

**CONFORMED COPY**

**CREDIT NUMBER 4275-LSO  
GRANT NUMBER H281-LSO**

# **Financing Agreement**

**(Private Sector Competitiveness and Economic Diversification Project)**

**between**

**KINGDOM OF LESOTHO**

**and**

**INTERNATIONAL DEVELOPMENT ASSOCIATION**

**Dated April 17, 2007**

**CREDIT NUMBER 4275-LSO**  
**GRANT NUMBER H281-LSO**

## **FINANCING AGREEMENT**

AGREEMENT dated April 17, 2007, entered into 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 (collectively, “Financing”) in the following amounts to assist in financing the project described in Schedule 1 to this Agreement (“Project”):
  - (a) an amount equivalent to two million eight hundred thousand Special Drawing Rights (SDR 2,800,000) (“Grant”); and
  - (b) an amount equivalent to two million six hundred thousand Special Drawing Rights (SDR 2,600,000) (“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 The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.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 March 1 and September 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 objectives of the Project. To this end, the Recipient shall carry out the Project through PMU under PPSC's overall guidance 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 — EFFECTIVENESS; TERMINATION**

- 4.01. The Additional Conditions of Effectiveness consist of the following:
  - (a) The Recipient has established the PMU, with functions, responsibilities and qualified staff in adequate numbers, all satisfactory to the Association.
  - (b) The Recipient has recruited the Project Manager in accordance with the provisions of Section III, C of Schedule 2 to this Agreement.
  - (c) The Recipient has concluded with LNDC a service contract satisfactory to the Association to provide to the Recipient adequate procurement, monitoring/evaluation and financial management services required for the Project.
  - (d) The Recipient has: (i) adopted the POM in form and substance satisfactory to the Association; and (ii) enhanced its financial management system referred to in Section II B of Schedule 2 to this Agreement in a manner satisfactory to the Association.
- 4.02. The Effectiveness Deadline is the date ninety (90) days after the date of this Agreement.

**ARTICLE V — REPRESENTATIVE; ADDRESSES**

5.01. The Recipient's Representative is the Minister at the time responsible for finance.

5.02. 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

5.03. 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)

1-202-477-6391

AGREED at the 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/ Ritva S. Reinikka**

**Authorized Representative**

## **SCHEDULE 1**

### **Project Description**

The objective of the Project is to facilitate increased private sector investment in the Recipient's economy by improving the business environment and diversifying sources of growth.

The Project consists of the following parts:

#### **I. Improving the Business Environment**

##### **A. Company Registration and Licensing Reform**

(a) Streamlining of the business legal and regulatory framework through revision of relevant laws, regulations and procedures including inter alia: (i) the Companies Act No 25 of 1967; (ii) the Industrial Licensing Act No 27 of 1969; and (iii) the Pioneer Industries Encouragement Act No 19 of 1969.

(b) (i) Simplification of operational procedures to enhance efficiency in the functioning of the company registry; and (ii) computerization of all transactions carried out at the company registry.

(c) Streamlining of the industrial and trading licensing regimes through: (i) converting the mandatory trade license into a reporting requirement; (ii) redesigns the documentation and procedures for industrial licensing; and (iii) computerization of procedures and data processing and archiving.

##### **B. Immigration and Passport Service Reform**

(a) (i) Streamlining and simplification of procedures for issuance of basic documents including visas, work permits and residence permits; (ii) formulation and execution of a training program to enhance the capacity of Consular Officers; and (iii) carrying out of selected studies to improve intergovernmental communication and implementation of a national identification card system.

(b) Computerization of operations at ports of entry and within MHAPS to enhance communications between several immigration service agencies.

##### **C. Improving Access to Finance**

(i) Provision of technical advisory services to enable LNDC to design and implement a scheme (the Enterprise Development Facility) aimed at providing loan guarantees to qualified micro and small and medium enterprises.

(ii) Formulation of an adequate legal and regulatory framework to enable the leasing industry to emerge within the Recipient's economy.

## **II. Supporting Economic Diversification**

### **A. Skills Development for the Garment Industry**

Establishment and implementation of a scheme led by the garment industry aimed at enhancing the competitiveness of the textile and garments industries in the Recipient's territory through: (i) acquisition of technical advisory services; (ii) refurbishing and (iii) equipping of facilities housing training centers in Maseru and in Maputo.

### **B. Horticulture Out-grower Scheme**

Establishment of a scheme designed to increase value addition for horticultural products grown in the Recipient's territory through: (i) improving quality, volume and delivery capability for Basotho farmers; (ii) fostering adoption of group or block farming methods; and (iii) gaining access to high premium niche markets through production of organic products.

### **C. Tourism Industry Support**

Carrying out of activities aimed at strengthening the tourism industry in the Recipient's territory including inter alia: (i) launching of World Hotel Link to increase marketing outreach for local hotels, guesthouses and other tourism businesses; (ii) provision of technical advisory services to LTDC to strengthen LTDC's capacity for investment promotion, brand development and marketing; and (iii) to develop attractive concession contracts.

### **D. Lesotho Enterprise Assistance Program**

(i) Implementation of LEAP to strengthen human and institutional capacity of private enterprises and their representative organizations.

(ii) Provision of matching grants to eligible private firms for the carrying out of Sub-projects aimed at skills enhancement of firms and capacity building for private sector supporting institutions with a view to increase their membership penetration, self-regulation and advocacy.

## **III. Project Implementation Support**

(i) Acquisition of office space, furniture, equipment, supplies, materials, and technical advisory services required for the Project.

(ii) Provision of training to any staff of the Recipient responsible for, and any Beneficiaries involved directly in the execution of any part of the Project.

## **SCHEDULE 2**

### **Project Execution**

#### **Section I. Implementation Arrangements**

##### **A. Institutional Arrangements**

1. The Recipient shall maintain, throughout Project implementation, the following entities, in form and substance and with resource and functions satisfactory to the Association and as further detailed in the POM:

- (a) the PPSC, headed by the Deputy Prime Minister and comprising the Ministers responsible for: (i) finance; (ii) trade; (iii) agriculture; (iv) home affairs; and (v) tourism; and representatives of the private sector including: (i) LBC; (ii) LCCI; and (iii) MCB. The PPSC membership may be amended from time to time as agreed upon between the Recipient and the Association. The PPSC shall be responsible for making policy decisions and for providing strategic guidance for efficient execution of the Project. The PPSC shall meet at least twice per year;
- (b) the PRC, headed by the Principal Secretary of the Ministry responsible for trade and comprising the Principal Secretaries of the Ministries responsible for: (i) finance; (ii) trade; (iii) agriculture; (iv) home affairs; and (v) tourism, the Registrar General, and the Chief Executives of LNDC and LTDC. The PRC shall meet at least once per quarter to review progress achieved in the execution of the Project and to provide guidance to the Project Manager as warranted. The PRC may also meet at the request of the Project Manager; and
- (c) the PMU, headed by the Project Manager and with qualified staff in adequate numbers, to discharge all functions and responsibilities as detailed in the POM.

2. The Recipient shall: (a) carry out the studies referred to under Part I B (a) (iii) of the Project by December 31, 2009; (b) submit the results and recommendations of the said studies to the Association for its review and comments; and (c) promptly implement the recommendations of the said studies in accordance with the timetable agreed upon with the Association.

##### **B. Anti-Corruption**

The Recipient shall ensure that the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines.



**C. Sub-projects**

1. The Recipient shall make LEAP Grants to Beneficiaries in accordance with eligibility criteria and procedures set forth in the LEAP Operational Manual and in the POM acceptable to the Association.

2. The Recipient shall make each LEAP Grant under a LEAP Grant Agreement with the respective Beneficiary on terms and conditions approved by the Association, which shall include the following:

- (a) The LEAP Grant shall be made in Maloti on grant basis;
- (b) The Recipient shall obtain rights adequate to protect its interests and those of the Association, including the right to require each Beneficiary to:
  - (A) carry out its Sub-project with due diligence and efficiency and in accordance with sound technical, economic, financial, and managerial practices satisfactory to the Association, including in accordance with the provisions of the Anti-Corruption Guidelines applicable to recipients of loan proceeds other than the Recipient;
  - (B) provide, promptly as needed, the resources required for the purpose;
  - (C) maintain policies and procedures adequate to enable it to monitor and evaluate in accordance with indicators acceptable to the Association, the progress of the Sub-project and the achievement of its objectives;
  - (D) (1) maintain a financial management system and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Association, both in a manner adequate to reflect the operations, resources and expenditures related to the Sub-project; and (2) at the Association's or the Recipient's request, have such financial statements audited by independent auditors acceptable to the Association, in accordance with consistently applied auditing standards acceptable to the Association, and promptly furnish the statements as so audited to the Recipient and the Association;
  - (E) enable the Recipient and the Association to inspect the Sub-project, its operation and any relevant records and documents; and

- (F) prepare and furnish to the Recipient and the Association all such information as the Recipient or the Association shall reasonably request relating to the foregoing.

3. The Recipient shall exercise its rights under each LEAP Grant Agreement in such manner as to protect the interests of the Recipient and the Association and to accomplish the purposes of the Financing. Except as the Association shall otherwise agree, the Recipient shall not assign, amend, abrogate or waive any LEAP Grant Agreement or any of its provisions.

## **Section II. Project Monitoring, Reporting and Evaluation**

### **A. Project Reports**

1. 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 agreed with the Association. Each Project Report shall cover the period of one quarter and shall be furnished to the Association not later than 45 days after the end of the period covered by such report.
2. For purposes of Section 4.08 (c) of the General Conditions, the report on the execution of the Project and related plan required pursuant to that Section shall be furnished to the Association not later than December 31, 2012.

### **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 not later than 45 days after the end of each calendar quarter, interim unaudited financial reports for the Project covering the quarter, in form and substance satisfactory to the Association.
3. The Recipient shall have its Financial Statements 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. **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 Section.
2. **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 Consultant Guidelines.

**B. Particular Methods of Procurement of Consultants' Services**

1. **Quality- and Cost-based Selection.** Except as otherwise provided in paragraph 2 below, consultants' services estimated to cost the equivalent of \$200,000 or more 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.

<b>Procurement Method</b>
(a) Selection Based on the Consultants' Qualifications (CQS)
(b) Individual Consultants
(c) Selection under a Fixed Budget
(d) Least-Cost Selection
(e) Single-Source Selection
(f) Quality-Based Selection

**C. Review by the Association of Procurement Decisions**

The Procurement Plan shall set forth those contracts which shall be subject to the Association's Prior Review. 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 consultants' services provided by a firm estimated to cost the equivalent of \$100,000 or more; (b) each contract for services to be provided by individual consultants estimated to cost the equivalent of \$50,000 or more; and (c) each contract for services to be provided

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 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:

<b>Category</b>	<b>Amount of the Credit Allocated (Expressed in SDR)</b>	<b>Amount of the Grant Allocated (Expressed in SDR)</b>	<b>Percentage of Expenditures to be financed</b>
(1) Consultants’ services including audits, training and workshops	2,400,000	1,300,000	92%
(2) Matching grants		700,000	100%
(3) Refund of Project Preparation Advance		400,000	Amount payable pursuant to Section 2.07 of the General Conditions
(4) Unallocated	200,000	400,000	
<b>(5) TOTAL AMOUNT</b>	<b>2,600,000</b>	<b>2,800,000</b>	

**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. The Closing Date is June 30, 2012.

**SCHEDULE 3**

**Repayment Schedule**

<b>Date Payment Due</b>	<b>Principal Amount of the Credit repayable (expressed as a percentage)*</b>
On each March 1 and September 1:	
commencing September 1, 2017 to and including March 1, 2027	<b>1%</b>
commencing September 1, 2027 to and including March 1, 2047	<b>2%</b>

\* 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. “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.
2. “Beneficiary” means an individual firm or an institution, a representative organization, a professional association or a commerce, trade or industry chamber qualified to receive a Matching Grant in accordance with the POM.
3. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
4. “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.
5. “General Conditions” means the “International Development Association General Conditions for Credits and Grants”, dated July 1, 2005 (as amended through October 15, 2006).
6. “LBC” means Lesotho Business Council, a public private partnership organization being established and to be operated pursuant to the Recipient’s Societies Act No 20 of 1966.
7. “LCCI” means Lesotho Chamber of Commerce and Industry, a trade organization established and operating pursuant to the Recipient’s Societies Act No 20 of 1966.
8. “LEAP” means the Lesotho Enterprise Assistance Program referred to under Part II D of the Project under Schedule 1 to this Agreement.
9. “LEAP Grant” means a grant made or proposed to be made to a Beneficiary as referred to in Section 1 C of Schedule 2 to this Agreement
10. “LEAP Grant Agreement” means the Agreement to be entered into between the LEAP Business Advisory Unit and a Beneficiary for the purpose of financing a Sub-project as referred to in Section 1 C of Schedule 2 to this Agreement.
11. “LEAP Operational Manual” means the manual prescribing in detail the modalities, procedures and eligibility criteria to be followed to make any LEAP Grant as referred to in Section 1 C of Schedule 2 to this Agreement.

12. "LNDC" means the Lesotho National Development Corporation, a parastatal entity established by the Recipient and operating pursuant to the LNDC Act No 13 of 1990 as amended to date.
13. "LTDC" means the Lesotho Tourism Development Corporation, a parastatal entity established by the Recipient and operating pursuant to the LTDC Act No 4 of 2002.
14. "MAFS" means the Recipient's Ministry of Agriculture and Food Security.
15. "Maloti" means the Recipient's currency.
16. "Matching Grant" means any and all grants made under Part II D (ii) of the Project.
17. "MCB" means Mohloli Chamber of Business, a trade organization being established and to be operated pursuant to the Recipient's Societies Act No 20 of 1966.
18. "MFDP" means the Recipient's Ministry of Finance and Development Planning.
19. "MHAPS" means the Recipient's Ministry of Home Affairs and Public Safety.
20. "MTEC" means the Recipient's Ministry of Tourism, Environment and Culture.
21. "MTICM" means the Recipient's Ministry of Trade and Industry, Cooperatives and Marketing.
22. "PMU" means the Project Management Unit established in accordance with the provisions of Section 1 A of Schedule 2 to this Agreement.
23. "PPSC" means the Public-Private Steering Committee established in accordance with the provisions of Section 1 A of Schedule 2 to this Agreement.
24. "PRC" means the Project Review Committee established in accordance with the provisions of Section 1 A of Schedule 2 to this Agreement.
25. "Procurement Plan" means the Recipient's procurement plan for the Project, dated January 29, 2007 and referred to in paragraph 1.24 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraph.

26. "Project Operational Manual" or "POM" means the manual adopted by the Recipient pursuant to Section 4.01 (d) 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 the LEAP Operational Manual and any schedules to the Project Operational Manual.
27. "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 December 15, 2005 and on behalf of the Recipient on January 27, 2006.
28. "Sub-project" means any and all Sub-projects referred to under Part II D (ii) of the Project.