

CONFORMED COPY

CREDIT NUMBER 3484 LSO

Project Agreement

(Utilities Sector Reform Project)

between

INTERNATIONAL DEVELOPMENT ASSOCIATION

and

LESOTHO ELECTRICITY CORPORATION

Dated April 3, 2001

CREDIT NUMBER 3484 LSO

PROJECT AGREEMENT

AGREEMENT, dated April 3, 2001, between INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association) and LESOTHO ELECTRICITY CORPORATION (LEC).

WHEREAS (A) by the Development Credit Agreement of even date herewith between KINGDOM OF LESOTHO (the Borrower) and the Association, the Association has agreed to make available to the Borrower an amount in various currencies equivalent to twenty two million two hundred thousand Special Drawing Rights (SDR 22,200,000), on the terms and conditions set forth in the Development Credit Agreement, but only on conditions that LEC agree to undertake such obligations toward the Association as are set forth in this Agreement; and

(B) LEC, in consideration of the Association's entering into the Development Credit Agreement with the Borrower, has agreed to undertake the obligations set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

Definitions

Section 1.01. Unless the context otherwise requires, the several terms defined in the Development Credit Agreement, the Preamble to this Agreement and in the General

Conditions (as so defined) have the respective meanings therein set forth.

ARTICLE II

Execution of the Project

Section 2.01. (a) LEC declares its commitment to the objectives of the Project as set forth in Schedule 2 to the Development Credit Agreement, and, to this end, shall carry out Part A. of the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering and public utility and environmental practices, and shall provide, or cause to be provided, promptly as needed, the funds, facilities, services and other resources required for Part A. of the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Association and LEC shall otherwise agree, LEC shall carry out the Project in accordance with the Implementation Program set forth in Schedule 1 to this Agreement.

Section 2.02. Except as the Association shall otherwise agree, procurement of the goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 3 to the Development Credit Agreement.

Section 2.03. (a) LEC shall carry out the obligations set forth in Sections 9.03, 9.04, 9.05, 9.06, 9.07 and 9.08 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) in respect of the Project Agreement and Part A. of the Project.

(b) For the purposes of Section 9.07 of the General Conditions and without limitation thereto, LEC shall:

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

(ii) afford the Association a reasonable opportunity to exchange views with LEC on said plan.

Section 2.04. (a) LEC shall, at the request of the Association, exchange views with the Association with regard to the progress of the Project, the performance of its obligations under this Agreement, and other matters relating to the purposes of the Credit.

(b) LEC shall promptly inform the Association of any condition which interferes or threatens to interfere with the progress of the Project, the accomplishment of the purposes of the Credit, or the performance by LEC of its obligations under this Agreement.

ARTICLE III

Management and Operations of LEC

Section 3.01. LEC shall: (a) carry on its operations and conduct its affairs in accordance with sound administrative, financial, engineering, public utility and environmental practices under the supervision of qualified and experienced management assisted by competent staff in adequate numbers; and

(b) cooperate fully with the technical operator and extend to the technical operator all the facilities required to enable the technical operator to discharge adequately all of its duties and obligations as provided for under the terms and conditions of the contractual arrangements referred to under Section 3.06 of the

Development Credit Agreement.

Section 3.02. LEC shall at all times operate and maintain its plant, machinery, equipment and other property, and from time to time, promptly as needed, make all necessary repairs and renewals thereof, all in accordance with sound engineering, financial, public utility and environmental practices.

Section 3.03. LEC shall take out and maintain with responsible insurers, or make other provision satisfactory to the Association for, insurance against such risks and in such amounts as shall be consistent with appropriate practice.

ARTICLE IV

Financial Covenants

Section 4.01. (a) LEC shall maintain a financial management system, including records and accounts, and prepare financial statements, all in accordance with accounting standards acceptable to the Association, consistently applied, adequate to reflect its operations and financial condition and to register separately the operations, resources and expenditures related to Part A. of the Project.

(b) LEC shall:

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

(ii) furnish to the Association as soon as available, but in any case not later than six months after the end of each such year, (A) certified copies of the financial statements referred to in paragraph (a) of this Section, for such year as so audited, and (B) an opinion on such statements and report of such audit, by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and

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

Section 4.02. Without limitation upon the provisions of Section 4.01 of this Agreement, LEC shall carry out a time-bound action plan acceptable to the Association for the strengthening of the financial management system referred to in paragraph (a) of said Section 4.01 in order to enable LEC, not later than December 31, 2002, or such later date as the Association shall agree, to prepare quarterly Project Management Reports, acceptable to the Association, each of which:

(i) (A) sets forth actual sources and applications of funds for Part A. of the Project, both cumulatively and for the period covered by said report, and projected sources and applications of funds for the six-month period following the period covered by said report, and (B) shows separately expenditures financed out of the proceeds of the Credit during the period covered by said report and expenditures proposed to be financed out of the proceeds of the Credit during the six-month period following the period covered by said report;

(ii) (A) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and (B) explains variances between the actual and previously forecast implementation targets; and

(iii) sets forth the status of procurement under the Project and

expenditures under contracts financed out of the proceeds of the
Credit, as at the end of the period covered by said report.

(b) Upon the completion of the action plan referred to in paragraph (a) of this Section, the Borrower shall prepare, in accordance with guidelines acceptable to the Association, and furnish to the Association not later than 45 days after the end of each calendar quarter a Project Management Report for such period.

ARTICLE V

Effective Date; Termination; Cancellation and Suspension

Section 5.01. This Agreement shall come into force and effect on the date upon which the Development Credit Agreement becomes effective.

Section 5.02. (a) This Agreement and all obligations of the Association and of LEC thereunder shall terminate on the earlier of the following two dates:

(i) the date on which the Development Credit Agreement shall terminate
in accordance with its terms; or

(ii) the date 20 years after the date of this Agreement.

(b) If the Development Credit Agreement terminates in accordance with its terms before the date specified in paragraph (a) (ii) of this Section, the Association shall promptly notify LEC of this event.

Section 5.03. All the provisions of this Agreement shall continue in full force and effect notwithstanding any cancellation or suspension under the General Conditions.

ARTICLE VI

Miscellaneous Provisions

Section 6.01. Any notice or request required or permitted to be given or made under this Agreement and any agreement between the parties contemplated by this Agreement shall be in writing. Such notice or request shall be deemed to have been duly given or made when it shall be delivered by hand or by mail, telegram, cable, telex or facsimile to the party to which it is required or permitted to be given or made at such party's address hereinafter specified or at such other address as such party shall have designated by notice to the party giving such notice or making such request. The addresses so specified are:

For the Association:

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

Cable address:

Telex:

Facsimile:

INDEVAS

248423 (MCI) or

(202) 477-6391

Washington, D.C.

64145 (MCI)

For LEC:

LESOTHO ELECTRICITY CORPORATION
53 Moshoeshoe Road
P.O. Box 423
Maseru 100
Lesotho

Facsimile:

266 310093
266 310544

Section 6.02. Any action required or permitted to be taken, and any document required or permitted to be executed, under this Agreement on behalf of LEC, or by LEC on behalf of the Borrower under the Development Credit Agreement, may be taken or executed by the Managing Director or such other person or persons as the Managing Director shall designate in writing, and LEC shall furnish to the Association sufficient evidence of the authority and the authenticated specimen signature of each such person.

Section 6.03. This Agreement may be executed in several counterparts, each of which shall be an original, and all collectively but one instrument.

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

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Fayez Omar

Acting Regional Vice President
Africa

LESOTHO ELECTRICITY CORPORATION

By /s/ Lebohang Moleko

Authorized Representative

SCHEDULE 1

Implementation Program

1. LEC shall implement Part A. of the Project in accordance with the procedures, guidelines, timetables and criteria set forth in the PIP and, except as the Association shall otherwise agree, the Borrower shall not amend or waive any provision of said PIP if, in the opinion of the Association, such amendment or waiver may materially and adversely affect the implementation of the Project.

2. LEC shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the performance indicators set forth in Schedule 2 to this Agreement, the carrying out of the Project; and

(b) furnish to the Association, for its review and comments:

(i) not later than October 31 of each year, commencing on October 31, 2001, or such later date as the Association may agree, until the completion of the Project, the draft work programs (including

those related to training
and budgets for Part A of the
and

activities, workshops and study tours)
Project for the next Fiscal Year;

(ii) not later than June 30 of each year, or such later date as the Association may agree, commencing on June 30, 2002, until the completion of the Project, an annual report setting forth, inter alia, the progress achieved in the carrying out of Part A of the Project.

3. (a) By November 30, of each year, commencing November 30, 2002, or such later date as the Association may agree, until the completion of the Project, LEC and the Association shall carry out an annual review of the Project (hereinafter referred to as the Annual Review); such Annual Review shall cover the progress achieved in the execution of the Project and, inter alia, review the information furnished in accordance with paragraph 2 (b) of this Schedule, and work programs to be carried out under the Project during the following FY.

(b) Following such Annual Review, LEC shall carry out the said work programs in accordance with modalities and procedures approved by the Association and the Borrower and in accordance with the PIP, and shall not make any material change to the approved programs without the prior approval of the Association and of the Borrower.

4. (a) Not later than November 30, 2003, or such other date as LEC and the Association shall agree upon, LEC and the Association shall carry out a mid-term review (hereinafter referred to as the Midterm Review). LEC shall take all actions considered necessary to ensure the participation of AfDB and EU (collectively referred to hereinafter as the Donors), in such Midterm Review. Such Midterm Review shall cover the progress achieved in the implementation of the Project.

(b) Not later than one month prior to the Midterm Review, LEC and the Borrower shall furnish to the Donors including the Association, for their review and comments, a report, in such detail as the Association shall reasonably request, on the implementation of the Project.

(c) Following such Midterm Review, LEC shall act promptly and diligently in order to take any corrective action deemed necessary by the Association to remedy any shortcoming noted in the implementation of the Project and the Program, as the case may be, or to implement such other measures as may have been agreed upon among the Borrower and LEC and the Association in furtherance of the objectives of the Project.

5. LEC shall: (a) design the LEC reform program and the LEC staff redeployment plan referred to under Part A.1 and A.2 of the Project not later than May 31, 2001; and (b) promptly thereafter take all measures required on its part, to implement the said programs.

