November 26, 2012

The Honorable Minister Leketekete Ketso
Minister of Finance
Ministry of Finance
P.O. Box 630
Maseru 100
Kingdom of Lesotho


Honorable Minister:

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 ("IDA") proposes to extend to the Recipient an advance out of the World Bank’s Project Preparation Facility in an amount not to exceed six hundred and thirty-five thousand and forty-eight Dollars ($635,048) ("Advance") on the terms and conditions set forth or referred to in this letter agreement ("Agreement"), which includes the attached Annex, to assist in financing the activities described in the Annex ("Activities"). The objective of the Activities is to facilitate the preparation of a proposed project designed to improve the utilization and quality of maternal and newborn health ("MNH") services in selected districts in The Kingdom of Lesotho ("Project"), in support of which the Recipient has requested the World Bank’s financial assistance.

The Recipient represents, by confirming its agreement below, that: (a) it understands that the provision of the Advance does not constitute or imply any commitment on the part of or IDA to assist in financing the Project; and (b) it is authorized to enter into this Agreement and to carry out the Activities, repay the Advance and perform its other obligations under this Agreement, all in accordance with the provisions of 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 of the countersignature.

Very truly yours,
INTERNATIONAL DEVELOPMENT ASSOCIATION

By

Asad Alam
Country Director
Lesotho, Botswana, Namibia, South Africa, and Swaziland
Africa Region

AGREED:

By

Authorized Representative:

Name

K.V. Keiso

Title
Minister of Finance

Date
29/10/2013

Enclosures:

(2) "Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants", dated October 15, 2006;
(4) "Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits and Grants by World Bank Borrowers" dated January 2011 ("Consultant Guidelines").
(5) Disbursement Letter for the Advance of the same date as this Agreement, 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 Advances Made by the World Bank under its Project Preparation Facility dated July 31, 2010 ("Standard Conditions"), 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 this Agreement.

Article II
Execution of the Activities

2.01. **Description of the Activities.** The Activities for which the Advance is provided will consist of the following parts:

- review, update and harmonization of data collection tools for the strengthening of the Health Management Information System (HMIS);
- development of a web-enabled application for Performance Based Financing (PBF) invoicing;
- study tour to review PBF processes in other countries;
- field testing of the quality checklist for selected health centers and hospitals;
- collection of baseline data for the indicators to be incentivized;
- collection of baseline data for the results framework, especially the determination of the baseline quality score;
- PBF training course for five (5) PBF Unit staff;
- printing of forms and project-related documents for pilot districts, health facilities and committees;
- contracting and initial payments for Performance Purchasing Technical Assistance (PPTA) firm and commencement of activities such as community sensitization, development of facility business plans, and training on the new web-based application;
- enrollment of district health information officers and central Ministry of Health (MOH) staff in continuing education for the monitoring and evaluation of health programs;
- refresher training for doctors and nurse anesthetists at Queen Mamohato Memorial Hospital; and
- training of village health workers.

2.02. **Execution of the Activities Generally.** The Recipient declares its commitment to the objectives of the Activities. To this end, the Recipient shall carry out the Activities through the Ministry of Health in accordance with the provisions of: (a) Article II of the Standard Conditions; (b) this Article II; and (c) the "Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants", dated October 15, 2006 and revised in January 2011.
2.03. Monitoring, Reporting and Evaluation of the Activities. The Recipient shall monitor and evaluate the progress of the Activities in accordance with the provisions of Section 2.08 of the Standard Conditions.

2.04. Financial Management. (a) The Recipient shall ensure that a financial management system is maintained in accordance with the provisions of Section 2.09 of the Standard Conditions.

(b) The Recipient shall ensure that interim un-audited financial reports for the Activities are prepared and furnished to the World Bank not later than 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, upon the World Bank's request, have its Financial Statements audited in accordance with the provisions of Sections 2.09 (b) of the Standard Conditions. Each such audit of the Financial Statements shall cover the period of one fiscal year of the Recipient, commencing with the fiscal year in which the first withdrawal under the Advance was made. The audited Financial Statements for such period shall be furnished to the World Bank not later than six months after the end of such period.

(i) If, on or before the Refinancing Date, a Refinancing Agreement has been executed by all of its parties, the Recipient shall have the Financial Statements included in the first audit of financial statements required under the Refinancing Agreement.

(ii) If, by the Refinancing Date, no Refinancing Agreement has been executed by all of its parties, such audit of the Financial Statements shall cover the period of the Advance, commencing with the fiscal year in which the first withdrawal under the Advance was made. The audited Financial Statements for such period shall be furnished to the World Bank not later than six months after the end of the Recipient's fiscal year in which the Refinancing Date occurs.

(iii) Notwithstanding the provisions of paragraphs (i) and (ii) of this Section, the World Bank may request an audit of the Financial Statements prior to the Refinancing Date, covering such period as is indicated in its request. The audited Financial Statements for such period shall be furnished to the World Bank not later than six months after the end of such period.

2.05. Procurement

(a) General. All goods, non-consulting services and consultants' services required for the Activities and to be financed out of the proceeds of the Advance shall be procured in accordance with the requirements set forth or referred to in:

(i) Section I of the “Guidelines: Procurement of Goods, Works and Non-consulting Services under IBRD Loans and IDA Credits and Grants by World Bank Borrowers” dated January 2011 (“Procurement Guidelines”), in the case of goods and non-consulting services;
(ii) Sections I and IV of the "Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits and Grants by World Bank Borrowers" dated January 2011 ("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 prepared and updated from time to time by the Recipient for the Activities in accordance with paragraph 1.18 of the Procurement Guidelines and paragraph 1.25 of the Consultant Guidelines ("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 Sections III of the Procurement Guidelines, or Sections II, III, IV and V of the Consultant Guidelines, as the case may be.

(c) Particular Methods of Procurement of Goods and Non-consulting Services

(i) Except as otherwise provided in sub-paragraph (ii) below, goods and non-consulting services shall be procured under contracts awarded on the basis of National Competitive Bidding subject to the following additional procedures: (a) Use of the Bank's Standard Bidding Documents; (b) Registration/classification of bidders by PPAD, Ministry of Public Works and Transport or any other body shall not be used as a condition of bidding; (c) Preferences will not be granted based on citizen degree of ownership and local content; (d) Bracketing to provide for the rejection of bids which are in excess of 15% of the cost estimate will not be used; (e) Award of contract shall be made to the lowest evaluated bidder; and (f) Award of contracts shall be publicly disclosed in media of wide circulation.

(ii) The following methods, other than National Competitive Bidding, may be used for procurement of goods and non-consulting services for those contracts specified in the Procurement Plan: (A) Shopping; (B) Direct Contracting; and, (C) Procurement from UN 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) Selection based on Consultants' Qualifications; (B) Single-source Selection of consulting firms; (C) Selection of Individual Consultants; and (D) Single-source procedures for the 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.
Article III
Withdrawal of the Advance

3.01. Eligible Expenditures. The Recipient may withdraw the proceeds of the Advance in accordance with the provisions of: (a) Article III of 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 each category of Eligible Expenditures that may be financed out of the proceeds of the Advance (“Category”), the amount of the Advance allocated to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category:

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Advance Allocated (expressed in Dollars)</th>
<th>Percentage of Expenditures to be Financed (inclusive of Taxes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Goods, non-consulting services, Training consultants’ services, and Operating Costs under the Activities</td>
<td>635.048</td>
<td>100%</td>
</tr>
<tr>
<td>TOTAL AMOUNT</td>
<td>635.048</td>
<td>100%</td>
</tr>
</tbody>
</table>

For the purpose of this paragraph, the term:

(a) “Operating Costs” means incremental expenditures incurred on account of implementation of Activities, including insurance, office supplies, utilities, communication costs, bank charges to the Designated Account, payment of support staff, but excluding salaries of members of the Recipient’s civil service.

(b) “Training and Study Tours” means the reasonable costs associated with training, and study tours for selected participants, including travel and subsistence costs for participants, costs associated with securing the services of trainers and speakers, rental of training and facilities, preparation and reproduction of training materials, and other costs directly related to training courses and study tours preparation and implementation.

3.02. Refinancing Date. The Refinancing Date is November 30, 2013.
Article IV
Terms of the Advance

4.01. **Service Charge.** The Recipient shall pay a service charge on the Withdrawn Advance Balance at the rate of three-fourths of one percent (3/4 of 1%) per annum. The service charge shall accrue from the respective dates on which amounts of the Advance are withdrawn and shall be paid in arrears in accordance with the provisions of Section 4.02 of this Agreement. Service charges shall be computed on the basis of a 360-day year of twelve 30-day months.

4.02. **Repayment.** The Withdrawn Advance Balance shall be repaid by the Recipient to the World Bank (together with any service charges accrued thereon) in accordance with the provisions of Article IV of the Standard Conditions and the following provisions:

(a) **Refinancing under the Refinancing Agreement:** If, on or before the Refinancing Date, a Refinancing Agreement has been executed by all of its parties, then the full amount of the Withdrawn Advance Balance shall be repaid to the World Bank (together with any service charges accrued on the Advance to the date of repayment) as soon as the Refinancing Agreement becomes effective, by means of a withdrawal by the World Bank of an amount of the Refinancing Proceeds equivalent to the Withdrawn Advance Balance plus such service charges, in accordance with the provisions of the Refinancing Agreement.

(b) **Repayment in the absence of a Refinancing Agreement:** If, on or before the Refinancing Date, no Refinancing Agreement has been executed by all of its parties, or if, by such date or at any time thereafter, it has been so executed but terminates without becoming effective, then:

(i) if the amount of the Withdrawn Advance Balance does not exceed $50,000, it shall be repaid by the Recipient to the World Bank (together with service charges accrued on the Withdrawn Advance Balance to the date of repayment) on such date as the World Bank shall specify in a notice to the Recipient, which shall in no event be earlier than 60 days following the date of dispatch of such notice; and

(ii) if the amount of the Withdrawn Advance Balance exceeds $50,000, it (together with service charges accrued on the Withdrawn Advance Balance to the Notice Date) (the "Aggregate Balance") shall be paid by the Recipient to the World Bank in ten approximately equal semiannual installments, in the amounts and on the dates ("Payment Dates") which the World Bank shall specify in a notice to the Recipient. In no event shall the first Payment Date be set earlier than 60 days following the date ("Notice Date") of dispatch of such notice. The Recipient shall pay a service charge on the Aggregate Balance at the rate of three-fourths of one percent (3/4 of 1%) per annum, payable in arrears on each Payment Date. The service charge shall be computed on the basis of a 360-day year of twelve 30-day months.
Article V
Additional Remedies

5.01. Additional Events of Suspension. The Additional Event of Suspension consists that the Project implementing Entity's Legislation has been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of the Project Implementing Entity to perform any of its obligations under the Implementation Agreement.

Article VI
Recipient's Representative; Addresses

6.01. Recipient's Representative. The Recipient's Representative referred to in Section 9.02 of the Standard Conditions is the Ministry of Finance.

6.02. Recipient's Address. The Recipient's Address referred to in Section 9.01 of the Standard Conditions is:

P. O. Box 630
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 9.01 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 248423 (MC1) or 1-202-477-6391
Washington, D.C. 64145 (MC1)