

CONFORMED COPY

LOAN NUMBER 4339 LSO

Loan Agreement

(Lesotho Highlands Water Project (Phase 1B))

between

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

and

LESOTHO HIGHLANDS DEVELOPMENT AUTHORITY

Dated December 18, 1998

LOAN NUMBER 4339 LSO

LOAN AGREEMENT

AGREEMENT, dated December 18, 1998, between the INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and the LESOTHO HIGHLANDS DEVELOPMENT AUTHORITY (the Borrower).

WHEREAS (A) The Kingdom of Lesotho (the First Guarantor) and the Borrower, having been satisfied as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, have requested the Bank to assist in the financing of the Project;

(B) the First Guarantor has entered into the Treaty (as hereinafter defined) with the Republic of South Africa (the Second Guarantor) stipulating the respective rights and obligations of the First Guarantor and of the Second Guarantor relating to the development of their mutual water resources;

(C) by an agreement (the First Guarantee Agreement) of even date herewith between the First Guarantor and the Bank, the First Guarantor has agreed to guarantee the obligations of the Borrower in respect of the Loan and to undertake such other obligations as set forth in the First Guarantee Agreement;

(D) by an agreement (the Second Guarantee Agreement) of even date herewith between the Second Guarantor and the Bank, the Second Guarantor has agreed to guarantee the obligations of the Borrower in respect of the Loan;

(E) the Borrower intends to secure financing from various other sources in an aggregate amount approximately equivalent to one billion five hundred million dollars (\$1,500,000,000) to assist in financing Parts A through E of the Project;

WHEREAS the Bank has agreed, on the basis, inter alia, of the foregoing, to extend the Loan to the Borrower upon the terms and conditions set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

#### ARTICLE I

##### General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Loan and Guarantee Agreements for Single Currency Loans" of the Bank, dated May 30, 1995, with the modifications set forth below (the General Conditions) constitute an integral part of this Agreement:

(a) Section 6.02 is amended as follows:

(a) and (b); (i) Sub-paragraphs (ii), (iii) and (iv) are deleted from paragraphs and

(ii) paragraph (d) is deleted.

(b) Section 6.03 is modified to read: "Section 6.03. Cancellation by the Bank. If (a) the right of the Borrower to make withdrawals from the Loan Account shall have been suspended with respect to any amount of the Loan for a continuous period of thirty days, or (b) at any time, the Bank determines, after consultation with the Borrower, that an amount of the Loan will not be required to finance the Project's costs to be financed out of the proceeds of the Loan, or (c) at any time, the Bank determines, with respect to any contract to be financed out of the proceeds of the Loan, that corrupt or fraudulent practices were engaged in by representatives of the Borrower or of a beneficiary of the Loan during the procurement or the execution of such contract, without the Borrower having taken timely and appropriate action satisfactory to the Bank to remedy the situation, and establishes the amount of expenditures in respect of such contract which would otherwise have been eligible for financing out of the proceeds of the Loan, or (d) at any time, the Bank determines that the procurement of any contract to be financed out of the proceeds of the Loan is inconsistent with the procedures set forth or referred to in the Loan Agreement and establishes the amount of expenditures in respect of such contract which would otherwise have been eligible for financing out of the proceeds of the Loan, or (e) after the Closing Date, an amount of the Loan shall remain unwithdrawn from the Loan Account, or (f) the Bank shall have received notice from the First Guarantor pursuant to Section 6.07 with respect to an amount of the Loan, the Bank may, by notice to the Borrower, the First Guarantor and the Second Guarantor, terminate the right of the Borrower to make withdrawals with respect to such amount. Upon the giving of such notice, such amount of the Loan shall be canceled."

(c) Section 7.01 is amended by deleting its paragraphs (c) and (d).

(d) In Section 9.03 (Negative Pledge), the term "external Debt" is interpreted to exclude also all borrowings by the First Guarantor repayable in the currencies of the Republic of South Africa, Swaziland and Namibia.

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions and in the Preamble to this Agreement have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) "Special Account" means the account referred to in Section 2.02 (b) of this Agreement;

(b) "Treaty" means the Treaty between the First Guarantor and the Second Guarantor on the Lesotho Highlands Water Project, dated October 24, 1986, including all Protocols thereto;

(c) "LHDA" means the Lesotho Highlands Development Authority established by the First Guarantor on October 24, 1986, pursuant to the Lesotho Highlands Development

Authority Order, No. 23 of 1986 as amended to the date of this Agreement;

(d) "JPTC" means the Joint Permanent Technical Commission, established in accordance with the provisions of Article 9 of the Treaty;

(e) "LHWP" means the Lesotho Highlands Water Project as defined in the Treaty;

(f) "LHWRF" means the Lesotho Highlands Water Revenue Fund established by the First Guarantor pursuant to Legal Notice No. 91 of 1992 into which Royalty Payments due from the Second Guarantor under the Treaty are deposited to be used for development purposes specified in said Legal Notice, as amended to the date of this Agreement;

(g) "Royalty Payments" means royalty payments as defined under the Treaty;

(h) "Environmental Action Plan" or "EAP" means the environmental action plan (including the resettlement and development action plan) for the Project prepared by the Borrower and approved by the JPTC;

(i) "Phase 1.A of the Project" means Sub-Phase 1.A of LHWP;

(j) "Phase 1.B of the Project" means Sub-Phase 1.B of LHWP;

(k) "Environment and Social Services Group" or "ESSG" means the structure established by the Borrower for the purposes of carrying out all tasks relating to the implementation of the EAP; and

(l) "Mohale Dam Financing Agreement" means the agreement to be entered into between the Borrower and other financing institutions for the execution of Part A.1 of the Project.

## ARTICLE II

### The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Loan Agreement, an amount equal to forty-five million Dollars (\$45,000,000).

Section 2.02. (a) The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of services required for the Project described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Loan.

(b) The Borrower may, for the purposes of the Project, open and maintain in Dollars a special deposit account in a commercial bank acceptable to the Bank on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure and attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 6 to this Agreement.

Section 2.03. The Closing Date shall be December 31, 2004 or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower of such later date.

Section 2.04. The Borrower shall pay to the Bank a commitment charge at the rate of three-fourths of one percent (3/4 of 1%) per annum on the principal amount of the Loan not withdrawn from time to time.

Section 2.05. (a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, at a rate for each Interest Period equal to LIBOR Base Rate plus LIBOR Total Spread.

(b) For the purposes of this Section:

(i) "Interest Period" means the initial period from and including the date of this Agreement to, but excluding, the first Interest Payment Date occurring thereafter, and after the initial period, each period from and including an Interest Payment Date to, but excluding the next following Interest Payment Date.

(ii) "LIBOR Base Rate" means, for each Interest Period, the London interbank offered rate for six-month deposits in Dollars for value the first day of such Interest Period (or, in the case of the initial Interest Period, for value the Interest Payment Date occurring on or next preceding the first day of such Interest Period), as reasonably determined by the Bank and expressed as a percentage per annum.

(iv) "LIBOR Total Spread" means, for each Interest Period:  
(A) one half of one percent (1/2 of 1%); (B) minus (or plus) the weighted average margin, for such Interest Period, below (or above) the London interbank offered rates, or other reference rates, for six-month deposits, in respect of the Bank's outstanding borrowings or portions thereof allocated by the Bank to fund single currency loans or portions thereof made by it that include the Loan; as reasonably determined by the Bank and expressed as a percentage per annum.

(c) The Bank shall notify the First Guarantor, the Second Guarantor and the Borrower of LIBOR Base Rate and LIBOR Total Spread for each Interest Period, promptly upon the determination thereof.

(d) Whenever, in light of changes in market practice affecting the determination of the interest rates referred to in this Section 2.05, the Bank determines that it is in the interest of its borrowers as a whole and of the Bank to apply a basis for determining the interest rates applicable to the Loan other than as provided in said Section, the Bank may modify the basis for determining the interest rates applicable to the Loan upon not less than six (6) months' notice to the First Guarantor, the Second Guarantor and the Borrower of the new basis. The basis shall become effective on the expiry of the notice period unless the Borrower notifies the Bank during said period of its objection thereto, in which case said modification shall not apply to the Loan.

Section 2.06. Interest and other charges shall be payable semi-annually on May 15 and November 15 in each year.

Section 2.07. The Borrower shall repay the principal amount of the Loan in accordance with the amortization schedule set forth in Schedule 3 to this Agreement.

### ARTICLE III

#### Execution of the Project

Section 3.01. (a) the Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out Parts A through E of the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering, environmental, and construction practices, and shall provide, or cause to be provided, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Bank and the Borrower shall otherwise agree, the Borrower shall carry out Parts A through E of the Project in accordance with the Implementation Program set forth in Schedule 5 to this Agreement.

Section 3.02. Except as the Bank shall otherwise agree, procurement of the consultants' services required for the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 4 to this Agreement.

Section 3.03. The Borrower shall, for purposes of ensuring the safety of the dams, tunnels and related infrastructure included in the Project, employ panels of experts as referred to in Part C.2 of the Project, whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Bank, and who

shall be selected in accordance with the provisions set forth in Schedule 4 to this Agreement, to review the concept of such dams, tunnels and structures and the adequacy of their design, construction, operation and maintenance.

Section 3.04. For the purposes of Section 9.08 of the General Conditions and without limitation thereto, the Borrower shall:

(a) prepare, on the basis of guidelines acceptable to the Bank and furnish to the Bank not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Bank, a plan for the future operation of the Project; and

(b) afford the Bank a reasonable opportunity to exchange views with the Borrower on said plan.

#### ARTICLE IV

##### Management and Operations of the Borrower

Section 4.01. (a) The Borrower shall carry on its operations and conduct its affairs in accordance with sound administrative, financial and construction practices under the supervision of qualified and experienced management assisted by competent staff in adequate numbers.

(b) Without limitation to the generality of Section 4.01 (a), the Borrower shall consult with the Bank and take into account the Bank's views on: (i) any proposed changes to the Borrower's management structure; and (ii) the qualifications and experience of individuals to be appointed to senior management positions of the Borrower.

Section 4.02. (a) The Borrower shall at all times operate and maintain its plants, machinery, equipment and other property, and from time to time, promptly as needed, make all necessary repairs and renewals thereof, all in accordance with sound engineering, financial and construction practices.

(b) Without limitation to the generality of Section 4.02 (a), the Borrower shall, under arrangements satisfactory to the Bank: (i) cause the dams, tunnels and structures constructed under the Project to be periodically inspected by the panels of experts referred to in Section 3.03 of this Agreement in accordance with sound engineering practice, in order to determine whether there are any deficiencies in the condition of such structures, or in the quality and adequacy of maintenance or methods of operation of the same, which may endanger their safety; (ii) promptly furnish to the Bank for its review the report of the panels, together with the Borrower's own comments; and (iii) propose to the Bank appropriate arrangements for the Bank's review, no later than one year before the expected completion of such structures, for their operation and maintenance.

Section 4.03. (a) The Borrower shall take out and maintain with responsible insurers, or make other provision satisfactory to the Bank for, insurance against such risks and in such amounts as shall be consistent with appropriate practice, taking into account all relevant circumstances.

(b) For purposes of assisting the Borrower in carrying out paragraph (a) above, the Borrower shall: (i) employ an insurance expert or experts, adequately qualified and experienced, to make recommendations on the type or types of insurance to be procured by the Borrower; and (ii) furnish to the Bank the recommendations made by such expert or experts.

#### ARTICLE V

##### Financial Covenants

Section 5.01. (a) The Borrower shall maintain records and accounts adequate to reflect in accordance with sound accounting practices its operations and financial condition and to register separately the operations, resources and expenditures related to the Project.

(b) The Borrower shall:

(i) have its records, accounts and financial statements (balance sheets, statement of income and expenses and related statements) and the records and accounts for the Special Account for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank;

(ii) furnish to the Bank as soon as available, but in any case not later than four months after the end of each such year: (A) certified copies of the financial statements referred to in paragraph (a) above for such year as so audited; and (B) reports of such audits by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and

(iii) furnish to the Bank such other information concerning said records, accounts and financial statements as well as the audit thereof as the Bank shall from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Loan Account were made on the basis of statements of expenditure, the Borrower shall:

(i) maintain, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;

(ii) retain, until at least one year after the Bank has received the audit report for the fiscal year in which the last withdrawal from the Loan Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;

(iii) enable the Bank's representatives to examine such records; and

(iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

## ARTICLE VI

### Remedies of the Bank

Section 6.01. Pursuant to Section 6.02 (1) of the General Conditions, the following additional events are specified:

(a) The Treaty shall have been amended, suspended, abrogated, repealed or waived so as to make it improbable that the Project can be carried out or to affect materially and adversely the ability of the Borrower to perform any of its obligations under this Agreement.

(b) The First Guarantor or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of the Borrower or for the suspension of its operations.

(c) The LHDA Order shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of the Borrower to perform any of its obligations under this Agreement.

(d) The Second Guarantor shall have failed to make payment of principal or interest or any other charges due when payable under the Second Guarantee Agreement.

(e) The Mohale Dam Financing Agreement shall have failed to become effective by December 31, 1998, or such later date as the Bank may agree; provided, however, that the provisions of this paragraph shall not apply if the Borrower establishes to

the satisfaction of the Bank that adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

(f) (i) Subject to subparagraph (ii) of this paragraph: (A) the right of the Borrower to withdraw the proceeds of any credit or loan made to the Borrower for financing of Part A of the Project shall have been suspended, canceled or terminated in whole or in part, pursuant to the terms of the Agreement concerned, or (B) such credit or loan shall have become due and payable prior to the agreed maturity thereof.

(ii) Subparagraph (i) of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Bank that (A) such suspension, cancellation, termination or prematuring was not caused by the failure of the Borrower to perform any of its obligations under such agreement, and (B) adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

Section 6.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional event is specified, namely, that any event specified in paragraphs (a), (b), (c), (d), (e) and (f) of Section 6.01 of this Agreement shall occur and with respect to the event specified in Section 6.01 (d) shall continue for a period of thirty days.

#### ARTICLE VII

##### Effective Date; Termination

Section 7.01. The following events are specified as additional conditions to the effectiveness of the Loan Agreement within the meaning of Section 12.01 (c) of the General Conditions:

(a) notification from each creditor or agent bank on its behalf, that such creditor or agent bank, has received notifications certifying satisfaction of all initial documentary conditions precedent to the effectiveness of the agreements for the financing referred to in Recital (E) to this Agreement, except that for the Mohale Dam Financing Agreement, other than the effectiveness of this Agreement;

(b) the Borrower has appointed personnel, acceptable to the Bank, as managers of the field operations teams established within ESSG;

(c) the Borrower has submitted to the Bank an action plan satisfactory to the Bank for the purpose of extending the Borrower's compensation scheme included in the EAP to households affected as a result of operations initiated under Phase 1.A;

(d) the Borrower has completed the construction of the resettlement compensation housing under Phase 1.A;

(e) (i) the provisions of the Treaty pertaining to LHWP's governance structure have been amended in a manner satisfactory to the Bank; and

(ii) the First Guarantor has amended LHDA Order No. 23 of 1986 so as to entrust LHDA with a new governance structure satisfactory to the Bank;

(f) the First Guarantor has:

(i) amended its Legal Notice No. 91 of 1992 in a manner satisfactory to the Bank; and

(ii) submitted to the Bank an interim operational manual satisfactory to the Bank, describing inter alia the eligibility criteria and procedures to be followed in selecting investment proposals to be financed under the LHWRP; and

(g) the Borrower has taken appropriate measures to settle in a manner satisfactory to the Bank all outstanding compensation claims resulting from activities initiated under Phase 1.A and registered with the Borrower as at June 30, 1997.

Section 7.02. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

#### ARTICLE VIII

##### Representatives of the Borrower; Addresses

Section 8.01. The Chief Executive of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 8.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Lesotho Highlands Development Authority  
P.O. Box 7332  
Maseru 100  
Lesotho

Telex:

4523 LHDA  
LO

For the Bank:

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

Cable address:

INDEVAS  
Washington, D.C.

Telex:

248423 (MCI) or  
64145 (MCI)

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in the District of Columbia, United States of America, as of the day and year first above written.

LESOTHO HIGHLANDS DEVELOPMENT AUTHORITY

By /s/ Eunice M. Bulane

Authorized Representative

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

By /s/ Callisto E. Madavo

Regional Vice President



## SCHEDULE 1

## Withdrawal of the Proceeds of the Loan

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Loan, the allocation of the amounts of the Loan to each Category and the percentage of expenditures for items so to be financed in each Category:

Category	Amount of the Loan Allocated (Expressed in Dollar Equivalent)	% of Expenditures to be Financed
(1) Consultants' services	39,500,000	100% of foreign expenditures
(2) Training	500,000	100% of foreign expenditures
(3) Unallocated	5,000,000	
TOTAL	45,000,000	

2. For the purposes of this Schedule, the term "foreign expenditures" means expenditures in the currency of any country other than that of the First Guarantor, the Second Guarantor, Namibia or Swaziland for services supplied from the territory of any country other than that of the First Guarantor, the Second Guarantor, Namibia or Swaziland.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of: (a) payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding the equivalent of \$4,500,000, may be made in respect of Category 1 on account of payments made for expenditures before that date but after March 31, 1997; and (b) payments for expenditures in respect of Category (2) unless both the Borrower and JPTC have adopted and submitted to the Bank a training program acceptable to the Bank.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures under contracts not exceeding \$200,000 equivalent, under such terms and conditions as the Bank shall specify by notice to the Borrower.

## SCHEDULE 2

## Description of the Project

The objective of the Project is to establish the physical and managerial capacity for Lesotho to earn export revenues by transforming its principal natural resource - water - into an export commodity.

The Project consists of the following parts, subject to such modifications thereof as the Borrower and the Bank may agree upon from time to time to achieve such objectives:

## Part A: Water Transfer Works

1. Construction of a concrete face rockfill type dam at Mohale about 145 meters high, with an active reservoir storage capacity of about 1,000 million cubic meters and an intake structure connected to a transfer tunnel to Katse Reservoir.
2. Construction of a tunnel of about 32 km long with a diameter of about 4 meters to transfer an average flow of about 10 cubic meters per second of water from the Mohale Reservoir to the Katse Reservoir.
3. Construction of a weir at Matsoku, of about 15 meters high, and a connecting

tunnel of about 6 km long with a diameter of about 4.5 meters, to transfer an average flow of about 2.2 cubic meters per second of water to the Katse Reservoir.

4. Construction of the following infrastructure in the Project area: (a) about 100 kilometers of paved roads; (b) about 10 kilometers of gravel roads; (c) two bridges; and (d) work camps, staff housing, extension of the electric power supply and telecommunication system to the Project sites.

5. Rehabilitation and maintenance of existing roads used by Project related traffic.

Part B: Engineering and Construction Supervision

Construction supervision and detailed design of the civil works covering the Mohale dam and transfer tunnel, Matsoku weir and tunnel and infrastructure referred to under Part A of the Project.

Part C: Institutional Support for LHDA

1. Institutional development and strengthening of LHDA in the fields of engineering, construction, maintenance, administrative and financial management, environment and human resource development through the provision of technical advisory services and training of LHDA staff in engineering, finance, accounting, environment and management.

2. Establishment of panels of experts to advise on dam safety and social and environmental matters.

3. Establishment of a board of independent experts to review any contracts related disputes and to foster an amicable settlement of the same.

Part D: Environmental Protection and Rural Development

1. Implementation of actions to protect and enhance vegetative cover in the watershed above the Mohale Dam, to mitigate negative impacts of the Project on flora, fauna and sites of historic or cultural significance, and to protect and enhance water quality and wetland ecology in the Mohale watershed and in the area immediately down-stream of the dam.

2. Implementation of a program of actions to compensate persons affected by the Project for lost income and assets and to replace lost access and other infrastructure in the Project area.

3. Implementation of a program to restore productive capacity of persons affected by the Project and to enable the exploitation of new economic opportunities created by the Project.

Part E: Studies

Carrying out the following studies:

1. an organization and manpower study for LHDA; and
2. a study of the impact of Phases 1.A and 1.B. on downstream riparians.

Part F: Institutional Support for the First Guarantor

1. Support for the First Guarantor's delegation to the JPTC.
2. Construction, equipping, operation and maintenance of border crossings in the Project area.

Part G: Lesotho Highlands Water Revenue Fund

Strengthening LHWRF's capacity to manage efficiently Royalty Payments accruing to the First Guarantor as a result of the Project.

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The Project is expected to be completed by June 30, 2004.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (expressed in Dollars)*
November 15, 2003	2,250,000
May 15, 2004	2,250,000
November 15, 2004	2,250,000
May 15, 2005	2,250,000
November 15, 2005	2,250,000
May 15, 2006	2,250,000
November 15, 2006	2,250,000
May 15, 2007	2,250,000
November 15, 2007	2,250,000
May 15, 2008	2,250,000
November 15, 2008	2,250,000
May 15, 2009	2,250,000
November 15, 2009	2,250,000
May 15, 2010	2,250,000
November 15, 2010	2,250,000
May 15, 2011	2,250,000
November 15, 2011	2,250,000
May 15, 2012	2,250,000
November 15, 2012	2,250,000
May 15, 2013	2,250,000
TOTAL	45,000,000 =====

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\* The figures in this column represent the amount in Dollars to be repaid, except as provided in Sections 4.04 (d) of the General Conditions.

SCHEDULE 4

Procurement of Consultants' Services

Part A: General

Consultants' services shall be procured in accordance with the provisions of the Introduction and Section IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Bank in January 1997 (the Consultant Guidelines) and the following provisions of Section II of this Schedule.

Part B: Quality- and Cost-based Selection

Except as otherwise provided in Part C of this Section, consultants' services shall be procured under contracts awarded in accordance with the provisions of Section II of the Consultant Guidelines, paragraph 3 of Appendix 1 thereto, Appendix 2 thereto, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.

Part C: Other Procedures for the Selection of Consultants

1. Least Cost Selection

Least-cost Selection for Consultants' services under Part C of the Project estimated to cost less than \$100,000 equivalent per contract may, with the Bank's prior agreement, be procured under contracts awarded in accordance with the provisions

of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

2. Selection Based on Consultants Qualifications

Services for Part C of the Project estimated to cost less than \$100,000 equivalent per contract may, with the Bank's prior agreement, be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines.

3. Single Source Selection

Services for the detailed design and supervision of construction for the Mohale Dam and Mohale Tunnel and for services which are estimated to cost less than \$250,000 equivalent per contract up to an aggregate amount equivalent to \$1,000,000, may, with the Bank's prior agreement, be procured in accordance with the provisions of paragraphs 3.8 through 3.11 of the Consultant Guidelines.

4. Individual Consultants

Services for tasks that meet the requirements set forth in paragraph 5.01 of the Consultant Guidelines shall be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

Part D: Review by the Bank of the Selection of Consultants

1. Selection Planning

Prior to the issuance to consultants of any requests for proposals, the proposed plan for the selection of consultants under the Project shall be furnished to the Bank for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Consultant Guidelines. Selection of all consultants' services shall be undertaken in accordance with such selection plan as shall have been approved by the Bank, and with the provisions of said paragraph.

2. Prior Review

(a) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$200,000 or more, the procedures set forth in paragraphs 1, 2 (other than the third subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$100,000 or more, but less than the equivalent of \$200,000, the procedures set forth in paragraphs 1, 2 (other than the second subparagraph of paragraph 2 (a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(c) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$50,000 or more, the qualifications, experience, terms of reference and terms of employment of the consultants shall be furnished to the Bank for its prior review and approval. The contract shall be awarded only after said approval shall have been given.

3. Post Review

With respect to each contract not governed by paragraph 1 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Consultant Guidelines shall apply.

SCHEDULE 5

Implementation Program

1. The Borrower shall:

(a) maintain policies and procedures adequate to enable it to monitor and

evaluate on an ongoing basis, in accordance with the indicators agreed upon between the Borrower and set forth in Schedule 7 to this Agreement, the carrying out of the Project and the achievement of the objectives thereof;

(b) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank, on or about June 30, 2000, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and

(c) review with the Bank, by September 30, 2000, or such later date as the Bank shall request, the report referred to in subparagraph (b) of this paragraph, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Bank views on the matter.

2. The Borrower shall promptly carry out the EAP as provided therein.

3. The Borrower shall, prior to commencing the impounding of the Mohale reservoir: (a) submit to the Bank evidence that all affected households in the inundation zone have been: (i) satisfactorily resettled; and (ii) compensated in accordance with the provisions of the EAP; (b) submit an action plan, acceptable to the Bank, for LHDA's response to any seismicity that may result from the impounding of the reservoir; (c) (i) complete the study referred to under Part E.2 of the Project; and (ii) promptly submit any results and recommendations thereof to the Bank for its review; and (d) design and implement measures for the management of downstream compensation releases from Matsoku, Katse and Mohale Dams, including but not limited to altering the operating regime releases and/or mitigating any adverse downstream impacts identified in the EAP, or as a result of the study referred to under Part E.2 of the Project.

4. The Borrower shall, prior to mobilizing the contractors for the Mohale Tunnel and Mohale Dam construction works, submit evidence satisfactory to the Bank that all households affected by the construction will have been: (a) satisfactorily resettled; and (b) compensated in accordance with the provisions of the EAP.

5. The Borrower shall, by September 30, 2000: (a) carry out an audit of the execution of its compensation policy, based on terms of reference agreed upon with the Bank; (b) submit the report of the audit referred to in paragraph (a) above, as soon as it is available, to the Bank for its review and comments; and (c) promptly implement the recommendations of the said audit as agreed upon with the Bank.

#### SCHEDULE 6

##### Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories 1 and 2 set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of services required for the Project and to be financed out of the proceeds of the Loan allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term "Authorized Allocation" means an amount equivalent to \$2,000,000 to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Bank shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$1,000,000 until the aggregate amount of withdrawals from the Loan Account plus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of \$4,000,000.

2. Payments out of the Special Account shall be made exclusively for eligible

expenditures in accordance with the provisions of this Schedule.

3. After the Bank has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:

(a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Bank a request or requests for deposit into the Special Account of an amount or amounts which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account such amount or amounts as the Borrower shall have requested.

(b) (i) For replenishment of the Special Account, the Borrower shall furnish to the Bank requests for deposits into the Special Account at such intervals as the Bank shall specify.

(ii) Prior to or at the time of each such request, the Borrower shall furnish to the Bank the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures. All such deposits shall be withdrawn by the Bank from the Loan Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by the Borrower out of the Special Account, the Borrower shall, at such time as the Bank shall reasonably request, furnish to the Bank such documents and other evidence showing that such payment was made exclusively for eligible expenditures.

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Bank shall not be required to make further deposits into the Special Account:

(a) if, at any time, the Bank shall have determined that all further withdrawals should be made by the Borrower directly from the Loan Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement;

(b) if the Borrower shall have failed to furnish to the Bank, within the period of time specified in Section 5.01 (b) (ii) of this Agreement, any of the audit reports required to be furnished to the Bank pursuant to said Section in respect of the audit of the records and accounts for the Special Account;

(c) if, at any time, the Bank shall have notified the Borrower of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Loan Account pursuant to the provisions of Section 6.02 of the General Conditions; or

(d) once the total unwithdrawn amount of the Loan allocated to the eligible Categories, minus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions with respect to the Project, shall equal the equivalent of twice the amount of the Authorized Allocation. Thereafter, withdrawal from the Loan Account of the remaining unwithdrawn amount of the Loan allocated to the eligible Categories shall follow such procedures as the Bank shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Bank shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

6. (a) If the Bank shall have determined at any time that any payment out of the Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished

to the Bank, the Borrower shall, promptly upon notice from the Bank: (A) provide such additional evidence as the Bank may request; or (B) deposit into the Special Account (or, if the Bank shall so request, refund to the Bank) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Bank shall otherwise agree, no further deposit by the Bank into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Bank shall have determined at any time that any amount outstanding in the Special Account will not be required to cover further payments for eligible expenditures, the Borrower shall, promptly upon notice from the Bank, refund to the Bank such outstanding amount.

(c) The Borrower may, upon notice to the Bank, refund to the Bank all or any portion of the funds on deposit in the Special Account.

(d) Refunds to the Bank made pursuant to paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the Loan Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.

#### SCHEDULE 7

##### Performance Indicators

Performance indicators against which progress will be assessed in the mid term review scheduled for September 2000.

##### 1. Major Works

All major structures within cost and on schedule. Key schedule dates are Impoundment of the Mohale Dam in October 2001, transfer of water through the Matsoku Diversion by March 2001 and transfer of water through the Mohale Tunnel by January 2003. Costs targets at each milestone as specified in contracts. Performance to be measured relative to the contractors agreed schedules and estimates of costs and time to completion. Work to be conducted such that days lost to industrial disputes limited to less than 2%, and disabling injury incidents and project related deaths minimized, and the share of the unskilled workforce recruited from the LHWP project area greater than 30%. Progress towards target of M150 million in contracts to Basotho contractors. Development of an action plan to monitor and mitigate Reservoir Induced Seismicity by June 2000. Advance infrastructure under maintenance. Completion of and agreement by all parties on an operational plan for downstream water releases and agreement on an action plan, with implementation arrangements and budgets, to mitigate any downstream impacts.

##### 2. Compensation

Implementation of the compensation plan of the EAP, in both the 1.A and stage 1 in the 1B project areas, with deliveries of cash payments, grain deliveries and compensation for community resources on time and as per final community preferences, as agreed by August 31, 1998. Integrated compensation complaints register, database and monitoring system established and maintained, community dispute resolution systems functioning.

##### 3. Resettlement

Completion of resettlement of an estimated 99 stage one households, prior to mobilization of contractors for Mohale Tunnel and Mohale Dam. All affected households supplied with water supply and sanitation. Agreement reached with about 172 stage two households on final resettlement locations, compensation options and income generation plans, and sufficient progress made on the implementation of these plans to allow resettlement to take place prior to inundation in October 2001. At least 60% of the stage two replacement houses to be constructed by their owners or by small local contractors.

##### 4. Affected Community Infrastructure

Final agreement (using both engineering criteria and social considerations) on the length and location of access roads to be provided under the project. Progress on physical implementation of works by June 2000 to include 100 km of access roads, 50 classrooms, 190 latrines, 22 villages provided with water to standards acceptable to the Association, with 44 trained water minders and a water committee per village. Appropriate arrangements in place for maintenance of facilities and ultimate handover to communities or government. All community infrastructure to be environmentally sound (i.e. impact minimized and mitigated) and socially appropriate (e.g. location of facilities).

#### 5. Income Restoration

270 income restoration plans developed, 180 persons having undergone training, 400 on short term employment under project, 45 participating in project funded credit schemes. Highland maize yield increased by 9% over the average catchment yield for 95 farmers covered by the project.

#### 6. Community Water Supply and Sanitation

Water supply and sanitation supplied at standards acceptable to the Association to 30 additional villages in the catchment area, but not directly affected by the project, each with a water committee established and water minders trained, and resultant diarrhoea episodes reduced by 40% and helminthic infections by 10% in those villages within 12 months of completion of the works.

#### 7. Community Health Care

Implementation of the community health program, including provision of services to those in the catchment but not directly affected by the project. Establishment of two clinics, with good all-round attendance rates including ante-natal mother attendance of 70%. Health status reporting and local health committees established for all communities. At least 50,000 condoms and 2,000 health pamphlets distributed annually in the Phase 1.B Project area. Full agreement with the Ministry of Health, with at least 50% of staff members required identified for secondment to LHWP facilities, and agreement reached on full training programs in clinical skills, health care management and primary health care monitoring and evaluation. Handover plans agreed for all LHWP health facilities to the First Guarantor. Primary immunization rates up from 80% to 85% by June 2000 in the catchment areas, with stunting down from 47% to 40%, severe PEM down from 7% to 5%, sexually transmitted diseases rates down from 50% to 40%.

#### 8. Natural Environment

Catchment conservation coordinating committee established and operational, with full support of First Guarantor and communities. Environmental Awareness program launched and operational, showing an improvement in community awareness. Recycling program established and transferred to local communities and contractors on a sustainable basis. Biosphere planning complete with sites and conservation plans approved ready for implementation. Comprehensive environmental resource baseline data established and monitoring systems operational (per the EAP) from September 1999, with appropriate corrective action being taken as warranted.

#### 9. Monitoring and Evaluation

Monitoring and Evaluation Unit established and staffed, all baseline indicators and evaluation criteria agreed (including participatory criteria) and data collection procedures established and operational. Annual data collection surveys started in 1998, with evaluation workshops held annually, and appropriate corrective actions taken as a result.

#### 10. Institutional

Transformation program completed and all new managers appointed by June 1998. Training policy and plan agreed by October 1998, with rolling three year plans and detailed annual plans agreed annually thereafter. Implementation measured in terms of percentage completion of plan, and cost per trainee. New Governance structure implemented through amendment to Treaty and Order and new LHDA Board members appointed



by December 1998.

