

الجمهورية اللبنانية  
مكتب وزير الدولة لشؤون التنمية الإدارية  
مركز مشاريع ودراسات القطاع العام

Republic of Lebanon  
Office of the Minister of State for Administrative Reform  
Center for Public Sector Projects and Studies  
(C.P.S.P.S.)

# CASE STUDY

# LEBANON

BEIRUT, LEBANON  
JULY 12-14, 1994.

BASED ON LOAN 3562-LE

# CASE HIGHLIGHTS

1. CDR signs a Loan Agreement with the International Bank for Reconstruction and Development (IBRD) on March 8, 1993.
2. Schedule 1 sets forth the categories of items to be financed out of the proceeds of the loan. Please ignore sub-categories "a" through "d" under categories 1 and 2 for the purpose of this Case Study.
3. Schedules 4 and 5 specify the authorized allocation to the Special Account of USD 13,000,000.00 and USD 2,000,000.00 in favor of CDR and BDL respectively. A letter is received from Banque du Liban acknowledging that a Special Account no. 12345678 was opened in favor of CDR for the purpose of this project.
4. The disbursement letter outlines the disbursement procedures to be followed for withdrawal from the loan proceeds. It provides you with clear instructions on withdrawal from this loan.
5. The World Bank receives a letter from the Ministry of Finance, the ~~official~~ representative of the borrower designating Mr. Walid of CDR as the sole authorized signatory for the proceeds of the loan.
6. Page 3 lists the contracts signed by CDR for procurement of works, goods and services for the purpose of this project.

**A.** CDR estimates that the amount of expenditures to be withdrawn from the Special Account for the next four months is around USD 5,000,000.00 per month. On September 17, 1993, the Loan is declared effective.

- 1- What is the amount of the initial deposit you would request?
- 2- Prepare a withdrawal application for the initial deposit to the Special Account.
- 3- What documents will you attach to the application?

**B.** CDR is informed by the central bank that the amount of USD 5,000,000.00 was credited to their Special Account no. 12345678 on November 24, 1993.

**C.** CDR signs the contracts listed on page 3, on November 15, 1993, after receiving the "No objection" from the World Bank on November 1, 1993.

<b>LIST OF CONTRACTS SIGNED ON NOVEMBER 15, 1993</b>
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<u>Contract Ref.</u>	<u>Name &amp; Address of Contractor</u>	<u>Type of Works Goods &amp; Services</u>	<u>Amount</u>
1/94	LE Equipment	Elec. Eq.	USD 6,000,000.00
2/94	Construct, UK	Civil Wks	USD 5,100,000.00
3/94	Int'l Consult, NY	Study	USD 1,500,000.00
4/94	Local Sanitary Co.	Spare parts	USD 100,000.00
5/94	French Electrical	Equipment	USD1,000,000.00
6/94	British Machinery	Equipment	USD 1,170,000.00
7/94	LE Supplies	Supplies	USD 20,000.00
8/94	LE Import Co.	Goods	USD 30,000.00
9/94	Mr. Nabil	Water Study	USD 60,000.00
10/94	C.L., France	Electrical Eq.	F.F. 40,000,000.00
11/94	John, CA, USA	School Eq.	USD 45,000.00
12/94	American Co. ,NY	Goods	USD 40,000.00
13/94	Mitsui of Japan	Electrical Eq.	JY 525,000,000.00
14/94	Pierre of France	Spare Parts	F.F. 50,000.00
15/94	Paul of France	Spare Parts	F.F. 100,000.00
16/94	Muihouse, Japan	Electrical Eq.	JY 4,500,000.00
17/94	Lebanon Co.	Civil works	L.L. 50,000,000.00

- CDR informs the World Bank that **Salaries** for USD 10,000/month are needed as operating costs for a period of one year. The World Bank gives its no objection.

**EXCHANGE RATES:**

(FF/USD =1:5.70), (USD/YEN=1:100.000), (USD/LL=1:1650)

4- Once the contracts are signed what are you supposed to do?

D. On January 1, 1994, the chief accountant receives from the Central Bank the Special Account Bank Statement which shows that the following amounts were debited to their account:

<b>CENTRAL BANK STATEMENT A/C 12345678</b>		
<b>DEC. 31, 1993</b>		
<b>Opening Balance .....</b>	<b>USD</b>	<b>5,000,000.00</b>
Item No. 1.....	Operating costs for Dec 93.....\$	10,000.00
Item No. 2.....	Invoice no. 1, contract 2/94 .....\$	1,000,000.00
Item No. 3.....	Invoice no. 1, contract 1/94.....\$	500,000.00
Item No. 4.....	Invoice no. 2, contract 1/94 .....\$	100,000.00
Item No. 5.....	Invoice no. F, contract 4/94 ..... \$	100,000.00
Item no. 6.....	Invoice no. 2, contract 2/94 .....\$	175,000.00
Item no. 7.....	Invoice no. 1, contract 7/94 .....\$	10,000.00
Item No. 8.....	Invoice no. 1, contract 9/94 .....\$	15,000.00
<b>TOTAL WITHDRAWN</b>		<b>USD 1,910,000.00</b>
<b>Outstanding Balance.....</b>	<b>USD</b>	<b>3,090,000.00</b>

PR  
PR  
PR  
L acct  
PR  
L acct  
L acct

E. The chief financial officer collects the documents and invoices to replenish the Special Account however Mr. Nabil of contract no. 9/94 did not acknowledge the receipt of the payment.

5- Prepare a replenishment application. What should be the amount requested?

6- What documents will you attach to the application?

7- How will your reconciliation statement look like?

F. Contract no. 5/94 with French Electrical Equipment stipulates that the equipment will be purchased under a letter of credit payable from the proceeds of the loan. You open a letter of credit no. 22/234 with Banque du Liban, the negotiating bank being UBAF- Paris L/C expiry date being September 30, 1994.

8- Prepare an application to request our guarantee.

9- What documents will you attach to the application

G. On February 1, 1994, the chief accountant receives from the Central Bank the Special Account Bank Statement which shows that the following amounts were debited to their account:

CENTRAL BANK STATEMENT A/C 12345678	
JAN. 31, 1993	
Opening Balance.....	USD 3,090,000.00
Item No. 1.....	Operating costs for January.....\$ 10,000.00
Item No. 2.....	Invoice no. A, contract 14/94.....\$ 8,000.00
Item No. 3.....	Invoice no. B, contract 15/94 .....\$ 17,000.00
Item No. 4.....	Invoice no. C, contract 16/94 .....\$ 45,000.00
Item No. 5.....	Invoice no. D, contract 17/94.....\$ 30,000.00
Item no. 6.....	Invoice no. E, contract 12/94 .....\$ 40,000.00
Item no. 7.....	Invoice no. f, contract 11/94 .....\$ 45,000.00
Item No. 8.....	Invoice no. 2, contract 9/94 ..... \$ 15,000.00
Item no. 9.....	Invoice no. 3, contract 2/94..... \$ 1,000,000.00
<b>TOTAL WITHDRAWN</b>	<b>USD 1,210,000.00</b>
<b>Outstanding Balance.....</b>	<b>USD 1,880,000.00</b>

Also, the chief accountant receives the supporting documents from Mr. Nabil for the USD 30,000.00 (inv. 1 and 2) in addition to all other supporting documents related to expenditures withdrawn from the Special Account.

11- Prepare a replenishment application. What should be the amount requested?

12- What documents will you attach to the application?

13- How will your reconciliation statement look like?

*BANK STATEMENT  
SOE  
SUMMARY SHEETS  
RECONC.*

H. On June 30, 1994, CDR receives an invoice from International Consult in New York, contract no. 3/94. The amount of the invoice is USD 1,000,000 payable to the consultant account with the Chemical Bank New York (account number 6644).

14- Prepare a withdrawal application.

15- What documents will you attach to the application?

I. **CDR** opens a letter of credit no. 22/24 with Beirut-London Bank to cover contract no. 6/94 with British Machinery for the total amount of the contract. The L/C expiry date is July 30, 1994.

British Machinery has certain delays in shipping the equipment and the financial manager thinks that he will request the World Bank to issue its guarantee agreement to cover this L/C. On July 30, he sends an application to the World Bank to request the issuance of this guarantee. The application reaches the World Bank on August 6, 1994.

16- How would you prepare this application?

J. The balance in the Special Account is now USD 50,000. The chief financial officer estimates that the expenditures out of the Special Account for the forthcoming period will reach USD 13,000,000.00.

17- If you are the chief financial officer prepare the application(s).

18- What documents will you attach to the applications?

K. **CDR** prepares an application for withdrawal for USD 1,000,000.00 to be paid into their project account no. 0352 with the Central Bank of Lebanon. The attached documents show an invoice from C.L., France contract no.10/94 for F.F. 5,000,000.00 and a receipt from C.L. for that same amount. The World Bank receives the application and returns it without any action.

19- Why does the World Bank return this application?

20- How should you prepare such application

L. Mitsui of Japan, contract no. 13/94 requests 15% advance payment into its account with Bank of Japan (account number 125678)

21- Prepare an application.

M. We are in June 1996. The balance in the Special Account is USD 150,000.00.

You send us an application for replenishment for USD 12,850,000.00 with the related supporting documents. The World Bank processes the application, all supporting documents being eligible, and applies 50% of this application towards the recovery of the Special Account. The World Bank sends you a telex informing you that the application has been approved in total, of which 50% are approved for payment of USD 6,425,000.00 and the other USD 6,425,000.00 were applied towards the recovery .

a- The balance at the beginning of the month of August 96, after receiving the funds is now:

150,000.00
<u>+6,425,000.00</u>
\$6,575,000.00

You incur during the month of August expenditures totaling USD 6,000,000.00. (Balance end of August :6,575,000 - 6,000,000 = 575,000)

22- How would you prepare your application?

23- How would your Reconciliation Statement look like?

b- The World Bank receives your application for replenishment, approves it in total for 50% payment and 50% to be applied towards the recovery of the initial deposit. The World Bank notifies you that they effected the payment of USD 3,000,000.00 and the other 3,000,000.00 were applied towards the recovery of the initial deposit to the Special Account.

The balance at the beginning of the month of September 96 is

575,000.00
<u>+ 3,000,000.00</u>
\$ 3,575,000.00



You incur expenditures during the month of September totaling USD 2,000,000.00. The balance at the end of September is (3,575,000.00 - 2,000,000.00 = 1,575,000.00).

24- Prepare your Application and the related Reconciliation Statement.

c- The World Bank receives your application for replenishment, approves it in total for 50% payment and 50% to be applied towards the recovery of the initial deposit. The World Bank notifies you that they effected the payment of USD 1,000,000.00 and the other USD 1,000,000.00 were applied towards the recovery of the initial deposit to the Special Account.

The balance at the beginning of the month of October is:

1,575,000.00  
+ 1,000,000.00  
\$ 2,575,000.00

You incur expenditures during the month of October totaling USD 2,000,000.00. The balance at the end of October is (2,575,000 - 2,000,000 = 575,000).

25- Prepare your Application and the related Reconciliation Statement.

d- The World Bank receives your application for replenishment, approves it in total for 50% payment and 50% to be applied towards the recovery of the initial deposit. The bank notifies you that they effected the payment of USD1,000,000.00 and the other USD 1,000,000.00 were applied towards the recovery of the initial deposit to the Special Account.

The balance at the beginning of the month of November 96 is:

575,000.00  
+ 1,000,000.00  
\$ 1,575,000.00

You incur expenditures during the month of November totaling USD 1,200,000.00. The balance at the end of November is (1,575,000.00 - 1,200,000.00 = 375,000).

26- Prepare your Application with the related Reconciliation Statement.

e- The World Bank receives your application for replenishment, approves it in total for 100% to be applied towards the recovery of the initial deposit. The World Bank notifies you that they applied the total amount of your application of USD 1,200,000.00 towards the recovery of the initial deposit to the Special Account.

The balance at the beginning of December is USD 375,000.00.

By mid-December you incur the expenditures for USD 375,000.00. You send us an application for replenishment of USD 375,000.00 with the supporting documentation.

27- Prepare Your Application with the related Reconciliation Statement.

f- The World Bank receives the application, approves it in total for 100% and applies it towards the recovery of the initial deposit to the Special Account. The World Bank notifies you that your application has been approved and applied in total towards the recovery of the initial deposit to the Special Account as well as by processing this application, the initial deposit is totally documented.

N. At this stage the total amount of the initial deposit to the Special Account has been fully documented.

O. We can take another example where in December you incur only 100,000.00 and you send an application for replenishment for USD 100,000.00 which we apply in total towards the recovery of the initial deposit to the Special Account. The amount of USD 275,000.00 is still outstanding in the Special Account and the loan is approaching its closing date and you do not think that you will be incurring any other expenditures.

In this case you will have to refund to the World Bank the outstanding balance of USD 275,000.00. The World Bank will notify you at that time to refund the outstanding balance to their account with the Federal Reserve Bank as this amount was not documented.

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