II** emphasized social protection reforms, including reform of the National Social Security Fund (NSSF) to improve its own governance and financial sustainability.

- **Relevance of Design**

51. The Project was designed as an 'emergency' two-year operation in June 2009. The Project design was highly relevant (see also para. 31), with key GoL priorities for the implementation of a broad program of reforms which the GoL presented at the Donor's Conference (Paris III) in January 2007. The design was also relevant in the context of the ISN for 2008-2009, which made efficient management of public expenditures an important element of Bank support. Project design was also informed by the Bank's previous work, particularly the Economic and Social Impact Analysis following the 2006 hostilities, which was prepared jointly with GoL.

52. While design was extremely relevant (as demonstrated by the many achievements noted in the ICR), the ICR team finds that the PDO itself is somewhat problematic, particularly in terms of measuring longer-term outcomes. The PDO focused its sole outcome indicator on 'significant, and durable,' improvements in budget execution. Such improvements are typically only visible when reviewed over a medium-term time horizon. Although significant and durable improvements can only be measured with a longer-term optical perspective, the ICR noted that the creation and empowerment of a macro-fiscal department, public debt directorate and a cash management department within Ministry of Finance has led to improved fiscal and financial risk performance. Further, the identification and remediation of commitment control loopholes in the control environment of the budget execution (IT system) will significantly reduce extra-budgetary expenditures.

- **Relevance of Implementation**

53. The implementation of EFMIS was slow in the first 2 years of the project due to (i) a general political malaise of the caretaker government, (ii) a weak regulatory framework that limited the execution of some activities, and (iii) limited absorptive capacity within the Ministry of Finance. Political support increased during the final period of the Project's lifecycle. Targeted capacity building and technical assistance efforts by the PIU led to increased implementation of activities across all project components.

54. **The ICR team finds that the Project accomplished a number of significant achievements, including:**

- a) Creation and empowerment of macro-fiscal department, public debt directorate and a cash management departments within Ministry of Finance;
- b) Formulation of a medium term fiscal framework, debt management strategy, PFM reform strategy, and budget execution strategy, training policy and training strategy;
- c) Identification of major control loopholes in the control environment of the budget execution (IT system) and putting in place corrective measures to minimum integrity of the system;
- d) Implementation of an IT audit to provide higher management with clear roadmap towards having a secure and reliable IT environment;
- e) Documentation of missing budgetary processes in accounting;
- f) Introduction of new practices in accounting, reporting, commitment controls, cash management, IT systems, budget classification (GFS 2001), expenditure programming and budget preparation guidelines; and
- g) Preparation of a new draft budget systems law to replace the outdated 1963 public accounting law.

55. The implementation of this project was complemented by a series of Economic Sector Work (ESW) like Lebanon: Economic and Social Impact Assessment of the Syria Conflict, Lebanon Country Economic Memorandum, Lebanon - Boosting Growth and Social Welfare in a Context of Fiscal Consolidation, and Lebanon - Poverty Assessment: Poverty and Social Impact Analysis.

3.2 Achievement of Project Development Objectives

Rating: Moderately Satisfactory

56. The development objective of the Project (PDO) was to contribute to improving the control, allocation and use of public financial resources, by implementing a number of inter-linked measures in budgeting, debt and aid management designed to improve efficiency and transparency in government financial management. In the absence of any DPL, this project was the main vehicle to initiate or push for broader economic policy and PFM reforms. These reforms were broad and focused on macro-fiscal policy, public expenditure management, debt management, aid coordination and capacity building. The ICR team recognizes that the Project has yielded some solid achievements, with many of the reforms yielding concrete results, such as *inter alia*, establishment of cash management, debt management and macro-fiscal departments; and preparation of MTEF, Public Accounting Law, PFM strategy, and medium term debt strategy. These results are an indication of the Government's commitment, in addition to the appropriateness of the intended reforms.

57. As presented in Annex 2, of 22 intermediate outcomes that the project planned to achieve, 12 were achieved, 9 were partially achieved and 1 was not achieved (dropped).

The assessment in the following sections takes a comprehensive look at the various achievements of the project, and provides a broad set of external elements that impacted the PDO.

(a) Allocation of Public Financial Resources.

Status: Partially Achieved

58. **Macro-Fiscal Analysis. The Project made important contributions to improving Lebanon's macro-fiscal analysis capacity:** 1) It contributed to the deepening of MoF's macroeconomic programming and policy evaluation function by building capacity on macro-economic and fiscal modeling, improving coordination and communication with stakeholders and increasing capacity for fiscal monitoring, reporting and policy impact evaluations; and, 2) it supported institutional capacity building within the Ministry of Finance with the establishment of the Macro-Fiscal Department (MFD), which has been staffed and trained, and is fully functional with a dedicated team. Various activities were conducted to develop the macro-fiscal function (i.e. compiling of a macro-database, meetings with line Ministries (energy, education, health, water) and other public entities (Telecommunications) to integrate programs in macro-forecasting, the circulation of internal memos inside the MOF to facilitate access to data and the drafting of a MoU to be signed with CAS, CDR, BdL and MOFT to organize the data flow. A Medium Term Fiscal Framework (MTFF) using an in-house designed forecasting model was prepared and featured in the 2014 budget circular. In addition, the project strengthened the budget preparation in a technical sense with the introduction of GFSM 2001 standards for budget preparation, which was incorporated into the 2014 budget preparation circular.

59. **Some issues remain** (and will be targeted under a new project): The proposed macro and fiscal indicators were not binding on different government entities since the MTFF was not approved by the Council of the Ministers. GoL policies are not currently aligned with aggregate government revenue and expenditure projections. Indicative sector ceilings are now published on the MoF's website in reference to the (2012 and 2013) budget(s) and are being linked with varying degrees of success to the global expenditure ceiling. The revised Budget Call Circular prepared with Project assistance included macro-level expenditure ceilings, but did not include ministry-wise expenditure ceilings. The budget requests from line ministries were, therefore, not prepared in line with fiscal targets. At the same time, the MOF introduced ceilings on the largest transfers (CDR, CoS, EDL), and closed many dormant bank accounts. The GoL also introduced the obligation of MoF's visa for any new account opened by a public body.

60. Extra-budgetary spending remains a problem that still needs to be addressed with a considerable number of public administration/agencies still receiving transfers from the budget or are receiving donor contributions outside the normal budgetary channel. This will continue to be a problem in Lebanon because of the substantial funding needs as a result of the (Emergency) Syrian Crisis.

61. The Public Accounting Law (PAL) was revised and a new Draft Budget Systems Law was prepared by the Project and submitted to the Minister of Finance in March 2013; the improvements to the PAL are a significant achievement in themselves. The PAL was enacted in 1963 and regulates the preparation and execution of the budget. The law does not provide for fiscal responsibility in terms of linking budget preparation to the broader macro-economic framework. Further, the existing legal framework does not clearly impose fiscal discipline and efficient management of resources. In the areas of commitment control, the public accounting law adheres to the principle of separating payment authorization officers from accounting officers and provides for having multiple levels of expenditure control focusing on legality, including an ex-ante control of large commitments by the Court of Audit. The new law should conceivably contribute to the preparation of more realistic budgets and improved treasury management leading to improved allocation and control of public financial resources. Although the law has not yet been passed it is currently being debated within Parliament.

62. As mentioned before, the preparation of realistic budgets and strategic allocation of resources was constrained by the absence of voted budget since 2006. The allocation of public financial resources would have been impacted if comprehensive and clear budget circulars were issued to Ministries, Departments and Agencies (MDAs), reflecting their Cabinet approved expenditure ceilings prior to the circular's distribution. Budget proposals received from MDAs were reviewed and approved by the MoF. However, the budget call circular did not include disaggregated sectoral expenditure ceilings, which made consideration of inter-sectoral budgetary allocations difficult.

63. An analysis of Ministry-wise allocation of Budget during 2008-2013 in **Annex 9** further illustrates that there were modest changes in the composition of budgets from the baseline during the project period. The largest budgetary allocations are made for interest payments, subsidies to public institutions, and the ministry of defense. The proportional allocation to key ministries like the Ministry of Education and Higher Education, Ministry of Public Health, Ministry of Public Works and Transport, Ministry of Agriculture, Ministry of Industry, Ministry of Social Affairs remains almost stagnant. There is only one exception of the Ministry of Energy and Water, for which the proportional allocation of budget was significantly increased in 2010 (3.7 %) and 2011 (5.4 %) respectively in comparison to the 2008 baseline (0.6 %) and 2009 (0.6 %). This was, however, reduced in 2012 (4.3 %) and 2013 (3.0 %) respectively.

(b) Control of public financial resources

Status: Partially Achieved

64. **Treasury Management.** The project made substantial progress in building institutional capacity, particularly in the cash management, commitment control, accounting and reporting functions. It also prepared and presented long term planning documents, principally the PFM Reform Strategy, complementary Budget Execution Reform Strategy and FMIS Implementation Strategy. The implementation of some elements of these strategies was subject to the formal approval of the Minister of Finance and/or the Cabinet (whenever needed).

65. **Commitment Control.** A number of project measures were directed towards improving commitment control processes. Steps introducing unique commitment control numbers identifying commitments against corresponding appropriation, and then for the contracts related to the commitments have contributed to improving the control environment. Some 75% of line ministries are currently utilizing the system supported by the Project.

66. **Cash Management.** Cash management procedures have been improved through a strengthened Cash Management Department (CMD), clearer Local Accounting Office functions, and line ministry engagement. The procedures to operate accounts and associated IT changes flowing from the functional audit have strengthened the control environment. Further work to improved bookkeeping, accounting, and financial reporting procedures together with accounting training has strengthened the control environment. The accounting procedures are yet to be finalized and formally adopted. Further, the absence of a Treasury Single Account constrains the effectiveness of cash management function.

67. **IT Infrastructure.** Many of the IT functional and technical fixes identified by the project review and subsequently adopted have improved control of resources. Strengthening the control environment of the Ministry of Finance core information system became a key priority in the latter part of the project. These include rectifying the Commitment control system to prevent commitments exceeding approved budget allocations, preventing reprinting of payment orders and removing the ability to modify previous year's budget data - all represent significant improvements in control. Indeed, whilst appearing technical in nature, they represent enforcement of the control environment so that officials cannot operate outside the legislated control environment. In this sense, the project contributed positively to control and accountability of public resources.

68. **Debt Management.** Strong commitment from the government has led to good progress under the Debt Management component. The Public Debt Department (PDD) has been restructured to include: back, middle and front office functions. A medium term debt strategy was prepared and presented to the newly created Higher Debt Committee (HDC). The latter has convened and approved the strategy and was transferred for cabinet to take appropriate decision. An updated version of the debt management and analysis system (DMFAS 6.0) was installed at MoF with the objective of streamlining debt management among the three concerned stakeholders (BDL, CDR and MoF) transferring all debt recording functions from BdL to MoF to have a centralized debt database.

69. **There have been incremental improvements in accounting and bookkeeping,** through the adoption of accounting rules and procedures, development of guidelines, recruitment and training of staff, and the daily reconciliation of accounts (through e-OBBS). In 2008, there were scattered rules, no guidelines, mainly hourly workers, no information on treasury accounts from BdL, etc. The Project has contributed to new reform measures being implemented, and more efficient accounting and account reconciliation. However, prevailing challenges facing the budget execution remain. For

example, internal controls continue to be weak and the over-all control environment still remains fragile. The lack of clearly defined procedures with built-in internal controls seems to have a compounding impact.

70. In practice, there is an absence of clear guidelines and instructions for carrying out bookkeeping and financial accounting. There appears to be no formally prescribed format that is to be used for preparing and presenting financial statements of the state. Typically these are statement of receipts and expenditure, cash flow statements and a balance sheet statement. Decree 3373 does prescribe certain forms but that are for receipt and expenditure reporting purposes. Article 4 of Decree 10338 (1997) authorizes the Minister of Finance to publish such forms but it seems this has not yet been exercised.

71. Cashiers in Local Accounting Offices collect tax revenues and make cash payments, often remitting net balances to the treasury without separating the receipts from payments. Cash balances in the Local Accounting Offices are alarmingly large and follow quite complex 'transitory accounts' before being posted in the general ledger. Present chart of accounts (essentially the budget classification structure) is not adequately structured to capture details like entity element, economic, function, location and spending units.

72. There is no credible TSA due to the existence of separate bank accounts of public institutions in the BDL, separate bank accounts of the treasury used for specific purposes, and commercial bank accounts to channel donor funds. The budget execution function is centralized. The Ministry of Finance is primarily responsible for commitment, verification, processing, payment and accounting functions. The role of line ministries is limited to cash planning, request for commitments and initiating liquidation of commitments. Despite these issues and challenges the project activities have had some positive impact on the overall budget execution performance.

(c) Use of Public Financial Resources

Status: Could not be Determined

73. **A well-functioning MTBF could have promoted more efficient use of resources by creating more stable and predictable conditions under which ministries and agencies could plan their expenditures.** Greater certainty about future allocations could have created incentives for budget managers to identify and exploit efficiency savings. However, that could not be delivered during the project period. Another evidence of improved use of public financial resources could have been an improvement in public service delivery by different ministries. However, in absence of data on the service delivery standards at the baseline and the project period, it is difficult to reach any conclusion.

74. **Capacity Building.** While the initial focus under the project was on the development of a training action plan, subsequent modules significantly contributed to building the staff capacity. The creation of an HR working group constitutes an important

step to coordinate training activities within the MoF.

75. **Achievement of the PDO level outcome indicator.** The key PDO indicator was a significant and durable improvement in budget execution (including debt), made possible through a more realistic budget preparation as well as better treasury management and appropriate training. Preparation of realistic budget, improving treasury management and appropriate training are the means to attain the end of improved budget execution. However, there were no baseline or target values for this indicator in the PAD. The ICR Review, therefore, relied upon the budget information provided by the Ministry of Finance, according to which, the budget execution over past few years is presented in Table 2 below:

Table 2
Budget Execution between 2008 and 2013

(Amount in Billion LBP ⁽¹⁾)

Economic Classifications	2008		2009		2010		2011		2012		2013	
	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual
1. Current Expenditure ⁽²⁾ (Budget execution %)	9,848	10,638 (108%)	15,458	12,619 (82%)	16,327	14,734 (90%)	16,411	15,864 (97%)	18,114	17,754 (98%)	19,191	17,966 (94%)
2. Capital Expenditure (Budget execution %)	1,627	522 (32%)	846	548 (65%)	3,210	701 (22%)	3,362	676 (20%)	2,146	760 (35%)	2,037	987 (48%)
3. Other Treasury Expenditure ⁽³⁾	0	3,749	0	3,948	0	1,363	0	845	0	1,304	-	1,331
4. Unclassified Expenditure	0	4	0	3	0	4	0	1	0	5	-	5
5. Customs Cashiers	0	43	0	50	0	46	0	36	0	42	-	40
Total Budget (Total budget execution %)	11,475	14,956 (130%)	16,304	17,168 (105%)	19,537	16,848 (86%)	19,773	17,422 (88%)	20,260	19,865 (98%)	21,229	20,330 (96%)
Budget Execution (%) after removing extra budgetary expenditure		11,160 (97%)		13,167 (81%)		15,435 (79%)		16,540 (84%)		18,514 (91%)		18,954 (89%)
Total Carry-overs Brought forward from previous years ⁽⁴⁾	3,268	0	3,476	-	3,625	-	2,815	-	2,643	-	2,696	-
Total Budget Ceiling (Total budget execution %)	14,743	11,160 (76%)		13,167 (67%)		15,435 (67%)		16,540 (73%)		18,514 (81%)		18,954 (79%)

(Source: Ministry of Finance, Lebanon)

(1) From 2008 till 2010 no treasury advances were given.

(2) Treasury advances to EDL are included in current expenditures since 2010

(3) Other treasury expenditures include: Municipalities, Guarantee, Deposits and Other (VAT Refund and Higher Council of Relief)

The above table illustrates that at the aggregate level budget execution was 130 % of the Budget provision in 2008 declining to 96 % in 2013. On the current budget, the budget execution was 108 % in 2008, declining to 94 % in 2013. The execution of capital budget was 32 % in 2008 and subsequently increased to 48 % in 2013. The ICR found there is lack of annularity of budget as part of unspent budget is carried over to the next year. Treasury advances are issued also in parallel outside the budget provision. The expenditure in a year is not only in reference to the budget provision, but carry-overs from previous years as well.

76. The Budget execution and its rates in comparison to the Budget Ceilings are presented in Annex 10. For calculating the budget execution rates, extra budgetary expenditures have been removed. The following is a summary of budget execution after including carryovers brought forward from previous years in the budget ceiling and removing the extra budgetary expenditure from the Actuals.

Table 3: Budget Execution between 2008 and 2013

(Amount in Billion LBP)

Budget ceiling	2008		2009		2010		2011		2012		2013	
	Budget ceiling	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual
Current budget	13,073	10,638 (81%)	17,829	12,619 (71%)	19,564	14,734 (75%)	16,717	15,864 (95%)	18,114	17,754 (98%)	20,501	17,966 (88%)
Capital budget	1,670	522 (31%)	1,951	548 (28%)	3,958	701 (18%)	6,321	676 (11%)	4,789	760 (16%)	3,423	987 (29%)
Carryovers brought forward	3,268	0	3,476	-	3,625	-	2,815	-	2,643	-	2,696	-
Total Budget Ceiling and Budgetary Expenditure	14,743	11,160 (76%)	19,780	13,167 (67%)	23,162	15,435 (67%)	22,588	16,540 (73%)	22,903	18,514 (81%)	23,925	18,954 (79%)

(Source: Ministry of Finance, Lebanon)

77. The following conclusions emerge from the above table:

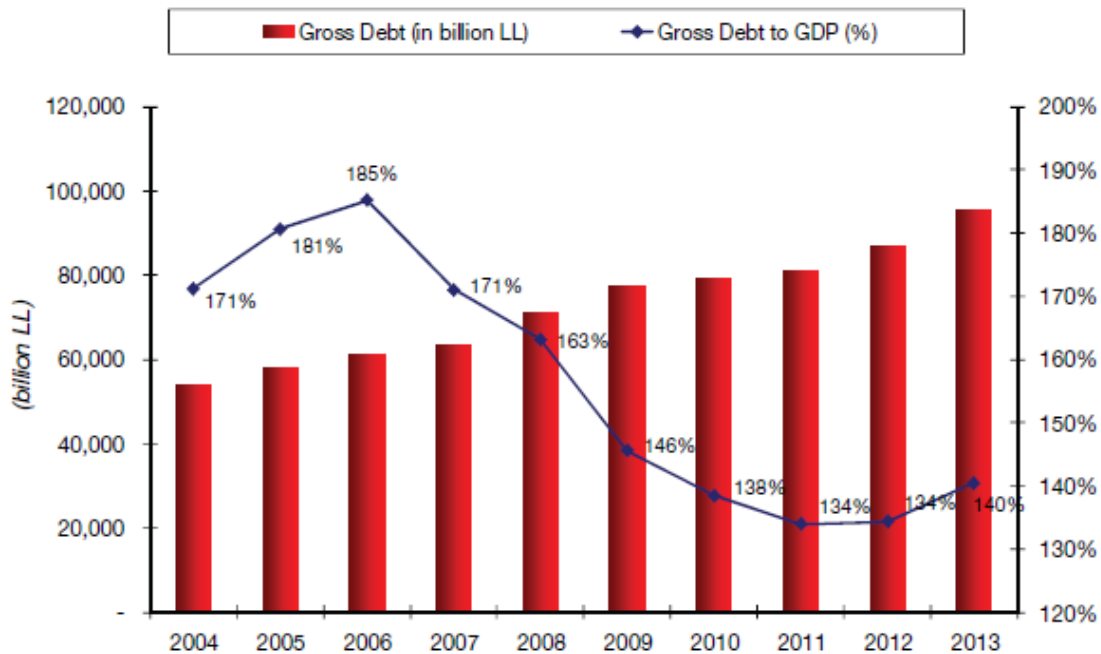
- a) **Total Expenditure:** at the baseline in 2008, the total budget execution was 76 %, which marginally increased to 79 % in 2013. The lowest budget execution was 67 % in 2009 and 2010 and the highest was 81 % in 2012. However, in all 5 fiscal years of project operation, the actual expenditure deviated by more than 15 % of the budget ceiling.
- b) **Current Expenditure:** The execution of current expenditure was 81 % in 2008, which marginally increased to 88 % in 2013. The lowest execution was 71 % in 2009 and the highest was 98 % in 2012. In 2 out of 5 fiscal years of project operation, the deviation of the execution of current expenditure was more than 25 % of the budget ceiling.
- c) **Capital Expenditure:** The execution of capital expenditure was 31 % of budget ceiling in 2008, which reduced to 29 % in 2013. The execution of capital expenditure was the lowest at 11 % of the budget ceiling in 2011 and the highest of 29 % in 2013. The deviation in the execution of capital budget from the budget ceilings was more than 70 % in all the 5 fiscal years of project duration.

78. Overall, budget execution rates have improved but continue to be lower than the budget ceiling, especially with respect to the capital budget. The lower capital budget execution rates were largely due to the ad hoc nature of the budget decision combined with the extended period required to engage in the procurement of contracted services.

79. As there was no voted budget, the impact of the project on Debt Management was evaluated on the weight, risk and cost of public debt as follows:

(i) **Weight of public debt** (ratio of gross debt to GDP) decreased from 163% in 2008 to 140% in 2013. However, it may be noted that the maximum reduction in the weight from 163 % to 146 % of GDP was achieved in the first six months of project operation itself and that the weight of gross debt increased by 6 % of the GDP from the end of 2012 to end of 2013. The Project, together with the proposed DPLs, was designed to generate primary fiscal surplus/ reduce primary fiscal deficit by improving efficiency and ensuring savings in public expenditure. A fiscal surplus or reduction in fiscal deficit would have reduced the quantum of required public debt. However, while there used to be a moderate primary fiscal surplus until 2011, but 2012 and thereafter, there has been primary fiscal deficit which reached about 11 % of the GDP in 2013. The improvement in weight was therefore not contributed by generation of primary fiscal surplus, but rather was largely attributed to the high growth rates in the GDP. And, in spite of an improvement in weight, the gross public debt still remains at a very high and unsustainable level.

Gross Public Debt



Source: Ministry of Finance, National Accounts

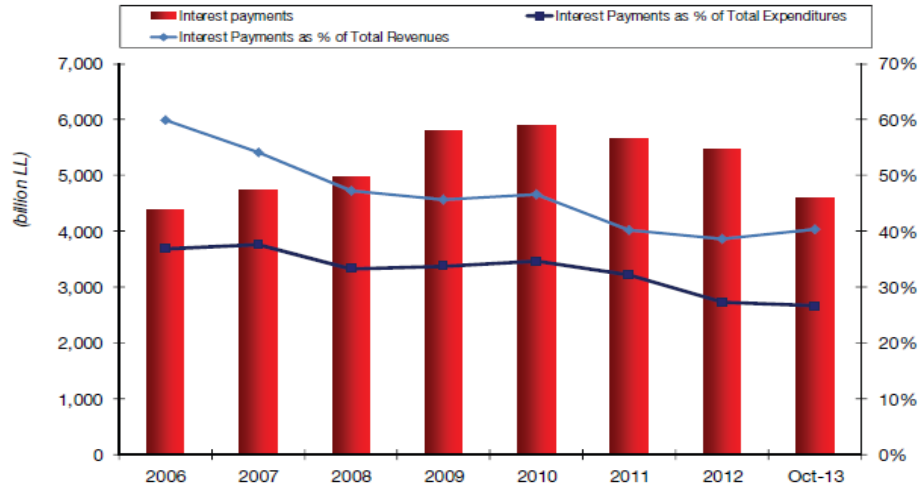
- (ii) **Risk associated with Lebanon's public debt** increased as evidenced by the sovereign ratings and outlooks by credit agencies - Fitch, Moody's and Standard & Poor (S&P) between 2008 and 2013. On the foreign currency, the ratings (outlook) reduced from B (stable) to B (negative) by Fitch; from positive to B1 (negative) by Moody's; and from B to B- (negative) by S&P. Similar ratings can be observed for the local currency as can be seen in the following table.

Table 4: Credit ratings of Lebanon

Credit Agency	Currency	Baseline or Earliest in Project Life		End of Project or Latest in Project Life	
		Date	Rating (Outlook)	Date	Rating (Outlook)
Fitch	Foreign currency	03-31-2010	B (Stable)	12-19-2013	B (Negative)
	Local Currency	03-31-2010	B (Stable)		
Moody's	Foreign currency	12-11-2008	(Positive)	05-14-2013	B1 (Negative)
	Local Currency	04-01-2009	B2	05-14-2013	B1
S & P	Foreign currency	12-22-2009	B	11-01-2013	B - (Negative)
	Local Currency	12-22-2009	B	11-01-2013	B -

(iii) **Cost of Lebanon's public debt** decreased consistently in terms of interest payments as a percent of Total Revenues (from 47 % to 40 %) and Total Expenditure (from 34 % to 28 %). It is also reflected by the much lower yield curve for Eurobonds, with the 5 year Eurobond rate dropping from 8% in 2008 to around 5.7% in the beginning of 2013.

Interest Payments



Source: MOF

80. The Bank and the project provided advice and capacity building on debt management to MoF throughout the lifetime of the project. It notably supported the strengthening of the front, middle and back office functions. Lebanon's Debt Management Framework for 2010-2015 was prepared with the Bank and Project's assistance in March 2010. The objective of this framework was to meet the debt servicing obligations, while minimizing cost and containing risks.

81. **Efficiency of Government Financial Management** was another element of the PDO that was not reflected in the PDO indicator. It was not defined in the project document. There was no baseline and targets set for this indicator. It was therefore not monitored during the project period. However, the declining cost of public debt indicates an incremental improvement in efficiency. Further, the introduction of cash management, commitment controls and improvement in IT environment contributed to an improved efficiency, but it is difficult to measure it in the absence of a baseline.

3.3 Efficiency

Rating: *Moderately Satisfactory*

82. The Project was essentially a technical assistance/capacity building operation, which, as such, did not lend itself to an economic and financial analysis. Similar to other World Bank-supported projects of this nature, the PAD did not contain a Net Present Value/Economic Rate of Return or cost effectiveness calculation. However, other proxy measure of efficiency can be used as indicators of efficiency of implementation, such as

an assessment of time overruns, cost overruns, the operating costs and the use of the least cost principle.

83. EFMIS’s US\$ 4 million grant was almost completely disbursed (95% over the project’s lifetime), reaching a disbursement of US\$3.8 million (see Table 2 below). The Project was also able to deliver most of planned outputs. However, this was achieved in twice the originally planned time. This expenditure and outputs were planned for two year project duration, but it took the project 4 years to deliver them.

84. There was *overspending* in two components - Public Expenditure Management (PEM) and the Operating costs. The cost overrun in operating costs can be partly attributed to the extension of the Project leading to payment of staff salary and meeting other incremental operating costs for 4 years instead of 2. The cost overrun in the PEM component resulted from inclusion of new activities (notably the IT audit and the development of accounting procedures). The Project also encountered an *underspending* of funds across four of the Project’s components, of which, “aid coordination and management” and the “the macro fiscal analysis” components disbursed less than 50%. The low disbursement can in part be attributed to delays in implementation. Even with twice the available time, disbursement rate of less than 50 % in these two components reflect low efficiency. Considering there was only one category of eligible expenditures under the Project (Refer Schedule 2, Section IV of the Grant Agreement), reallocation from one component to another was not required.

85. The Project’s *operating cost* amounts to 22 percent (compared to an appraisal estimate of 9 percent) over the Project’s lifetime. The high ratio reflects again the project’s extension by 2 years, resulting into increased staff salaries from US\$0.3 million at appraisal to US\$0.7 million. Actual operating and maintenance cost (O&M) increased only slightly from 1.8 percent to 2.3 percent owing to additional translation and other O&M expenditures. It is also noteworthy that the Project followed the World Bank procurement and consultants’ selection guidelines and awarded contracts on competitive basis. *Least cost principle* was thus consistently applied to procurement of all goods, works and consultant services. The financial management of the project was rated satisfactory.

Table 2: Status of Grant Category/ component (Amount in US\$)

Category/Component & Description		Amount Allocated as per Grant Agreement	Actual Allocation per Component	Total Disbursement	Disb. Rate
1	Macro-Fiscal Analysis and Policy Advice Function	305,000	136,216	136,216	44.7%
2	Public Expenditure Management	1,784,000	2,024,200	2,013,552	112.9%
3	Debt Management	535,000	466,020	434,172	81.2%
4	Aid Coordination and Management	292,000	100,725	100,725	34.5%
5	Training and Capacity Building	366,000	262,911	260,910	71.3%
6	Operating costs	354,000	924,215	821,047	231.9%
7	Contingency	364,000	85,713	0.0	0.0%
Total		4,000,000	4,000,000	3,766,623	94.1%

(Note: Operating cost is defined as provision of project implementation support (including notably PIU salary and O&M related costs).

86. At the same time, the project could fully achieve 12 intermediate outcome indicators and partially achieve 9 intermediate outcome indicators out of total 22 intermediate outcome indicators, in a fragile and conflict environment in an absence of government for long time intervals. The project did contribute to the improved institutional capacity of the Ministry of Finance and established modern systems of public financial management at a cost of less than \$ 4 million.

87. The ICR team compared the performance of the Project with other Bank-financed projects in Fragile and Conflict countries like the PFM Modernization of Nicaragua, PFM Modernization for Tajikistan, Fiscal Management and Public Sector Performance in El Salvador, and PFM capacity building for the Kyrgyz Republic – which are all active projects as to date. The ICR team also examined the Public Sector Financial Management Reform Project in Georgia, which became effective in August 2006 and closed in March 2012. The comparative project cost and disbursements of the two projects are presented below.

**Project Spending by Component
(Amount in US\$ million)**

Category/Component		Lebanon			Georgia		
		Appraisal Estimate	Disb.	Disb. Rate	Appraisal Estimate	Disb.	Disb. Rate
1	Macro-Fiscal Analysis and Policy Function	0.31	0.14	45%	2.27	3.00	132%
2	Public Expenditure Management	1.78	2.01	113%	7.83	5.22	67%
3	Debt Management	0.54	0.43	80%	-	-	-
4	Aid Coordination and Management	0.29	0.10	35%	1.92	1.79	92%
5	Training and Capacity Building	0.37	0.26	70%	-	-	-
6	Development of the HRMIS	-	-	-	2.11	0.123	6%
7	Operating Cost	0.35	0.91	260%	0.67	0.63	93%
8	Contingencies	0.36	-	-	0.21	-	-
Total Financing		4.00	3.85	96%	14.79	10.76	73%
Per year financing		1.00	0.96		2.47	1.79	

88. The Georgia Project had higher project cost, but that was revised with cancellation of HRMIS component. The per-year disbursements in Georgia were \$1.79 million as compared to \$ 0.96 million per year in case of Lebanon. The Georgia project delivered following project level outcomes:

- Costed expenditure strategies included in the 2011-2014 Budget covered about 88% of executive branch expenditures as approved by 2011 Budget Law; the 2012 State budget was prepared following program budget format. PEFA I-12 (iii) rating measuring existence of costed sector strategies is expected to be upgraded from C in 2008 to B in 2012
- Annual budget planning is in full compliance with a medium-term framework. Ministry ceilings for the FY11 budget are consistent with respective Budget estimates. Starting with the 2012 annual budget law, the annex to the budget contains multi-year (1+3) estimates per budget program. The multi-year perspective in fiscal planning, expenditure policy and budgeting, as measured by PEFA I-12 improved. The respective rating is expected to improve from C+ in 2008 to B+ in 2012.
- A comprehensive personnel database for all staff of the MOF system (5,000 records) was created and supported through the functioning software. The database is updated monthly and linked to the payroll module.
- The scope and nature of external audit improved. For 2011, the financial on-site audits covered 37% of the central government annual expenditures. PEFA I-26 measuring scope, nature and follow up of external audit is expected to be upgraded from D in 2008 to B in 2012.
- Public access to main fiscal information improved. The government now discloses to the public five out of the six types of fiscal information required by PEFA I-10. The respective rating is expected to be upgraded from B in 2008 to A in 2012.

89. Overall, the Lebanon Project contributed significantly in building institutional capacity of the MOF and introducing modern PFM, systems, strategies and business processes in a period of 4 years. It could do so in two-third of the time period that the Georgia Project took to deliver its aforesaid project outcomes. The Lebanon Project could also deliver its outcomes at about 36 % of the cost incurred by the Georgia Project. In view of the comparison with similar projects in fragile and conflict countries, the efficiency of this Project is rated **Moderately Satisfactory**.

3.4 Justification of Overall Outcome Rating

Rating: *Moderately Satisfactory*

90. The project development objective (PDO) was highly relevant in the country context and was aligned with priorities identified under the ISN for 2008-2009. **The ICR finds that the Project made a number of positive achievements in delivering outputs under the various project components as indicated in the foregoing sections, and in Annex 2.** A substantial number of outcome indicators were fully or partially achieved (out of 22 intermediate outcomes, 12 were fully achieved, 9 were partially achieved and 1 was not achieved (dropped)) – **as a consequence the ICR finds that significant contributions were made towards the achievement of the long term sustainable objectives presented in the PDO.**

91. In particular, the Project contributed to the strengthening of institutional capacity of the Ministry of Finance by establishing and empowering cash management, macro fiscal and public debt departments and the aid coordination and management team. The

project prepared a series of solid outputs, including *inter alia*, the revised Public Accounting Law, PFM strategy, Accounting policy, FMIS implementation strategy, Medium-Term Debt Strategy and MTEF to name the few. The project also significantly contributed to strengthening the IT infrastructure in the MoF and the use of modern systems such as DMFAS and MTDS.

92. Other achievements include: (a) a thorough functional and IT systems review and improvement; (b) the development of a comprehensive GFMIS, preparation of a Policy note on GFMIS by the Bank; (c) accounting procedures and capacity building (focusing on the Bank's comparative advantage in fixing the structural weaknesses in contrast to helping close dormant accounts); (d) the establishment of improved information exchange mechanisms between the MoF and BDL on the accounts; (e) the reorganization and capacity building of local accounting offices (in Beirut and provinces) and technical assistance to improve and secure the cash collection and handling, including through online systems, resulting in lower idle cash balances at MoF; (f) cash planning and management was supported at MoF and in line ministries; (g) annual ceilings were introduced for the main cash transfers (to CDR, EdL, SDF) in order to improve cash management, resource allocation and reduce idle balances and thus borrowing costs, and (h) a comprehensive review and revision of the outdated legal framework (Public Accounting Law 1963) and its implementing decrees was prepared and discussed with most stakeholders (including parliament, and the court of audit) -- long and participatory preparation induced a broad understanding of the core weaknesses in the existing legal framework for public financial management and the ways to improve budget execution and controls (both internal and external).

93. The PDO indicator of improving sustainable long term budget execution was, however, **only partially achieved**. As presented above, there was a design flaw in the promulgation of the PDO in as much as there was no established baseline, or targets, for the PDO outcome indicator. Complicating matters, there was no approved (legal) budget throughout much of the project period which could have provided a basis for reference. However, with 12 of 22 output indicators fully achieved, and 9 output indicators partially achieved, important groundwork for achieving the outcomes provided by the PDO have been established. Budget execution rates slightly improved during the project life cycle. Hence, in view of the relevance, design, and contributions toward achievement of the PDO and the efficiency of project operations, the overall outcome is rated **Moderately Satisfactory**.

3.5 Overarching Themes, Other Outcomes and Impacts

(a) Poverty Impacts, Gender Aspects, and Social Development

94. The Project's design didn't include any direct intervention for an impact on poverty, gender and social development. The project did aim for strengthening the budget preparation process by aligning the budget with national policies, among other things. To the extent that the national policies aimed at poverty reduction, gender balance and social development, the project could have contributed to a strategic allocation of resources to different sectors and their programs during the budget preparation process in such a way

that it led to an achievement of these development objectives. However, considering that the Budget Call Circular of 2014 prepared with support from the Macro-Fiscal Department set up under this project, did not have budget ceilings for different line ministries, there is no evidence of an up-front linkage between the national policies and the budget. Therefore, it is not evident that the project has had any impact on poverty and social development.

95. It is noteworthy that the institutional strengthening of the PFM project contributed to the emergence of female managers at the Ministry of Finance (MoF). The two new units set up with the project support - the macro-fiscal and cash management units - are both managed by women.

(b) Institutional Change / Strengthening

(particularly with reference to impacts on longer-term capacity and institutional development)

96. The project has made a solid contribution to the institutional change and strengthening of the Ministry of Finance by creating and empowering new departments, formulating a new PFM law environment and improving business processes to improve MoF's efficiency, including:

1. *Establishment of the macro fiscal department:* Following the Ministerial degree in March 2012, the Macro Fiscal Department (MFD) was established within the Budget Directorate and staffed with a head and five staff members. The department succeeded in preparing a MTEF for 2014-2017 using an in-house designed forecasting model, which was featured in the 2014 budget circular. There has been a deepening of the Ministry's macroeconomic programming and policy evaluation function by building capacity on macro-economic and fiscal modeling, improving coordination and communication with stakeholders and increasing capacity for fiscal monitoring, reporting and policy impact evaluations.
2. *Strengthening of IT security and functional improvements:* Identifying major control loopholes in the control environment of the budget execution (IT system) and putting in place corrective measures to minimum integrity of the system. Implementing for first-time an IT audit to provide higher management with clear roadmap towards having a secure and reliable IT environment. These measures have significantly improved the underlying platforms for expenditure management.
3. *Strengthening of Budget preparation function:* The budget preparation has been strengthened by the introduction of GFS 2001 standards for budget preparation (incorporated into the 2014 budget preparation circular). The Public Accounting Law has been revised and delivered as the Draft Budget Law, which awaits Cabinet and parliament approval.
4. *Establishment of Cash Management Department:* A new Cash Management Department has been created in the Ministry of Finance which is performing admirably.
5. *Preparation of PFM Reform Strategy, complementary Budget Execution Reform Strategy and FMIS Implementation Strategy:* The project has provided technical assistance in preparing these strategies, which once approved by the Cabinet, will

usher in major institutional change for improved efficiency and effectiveness of the public financial management function.

6. *Restructuring of Public Debt Department (PDD)*: The Public Debt Department (PDD) was restructured to include back, middle and front office functions. A medium term debt strategy was prepared and presented to the newly created Higher Debt Committee (HDC). A new version of debt management and analysis system (DMFAS 6.0) was installed at the Ministry of Finance which helped in streamlining debt management among the three concerned stakeholders (BDL, CDR and MoF) transferring all debt recording functions from BDL to MoF to have a centralized debt database.
7. *Creation of a dedicated Aid Management and Coordination Team*: A dedicated Aid Management and Coordination Team was created in the Ministry of Finance and staffed with newly recruited staff to coordinate contacts between ministries and donors. The team has re-designed the aid monitoring and reporting (AMR) system that acts as an interface between CDR and the MoF.
8. *Creation of a HR working group in the Ministry of Finance*: A HR working group was created which helped to institutionalize a capacity building function in the Ministry of Finance.

(d) Other Unintended Outcomes and Impacts (positive or negative)

97. The ICR team could not identify any unintended outcomes and impacts of the project.

3.6 Summary of Findings of Beneficiary Survey and/or Stakeholder Workshops

98. The ICR team met with implementing agencies, stakeholders and donors in separate meeting during its mission in Beirut, Lebanon, during November 11-16, 2013. However, there was no Beneficiary Survey and/or a Stakeholder Workshop conducted, but opinion of beneficiaries and stakeholders was taken in individual interviews conducted. Most of them have a very good opinion about this project and they value the technical assistance provided by this project in strengthening the institutional capacity and improving the business processes of Ministry of Finance.

4. Assessment of Risk to Development Outcome

Rating: *High*

99. The development objective of the Project (PDO) was to contribute to improving the control, allocation and use of public financial resources. This cannot be effectively done without the budget being approved by the Parliament and becoming a law. In the absence of a binding framework, it will remain difficult to enforce fiscal discipline and improve the control, allocation and use of public financial resources.

100. A new draft budget systems law has been prepared to replace the outdated 1963 public accounting law to improve the business process of public financial management, but that cannot be enacted and implemented, unless the parliament starts functioning.

101. Hence, while the project's contribution to the building of institutional capacity of Ministry of Finance is highly commendable, the outcomes are not fully effective yet due to continued political instability. Once political stability has resumed, the structure is ready for ushering in reforms and delivering outcome. Until that happens, the risk to Development Outcomes is High.

5. Assessment of Bank and Borrower Performance

5.1 Bank Performance

(a) Bank Performance in Ensuring Quality at Entry

Rating: *Moderately Unsatisfactory*

102. The project's conceptual approach was well aligned with the strategic priorities of the Government and the World Bank as defined in the Paris III program, the ISN and CPS. The project's implementation arrangements were designed to be flexible and well integrated in the administration. To this end, the project pioneered a new approach that allowed responding to MoF's priority concerns and training needs while ensuring buy-in by the MoF staff across all involved departments and engagement in EFMIS activities. Efforts were made to prepare the Project timely under the Bank's policies for emergency response to capitalize on Government's reform momentum and window of opportunity with the Parliament convening and general elections scheduled for 2009. However, there was a substantial delay in project approval.

103. Several shortcomings in the project's design adversely affected implementation and monitoring: (a) The PDO was overly ambitious for a two-year emergency duration; (b) the Project's design would have benefited by a more thorough governance assessment, examining the impact of external constraints (i.e. the absence of a voted budget) and political economy issues (i.e. resignations of the Cabinet with long care taking periods) on the project and the selection of components and activities; (c) several key PFM issues were identified in the second half of project implementation (related to accounting and IT security) instead of during preparation; (d) the M&E framework was weak with intermediate outcome indicators often not well defined, targets and benchmarks were absent, and, the final outcome and intermediate outcome indicators not always well linked with project activities. And, (e) improving allocation, execution and control of public financial resources was difficult to fully assess in the in absence of a voted budget.

104. While the project was well aligned with Government's objectives, needs and reform agenda, taken altogether, the preparation and design deficiencies require that quality at entry be only set at **Moderately Unsatisfactory**.

(b) Quality of Supervision

Rating: *Moderately Satisfactory*

105. Project supervision was strong and effective, in particular during the last two years of implementation. The Project was largely managed from the Bank's Beirut office

and complemented by two supervision missions in 2010 and 2012 and once in 2011 and 2013. The supervision included regular video conferences. In addition, the Country Economist and his team based in the Country Office in Beirut provided necessary guidance to the Macro-Fiscal Department and the Public Debt Department in preparing the MTEF, preparing the mid-term Debt Strategy, and the installation and the management of DMFAS. The supervision of financial and procurement aspects of the project was carried out in a timely, diligent and thorough manner and were supported by local staff that maintained a day-to-day dialogue. Most stakeholders noted the high quality support and responsiveness provided by the Bank Task Team with an adequate mix of skills.

106. Given the initial political deadlock and weak administrative capacity within the MoF, slowing down project implementation in the first two years, the Bank's supervision efforts were instrumental to keeping several of the Project's activities on track until the change in Government in 2011. Under the active supervision of the Bank team, solid outputs like the revised Public Accounting Law, the Medium Term Public Debt Strategy, and the PFM Reform Strategy were prepared. For reasons beyond the control of the Project these documents were not approved (absence of cabinet and parliament). While a number of the reforms are not fully effective yet, the underlying institutional structures have been established. Once the political stability has resumed, these structures are likely to ensure development impact.

107. An important shortcoming in the quality of supervision was the inconsistent tracking of key performance indicators. The PDO indicator didn't have a baseline and target values at the start of the project and it was not monitored throughout the project. The WB task team and PIU revised the Results Framework in July 2011, but that was used only by the PIU, while the WB's ISR system continued to use a different set of intermediate outcome indicators. There was an opportunity to correct this in 2011 when the project was being extended by about 21 months and additional activities were included related to accounting and IT security. At this time, a Mid-Term Review could have been conducted to take stock of what was achieved up to that date, as well as the Project's course adjustment to include additional activities.

108. A formal restructuring of the project was required for the extension of project closing date, inclusion of new activities, and the revisions in the Results Framework. This was because this Project was coded SF (Special Financing) and follows Investment Project Financing Policy, OP/BP 10.00 and para 22 of OP 10 on restructuring applies. Prior to this, the Restructuring guidelines issued in OP Memo of November 2009 applied to this project, which stated that "Project changes that are considered "significant" or "minor" (as presently defined under BP 13.05), are henceforth to be referred to as "restructurings"". Para 18b of BP 13.05 refers to such changes as "*second-order restructurings* that do not involve any changes to project development objectives or associated outcome targets". Accordingly, a level 2 restructuring was required for the extension of closing date, inclusion of new activities and revisions in the Results Framework. However, this was not done.

(e) Justification of Rating for Overall Bank Performance

Rating: *Moderately Satisfactory*

109. Overall, Bank Performance is rated *Moderately Satisfactory*, despite the above-mentioned design and M&E shortcomings, given that, for the most part, the Project's succeeded in implementing most of its activities despite the very challenging political context during the Project's lifetime.

5.2 Borrower Performance

(a) Government Performance

Rating: *Moderately Satisfactory*

110. The GoL demonstrated strong commitment and ownership throughout project preparation and design. The project particularly benefitted from the early recruitment of the PIU in its preparation. The working groups set up during project implementation were essential in advancing Project's activities and supporting reform appropriation. Government's active interest was also demonstrated by its timely counterpart funding (rated satisfactory throughout the Project life, even during the political transition) and its commitment to continue funding EMFIS II. Changes in the Government and the absence of a voted budget contributed to implementation delays and difficulties in assessing Project achievements.

(b) Implementing Agency or Agencies Performance

Rating: *Satisfactory*

111. The PIU played a pivotal role in successfully coordinating Project activities across all of the components. The Unit satisfactorily met its disbursement, procurement and fiduciary obligations. Its operational expenses exceeded original forecasts mainly because of the extension of the Project duration. Despite some staff changes, the PIU remained well effective throughout the lifetime of the Project and was reinforced by hiring the third Financial Officer in May 2012 on a full-time basis to address the increased workload towards the end of the project. The performance of the PIU was commendable in particular in the second part of the Project's implementation. The team demonstrated great commitment towards the achievements of the Project's expected results by reprioritizing its activities, reallocating its available budget resources to support new activities relevant for the project's achievements and accelerating the implementation of components (i.e. aid management) and activities. Monitoring of the Project's activities was adequately carried out during implementation.

(c) Justification of Rating for Overall Borrower Performance

Rating: *Moderately Satisfactory*

112. In light of the above-mentioned delays in the implementation of Project activities and difficulties in assessing outcomes, and the strong performance of the PMU, the overall Borrower performance is rated as *Moderately Satisfactory*.

6. Lessons Learned

113. Supporting PFM reforms in a political fragile country like Lebanon raises a number of questions about the type of instruments, the appropriate design and the duration of engagement. In an effort to build on the reform momentum achieved since 2007, requiring TA and implementation support for PFM reforms, the Government and the Bank decided to prepare EFMIS under emergency procedures (OP/BP 8.0 Rapid response to crises and emergencies) as stipulated under the TFL. The choice of this instrument allowed to mobilize resources and to respond to Government's request for a timely launching of the project prior to the general elections scheduled in 2009. Some key lessons learned can be drawn from EFMIS's experience regarding the use of such an instrument to support PFM reforms, the design, and implementation in a fragile economic and political environment:

- Employing a TA project in support of PFM interventions in an emergency situation in Lebanon, the design of the project has to match with the purpose and short-term duration of the emergency instrument. EFMIS experience showed the challenge for the team to respond to the request to support complex and various key public finance reforms while ensuring rapid disbursement and results over a two-year period. As such, the Project would have benefited from a more realistic and simpler design focusing on a measurable and time relevant PDO.
- The needed support and choice of instrument has to be carefully discussed, taking into account the trade-offs between an emergency operation (accelerated preparation procedures) versus a standard project (longer preparation time, resources and use of preparation procedures). A PFM Project that requires a functioning executive and legislative branch from the outset is more likely to succeed if prepared under adequate scrutiny and analysis. The short preparation time of EFMIS affected its design and implementation adversely as the political economy and sector context were not adequately taken into account and mitigated. Several key PFM issues were identified and supported only after the respective diagnostic and reviews were conducted in the second phase of implementation.
- The results framework should be prepared with greater caution focusing on realistic outcomes and indicators. There is a need for a clear baseline and credible targets. There is also a need for a consistent results framework used by both Bank and Borrower. In absence of objectively verifiable indicators and clear baseline and targets, it becomes extremely difficult to measure progress, identify and remove bottlenecks, and take mid-course corrective measures.
- Realism about the binding constraints and political economy issues should be the guiding principle around the Project's components and choice of activities. While several reforms were initiated by the Project, the implementation of some reforms like the support to the budget preparation process, approval of the modern budget law and improving budget execution proved to be challenging due to a lack of an approved budget since 2005. There was a lack of decision-making due to the

resignation of several Cabinets over the Project's life time. The project design in fragile and conflict countries should therefore be less ambitious, and less dependent on stable legislative bodies and actions.

- In a political fragile situation, good project implementation needs timely and formal course adjustment if the political environment is less conducive than initially assumed. While the EFMIS initial project design might have been guided by assumptions of a stable government and a functioning budget preparation process, a timely and formal restructuring of the Project when faced with political gridlock during implementation, can enhance the Project's outcomes and achievements.
- One way to adjust project outputs in a fragile environment is to focus on technical and capacity building issues and to give time to reforms with political ramifications. Targeted technical and institutional support to strengthen core PFM functions and institutional set ups during this period can be instrumental in supporting the administration's readiness to implement reforms in times of a favorable political environment.
- As shown by this Project, a technically focused PFM project can also generate additional positive benefits such as an improved access to data, a successful and timely implementation of activities (EFMIS was one of the few projects in Lebanon that was completed) and a broader dialogue between the Bank and the government on other related issues (increase of wages, poverty and social impact assessment in selected sectors).
- A change management strategy based the principles of empowerment, integration and collaboration between Ministry staff and national and international experts proved to be a successful model as it created strong ownership. A full integration of the Project in the administration through the set-up of a small PIU within the MOF and the integration of international and local consultants in thematic working groups established by the MoF was innovative, allowed for the Project to adapt to new emerging PFM priorities and as such provided effective support and knowledge transfer.

7. Comments on Issues Raised by Borrower/Implementing Agencies/Partners

(a) Borrower/implementing agencies

114. The Borrower's comments are attached in **Annex 7**.

(b) Cofinanciers

115. There were no Cofinanciers in the project.

(c) Other partners and stakeholders

116. The comments from partners and stakeholders are included in **Annex 8**.

Annex 1. Project Costs and Financing

(a) Project Cost by Component (in USD Million equivalent)

Components	Appraisal Estimate (USD millions)	Actual/Latest Estimate (USD millions)	Percentage of Appraisal
Macro-Fiscal Analysis and Policy Advice Function	0.31	0.14	45%
Public Expenditure Management	1.78	2.01	113%
Debt Management	0.54	0.43	80%
Aid Coordination and Management	0.29	0.10	35%
Training and Capacity Building	0.37	0.26	70%
Operating cost	0.35	0.91	260%
Total Baseline Cost	3.64	3.85	106%
Contingencies	0.36	0.00	0%
Total Financing Required	4.00	3.85	96%

(b) Financing

Source of Funds	Type of Cofinancing	Appraisal Estimate (USD millions)	Actual/Latest Estimate (USD millions)	Percentage of Appraisal
Borrower		0.00	0.00	-
Special Financing		4.00	3.85	95

Annex 2. Outputs by Component

Table 1 below depicts the results achieved by the Project as measured by the Output Indicators stated in the PAD [Annex 2].

Table 1: Status of Intermediate Outcome Indicators by Output, Component and Subcomponent

Component 1 – Macro-Fiscal Analysis Function	
Indicator 1: Macro-Fiscal analysis function further developed and fully operational.	<i>Status:</i> Fully Achieved The Macro-Fiscal Department has been created, staffed and trained. It is fully functional with a dedicated team. Various activities were conducted to develop the macro-fiscal function (i.e. compiling of a macro-database, meetings with line Ministries (energy, education, health, water) and other public entities (Telecommunications) to integrate programs in macro-forecasting.
Indicator 2: Medium-term macro-economic framework and the medium-term fiscal framework are prepared in coordination with relevant bodies and reflecting GoL policies.	<i>Status:</i> Partially achieved A Medium Term Fiscal Framework (MTFF) using an in-house designed forecasting model was prepared and featured in the 2014 budget circular. However, the MTEF is not yet used as a tool to guide the budget preparation process (GoL policies are not yet better aligned with both revenue and expenditure). Indicative sector ceilings were published on the MoF's website in reference to the 2012 budget only. These ceilings were linked to the global expenditure ceiling, but were not enforced at that time.
Indicator 3: Fiscal target closely monitored against quarterly projections and corrective measures are identified as necessary.	<i>Status:</i> Partially achieved Fiscal targets are monitored semi-regularly since 2013 by the MoF's Macro-Fiscal Department (MFD). However, MFD staff does not identify corrective measures based on the monitoring of fiscal targets on quarterly projections.
Indicator 4: Selective policy impact evaluation exercise is undertaken on cross cutting issues with high budgetary impact.	<i>Status:</i> Fully Achieved Preparation of two policy notes with high fiscal impact (Budget Support background note and assessment of macro-fiscal situation of the Syrian crisis).
Component 2 – Public Expenditure Management	
Subcomponent 1 – Expenditure Planning & Budget preparation	
Indicator 5: Formulation of guidelines for the preparation of fully-costed expenditure programs and their implementation as much as possible to inform the budget preparation process.	<i>Status:</i> Partially achieved MoF published budget guidelines as part of the annual budget process and through the budget call circular. Budget costings are part of the budget circular documentation. World Bank recommended adjustments to the Budget Call circular. The preparation and dissemination of these recommended adjustments to Lebanon's Budget Call circular and guidelines was postponed to 2014. The Macro-Fiscal Department (MFD) seeks to submit the 2014-2017 MTEF (including sector

	expenditure ceilings) to the cabinet for discussion and validation in the first trimester of 2014.
Indicator 6: Formulation of a result-monitoring and evaluation framework for the selected expenditure programs.	<i>Status:</i> Not achieved. Activity was dropped during project implementation due to other priorities.
Indicator 7: Inclusion in the budget documentation of financial operations of extra-budgetary funds, in accordance with international good practice	<i>Status :</i> Partially achieved Foreign funded projects executed through the Council for Development and Reconstruction (CDR) are included in the general budget. While the expenditure of CDR and several donor funded projects have been brought within the budget framework, extra-budgetary spending remains a problem that needs to be addressed with the considerable number of public administration/agencies that are either receiving transfer from the budget or are receiving donor contribution outside the budget channel. Providing treasury advances to public institutions (and recently to public administration) is a practice that is violating the principle of comprehensiveness and fiscal discipline.
Indicator 8: Define guidelines for public investment programming, of a periodicity equal to that of the aggregate MTEF.	<i>Status :</i> Partially achieved A consultant report on public investment was submitted in 2010 analyzing the size and composition of public investment, with recommendations on priorities and a suggestion to prepare a public investment program for 2010-2015. However, PIP has not been significantly revised since 2006/07. Regarding the periodicity, since the MTEF did not include disaggregated sector budget ceilings, and was not approved by the cabinet, it would not have been possible for the PIP to have dovetailed seamlessly into the MTEF.
Indicator 9: Review of accumulated stock of loi programme for water and roads	<i>Status :</i> Fully Achieved The review was conducted in 2010.
Indicator 10: Coordinate with the efforts done by the other TA providers to review existing budget classification, to bring it into line with GFS 2001 standards, linked with the expected revisions in the chart of accounts	<i>Status :</i> Fully achieved The new budget classification based on GFS 2001 was successfully implemented, and budget proposal 2014 was prepared based on this classification. The Budget preparation was prepared accordingly. Training sessions on applying new budget classification were held during May and June 2013 and targeted MoF officials in addition to budgeting staff in line Ministries.
Subcomponent 2 – Budget Execution and Audit Control	
Indicator 11: Development of a budget execution reform strategy and implementation plan	<i>Status :</i> Fully achieved The Budget Execution strategy and implementation plan were developed and adopted by the MOF's PFM committee. It has been further complemented by (i) a broader PFM reform strategy to ensure a proper sequencing and coordination with the other PFM reforms and donors (METAC, EU), and (ii) a detailed IFMIS implementation plan, informed by the Bank's global

	IFMIS evaluation and guidance note.
<p>Indicator 12: Development and implementation of an action plan for strengthening treasury management functions, including for linking business process information systems for debt management and the cash forecasting capacity.</p>	<p><i>Status:</i> Partially achieved.</p> <p>Action plan was prepared. Financial information were enhanced through the introduction of daily cash flash reports, a unique commitment number and payment profiles/ forecast for each commitment. Reporting requirements were upgraded accordingly. GoL account monitoring has improved through the issuance of a circular preventing opening of public administration accounts without MoF's authorization. MoF has access to the BdL's treasury accounts monitoring system, although in paper form. Implementation of the action plan by MoF thematic working groups and the IT department is ongoing.</p>
<p>Indicator 13: Integrated review of internal and external audit, and recommendations on modalities for introduction of internal audit in MoF and for establishment of a modern auditor general office.</p>	<p><i>Status:</i> Partially achieved</p> <p>A Review was conducted and a report submitted to the MoF recommending a roadmap for the Internal Control function including that the internal audit function be established within the Ministry of Finance. However, there was no progress on the integrated review of internal and external audit. The integrated review of internal and external audit was subsequently dropped.</p>
Component 3 – Debt Management	
<p>Indicator 14: <u>Medium Term Debt Management Strategy</u> (i) a debt management Strategy is published and (ii) an updated and refined strategy is published.</p>	<p><i>Status:</i> Partially achieved</p> <p>Lebanon's Debt Management Framework for 2010-2015 was prepared in March 2010:- this is considered as Government of Lebanon's Medium Term Debt Strategy (MTDS). The objective of this framework was to finance the government and meet servicing obligations, while minimizing cost, subject to containing risks. The MTDS was prepared and approved by the High Debt committee (HDC), but could not be approved by the cabinet and therefore could not be published. Nevertheless, the MTDS is being practiced (implemented) in subsequent Government of Lebanon borrowings. The final target was achieved. Although it has not been broadly published, or disseminated, it is being utilized.</p>
<p>Indicator 15: <u>Cost-Risk analysis</u> (i) a comprehensive scenario analysis model and (ii) relevant cost-risk tools are identified and developed.</p>	<p><i>Status:</i> Fully Achieved</p> <p>The Public Debt Department (PDD) has been doing cost and risk tradeoffs analysis under five scenarios reflecting different currencies and maturities borrowing mix, using Medium Term Debt Strategies (MTDS) Analytical Tool (AT) developed by the Bank and the Fund.</p>
<p>Indicator 16: <u>Strategy implementation</u> (i) identification of existing financial instruments, loans as well as derivatives that are currently available and (ii) identification of new financial instruments, loans as well as derivatives</p>	<p><i>Status:</i> Fully Achieved</p> <p>All existing instruments were mapped as part of the MTDS exercise. Furthermore, the Public Debt Department (PDD) has been preparing debt issuance schedules, working with consultant on buy-back (e.g., potential REPO - like agreements). The PDD is also evaluating the use of swap agreements including the signing of a master derivatives agreement. There are now daily contacts</p>

	regarding issuance and market conditions. Interest rates on external borrowing have declined, domestic debt maturities have been extended, (and, the secondary market has shown encouraging developments). All of these factors have led to a reduction in risk to the government's budget. The conclusion is that there have been significant achievements in the identification and implementation of new financial instruments.
<p>Indicator 17: <u>Coordination with BdL</u></p> <p>(i) a high level committee with participation from MoF and BdL and</p> <p>(ii) a Memorandum of Understanding between MoF and BdL, formalizing the relationship in debt management area</p>	<p>Status: Fully Achieved</p> <p>A High Level Committee has been formed including representatives of Ministry of Finance and Central Bank. However, both have disagreements on several issues like debt servicing, cost of debt, currency stability and interest rates. (ii) Draft MoUs have been developed with Banque du Liban, Central Administration of Statistics, and concerned line ministries, but these could not be signed. Nevertheless, an MOU does not appear necessary as the High Level Debt Committee has been established by law.</p>
<p>Indicator 18: <u>Data and debt recording</u></p> <p>(i) A thorough review of processes and procedures related to the recording of domestic and external debt, and a project plan for possible improvements.</p> <p>(ii) Software that facilitates easy access to comprehensive debt data in a format needed for cost-risk analysis</p>	<p>Status: Fully Achieved</p> <p>Sub-indicators (i) and (ii) were dropped in November 2011 following a Bank's supervision mission. The only indicator that remained was: 'Data and debt recording system is strengthened at MoF (back office function)'. Against this indicator, the project has undertaken to improve and streamline the process used to populate the Debt Management and Financial Analysis System (DMFAS) database, which is the main database used to assist debt management offices in the recording, monitoring, analysis and reporting of external debt and other financial flows. The DMFAS system provides the Ministry of Finance, the Council for Development and Reconstruction (CDR) and Banque du Liban (BdL) with status reports on the external debt and frequently revised projections of existing debt.</p>
<p>Indicator 19: <u>Reporting and investor relations</u></p> <p>(i) Improved reports on outstanding debt and risks with higher frequency</p> <p>(ii) An annual report for debt management, 2008, is published</p> <p>(iii) A web-site dedicated to public debt is established.</p>	<p>Status: Fully achieved</p> <p>This indicator was dropped in November 2011 following a Bank's supervision mission. However, the component made good progress on the originally aimed goals as follows:</p> <p>(i) Improved reports on outstanding debts and risks are being published on a quarterly basis.</p> <p>(ii) The annual reports have been published; And, A website dedicated to public debt is established within the Ministry of Finance's website. (http://www.finance.gov.lb/en-US/finance/PublicDebt/Pages/default.aspx)</p>
<p>Indicator 20: <u>Legal Issues and Negotiations</u></p> <p>Legal staff contributes to development of regulations underlying the debt management functions, take active part in the negotiations of contract and in monitoring and evaluation of debt transactions, undertake legal research and provide advice.</p>	<p>Status: Partially achieved</p> <p>This indicator was dropped in November 2011 following a Bank supervision mission. Legal staff was not appointed. However, the new PDD team reviews loan agreements prepared by third parties (such as the CDR), has prepared legal ceilings for debt issuance in foreign currency, and a</p>

	comprehensive database has been established on the loan agreements.
Component 4 – Aid Management	
Indicator 21: Aid Coordination and Management function/team appropriately developed and fully operational.	Status: Fully Achieved A working group on Aid Management (composed of 12 staff members of public debt directorate, treasury directorate, budget directorate and IT department) has been established. A front, middle and back office operation have gradually been institutionalized. An aide monitoring and reporting (AMR) has been established and is updated with the legal and financial data. All donor funded accounts now require an approval (visa) from MoF further improving the monitoring and evaluation of donor funds.
Component 5 – Training and Capacity Building	
Indicator 22: (i) Time-bound training program defined. (ii) Curriculum prepared and courses initiated	Status: Fully achieved A training program was developed and several curriculums were prepared and courses initiated.

Annex 3. Economic and Financial Analysis

As an institution building and technical assistance project operation, quantitative computations of rates of return are difficult to quantify, and no formal economic and financial analysis was performed at the time.

Annex 4. Bank Lending and Implementation Support/Supervision Processes

(a) Task Team members

Names	Title	Unit	Responsibility/ Specialty
Lending			
Sebnem Akkaya	Lead Economist	MNSED	Task Team Leader
Cem Dener	Sr Public Sector Spec.	PRMPS	
Lina Fares	Senior Procurement Specialist	MNAPC	
Lars Jessen	Lead Financial Officer	FABDM	
Supervision/ICR			
Fabian Seiderer	Sr. Public Sector Mgmt Spec.	MNSPR	Task Team Leader
Cem Dener	Sr Public Sector Spec.	PRMPS	
Mona El-Chami	Sr Financial Management Specialist	MNAFM	
Lina Fares	Senior Procurement Specialist	MNAPC	
Lars Jessen	Lead Financial Officer	FABDM	
Wael Mansour	Young Professional	YPP	
Salvatore Schiavo-Campo	Consultant	IEGPS	

(b) Staff Time and Cost

Stage of Project Cycle	Staff Time and Cost (Bank Budget Only)	
	No. of staff weeks	USD Thousands (including travel and consultant costs)
Lending		
FY08	15.94	122.11
FY09	13.78	67.13
Total:	29.72	189.24
Supervision/ICR		
FY10	9.57	77.58
FY11	18.84	125.27
FY12	27.84	125.68
FY13	13.73	73.78
FY14	6.89	69.38
Total:	76.87	471.69

Annex 5. Beneficiary Survey Results

No Beneficiary survey was conducted.

Annex 6. Stakeholder Workshop Report and Results

The ICR team met with implementing agencies, stakeholders and donors in separate meeting during its mission in Beirut, Lebanon, during November 11-16, 2013. However, there was no Beneficiary Survey and/or a Stakeholder Workshop conducted, but opinion of beneficiaries and stakeholders was taken in individual interviews conducted. Most of them have a very good opinion about this project and they value to the technical assistance provided by this project in strengthening the institutional capacity and improving the business processes of Ministry of Finance.

Annex 7. Summary of Borrower's ICR and/or Comments on Draft ICR

The Minister of Finance in his letter of December 14, 2013 to the Country Director expressed his appreciation to the hard work put by the World Bank team in reaching reform goals. He expressed that the feedback he received about the project was extremely positive from everyone. He thanked for the commitment of the each member of the project team, management unit and technical experts for the both the contents and standard of deliverables which he thought were wonderful.

The project implementation team on its part has beginning to feel the impact of activities initiated or completed under EFMS. They feel it is about a change in culture which was prevalent for the past 20 years and more. The team feels that it is always easy to tell the government what they should do and how the budget would look like, how the accounts should be produced, etc., but it is really next to impossible to tell in advance how to go about all these issues. That was the case for EFMS. When the project was designed, it was heavily relying on the government intentions which were good and sincere, however, knowing well if these reforms can be done or not, it needed working on the ground closely with the administration to get exactly the feel on when and how these reforms can be implemented. They feel it was beyond any inception mission to get this feeling unless they stayed for at least a year working with the Ministry of Finance.

Reform in their opinion and changing the way people are working is not about pressing a button; it is about **gaining trust** of the people and making them feel that these reforms are firstly and mostly for their sake. Gaining trust can never be put in a work plan or as an indicator, however it is essential and without it, it is really hard to impose any change.

This is the first reform project in the Ministry of Finance that was largely accepted by the administration and that introduced big changes in smooth way and within very hard political and security conditions. Maybe if measured by the ruler, one can say that the project didn't meet the development objective. However, the project prepared a solid ground for meeting this objective and more, be it at the institutional building level, capacity building of staff, modernizing processes, legal regulatory and organizational, changing culture and others. All this took place despite the absence of budget and decision making process.

One little story to share...when the debt team was working on preparing the MTDS, the PIU planned a meeting for the High Debt Committee in January and it was for April 4, 2013. The team was given less than three months to do the preparation and it was kind of too ambitious. However, with great self-motivation, the team managed to finalize everything before the HDC meeting date and was reporting to office even during off days and sometimes till midnight with no overtime payment. Creating such a mentality in the administration is a great achievement in itself. Maybe it didn't contribute to PDO, but it made a difference. EFMS meant a lot to project implementation team at a personal level and it wasn't just a project, it was a deep life experience.

Following is the summary their specific comments to the ICR:

1. **Project Duration:** The project was designed as a two year emergency operation, instead of a medium term perspective, because it was funded through the trust fund for Lebanon that was supposed to expire by June 2011.
2. **Finalization of Accounts:** Many factors contributed to delay in budget voting and not only finalization of accounts. The period 2006-2013 was a period of continuous turmoil, frequent change of government and extended periods of care-taking governments. Linking finalization of accounts to budget approval was established for the first time during 2011, whereby the parliamentary committee asked MoF to present a clear plan on finalization the accounts. Additionally, finalizing the accounts for 1993-2010 is also of medium-term nature. In fact the task was started by the Ministry of Finance towards the end of 2011 and is still on-going- i.e., for more than 2 years and it will take longer time than expected. Also, around 50 accountants are dedicated by the Ministry to finalize this activity. Also the complexities behind the finalization of accounts might go beyond EFMIS support as some of them are related to missing support documents. Other alternatives have been proposed and were supported by EFMIS experts, like to have an exceptional parliament decision to vote a budget in the absence of these accounts, while giving the government a delay to finalize the accounts. However MoF was not receptive to this solution, as it won't have the buy in. Regarding the status of Accounts, as of January 2014, 5 accounts out of 9 were finalized by the dedicated working groups which are: central Bank accounts, Grants, Budget advances, treasury advances and transitory accounts. Four major accounts are being currently finalized which are: deposits, guarantees, loans and cash.
3. **List of Achievements of Project:** Following should be added to the list of achievements of the project: (1) Identifying major control loopholes in the control environment of the budget execution (IT system) and putting in place corrective measures to a minimum level of integrity of the system; (2) Implementing a first-time IT audit to provide upper management with clear roadmap towards having a secure and reliable IT environment.
4. **Approval of MTEF:** The new Budget System Legal framework developed by EFMIS requires approving MTEF prior to the start of budget preparation process. It has become a mandatory step, which was not used to be under the current law.
5. **Constraints on the preparation of realistic budget:** The relevance of macro-fiscal analysis and policy advice function to support preparation of realistic budgets was constrained (apart from other things) by the alternative ways of government spending, including treasury and budgetary advances, one-twelfth rule in addition to cabinet decisions, and political deadlocks resulting in the absence of a government.
6. **Linkage of Budget with Government Policy:** The Economic policy presented to the parliament (i.e., the Ministerial statement based on which the government gets the parliamentary vote) is a bit problematic as it has more of general headlines- most of the

time not based on developed strategic visions, but mostly “political slogans”. However, the macro-fiscal department started working with selected ministries with well-developed strategies and action plans to incorporate their vision into the MTEF. The project believes that overtime, the work of the macro fiscal department should feed further into (not only be fed by) the government policy. However, this will need further resources and efforts not only at MoF levels but also at line ministries level through creating appropriate planning functions.

7. **Impact of macro fiscal analysis on allocation of resources:** Reform is not visible and effective yet, however, the structure is currently there and once political stability is resumed, the structure is ready for a linkage between the macro-fiscal framework and sector expenditure envelopes.

8. **Inclusion of Extra budgetary Funds:** This was partially achieved as foreign funded projects executed through CDR (which is the largest extra budgetary fund) are now included in general budget as one figure and details on projects funded are being provided for budget department for documentation.

9. **Medium Term Debt Strategy (MTDS):** The MTDS was approved by High Debt Committee in April 2013 (Government was a care-taking at that time) and was transferred to cabinet afterwards. The timing was of sense as there was little room left during project life time to monitor implementation, though some elements were put in place towards this end, mainly in terms having a regular dialogue with the Central bank and preparing an issuance agenda for T-bills in compliance with the MTDS.

Annex 8. Comments of Cofinanciers and Other Partners/Stakeholders

The ICR team met the EU and UNDP representatives who are important stakeholders as well as development partners in PFM Reforms in Lebanon.

The EU representatives in Lebanon expressed their satisfaction with the outputs produced by this Project. Motivated by the government commitment and leadership in PFM reforms under this Project, they have launched a Twinning Project on October 1, 2013 at a project of cost of Euros 2.8 million and project duration of 2 years. The project envisages exchange visits of Lebanese government officials to France and Italy, and intensive technical assistance of 1500 days of international experts' time in Lebanon. The technical assistance would cover areas on budget preparation, budget execution, reorganization of MoF, training organization, treasury management, public debt management, and macro-fiscal forecasts. However, a substantial part of their planned technical support under twinning arrangements has been already delivered by this Project. There was a need for better coordination between the EU and Bank teams in the respective design of the EU Twinning project and the Bank's EFMIS 2 project.

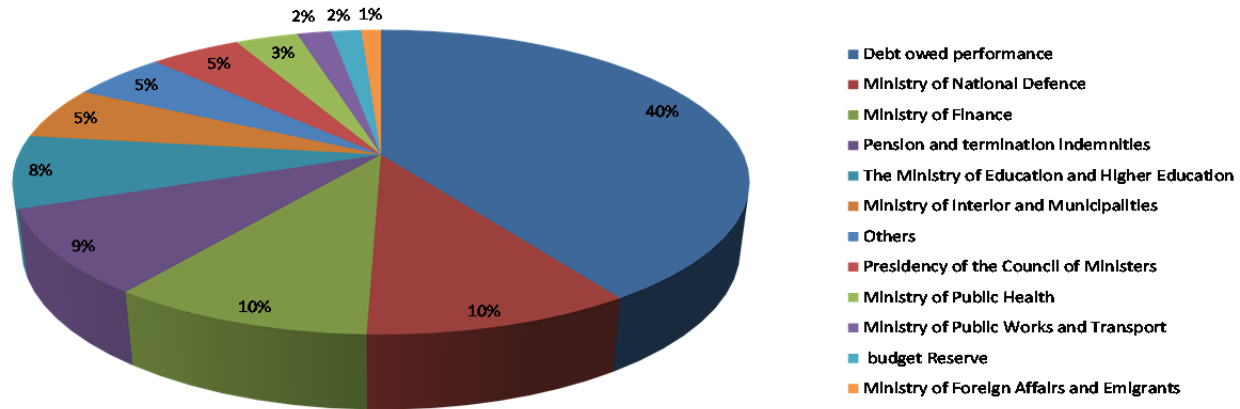
The UNDP representatives in Lebanon expressed that they have been on ground since 1995 and have been able to mobilize additional technical assistance for the country. All the 35 UNDP staff in the country is Lebanese who have been successful in institutionalizing several business processes in the MoF. In their view, the EFMIS project was able to deliver what it was designed to do, but in twice as much time it had planned for. They expressed that there was daily communication and coordination between the EFMIS project and UNDP in the first two years of the project, but it was lost in between around 2011. This resulted in overlapping of work between two organizations. The implementation of PFM reforms were also affected by the parallel reporting arrangements to the leadership of MoF, wherein the UNDP reported directly to the Minister and the EFMIS project reported to the General Director. Some tasks of macro-fiscal department like the preparation of monthly, quarterly and annual fiscal monitoring reports were being performed by the UNDP team for a large part of the project duration. There was not much overlap in the public debt department, where the UNDP was performing the front office function and the EFMIS was performing the middle and back office functions. In conclusion, the UNDP expressed that it would have helped if a better coordination mechanism between the EFMIS project and UNDP could be established.

Annex 9. Ministry wise allocation of Budget during 2008-2013

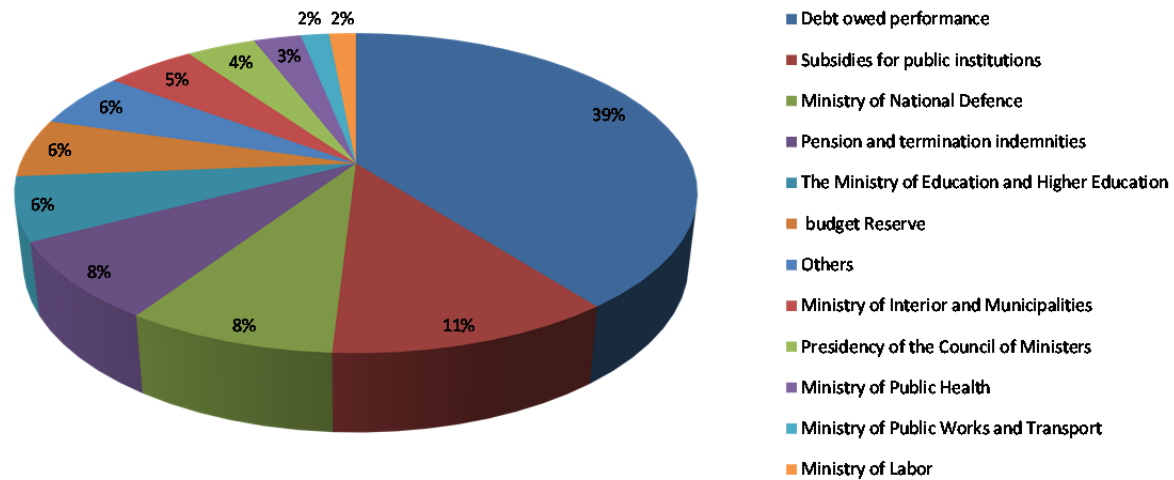
By millions of LBP		Budget by Ministry from 2008-2013					
	Ministry	2008	2009	2010	2011	2012	2013
1	Presidency of the Republic	10,662	13,257	15,577	17,167	17,534	18,537
2	Parliament	57,734	60,324	65,750	68,000	66,450	66,768
3	Presidency of the Council of Ministers	544,252	638,438	1,725,596	1,588,859	932,917	1,343,090
4	The Constitutional Council	1,689	1,698	1,708	1,708	1,733	1,888
5	Ministry of Justice	75,267	132,283	124,310	115,822	91,726	148,185
6	Ministry of Foreign Affairs and Emigrants	118,474	136,686	148,100	151,725	158,995	157,726
7	Ministry of Interior and Municipalities	637,031	831,924	970,932	1,016,424	1,086,163	1,107,675
8	Ministry of Finance	1,122,644	150,205	443,719	482,958	293,567	204,193
9	Ministry of Public Works and Transport	202,145	260,780	542,021	500,672	550,198	377,089
10	Ministry of National Defence	1,146,936	1,370,825	1,569,170	1,685,785	1,789,901	1,965,872
11	The Ministry of Education and Higher Education	883,315	1,041,426	1,293,355	1,308,171	1,489,734	1,502,546
12	Ministry of Public Health	375,424	439,748	486,658	527,874	549,480	538,387
13	The Ministry of Economy and Trade	19,887	59,037	70,741	31,743	56,287	29,850
14	Ministry of Agriculture	40,696	42,745	78,000	88,960	100,140	89,335
15	Ministry of telecommunications	9,430	10,780	10,990	10,846	10,571	9,841
16	Ministry of Labor	107,972	248,347	359,672	390,495	523,657	373,231
17	Ministry of Information	21,181	25,977	31,794	37,269	42,850	32,915
18	Ministry of Energy and Water	63,894	90,060	731,860	1,074,628	871,157	645,264
19	Ministry of Tourism	11,123	11,382	18,716	21,999	27,694	24,013
20	Ministry of Culture	18,903	22,205	27,436	30,409	35,558	34,030
21	Ministry of Environment	5,559	5,694	7,325	12,231	12,602	9,164
22	Ministry of Displaced	6,223	6,249	7,563	7,979	8,256	7,850
23	Ministry of Youth and Sports	13,370	24,791	28,807	14,587	21,807	13,007
24	Ministry of Social Affairs	103,474	107,434	142,834	171,271	200,273	208,988
25	The Ministry of Industry	4,373	4,227	5,848	7,547	7,922	7,065
26	Debt owed performance	4,650,000	6,441,000	6,100,000	5,776,000	5,370,000	5,700,000
27	Pension and termination indemnities	1,040,000	1,300,000	1,400,000	1,500,000	1,524,000	1,850,000
28	budget Reserve	183,345	965,481	760,120	858,875	1,250,037	1,894,201
29	Subsidies for public institutions	0	1,861,000	2,369,000	2,273,000	3,169,000	2,869,000
30	Total budget	11,475,000	16,304,000	19,537,600	19,773,000	20,260,205	21,229,710

		Percentage of Budget by Ministry from 2008-2013					
Ministry		2008	2009	2010	2011	2012	2013
1	Presidency of the Republic	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
2	Parliament	0.5%	0.4%	0.3%	0.3%	0.3%	0.3%
3	Presidency of the Council of Ministers	4.7%	3.9%	8.8%	8.0%	4.6%	6.3%
4	The Constitutional Council	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
5	Ministry of Justice	0.7%	0.8%	0.6%	0.6%	0.5%	0.7%
6	Ministry of Foreign Affairs and Emigrants	1.0%	0.8%	0.8%	0.8%	0.8%	0.7%
7	Ministry of Interior and Municipalities	5.6%	5.1%	5.0%	5.1%	5.4%	5.2%
8	Ministry of Finance	9.8%	0.9%	2.3%	2.4%	1.4%	1.0%
9	Ministry of Public Works and Transport	1.8%	1.6%	2.8%	2.5%	2.7%	1.8%
10	Ministry of National Defence	10.0%	8.4%	8.0%	8.5%	8.8%	9.3%
11	The Ministry of Education and Higher Education	7.7%	6.4%	6.6%	6.6%	7.4%	7.1%
12	Ministry of Public Health	3.3%	2.7%	2.5%	2.7%	2.7%	2.5%
13	The Ministry of Economy and Trade	0.2%	0.4%	0.4%	0.2%	0.3%	0.1%
14	Ministry of Agriculture	0.4%	0.3%	0.4%	0.4%	0.5%	0.4%
15	Ministry of telecommunications	0.1%	0.1%	0.1%	0.1%	0.1%	0.0%
16	Ministry of Labor	0.9%	1.5%	1.8%	2.0%	2.6%	1.8%
17	Ministry of Information	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%
18	Ministry of Energy and Water	0.6%	0.6%	3.7%	5.4%	4.3%	3.0%
19	Ministry of Tourism	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
20	Ministry of Culture	0.2%	0.1%	0.1%	0.2%	0.2%	0.2%
21	Ministry of Environment	0.0%	0.0%	0.0%	0.1%	0.1%	0.0%
22	Ministry of Displaced	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%
23	Ministry of Youth and Sports	0.1%	0.2%	0.1%	0.1%	0.1%	0.1%
24	Ministry of Social Affairs	0.9%	0.7%	0.7%	0.9%	1.0%	1.0%
25	The Ministry of Industry	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
26	Debt owed performance	40.5%	39.5%	31.2%	29.2%	26.5%	26.8%
27	Pension and termination indemnities	9.1%	8.0%	7.2%	7.6%	7.5%	8.7%
28	budget Reserve	1.6%	5.9%	3.9%	4.3%	6.2%	8.9%
29	Subsidies for public institutions	0.0%	11.4%	12.1%	11.5%	15.6%	13.5%
30	Total percentage of budget	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

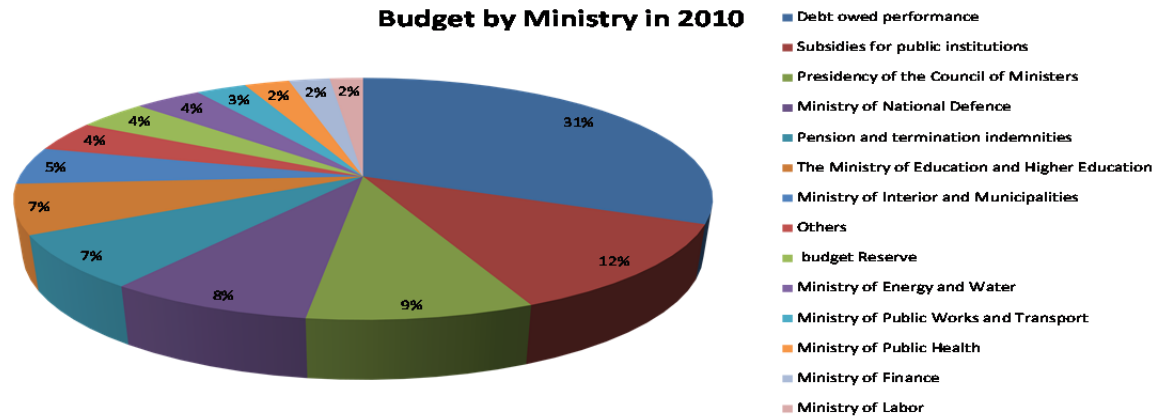
Budget by Ministry in 2008



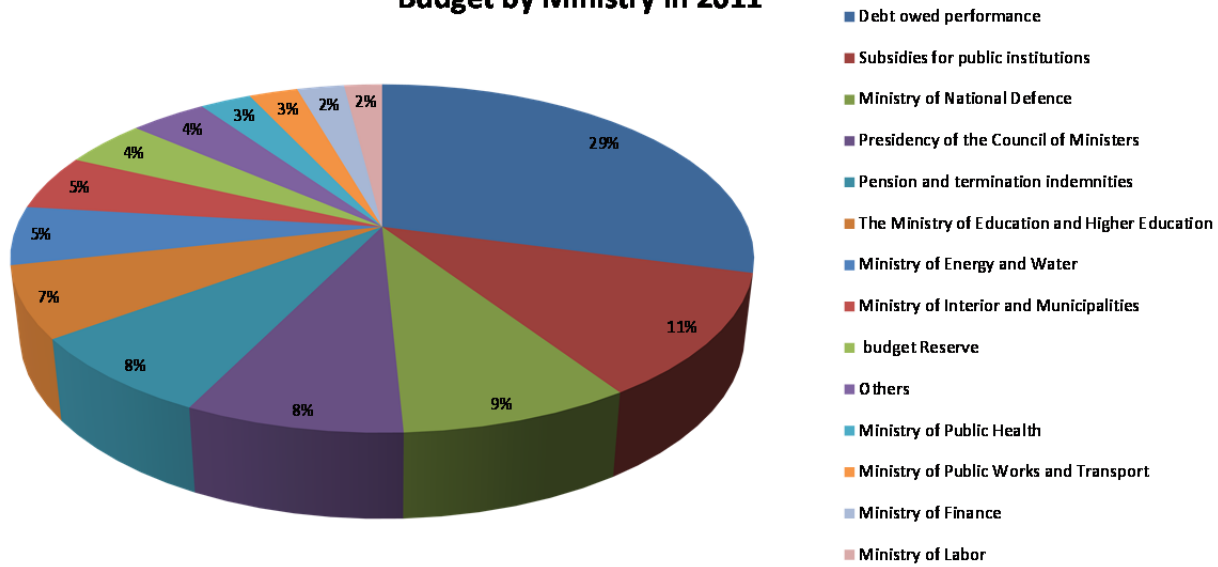
Budget by Ministry in 2009



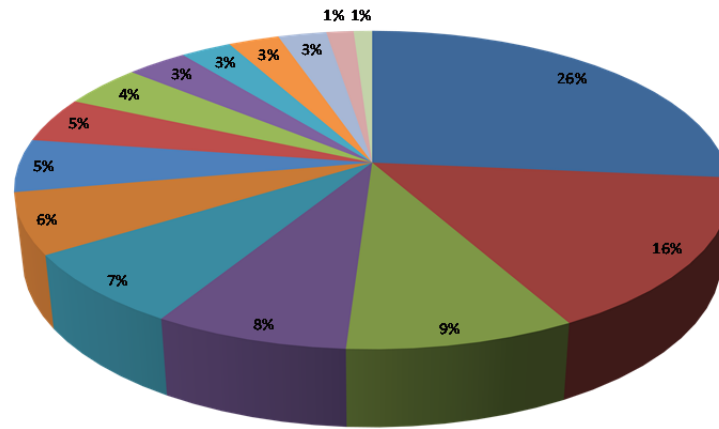
Budget by Ministry in 2010



Budget by Ministry in 2011

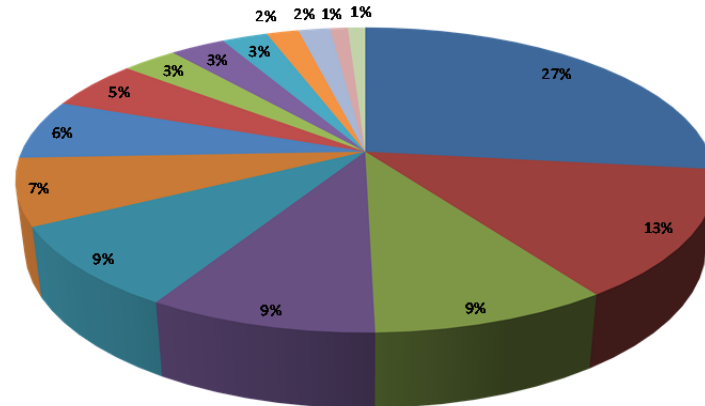


Budget by Ministry in 2012



- Debt owed performance
- Subsidies for public institutions
- Ministry of National Defence
- Pension and termination indemnities
- The Ministry of Education and Higher Education
- budget Reserve
- Ministry of Interior and Municipalities
- Presidency of the Council of Ministers
- Ministry of Energy and Water
- Others
- Ministry of Public Works and Transport
- Ministry of Public Health
- Ministry of Labor
- Ministry of Finance
- Ministry of Social Affairs

Budget by Ministry in 2013



- Debt owed performance
- Subsidies for public institutions
- Ministry of National Defence
- budget Reserve
- Pension and termination indemnities
- The Ministry of Education and Higher Education
- Presidency of the Council of Ministers
- Ministry of Interior and Municipalities
- Others
- Ministry of Energy and Water
- Ministry of Public Health
- Ministry of Public Works and Transport
- Ministry of Labor
- Ministry of Social Affairs
- Ministry of Finance

Annex 10. Budget Execution between 2008 and 2013

(Amount in Billion LBP ⁽¹⁾)

Economic Classifications	2008		2009		2010		2011		2012		2013	
	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual
1. Current Expenditure ⁽²⁾ (Budget execution %)	9,848	10,638 (108%)	15,458	12,619 (81.6%)	16,327	14,734 (90.2%)	16,411	15,864 (96.7%)	18,114	17,754 (98%)	19,191	17,966 (93.6%)
Carry-overs Brought forward from previous years	3,225	-	2,371	-	3,327	-	306	-	0	-	1,310	-
Budget ceiling for current expenditure (Budget execution %)	13,073	10,638 (81.4%)	17,829	12,619 (70.8%)	19,564	14,734 (75%)	16,717	15,864 (94.9%)	18,114	17,754 (98.0%)	20,501	17,966 (87.6%)
2. Capital Expenditure (Budget execution %)	1,627	522 (32.1%)	846	548 (64.8%)	3,210	701 (21.8%)	3,362	676 (20.1%)	2,146	760 (35.4%)	2,037	987 (48.4%)
Carry-overs Brought forward from previous years	43	0	1,105	0	298	0	2,509	0	2,643	0	1,386	0
Budget ceiling for capital expenditure (Budget execution %)	1,670	522 (31.3%)	1,951	548 (28.1%)	3,958	701 (17.7%)	6,321	676 (10.7%)	4,789	760 (15.9%)	3,423	987 (28.8%)
3. Other Treasury Expenditure ⁽³⁾	0	3,749	0	3,948	0	1,363	0	845	0	1,304	-	1,331
4. Unclassified Expenditure	0	4	0	3	0	4	0	1	0	5	-	5
5. Customs Cashiers	0	43	0	50	0	46	0	36	0	42	-	40

Economic Classifications	2008		2009		2010		2011		2012		2013	
	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual
Total Budget (Total budget execution %)	11,475	14,956 (130.3%)	16,304	17,168 (105.3%)	19,537	16,848 (86.2%)	19,773	17,422 (88.1%)	20,260	19,865 (98.1%)	21,229	20,330 (95.8%)
Total Carry-overs Brought forward from previous years (4)	3,268	0	3,476	-	3,625	-	2,815	-	2,643	-	2,696	-
Total Budget Ceiling (Total budget execution %)	14,743	14,956 (101%)	19,780	17,168 (87%)	23,162	16,848 (73%)	22,588	17,422 (77%)	22,903	19,865 (87%)	23,925	20,330 (85%)
Budget Execution (%) against budget ceiling after removing extra budgetary expenditure	14,743	11,160 (76%)	19,780	13,167 (67%)	23,162	15,435 (67%)	22,588	16,540 (73%)	22,903	18,514 (81%)	23,925	18,954 (79%)

(Source: Ministry of Finance, Lebanon)

(1) From 2008 till 2010 no treasury advances were given.

(2) Treasury advances to EDL are included in current expenditures since 2010

(3) Other treasury expenditures include: Municipalities, Guarantee, Deposits and Other (VAT Refund and Higher Council of Relief)

(4) Carry overs from previous years include unspent balances of capital budget, committed expenditure from capital budget and outstanding treasury advances

Annex 11. List of Supporting Documents