

CONFORMED COPY

**CREDIT NUMBER 4237-LSO
GRANT NUMBER H255-LSO**

Financing Agreement

(Integrated Transport Project)

between

KINGDOM OF LESOTHO

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated November 21, 2006

CREDIT NUMBER 4237-LSO
GRANT NUMBER H255-LSO

FINANCING AGREEMENT

AGREEMENT dated November 21, 2006 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) 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 in the following amounts to assist in financing the project described in Schedule 1 to this Agreement (“Project”): (a) an amount equivalent to eight million three hundred thousand Special Drawing Rights (SDR 8,300,000) (Grant); and (b) an amount equivalent to seven million six hundred thousand Special Drawing Rights (SDR 7,600,000) (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 The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.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 February 1 and August 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 and the Program 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 Conditions of Effectiveness consists of the following:
- (a) The Co-financing Agreement has been executed and delivered and all conditions precedent to its effectiveness or to the right of the Recipient to make withdrawals under it (other than the effectiveness of the Financing Agreement) have been fulfilled.
 - (b) The Project Implementation Manual has been adopted in form and substance satisfactory to the Association.
- 5.02. The Effectiveness Deadline is the date 90 days after the date of this Agreement.

ARTICLE VI — 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
Washington, D.C.

248423 (MCI) or
64145 (MCI)

1-202-477-6391

AGREED at Maseru, Lesotho, as of the day and year first above written.

KINGDOM OF LESOTHO

By: /s/ Timothy Thahane

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By: /s/ Ritva Reinikka

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:

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.

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; and
- (c) Upgrading 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.

3. Project Management, Monitoring and Evaluation

- (e) Acquisition of technical advisory services required for activities pertaining to management, monitoring and evaluation of implementation of the Project.
- (f) 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. Institutional and Other Arrangements

A. Institutional Arrangements

1. The Recipient shall coordinate Project implementation through the Project Office established within MPWT.

2. The Recipient shall maintain, throughout Project implementation, the following entities, in form and substance and with resources and functions satisfactory to the Association and as further detailed in the Project Implementation Manual:

(a) The Project Office with qualified and experienced staff in adequate numbers including the following: (i) Project Manager; (ii) Financial Manager; (iii) Financial Controller; (iv) Financial Accountant; (v) Procurement Compliance Officer; (vi) Environmental and Social Coordinator; and HIV/AIDS Coordinator.

(b) The Project Steering Committee, headed by the Minister of MPWT and comprising high level representatives of the Ministries in charge of finance, public service, local government and a representative of the Office of Attorney General. The Steering Committee shall be responsible for making decision relating to policy matters and for monitoring progress in implementation of policy and institutional reforms.

3. The Recipient shall:

(a) establish the Roads Directorate within MPWT no later than December 31, 2008;

(b) carry out the MPWT staff redeployment plan with due diligence and in accordance with timetables agreed upon with the Association; and

(c) (i) carry out the MUPTS and the ITPDS referred to under Part 1 (f) and (g) of the Project by June 30, 2009; and (ii) implement the recommendations of the said studies with due diligence and in accordance with timetables agreed upon with the Association.

B. Manual

Except as the Association shall otherwise agree, the Recipient shall: (i) carry out the Project, in accordance with the Project Implementation Manual; and (ii) not amend, abrogate, or waive, or permit to be amended, abrogated, or waived, the aforementioned manual, or any provision thereof, if such amendment, abrogation, or waiver may, in the opinion of the Association, materially or adversely affect Project implementation or achievement of the objectives thereof.

C. Environmental and Social Safeguards

Except as the Association shall otherwise agree, the Recipient shall: (i) carry out the Project, in accordance with the Environmental and Social Management Framework Plan; and (ii) not amend, abrogate, or waive, or permit to be amended, abrogated, or waived, the aforementioned plan, or any provision thereof, if such amendment, abrogation, or waiver may, in the opinion of the Association, materially or adversely affect Project implementation or achievement of the objectives thereof.

Section II. Project Monitoring, Reporting, Evaluation

A. Project Reports

- (a) 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 the indicators set forth below in sub-paragraph (b) of this paragraph. Each Project Report shall cover the period of one calendar quarter, and shall be furnished to the Association not later than 45 days after the end of the period covered by such report.
- (b) The performance indicators referred to above in sub-paragraph (a), to be assessed in respect of the Project consist of the following:
 - (i) Quality of national road network as measured by LRMS is improved from 27% good and 38% fair to 39% good and 46% fair by December 2010.
 - (ii) Average travel cost to social services and markets for beneficiary populations in targeted areas along the South Eastern Corridor for emergency and regular trips is reduced by 20% by December 2009.

- (iii) ICP changes between the targeted areas along the South Eastern Corridor and Sekake has decreased by 20% by December 2009.
- (iv) Periodic and routine maintenance works for the national road network are funded through road user charges at the rate of 78% by December 2008 and at the rate of 90% by December 2010.

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 audited Financial Statements for each such period shall be furnished to the Association not later than six months after the end of such period.

Section III. Procurement

A. General

1. **Goods, Non-Consultant Services and Works.** All goods, non-consultant services and works required for the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the requirements set forth or referred to in Section I of the Procurement Guidelines, and with the provisions of this Schedule.
2. **Consultants' Services.** All consultants' services required for the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the requirements set forth or referred to in Sections I and IV of the Consultant Guidelines, and with the provisions of this Schedule.

3. **Definitions.** The capitalized terms used below in this Section to describe particular procurement methods or methods of review by the Association of particular contracts, refer to the corresponding method described in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

B. Particular Methods of Procurement of Goods, Non-Consultant Services and Works

1. **Competitive Bidding.** Except as otherwise provided in paragraph 2 below, goods, non-consultant services and works shall be procured under contracts awarded on the basis of International or National Competitive Bidding.

2. **Other Methods of Procurement of Goods, Non-Consultant Services and Works.** The following table specifies the methods of procurement, other than Competitive Bidding, which may be used for goods, non-consultant services and works. The Procurement Plan shall specify the circumstances under which such methods may be used:

<u>Procurement Method</u>
(a) Shopping
(b) Procurement from United Nations Agencies

C. Particular Methods of Procurement of Consultants' Services

1. **Quality-and Cost-Based Selection.** Except as otherwise provided in paragraph 2 below, consultants' services shall be procured under contracts awarded on the basis of Quality-and Cost-Based Selection.

2. **Other Methods of Procurement of Consultants' Services.** The following table specifies methods of procurement, other than Quality-and Cost-based Selection, which may be used for consultants' services. The Procurement Plan shall specify the circumstances under which such methods may be used.

<u>Procurement Method</u>
(a) Selection Based on Consultants' Qualifications
(b) Single Source Selection
(c) Individual Consultants

D. Review by the Association of Procurement Decisions

Except as the Association shall otherwise determine by notice to the Recipient, the following contracts shall be subject to Prior Review by the Association: (a) each contract for goods or non-consultant services estimated to cost the equivalent of \$300,000 or more; (b) the first three (3) contracts for goods, non-consultant services, or works procured on the basis of National Competitive Bidding; (c) each contract for works estimated to cost the equivalent of \$500,000 or more; (d) each contract for consultants' services provided by a firm estimated to cost the equivalent of \$100,000 or more; (e) each contract for consultants' services provided by an individual estimated to cost the equivalent of \$50,000 or more; and (f) each contract for consultants' services (provided by a firm or an individual) procured on the basis of Single Source Selection. All other contracts shall be subject to Post Review by the Association.

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: (a) repay the Project Preparation Advance in accordance with Section 2.07 of the General Conditions; and (b) 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 Financing to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category:

	Category	Amount of the Grant Allocated (Expressed in SDR)	Amount of the Credit Allocated (Expressed in SDR)	Percentage of Expenditures to be Financed
(1)	Civil works	3,600,000	7,600,000	80
(2)	Goods	400,000	0	100
(3)	Consultants' services and training	2,200,000	0	100
(4)	Operating Costs	400,000	0	100
(5)	Refunding of Project Preparation Advance	1,100,000	0	Amount payable pursuant to Section 2.07 of the General Conditions
(6)	Unallocated	600,000	0	
	TOTAL AMOUNT	<u>8,300,000</u>	<u>7,600,000</u>	

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.
2. For purposes of Category (4), the term "Operating Costs" means expenditures incurred for travel expenses, fuel, car, maintenance and repairs, utilities, salaries of contractual staff, all related to the execution of the Project.
3. The Closing Date is June 30, 2011.

SCHEDULE 3

Repayment Schedule

Date Payment Due	Principal Amount of the Credit repayable (Expressed as a percentage)*
On each February 1 and August 1	
Commencing February 1, 2017 to and including August 1, 2026	1%
Commencing February 1, 2027 to and including August 1, 2046	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

Definitions

1. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
2. “Co-financier” means the European Commission (EC).
3. “Co-financing Agreement” means the agreement to be entered into between the Recipient and the Co-financier providing for the Co-financing.
4. “Co-financing” means an amount of seven million eight hundred fifty thousand Euros (€7,850,000) to be provided by the Co-financier to assist in financing the Project.
5. “Consultant Guidelines” means the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the Bank in May 2004.
6. “Environmental and Social Management Framework Plan” means the framework plan of December 8, 2005 adopted by the Recipient and setting out: (i) mitigation, enhancement, monitoring and institutional measures identified by the Recipient to eliminate any adverse environmental and social impacts of Project activities, offset them, or reduce them to acceptable levels, or enhance positive impacts; and (ii) procedures, including related compensation measures, to be applied in the event of the physical displacement of persons affected by Project activities, 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 Environmental and Social Management Framework Plan.
7. “General Conditions” means the “International Development Association General Conditions for Credits and Grants”, dated July 1, 2005.
8. “ICP” means the International Comparison Program referred to as a performance indicator measurement under Section II A of Schedule 2 to this Agreement.
9. “ITPDS” means the Integrated Transport Policies Development Study referred to under Part 1 (f) of the Project.
10. “LRMS” means the Lesotho Roads Management System referred to under Section II A of Schedule 2 to this Agreement.
11. “MMC” means the Maseru Municipal Council referred to under Part 1 (e) of the Project.

12. “MPWT” means the Recipient’s Ministry of Public Works and Transport.
13. “MUPTS” means the Maseru Urban Planning and Transport Study referred to under Part 1 (e) of the Project.
14. “Procurement Guidelines” means the “Guidelines: Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004.
15. “Procurement Plan” means the Recipient’s procurement plan for the Project, dated August 14, 2006 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.
16. “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.
17. “Project Implementation Manual” means the manual adopted by the Recipient pursuant to Section 5.01 (b) of this Agreement, and setting out 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.
18. “Project Preparation Advance” means the advance referred to in Section 2.07 of the General Conditions, granted by the Association to the Recipient pursuant to the letter agreement signed on behalf of the Association on April 5, 2004 and on behalf of the Recipient on April 14, 2004, and the advance referred to in Section 2.07 of the General Conditions, granted by the Association to the Recipient pursuant to the letter agreement signed on behalf of the Association on August 17, 2005 and on behalf of the Recipient on September 14, 2005.
19. “Project Steering Committee” means the Recipient’s entity referred to in Section I.A.2 (b) of Schedule 2 to this Agreement and whose responsibilities under the Project are set out in said provision.