

The World BankINTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION1818 H Street N.W.
Washington, D.C. 20433
U.S.A.(202) 477-1234
Cable Address: INTBAFRAD
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August 25, 2010

H.E. Timothy T. Thahane
Minister of Finance and Development Planning
Ministry of Finance and Development Planning
P.O. Box 395
Maseru 100
Lesotho

Re: Kingdom of Lesotho
Education for All – Fast Track Initiative Catalytic Trust Fund
Basic Education Project - Grant No. TF097043

Excellency:

In response to the request for financial assistance made on behalf of the Kingdom of Lesotho (“Recipient”), I am pleased to inform you that the International Development Association (“World Bank”), acting as administrator of grant funds of the Education for All – Fast Track Initiative Catalytic Trust Fund (EFA-FTI CTF), proposes to extend to the Recipient a grant in an amount not to exceed twenty million United States Dollars (\$20,000,000) (“Grant”) on the terms and conditions set forth or referred to in this letter agreement (“Agreement”), which includes the attached Annex, to assist in the financing of the project described in the Annex (“Project”). This Grant is funded out of the abovementioned trust fund for which the World Bank receives periodic contributions. In accordance with Section 3.02 of the Standard Conditions (as defined in the Annex of this Agreement), the Recipient may withdraw the Grant proceeds subject to the availability of such funds.

The Recipient represents, by confirming its agreement below, that it is authorized to enter into this Agreement and to carry out the Project in accordance with the terms and conditions set forth or referred to in this Agreement.

Please confirm the Recipient's agreement to the foregoing by having an authorized official of the Recipient sign and date the enclosed copy of this Agreement, and returning it to the World Bank. Upon receipt by the World Bank of this countersigned copy, this Agreement shall become effective as of the date specified by the World Bank in accordance with Section 5.02 of the Annex to this Agreement.

Very truly yours,
INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Ruth Kagia
Authorized Representative

AGREED:
KINGDOM OF LESOTHO

By /s/ Timothy T. Thahane

Name _____

Title Minister of Finance and Development Planning

Date August 25, 2010

Enclosures:

(1) Standard Conditions for Grants Made by the World Bank Out of Various Funds, dated July 1, 2008

(2) Disbursement Letter dated August 25, 2010, together with World Bank Disbursement Guidelines for Projects, dated May 1, 2006

Article I

Standard Conditions; Definitions

1.01. *Standard Conditions.* The Standard Conditions for Grants Made by the World Bank Out of Various Funds dated July 1, 2008 (“Standard Conditions”), with the modifications set forth in the Appendix to this Agreement, constitute an integral part of this Agreement.

1.02. *Definitions.* Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the Standard Conditions or in the Appendix to this Agreement.

Article II

Project Execution

2.01. *Project Objectives and Description.* The objectives of the Project are to: (i) provide improved facilities at existing primary schools; (ii) support and contribute to expand access to pre-primary education; and (iii) support improvements in quality of teaching, in the Recipient’s territory.

The Project consists of the following parts:

Part A: Improving the Quality of Primary School Infrastructure.

Construction of additional fully furnished “gender and disabled friendly” primary classrooms at existing schools and provision of toilet facilities at such schools.

Part B: Support and Contribution to the Expansion of Pre-Primary Education.

Carrying out of a program aimed at maintaining and expanding access to Reception Classes, especially for the poorest children; such program to include (i) a school feeding program providing daily nutrition assistance; (ii) hiring care providers; and (iii) providing teaching materials.

Part C: Contribution to Improvements in Quality of Teaching.

Carrying out of a program aimed at improving learning outcomes in primary schools; such program to include: (i) carrying out studies on (a) the conditions in which education service are delivered, (b) teaching and learning skills developed through school resources, (c) classroom-based observations, (d) assessment of skills profiles and training needs, and (e) assessment of student outcomes measurement; (ii) implementing measures designed to attract and/or retain more qualified teachers to schools located in the most remote and/or difficult to access areas of the Recipient’s territory; (iii) providing training to teachers aimed at improving literacy and numeracy teaching skills; and (iv) providing teaching materials.

2.02. ***Project Execution Generally.*** The Recipient declares its commitment to the objectives of the Project. To this end, the Recipient shall carry out the Project through the MoET in accordance with the provisions of: (a) Article II of the Standard Conditions; (b) the Anti-Corruption Guidelines; and (c) this Article II.

2.03. ***Project Implementation Manual.***

(a) The Recipient shall adopt a procedures manual (“Procedures Manual”) which is in form and substance satisfactory to the World Bank, outlining implementation, organizational, administrative, monitoring and evaluation, environmental and social monitoring and mitigation, financial management, disbursement, and procurement arrangements for purposes of implementation of the Project.

(b) The Recipient: (i) shall ensure that the Project is carried out in accordance with the Procedures Manual; and (ii) except as the World Bank shall otherwise agree, shall not assign, amend, abrogate, or waive, or permit to be assigned, amended, abrogated, or waived, the aforementioned, or any provision thereof.

(c) In the event of any conflict between the provisions of the Procedures Manual and those of this Agreement, this Agreement shall prevail.

2.04 ***Annual Work Plans.***

(a) The Recipient shall, not later than December 31 in each Fiscal Year, prepare and furnish to the World Bank an annual program of activities proposed to be included in the Project during the following Fiscal Year, together with a proposed budget and financing plan for such activities and any Environmental and Social Management Plan that may be required for such activities pursuant to the Environmental and Social Management Framework.

(b) The Recipient shall exchange views with the World Bank on each such proposed annual work plan, and shall thereafter adopt, and carry out such program of activities for such following Fiscal Year as shall have been agreed with the World Bank, as such plan may be subsequently revised during such following Fiscal Year with the prior written agreement of the World Bank (“Agreed Annual Work Plan”).

2.05. ***Safeguards.***

(a) The Recipient shall carry out the Project in accordance with the provisions of the Environmental and Social Management Framework, and, wherever applicable for the purpose of any activity and prior to the implementation thereof, and in accordance with Section 2.04(a) of this Annex, (i) prepare, (ii) furnish to the Association for approval, and (iii) disclose and implement, Environmental and Social Management Plans in accordance with the Environmental and Social Management Framework.

(b) The Recipient shall monitor and regularly report to the Association, including through the Project Reports referred to in Section 2.06 of this Annex, the status of compliance with the ESMF (including any Environmental and Social Management Plans and other plans prepared under paragraph (a) of this Section 2.05), giving details of: (i) measures taken or to be

taken in accordance with the said frameworks and plans; (ii) conditions, if any, which interfere or threaten to interfere with the implementation of the said frameworks and plans; and (iii) remedial measures taken or to be taken to address such conditions.

2.06. ***Project Monitoring, Reporting and Evaluation.*** (a) The Recipient shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 2.06 of the Standard Conditions and on the basis of indicators acceptable to the World Bank and set forth in the Procedures Manual. Each Project Report shall cover the period of one calendar quarter, and shall be furnished to the World Bank not later than forty-five (45) days after the end of the period covered by such report.

(b) The Recipient shall prepare the Completion Report in accordance with the provisions of Section 2.06 of the Standard Conditions. The Completion Report shall be furnished to the World Bank not later than six (6) months after the Closing Date.

2.07. ***Financial Management.*** (a) The Recipient shall ensure that a financial management system is maintained in accordance with the provisions of Section 2.07 of the Standard Conditions.

(b) The Recipient shall ensure that interim unaudited financial reports for the Project are prepared and furnished to the World Bank as part of the Project Report not later than forty-five (45) days after the end of each calendar quarter, covering the quarter, in form and substance satisfactory to the World Bank.

(c) The Recipient shall have its Financial Statements audited in accordance with the provisions of Section 2.07(b) of the Standard Conditions. Each such audit of the Financial Statements shall cover the period of one (1) Fiscal Year. The audited Financial Statements for each such period shall be furnished to the World Bank not later than six (6) months after the end of such period.

2.08. ***Procurement***

(a) **General.** All goods, works and services required for the Project and to be financed out of the proceeds of the Grant shall be procured in accordance with the requirements set forth or referred to in:

- (i) Section I of the Procurement Guidelines, in the case of goods and works;
- (ii) Sections I and IV of the Consultant Guidelines in the case of consultants' services; and
- (iii) the provisions of this Section, as the same shall be elaborated in the Procurement Plan.

(b) **Definitions.** The capitalized terms used in the following paragraphs of this Section to describe particular procurement methods or methods of review by the World Bank of particular contracts, refer to the corresponding method described in the Procurement Guidelines, or the Consultant Guidelines, as the case may be.

(c) Particular Methods of Procurement of Goods and Works

- (i) Except as otherwise provided in sub-paragraph (ii) below, goods and works shall be procured under contracts awarded on the basis of International Competitive Bidding.
- (ii) The following methods, other than International Competitive Bidding, may be used for procurement of goods and works for those contracts specified in the Procurement Plan: (A) National Competitive Bidding; (B) Shopping; (C) Direct Contracting; and (D) Procurement from United Nations Agencies.

(d) Particular Methods of Procurement of Consultants' Services

- (i) Except as otherwise provided in item (ii) below, consultants' services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection.
- (ii) The following methods may be used for the procurement of consultants' services for those assignments which are specified in the Procurement Plan: (A) Quality-based Selection; (B) Selection under a Fixed Budget; (C) Least Cost Selection; (D) Selection based on Consultants' Qualifications; (E) Single-source Selection; and (F) Selection of Individual Consultants.

(e) Review by the World Bank of Procurement Decisions. The Procurement Plan shall set forth those contracts which shall be subject to the World Bank's Prior Review. All other contracts shall be subject to Post Review by the World Bank.

(f) Procurement Audits. The Association may (at its sole discretion) perform annual audits of the procurement for all goods, works, consultants' services, Operating Costs, Incentives and Training required for the Project and the Recipient shall provide all such information as is requested by the Association (or any external auditor performing such audit for or on behalf of the Association) in connection with the performance of such audit. Each such audit of the Project's procurement shall cover the period of one (1) calendar years commencing with the calendar year in which the first withdrawal under the Project is made and shall include action plans to improve performance and/or correct any shortcomings and/or deficiencies.

Article III Withdrawal of Grant Proceeds

3.01. ***Eligible Expenditures.*** The Recipient may withdraw the proceeds of the Grant in accordance with the provisions of: (a) the Standard Conditions; (b) this Section; and (c) such additional instructions as the World Bank may 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 World Bank and as made applicable to this Agreement pursuant to such instructions), to finance Eligible Expenditures as set forth in the following table. The table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Grant (“Category”), the allocations of the amounts of the Grant 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 USD)	Percentage of Expenditures to be Financed (inclusive of taxes)
(1) Goods, works, consultants’ services, Operating Costs, Incentives and Training for the Project	20,000,000	Such percentage as the World Bank shall determine and communicate to the Recipient in its Annual Confirmation for the relevant Agreed Annual Work Plan
TOTAL AMOUNT	20,000,000	

3.02. **Withdrawal Conditions.** Notwithstanding the provisions of Section 3.01 of this Annex, no withdrawal shall be made for payments made prior to the date of countersignature of this Agreement by the Recipient.

3.03. **Withdrawal Period.** The Closing Date referred to in Section 3.06 (c) of the Standard Conditions is May 31, 2013.

Article IV

Effectiveness; Termination

4.01. This Agreement shall not become effective until evidence satisfactory to the World Bank has been furnished to the World Bank that the conditions specified below have been satisfied:

(a) the Recipient has adopted the Procedures Manual in accordance with Section 2.03(a) of this Annex; and

(b) the Recipient has adopted an Agreed Annual Work Plan covering the period between the Effective Date and March 31, 2011 in accordance with Section 2.04 of this Annex.

4.02. Except as the Recipient and the World Bank shall otherwise agree, this Agreement shall enter into effect on the date upon which the World Bank dispatches to the Recipient notice of its acceptance of the evidence required pursuant to Section 5.01 of this Annex (“Effective Date”). If, before the Effective Date, any event has occurred which would have entitled the World Bank to suspend the right of the Recipient to make withdrawals from the Grant Account if this Agreement

had been effective, the World Bank may postpone the dispatch of the notice referred to in this Section until such event (or events) has (or have) ceased to exist.

4.03. This Agreement and all obligations of the parties under it shall terminate if it has not entered into effect by the date ninety (90) days after the date of this Agreement, unless the World Bank, after consideration of the reasons for the delay, establishes a later date for the purpose of this Section. The World Bank shall promptly notify the Recipient of such later date.

Article V

Additional Remedies

5.01. *Additional Events of Suspension.* The Additional Events of Suspension referred to in Section 4.02 (i) of the Standard Conditions consist of the following: a situation has arisen which makes it improbable that the Medium Term Sector Plan or a significant part of it can be carried out.

Article VI

Recipient's Representative; Addresses

6.01. *Recipient's Representative.* The Recipient's Representative referred to in Section 7.02 of the Standard Conditions is its minister at the time responsible for finance.

6.02. *Recipient's Address.* The Recipient's Address referred to in Section 7.01 of the Standard Conditions 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. *World Bank's Address.* The World Bank's Address referred to in Section 7.01 of the Standard Conditions 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

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. “Annual Confirmation” means for each Agreed Annual Work Plan, the World Bank’s written confirmation of: (i) its agreement with such Agreed Annual Work Plan; and (ii) the percentage and amount of the Eligible Expenditures under the Agreed Annual Work Plan which may be financed out of the proceeds of the Grant.
3. “Agreed Annual Work Plan” means the program of activities agreed each year between the Recipient and the World Bank to be included in the Project and to be financed during the following calendar year, as the same may be revised from time to time, all in accordance with the provisions of Section 2.04(b) of the Annex to the Agreement.
4. “Category” means a category set forth in the table in Section 3.01 of the Annex to this Agreement.
5. “Consultant Guidelines” means the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the World Bank in May 2004 and revised in October 2006 and May 2010.
6. “Effective Date” has the meaning given to such term in Section 4.02 of the Annex to this Agreement.
7. “Environmental and Social Management Framework” or “ESMF” means the Recipient’s framework referred to in Section 2.05 of the Annex to this Agreement and entitled “Environmental and Social Safeguard Management Framework - Second Education Sector Development Project II (ESDP II)” and dated October 10 2003, as amended in August 2009 setting forth, *inter alia*, guidelines, procedures, timetable and other specifications designed to offset adverse environmental and social impacts related to Project activities, or to reduce them to acceptable levels, or to enhance positive impacts.
8. “Environmental and Social Management Plan” means the document to be prepared by the Recipient in connection with any activity under the Project pursuant to the Environmental and Social Management Framework, (i) describing the potential adverse environmental and social impacts of such activity during planning, design, construction and operation, and (ii) outlining monitoring and mitigation measures, as well as institutional arrangements and budget for carrying out these measures.
9. “Fiscal Year” means April 1 to March 31.

10. “Incentives” means a cash transfer or a scholarship provided by the Recipient to a teacher as an incentive in connection with the implementation of Part C(ii) of the Project.
11. “Medium Term Sector Plan” means the Recipient’s medium term strategic plan for education for the period 2009-2012 under the Recipient’s Education Sector Strategic Plan.
12. “MoET” means the Recipient’s Ministry of Education and Training, and any successor thereto.
13. “Operating Costs” means the reasonable incremental operating costs under the Project, based on the Agreed Annual Work Plans, and incurred by the MoET on account of utilities and supplies, bank charges, communications, vehicle operation, maintenance, insurance, office space rental, building and equipment maintenance, public awareness-related media expenses, travel and subsistence, and salaries of contractual and temporary staff (other than consultants' services), but excluding salaries of members of the Recipient’s civil service.
14. “Procurement Guidelines” means the “Guidelines: Procurement under IBRD Loans and IDA Credits” published by the World Bank in May 2004 and revised in October 2006 and May 2010.
15. “Procedures Manual” means the procedures manual referred to in Section 2.03 of the Annex to this Agreement, as same may be amended from time to time in accordance with the terms of this Agreement.
16. “Procurement Plan” means the Recipient’s procurement plan for the Project, dated May 26, 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.
17. “Reception Classes” means the extra rooms available in primary schools, which can be used for five year-old children to attend pre-school.
18. “Standard Conditions” has the meaning given to such term in Section 1.01 of the Annex to this Agreement.
19. “Training” means the reasonable costs of training under the Project, based on the Agreed Annual Work Plans, and attributable to seminars, workshops, and study tours, along with travel and subsistence allowances for training participants, services of trainers (other than consultants' services), rental of training facilities, preparation and reproduction of training materials, and other activities directly related to course preparation and implementation.

Section II. Modifications to the Standard Conditions

The modifications to the Standard Conditions are as follows:

1. Paragraph (j) of Section 4.02 is modified to read as follows:

“Section 6.02. *Suspension by the Association*

... (j) *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.”

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.”