



CREDIT NUMBER 74920-LS

Financing Agreement

(Lesotho Public Sector Foundations for Service Delivery Project)

between

KINGDOM OF LESOTHO

and

INTERNATIONAL DEVELOPMENT ASSOCIATION



FINANCING AGREEMENT

AGREEMENT dated as of the Signature Date between KINGDOM OF LESOTHO (“Recipient”) and INTERNATIONAL DEVELOPMENT ASSOCIATION (“Association”). The Recipient and the Association hereby agree as follows:

ARTICLE I — GENERAL CONDITIONS; DEFINITIONS

- 1.01. The General Conditions (as defined in the Appendix to this Agreement) apply to and form part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.

ARTICLE II — FINANCING

- 2.01. The Association agrees to extend to the Recipient a credit, which is deemed as Concessional Financing for purposes of the General Conditions, in an amount equivalent to nine million one hundred thousand Special Drawing Rights (SDR 9,100,000) (variously, “Credit” and “Financing”), to assist in financing the project described in Schedule 1 to this Agreement (“Project”).
- 2.02. The Recipient may withdraw the proceeds of the Financing in accordance with Section III of Schedule 2 to this Agreement.
- 2.03. The Maximum Commitment Charge Rate is one-half of one percent (1/2 of 1%) per annum on the Unwithdrawn Financing Balance.
- 2.04. The Service Charge is three-fourths of one percent (3/4 of 1%) per annum on the Withdrawn Credit Balance.
- 2.05. The Interest Charge is one and a quarter percent (1.25%) per annum on the Withdrawn Credit Balance.
- 2.06. The Payment Dates are May 15 and November 15 in each year.
- 2.07. The principal amount of the Credit shall be repaid in accordance with the repayment schedule set forth in Schedule 3 to this Agreement.
- 2.08. The Payment Currency is Dollar.

ARTICLE III — PROJECT

- 3.01. The Recipient declares its commitment to the objective of the Project. To this end, the Recipient shall carry out the Project in accordance with the provisions of Article V of the General Conditions and, Schedule 2 to this Agreement.

ARTICLE IV — EFFECTIVENESS; TERMINATION

- 4.01. The Additional Condition of Effectiveness consists of the following:
- (a) The Recipient has recruited or assigned to the PIT (i) a project coordinator; (ii) a procurement specialist; (iii) a financial management specialist; (iv) an environmental and social safeguards focal point; and (v) technical leads for implementation of Parts 1, 2 and 3 of the Project with qualifications, experience, resources and under terms of reference satisfactory to the Association.
 - (b) The Recipient has prepared and adopted the Project Operations Manual, in form and substance satisfactory to the Association.
- 4.02. The Effectiveness Deadline is the date ninety (90) days after the Signature Date.
- 4.03. For purposes of Section 10.05(b) of the General Conditions, the date on which the obligations of the Recipient under this Agreement (other than those providing for payment obligations) shall terminate is twenty (20) years after the Signature Date.

ARTICLE V — REPRESENTATIVE; ADDRESSES

- 5.01. The Recipient's Representative is its minister finance and development planning.
- 5.02. For purposes of Section 11.01 of the General Conditions:
- (a) the Recipient's address is:

Ministry of Finance and Development Planning
P.O. Box 395
Maseru 100
Lesotho; and
 - (c) the Recipient's Electronic Address is:

Telephone
(266) 22 310 622
- 6.03. For purposes of Section 11.01 of the General Conditions:

(a) the Association's address is:

International Development Association
1818 H Street, N.W.
Washington, D.C. 20433
United States of America; and


(b) the Association's Electronic Address is:

Telex:	Facsimile:
248423 (MCI)	1-202-477-6391

AGREED as of the Signature Date.

KINGDOM OF LESOTHO

By



Authorized Representative

Name: Retselisitsoe Adelaide Matlanyane

Title: Minister of Finance and Development Planning

Date: 28-Feb-2024

INTERNATIONAL DEVELOPMENT ASSOCIATION

By



Authorized Representative

Name: Asmeen Khan

Title: Acting country director

Date: 20-Feb-2024

SCHEDULE 1

Project Description

The objective of the Project is to strengthen expenditure controls and improve delivery of Selected Digital Public Services.

The Project consists of the following parts:

Part 1: Expenditure Management Strengthening

- 1.1 *Carrying out activities to support the enhancement of the budget system including:* (a) developing practices, methods, and digital tools for aligning the medium-term expenditure framework with the medium-term fiscal framework; (b) strengthening expenditure management controls including the coverage and integrity of the Integrated Financial Management System; (c) improving the Integrated Revenue Management System and its consolidation, processing and data storage capacity; (d) strengthening the budgetary and fiduciary governance of autonomous spending entities including decentralized entities and connecting them to the Central Budget Management System; and (e) improving the interface between the Central Budget Management System and the payroll system.
- 1.2 *Carrying out activities to strengthen public assets management including:* (a) conducting a review of the regulatory, organizational, data and procedural changes for public asset management; (b) purchasing an asset management system; (c) designing and activating the system and providing relevant training on the said system; (d) designing an asset management unit; (e) developing and rolling out a training program on asset management; (f) conducting the first physical government asset count and auditing said count; and (g) providing technical advisory support on strategic asset management.
- 1.3 *Carrying out activities to promote public procurement modernization including:* (a) finalizing the development of standard procedures, guidelines, and regulations for the Public Procurement Act (b); providing technical assistance for supporting the establishment and the organizational aspects of the new Public Procurement Authority (PPA); (c) developing and implementing applicable training including international exchange programs; (d) purchasing of equipment and furnishings for the PPA; (e) developing sustainable/green procurement concepts and policies; and (f) designing an electronic government procurement system.

Part 2: Human Resource Management and Organizational Transformation

- 2.1 *Carrying out activities to enhance the Human Resources Management Information System (HRMIS) including:* (a) conducting data cleaning to verify payroll records against the NID System; (b) migrating historical human resource data from the old HRMIS to the new HRMIS; (c) digitizing all personnel records to upload in the HRMIS; (d) developing the interfaces between the HRMIS and other resource management systems; (e) customizing the HRMIS to enhance controls; and (f) purchasing equipment to support the use of HRMIS.
- 2.2 *Strengthening the functional and regulatory reforms for human resources including:* (a) updating the applicable laws, regulations and policies; (b) developing new policies such as on performance management, allowances, transfers, whistleblowing and employer-employee relations; (c) conducting functional reviews and organizational design of ministries, departments and agencies; (d) reviewing and streamlining of project implementation support functions for official development assistance; and (e) preparing the organizational structure for the Salaries and Remuneration Commission.
- 2.3 *Supporting capacity development in key human resources practices within the public service including:* (a) providing training and capacity development programs for human resource practitioners including on the public service's new sexual harassment policy, performance management, and the Public Service Code of Conduct; (b) providing training on the HRMIS; (c) providing leadership training and coaching support for senior managers; (d) conducting civil servants workplace surveys; (e) conducting baseline assessment of training programs offered by LIPAM; (f) updating the design and coverage of the induction program for civil servants offered by LIPAM to include commissioners; and (g) conducting an institutional review of LIPAM.

Part 3. Shared Digital Government Foundations

- 3.1 *Establishing an enabling environment to support digital transformation and a climate-friendly digital environment including preparation of the applicable policies, regulations, standards, and procedures.*
- 3.2 *Carrying out activities to support digital platforms and solutions including:* (a) upgrading of the core end-of-life government data hosting and business continuity solutions using the new energy-efficient hardware; (b) establishing preparing the organization design and purchasing of the core equipment for the National Cybersecurity Council; (c) establishing a National Computer Emergency Response Team, and a Government Security Operations Centre; (d) establishing the whole-of-government interoperability platform and connecting key public entities and registries to the said platforms; (e) digitizing selected Department of Home Affairs services (i.e.; civil registration, identification, and authentication services); and (f)

designing and rolling-out online citizen feedback digital services.

Part 4. Reform coordination and project management support

- 4.1 Promoting effective project management including the financing of the Operating Costs and other costs for the PIT, staff/consultants in connection with project management, project coordination, monitoring and evaluation, environmental and social standards, project communication; independent audits; and providing training for the PIT and implementing partners.
- 4.2 Carrying out activities to support change management including: (a) strategies, process changes and sensitization of public sector employees to on-going reforms; and other related change initiatives; (b) support for the Public Service Commission to adapt and adopt competency models in the selection of civil servants; and (c) the digital transformation of government staff and citizens.
- 4.3 Reviewing existing curriculum and designing and implementing digital skills training for civil servants and citizens.
- 4.4 Deploying quality assurance experts to assist in procurement and implementation of management information systems, and digital solutions and strategic communication.

SCHEDULE 2

Project Execution

Section I. Implementation Arrangements

A. Institutional Arrangements

1. *Ministry of Finance and Development Planning*

The Ministry of Finance and Development Planning (MFDP) shall be responsible for providing the overall policy direction and oversight of the Project.

2. *Project Implementation Team (PIT)*

The Recipient, through MFDP, shall establish and thereafter maintain, during the Project implementation, the PIT, comprising (i) a project coordinator; (ii) a procurement specialist; (iii) a financial management specialist; (iv) a monitoring and evaluation specialist; (iv) a social and environment standards focal point; and (v) technical leads for Part 1, 2, and 3 of the Project, all with skill, experience and terms of reference satisfactory to the Association, to provide overall monitoring, coordination and support for the implementation of the Project.

3. *Project Steering Committee*

(a) The Recipient shall maintain, throughout the implementation of the Project, Project Steering Committee with composition and terms of reference satisfactory to the Association, to have oversight and coordination of activities towards the objectives of the Project.

(b) Without limitation to the generality of the foregoing provisions of paragraph (a) immediately above, the Project Steering Committee shall include, *inter alia*, principal secretaries of MFDP, MICSTI and MPS or their deputy principal secretaries.

4. *Technical Committee*

(a) The Recipient shall maintain throughout the implementation of the Project, the Technical Committee with a composition, mandate, terms of reference and resources satisfactory to the Association to facilitate the implementation of reforms and activities financed under the project.

(b) Without limitation to the generality of the foregoing provisions of paragraph (a) immediately above, the Technical Committee shall include, *inter alia*, heads of department of MFDP, MICSTI and MPS.

B. Implementation Arrangements

Project Operations Manual

- (a) The Recipient shall prepare and thereafter adopt a Project Operations Manual (POM) in form and substance satisfactory to the Association, containing detailed arrangements and procedures for implementation of the Project consistent with the provisions of this Agreement and with applicable laws and regulations and including *inter alia*: (i) timetables of actions required to be carried out under the Project; (ii) arrangements including financial management, procurement, and anti-corruption; (iii) environment and social management systems; (iv) monitoring and evaluation, reporting and communication; (v) comprehensive procedures for Project administration and accounting; and (vi) such other administrative, financial, technical and organizational arrangements, procedures and necessary terms of reference as shall be required for the POM.
- (b) The Recipient shall carry out the Project, in accordance with the POM, and except as the Association shall otherwise agree, the Recipient shall not assign, amend, abrogate, or waive the Project Operations Manual, or any provision thereof.

C. Annual Work Plan and Budgets

- 1. The Recipient shall prepare and furnish to the Association not later than March 1 of each fiscal year (or one month after the Effective Date for the first year of Project implementation), a work plan and budget containing *inter alia*: (a) all activities proposed to be implemented under the Project during the following fiscal year; (b) a proposed financing plan for expenditures required for such activities, setting forth the proposed amounts and sources of financing to be made available in that year and disbursement schedule; and (c) the training plan for such period.
- 2. The Recipient shall afford the Association a reasonable opportunity to exchange views on each such proposed annual work plan and budget and shall thereafter ensure that the Project is implemented with due diligence during the applicable fiscal year in accordance with such work plan and budget as shall have received the Association's non-objection ("Annual Work Plan and Budget").
- 3. The Recipient shall not make, or allow to be made, any changes to the approved Annual Work Plan and Budget without prior non-objection in writing by the Association.

D. Environmental and Social Standards.

1. The Recipient shall ensure that the Project is carried out in accordance with the Environmental and Social Standards, in a manner acceptable to the Association.
2. Without limitation upon paragraph 1 above, the Recipient shall ensure that the Project is implemented in accordance with the Environmental and Social Commitment Plan (“ESCP”), in a manner acceptable to the Association. To this end, the Recipient shall ensure that:
 - (a) the measures and actions specified in the ESCP are implemented with due diligence and efficiency, as provided in the ESCP;
 - (b) sufficient funds are available to cover the costs of implementing the ESCP;
 - (c) policies and procedures are maintained, and qualified and experienced staff in adequate numbers are retained to implement the ESCP, as provided in the ESCP; and
 - (d) the ESCP, or any provision thereof, is not amended, repealed, suspended or waived, except as the Association shall otherwise agree in writing, as specified in the ESCP, and ensure that the revised ESCP is disclosed promptly thereafter.
3. In case of any inconsistencies between the ESCP and the provisions of this Agreement, the provisions of this Agreement shall prevail.
4. The Recipient shall ensure that:
 - (a) all measures necessary are taken to collect, compile, and furnish to the Association through regular reports, with the frequency specified in the ESCP, and promptly in a separate report or reports, if so requested by the Association, information on the status of compliance with the ESCP and the environmental and social instruments referred to therein, all such reports in form and substance acceptable to the Association, setting out, inter alia: (i) the status of implementation of the ESCP; (ii) conditions, if any, which interfere or threaten to interfere with the implementation of the ESCP; and (iii) corrective and preventive measures taken or required to be taken to address such conditions; and
 - (b) the Association is promptly notified of any incident or accident related to or having an impact on the Project which has, or is likely to have, a significant adverse effect on the environment, the affected communities, the public or workers, in accordance with the ESCP, the environmental and social instruments referenced therein and the Environmental and Social Standards.

5. The Recipient shall establish, publicize, maintain and operate an accessible grievance mechanism, to receive and facilitate resolution of concerns and grievances of Project-affected people, and take all measures necessary and appropriate to resolve, or facilitate the resolution of, such concerns and grievances, in a manner acceptable to the Association.

Section II. Project Monitoring, Reporting and Evaluation

The Recipient shall furnish to the Association each Project Report not later than one month after the end of each semester of Fiscal Year covering the Fiscal Year.

Section III. Withdrawal of the Proceeds of the Financing

A. General

Without limitation upon the provisions of Article II of the General Conditions and in accordance with the Disbursement and Financial Information Letter, the Recipient may withdraw the proceeds of the Financing to finance Eligible Expenditures in the amount allocated and, if applicable, up to the percentage set forth against each Category of the following table:

Category	Amount of the Credit Allocated (Expressed in SDR)	Percentage of Expenditures to be Financed (Inclusive of Taxes)
(1) Goods, non-consulting services, consulting services, Operating Costs, and Training for the Project	9,100,000	100 %
TOTAL AMOUNT	9,100,000	

B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made for payments made prior to the Signature Date.
2. The Closing Date is March 31, 2028.

Section IV. Other Undertakings

A. *Training on Environmental and Social Standards*

The Recipient shall not later than thirty (30) days after the Effective Date, provide training on the Association's environmental and social standards to the Project Implementation Team and consultants working with the PIT.

SCHEDULE 3

Repayment Schedule

Date Payment Due	Principal Amount of the Credit Repayable (Expressed as a Percentage) *
On each May 15 and November 15:	
commencing May 15, 2029 to and including November 15, 2048	1.65%
commencing May 15, 2049 to and including November 15, 2053	3.40%

* The percentages represent the percentage of the principal amount of the Credit to be repaid, except as the Association may otherwise specify pursuant to Section 3.05(b) of the General Conditions.

APPENDIX

Definitions

1. “Annual Work Plan and Budget” means the plan and budget which have received the Association’s no-objection in accordance with Section I.C of Schedule 2 to this Agreement as said plan and budget may be modified from time to time with the prior written no-objection of the Association.
2. “Anti-Corruption Guidelines” means, for purposes of paragraph 5 of the Appendix to the General Conditions, the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006 and revised in January 2011 and as of July 1, 2016.
3. “Category” means a category set forth in the table in Section III.A of Schedule 2 to this Agreement.
4. “Central Budget Management System” means the Recipient’s information technology software for the management of the budget.
5. “Department of Home Affairs” means the department under the Recipient’s Ministry of Local Government, Chieftainship, Home Affairs and Police, or any successor thereto.
6. “Environmental and Social Commitment Plan” or “ESCP” means the environmental and social commitment plan for the Project, dated December 19, 2023, as the same may be amended from time to time in accordance with the provisions thereof, which sets out the material measures and actions that the Recipient shall carry out or cause to be carried out to address the potential environmental and social risks and impacts of the Project, including the timeframes of the actions and measures, institutional, staffing, training, monitoring and reporting arrangements, and any environmental and social instruments to be prepared thereunder.
7. “Environmental and Social Standards” or “ESSs” means, collectively: (i) “Environmental and Social Standard 1: Assessment and Management of Environmental and Social Risks and Impacts”; (ii) “Environmental and Social Standard 2: Labor and Working Conditions”; (iii) “Environmental and Social Standard 3: Resource Efficiency and Pollution Prevention and Management”; (iv) “Environmental and Social Standard 4: Community Health and Safety”; (v) “Environmental and Social Standard 5: Land Acquisition, Restrictions on Land Use and Involuntary Resettlement”; (vi) “Environmental and Social Standard 6: Biodiversity Conservation and Sustainable Management of Living Natural Resources”; (vii) “Environmental and Social Standard 7: Indigenous Peoples/Sub-Saharan African Historically Underserved Traditional Local Communities”; (viii)

“Environmental and Social Standard 8: Cultural Heritage”; (ix) “Environmental and Social Standard 9: Financial Intermediaries”; (x) “Environmental and Social Standard 10: Stakeholder Engagement and Information Disclosure”; effective on October 1, 2018, as published by the Association.

8. “Fiscal Year” means the Recipients calendar starting in April and ending in March.
9. “General Conditions” means the “International Development Association General Conditions for IDA Financing, Investment Project Financing”, dated December 14, 2018 (Last revised on July 15, 2023).
10. “Government Security Operations Centre” means an entity to be established by the Recipient for the purpose of monitoring and preventing security threats to the Recipient’s Government information technology systems.
11. “Human Resource Management Information System” or “HRMIS” means the Recipient’s information technology system for managing human resources.
12. “Integrated Financial Management System” means the Recipient’s information technology system for managing public finances.
13. “Integrated Revenue Management System” or “IRMS” means the Recipient’s information technology system for managing government revenues.
14. “LIPAM” means the Lesotho Institute of Public Administration and Management a department within the Ministry of the Public Service responsible for training and capacity development of public servants.
15. “MFDP means the Recipient’s Ministry of Finance and Development Planning, or any successor thereto.
16. “MICSTP” means the Recipient’s Ministry of Information, Communications, Science, Technology and Innovation or any successor thereto.
17. “MPS” means the Recipient’s Ministry of Public Service or any successor thereto.
18. “National Computer Emergency Response Team” means the Recipient’s entity in charge of rapid response to security threats to information technology systems.
19. “National Cybersecurity Council” means the council to be established by the Recipient for the purpose of advising on the prevention of cyber security threats.
20. “NID System” means the Recipient’s National Identity System, an application software for managing national identification cards.

21. “Operating Costs” means the reasonable incremental expenditures incurred by the Recipient on account of Project implementation, based on the Annual Work Plans approved by the Association, and consisting of expenditures for office supplies and stationary, office rent, communication and insurance charges, maintenance of office and information technology equipment, hazard payments, vehicle operations and maintenance costs, utilities *per diem* and travel allowances, and salaries of locally contracted employees, but excluding salaries of officials of the Recipient’s civil/public service.
22. “Procurement Regulations” means, for purposes of paragraph 85 of the Appendix to the General Conditions, the “World Bank Procurement Regulations for IPF Borrowers”, dated September 2023.
23. “Project Implementation Team” or “PIT” means the implementation team to be established within MFDP and to be maintained in accordance with the provisions of Section I.A.2 of Schedule 2 to this Agreement, or any successor thereto.
24. “Project Operations Manual” or “POM” means the manual referred to in Section I.B.1 of Schedule 2 to this Agreement, which shall be developed outlining the proposed Project implementation details, as the same may be amended from time to time with the prior written agreement of the Association, and such term includes any schedules or annexes to said Manual.
25. “Project Steering Committee” or “PSC” means the steering committee established by the Recipient for the Project, referred to in Section I.A.3 of Schedule 2 to this Agreement, and further described in the POM.
26. “Public Procurement Act” means the Recipient’s Public Procurement Act, No.3 2023, as said Act may be amended from time to time.
27. “Public Procurement Authority” or “PPA” means the Recipient’s Public Procurement Authority established and operating pursuant to the Public Procurement Act, No.3 or any successor thereto.
28. “Public Service Code of Conduct” means the set of rules of how employers and employees should conduct themselves in the workplace.
29. “Public Service Commission” means the Recipient’s entity responsible for the recruitment of civil servants.
30. “Salaries and Remuneration Commission” means the entity to be established by the Recipient for the purpose of reviewing and standardising the remuneration and benefits packages for the public service.

31. “Selected Digital Public Service” means digital public services delivered through civil registration, identification and authentication services; or any other services that may be agreed with the Association.
32. “Signature Date” means the later of the two dates on which the Recipient and the Association signed this Agreement and such definition applies to all references to “the date of the Financing Agreement” in the General Conditions.
33. “Technical Committee” or “TC” means the committee referred to in Section I.A. 4 of Schedule 2 to this Agreement, and further described in the POM.
34. “Training” means the reasonable costs for the following expenditures incurred in providing training or workshops: travel by participants and presenters to the training or workshop site, *per diem* allowances of such persons during the training or workshop, honoraria for the presenters, rental of facilities, materials, supplies and translation and interpretation services.