

CONFORMED COPY

**CREDIT NUMBER 4827 - LS
GRANT NUMBER H623 - LS**

Financing Agreement

(Additional Financing for the Integrated Transport Project)

between

KINGDOM OF LESOTHO

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated October 9, 2010

CREDIT NUMBER 4827 - LS
GRANT NUMBER H623- LS

FINANCING AGREEMENT

AGREEMENT dated October 9, 2010, entered into between KINGDOM OF LESOTHO (“Recipient”) and INTERNATIONAL DEVELOPMENT ASSOCIATION (“Association”) for the purpose of providing additional financing for activities related to the Original Project (as defined in the Appendix to this Agreement). 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) constitute an integral part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.

ARTICLE II — FINANCING

- 2.01. The Association agrees to extend to the Recipient, on the terms and conditions set forth or referred to in this Agreement, a grant and a credit (collectively, “Financing”) in the following amounts to assist in financing the activities related to Parts 2(b) and 2(e) of the Project:
 - (a) an amount equivalent to four million four hundred thousand Special Drawing Rights (SDR 4,400,000) (“Grant”); and
 - (b) an amount equivalent to five million eight hundred thousand Special Drawing Rights (SDR 5,800,000) (“Credit”).
- 2.02. The Recipient may withdraw the proceeds of the Financing in accordance with Section IV of Schedule 2 to this Agreement.
- 2.03. The Maximum Commitment Charge Rate payable by the Recipient on the Unwithdrawn Financing Balance shall be one-half of one percent (1/2 of 1%) per annum.
- 2.04. The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.
- 2.05. The Payment Dates are January 1 and July 1 in each year.

- 2.06. The principal amount of the Credit shall be repaid in accordance with the repayment schedule set forth in Schedule 3 to this Agreement.
- 2.07. The Payment Currency is the Dollar.

ARTICLE III — PROJECT

- 3.01. The Recipient declares its commitment to the objective of the Project and the Program. To this end, the Recipient shall carry out the Project through MPWT in accordance with the provisions of Article IV of the General Conditions.
- 3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Recipient and the Association shall otherwise agree, the Recipient shall ensure that the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement.

ARTICLE IV — REMEDIES OF THE ASSOCIATION

- 4.01. The Additional Event of Suspension consists of the following: a situation has arisen which makes it improbable that the Program or a significant part thereof will be carried out.

ARTICLE V — EFFECTIVENESS; TERMINATION

- 5.01. The Additional Condition of Effectiveness consists of the following:
 - (a) the Recipient has adopted an updated Project Implementation Manual in accordance with Section I.B of Schedule 2 to this Agreement, in form and substance satisfactory to the Association; and
 - (b) the Recipient has provided evidence satisfactory to the Association that it has settled at least \$2.5 million in outstanding certificates due and payable under the Construction Contract in connection with the Stage 1 Works.
- 5.02. The Effectiveness Deadline is the date falling ninety (90) days after the date of this Agreement.
- 5.03. For purposes of Section 8.05(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 date of this Agreement.

ARTICLE V — REPRESENTATIVE; ADDRESSES

- 6.01. The Recipient's Representative is its minister at the time responsible for finance.

6.02. The Recipient's Address is:

Ministry of Finance and Development Planning
P.O. Box 395
Maseru 100
Lesotho

Facsimile:

(266) 22 310 157

(266) 22 310 622

6.03. The Association's Address is:

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

Cable:

Telex:

Facsimile:

INDEVAS

248423 (MCI)

1-202-473-1000

Washington, D.C.

AGREED at District of Columbia, United States of America, as of the day and year first above written.

KINGDOM OF LESOTHO

By

/s/ Timothy Thahane
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By

/s/ Ruth Kagia
Authorized Representative

SCHEDULE 1

Project Description

The objective of the Project is to enhance prospects for economic growth in the Recipient's territory through provision of an efficient and integrated transport system that is safe and affordable to improve access to services and market opportunities for all across the Recipient's territory.

The Project consists of the following parts:

Part 1: Formulation of Appropriate Institutional Reform Policy for the Transport Sector

- (a) Formulation and implementation of policies aimed at: (i) introducing new management vision and techniques for the road sub-sector at the central as well as at the local level; and (ii) strengthening managerial and operational capacity in the Roads Directorate as well as at the local authorities in charge of local roads maintenance.
- (b) Provision of appropriate training to staff of MPWT selected for redeployment out of MPWT.
- (c) Strengthening the capacity of private sector contractors to enable MPWT to phase out its road maintenance activities through force account by contracting the said maintenance activities to private sector contractors.
- (d) (i) Refurbishing of facilities housing the Roads Directorate; and (ii) acquisition of equipment for the Roads Directorate and for the local authorities in charge of local roads maintenance.
- (e) Carrying out the MUPTS aimed at strengthening MMC's capacity for efficient urban planning and transport systems.
- (f) Carrying out the ITPDS aimed at equipping the Recipient with a coherent and fully integrated framework for efficient development and management of activities pertaining to its civil aviation, rail, intermediate transport and water transport sub-sectors.
- (g) Training to strengthen expertise and capacity for staff in charge of activities pertaining to the Project.
- (h) Acquisition of technical advisory services.

Part 2: Infrastructure Development

- (a) carrying out of emergency repair works on the paved section of the Oxbow Mokhotlong road;
- (b) construction of two bridges over the Senqu and Senqunyane rivers and related road connections;
- (c) upgrading of a stretch of about 25 km on the Mantsonyane-Lesobeng road and another stretch of about 8 km on the Likotopong-Lintsa feeder road;
- (d) construction of footbridges and intermediate transport access schemes; and
- (e) maintenance and repairs on a stretch of about 64 km on the Nyenye-Makhoroana and Teyateyaneng-Mapoteng junction road, such maintenance and repair to include cleaning of side drains, filling potholes, spot improvement on damaged sections, replacement of old culverts and damaged drainage system and resealing of road.

Part 3: Project Management, Monitoring and Evaluation

- (a) Acquisition of technical advisory services required for activities pertaining to management, monitoring and evaluation of implementation of the Project.
- (b) Formulation and execution of activities aimed at: (i) fostering awareness about HIV/AIDS with a view to containing its spread among persons involved in the transport sector; and (ii) monitoring and evaluating implementation of the Project and its impact on gender, poverty alleviation and economic development gains deriving from civil works associated with the Project.

SCHEDULE 2

Project Execution

Section I. Implementation Arrangements

A. General Institutional and Implementation Arrangements

The provisions of Section I of Schedule 2 to the Financing Agreement (including defined terms therein, unless otherwise defined herein), shall apply to this Agreement, *mutatis mutandis*.

B. Manual

In order to facilitate the implementation of the activities under Part 2(e) of the Project, the Recipient, shall: (i) adopt an update to the Project Implementation Manual referred to in Section I.B of Schedule 2 to the Original Financing Agreement, in form and substance satisfactory to the Association, which outlines, *inter alia*, the eligibility, appraisal and implementation modalities for the activities under Part 2(e) of the Project; and (ii) prior to such adoption, shall provide the Association with the opportunity to review and comment on such updates.

Section II. Project Monitoring, Reporting and Evaluation

A. Project Reports

The Recipient shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 4.08 of the General Conditions and on the basis of indicators acceptable to the Association and set forth in the Project Implementation Manual. Each Project Report shall cover the period of one calendar quarter, and shall be furnished to the Association not later than forty-five (45) days after the end of the period covered by such report.

B. Financial Management, Financial Reports and Audits

1. The Recipient shall maintain or cause to be maintained a financial management system in accordance with the provisions of Section 4.09 of the General Conditions.
2. Without limitation on the provisions of Part A of this Section, the Recipient shall prepare and furnish to the Association as part of the Project Report interim un-audited financial reports for the Project covering the quarter, in form and substance satisfactory to the Association.

3. The Recipient shall have its Financial Statements and those of its Road Fund audited in accordance with the provisions of Section 4.09(b) of the General Conditions. Each audit of the Financial Statements shall cover the period of one fiscal year of the Recipient. The Recipient shall ensure that the audited Financial Statements for each such period shall be: (a) furnished to the Association not later than six (6) months after the end of such period; and (b) made publicly available in a timely fashion and in a manner acceptable to the Association.

Section III. Procurement

The provisions of Section III of Schedule 2 to the Original Financing Agreement (including defined terms therein, unless otherwise defined herein) shall apply to this Agreement, *mutatis mutandis*.

Section IV. Withdrawal of the Proceeds of the Financing

A. General

1. The Recipient may withdraw the proceeds of the Financing in accordance with the provisions of Article II of the General Conditions, this Section, and such additional instructions as the Association shall specify by notice to the Recipient (including the “World Bank Disbursement Guidelines for Projects” dated May 2006, as revised from time to time by the Association and as made applicable to this Agreement pursuant to such instructions), to finance Eligible Expenditures as set forth in the table in paragraph 2 below.
2. The following table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Financing (“Category”), the allocations of the amounts of the Credit and of the Grant to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category:

Category	Amount of the Credit Allocated (expressed in SDR)	Amount of the Grant Allocated (expressed in SDR)	Percentage of Expenditures to be Financed (inclusive of Taxes)
(1) Works and consultants' services for Part 2(b) of the Project	4,100,000	2,700,000	100%
(2) Works and consultants' services for Part 2(e) of the Project	1,700,000	1,700,000	80% for works 100% for consultants' services
TOTAL AMOUNT	5,800,000	4,400,000	

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 date of this Agreement, except that withdrawals up to an aggregate amount not to exceed \$5,000,000 equivalent may be made for payments made prior to this date but on or after December 31, 2009, for Eligible Expenditures.
2. The Closing Date is June 30, 2012.

Section V. Amendments to Original Financing Agreement

- A.** The Original Financing Agreement is amended as follows:
1. the closing date specified in paragraph 3 of Section IV of Schedule 2 to the Original Financing Agreement (i.e., June 30, 2011) is deleted and replaced by the Closing Date (i.e., June 30, 2012);
 2. Schedule 1 (*Project Description*) of the Original Financing Agreement is deleted in its entirety and replaced by Schedule 1 to this Agreement; and
 3. Section II of Schedule 2 to the Original Financing Agreement (*Project Monitoring; Reporting and Evaluation*) is deleted in its entirety and replaced by Section II of Schedule 2 to this Agreement.

Section VI. Access to Information

The Association may disclose the Legal Agreements and any information related to the Legal Agreements in accordance with its policy on access to information, in effect at the time of such disclosure.

SCHEDULE 3

Repayment Schedule

Date Payment Due	Principal Amount of the Credit repayable (expressed as a percentage)*
On each January 1 and July 1:	
commencing January 1, 2021, to and including July 1, 2030	1%
commencing January 1, 2031, to and including July 1, 2050	2%

* 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 3.03(b) of the General Conditions.

APPENDIX

Section I. Definitions

1. “Anti-Corruption Guidelines” means the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006, with the modifications set forth in Section III of this Appendix.
2. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
3. “Consultant Guidelines” means the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the Bank in May 2004 and revised in October 2006 and May 2010.
4. “General Conditions” means the “International Development Association General Conditions for Credits and Grants”, dated July 1, 2005, (as amended through October 15, 2006), with the modifications set forth in Section II of this Appendix.
5. “ITPDS” means the integrated transport policies development study to be carried out under Part 1(f) of the Project.
6. “MMC” means the Maseru Municipal Council.
7. “MPWT” means the Recipient’s Ministry of Public Works and Transport and any successor thereto.
8. “MUPTS” means the Maseru urban planning and transport study to be carried out under Part 1(e) of the Project.
9. “Original Financing Agreement” means the financing agreement for an Integrated Transport Project between the Recipient and the Association, dated November 21, 2006, (Credit No 4237-LSO and Grant No H255-LSO).
10. “Original Project” means the Project described in the Original Financing Agreement.
11. “Construction Contract” means the contract agreement dated February 6, 2008, between MPWT and China Geo-Engineering Corporation for the construction of two bridges and associated roadwork under Part 2(b) of the Project.

12. “Procurement Guidelines” means the “Guidelines: Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004 and revised in October 2006 and May 2010.
13. “Procurement Plan” means the Recipient’s procurement plan for the Project, dated July 22, 2010, and referred to in paragraph 1.16 of the Procurement Guidelines and paragraph 1.24 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.
14. “Program” means the program designed to develop the Recipient’s transport sector, as set forth or referred to in the Recipient’s Letter of Sector Policy dated August 30, 2006.
15. “Project Implementation Manual” means the manual adopted by the Recipient under the Original Financing Agreement and updated in accordance with Section I.B of Schedule 2 to this Agreement, and setting out, *inter alia*, implementation, organizational, administrative, monitoring and evaluation, environmental and social monitoring and mitigation, financial management, disbursement and procurement arrangements, as shall have been agreed with the Association for purposes of Project implementation, as the same may be amended from time to time with the concurrence of the Association, and such term includes any schedules to the Project Implementation Manual.
16. “Stage 1 Works” means the stage 1 works contemplated under the Construction Contract related to the implementation of Part 2(b) of the Project for the construction of the two bridges, all major culverts and earthworks bridges, major culverts and critical sections to the original design to give passable access.

Section II. Modifications to the General Conditions

The modifications to the General Conditions for Credits and Grants of the Association, dated July 1, 2005, (as amended through October 15, 2006) are as follows:

1. Section 2.07 is modified to read as follows:

“Section 2.07. *Refinancing Preparation Advance*

If the Financing Agreement provides for the repayment out of the proceeds of the Financing of an advance made by the Association or the Bank (“Preparation Advance”), the Association shall, on behalf of the Recipient, withdraw from the Financing Account on or after the Effective Date the amount required to repay the withdrawn and outstanding balance of the advance as at the date of such withdrawal from the Financing Account and to pay all accrued and unpaid charges, if any, on the advance as at such date. The Association shall pay

the amount so withdrawn to itself or the Bank, as the case may be, and shall cancel the remaining unwithdrawn amount of the advance.”

2. Paragraph (i) of Section 6.02 is modified to read as follows:

“Section 6.02. *Suspension by the Association*

... (1) *Ineligibility*. The Association or the Bank has declared the Project Implementing Entity ineligible to receive proceeds of any financing made by the Association or the Bank or otherwise to participate in the preparation or implementation of any project financed in whole or in part by the Association or the Bank, as a result of: (i) a determination by the Association or the Bank that the Project Implementing Entity has engaged in fraudulent, corrupt, coercive or collusive practices in connection with the use of the proceeds of any financing made by the Association or the Bank; and/or (ii) a declaration by another financier that the Project Implementing Entity is ineligible to receive proceeds of financings made by such financier or otherwise to participate in the preparation or implementation of any project financed in whole or in part by such financier as a result of a determination by such financier that the Project Implementing Entity has engaged in fraudulent, corrupt, coercive or collusive practices in connection with the use of the proceeds of a financing made by such financier.”

3. The following terms and definitions set forth in the Appendix are modified or deleted as follows, and the following new terms and definitions are added in alphabetical order to the Appendix as follows, with the terms being renumbered accordingly:

- (a) The term “Project Preparation Advance” is modified to read “Preparation Advance” and its definition is modified to read as follows:

“‘Preparation Advance’ means the advance referred to in the Financing Agreement and repayable in accordance with Section 2.07.”

Section III. Modifications to the Anti-Corruption Guidelines

The modifications to the Anti-Corruption Guidelines are as follows:

1. Section 5 is re-numbered as Section 5(a) and a new Section 5(b) is added to read as follows:

“(b) These Guidelines also provide for the sanctions and related actions to be imposed by the Bank on Borrowers (other than the Member Country) and all other individuals or entities who are recipients of Loan proceeds, in the event that the Borrower or the individual or entity has been debarred by another financier as a result of a determination by such

financier that the Borrower or the individual or entity has engaged in fraudulent, corrupt, coercive or collusive practices in connection with the use of the proceeds of a financing made by such financier.”

2. Section 11(a) is modified to read as follows:

“(a) sanction in accordance with prevailing Bank’s sanctions policies and procedures (fn13) a Borrower (other than a Member Country) (fn 14) or an individual or entity, including (but not limited to) declaring such Borrower, individual or entity ineligible publicly, either indefinitely or for a stated period of time: (i) to be awarded a Bank-financed contract; (ii) to benefit from a Bank-financed contract, financially or otherwise, for example as a sub-contractor; and (iii) to otherwise participate in the preparation or implementation of the project or any other project financed, in whole or in part, by the Bank, if at any time the Bank determines (fn 15) that such Borrower, individual or entity has engaged in corrupt, fraudulent, collusive, coercive or obstructive practices in connection with the use of loan proceeds, or if another financier with which the Bank has entered into an agreement for the mutual enforcement of debarment decisions has declared such person or entity ineligible to receive proceeds of financings made by such financier or otherwise to participate in the preparation or implementation of any project financed in whole or in part by such financier as a result of a determination by such financier that the Borrower or the individual or entity has engaged in fraudulent, corrupt, coercive or collusive practices in connection with the use of the proceeds of a financing made by such financier.”

Footnotes:

“13. An individual or entity may be declared ineligible to be awarded a Bank financed contract upon completion of sanctions proceedings pursuant to the Bank’s sanctions policies and procedures, or under the procedures of temporary suspension or early temporary suspension in connection with an ongoing sanctions proceeding, or following a sanction by another financier with whom the Bank has entered into a cross debarment agreement, as a result of a determination by such financier that the firm or individual has engaged in fraudulent, corrupt, coercive or collusive practices in connection with the use of the proceeds of a financing made by such financier.”

“14. Member Country includes officials and employees of the national government or of any of its political or administrative subdivisions, and government owned enterprises and agencies that are not eligible to bid

under paragraph 1.8(b) of the Procurement Guidelines or participate under paragraph 1.11(c) of the Consultant Guidelines.”

“15. The Bank has established a Sanctions Board, and related procedures, for the purpose of making such determinations. The procedures of the Sanctions Board sets forth the full set of sanctions available to the Bank. In addition, the Bank has adopted an internal protocol outlining the process to be followed in implementing debarments by other financiers, and explaining how cross-debarments will be posted on the Bank’s website and otherwise be made known to staff and other stakeholders.”