Financing Agreement
(Public Financial Management Reform Support Project)

between

KINGDOM OF LESOTHO

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated February 24, 2014
FINANCING AGREEMENT

AGREEMENT dated February 24, 2014, entered into between the KINGDOM OF LESOTHO ("Recipient") and the 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 credit in an amount equivalent to three million six hundred thousand Special Drawing Rights (SDR 3,600,000) (variously, "Credit" and "Financing"), to assist in financing the project described in Schedule 1 to this Agreement ("Project").

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 The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%).

2.05. The Payment Dates are July 15 and January 15 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 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 the MoF 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 — TERMINATION

4.01. The Effectiveness Deadline is the date ninety (90) days after the date of this Agreement.

4.02. For purposes of Section 8.05 (b) of the General Conditions, the date on which the obligations of the Recipient under this Agreement (other than those providing for payment obligations) shall terminate is twenty years 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
   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    248423 (MCI)    1-202-477-6391
AGREED at Maseru, LESOTHO, as of the day and year first above written.

KINGDOM OF LESOTHO

By

[Signature]

Authorized Representative

Name: L.V. KETO
Title: MINISTER OF FINANCE

INTERNATIONAL DEVELOPMENT ASSOCIATION

By

[Signature]

Authorized Representative

Name: ASAD ALAM
Title: COUNTRY DIRECTOR
SCHEDULE 1

Project Description

The objective of the Project is to improve the quality and timeliness of public financial management information in support of the Recipient’s PFM/PRAP to improve budget execution.

The Project consists of the following parts:

Part A: Support for Improving the Stability and Reliability of the Existing IFMIS Platform

Improvement of the stability, performance and reliability of the existing IFMIS platform through the implementation of the following key activities in order to address existing technical and operational challenges and lay a solid foundation for the expansion and modernization of the IFMIS platform:

1. Improvement of Existing Wide-area Network Connectivity
   Support for the rapid resolution of existing network issues affecting the IFMIS operations.

2. Improvement of Primary and Backup IFMIS Data Centers
   Completion of IFMIS data center server and UPS upgrades by the MoF.

3. Activation of the EFT Interface with the CBL
   Support for activation of the IFMIS EFT interface with the CBL.

4. Cleaning IFMIS Databases and Improving Accounting Controls
   Support for: (a) the correction/cleaning of database records in the current IFMIS system and transfer of reliable opening balances to the upgraded version of the IFMIS Software; and (b) strengthening of accounting controls such as reconciliations.

Part B: Support for Expansion and Modernization of IFMIS Platform

Upgrade, configuration, and implementation of the latest version of the existing IFMIS Software to support a simplified, business architecture from a stable and well performing technology platform through:
1. **IT Audit of the IFMIS Platform**
   
   (a) carrying out of a technical and operational assessment (IT Audit) of existing IFMIS Software and data centers before any system upgrade or modernization effort.

   (b) update of the necessary system design documentation.

2. **PFM Business Process Re-engineering**
   
   Completion of a more detailed business process review in order to clarify and implement possible further improvements and simplifications before the IFMIS upgrade / modernization.

3. **Expansion and Modernization of the IFMIS Platform**
   
   (a) Enhancement of the functional support by the existing IFMIS platform to improve commitment management and budget execution, TSA operations, and better cash management.

   (b) Modernization of: (i) the technical architecture through transitioning to a web-based version of the existing IFMIS Software; (ii) relevant ICT infrastructure to support an upgraded version of the IFMIS Software; and (iii) extension of the IFMIS to all MoF offices in Districts and District Councils (approximately 122 offices).

**Part C: Support for Change Management, Training, and Project Implementation**

Provision of technical assistance to facilitate change management and capacity building as required for the Office of the Accountant-general, the core IFMIS team, the PFM staff of selected Line Ministries, the Cabinet, the Public Accounts Committee, the Central Bank, development partners, and other stakeholders.

1. **Support for Change Management and Training**
   
   (a) Provision of IFMIS operations and maintenance training/capacity development to the core IFMIS team (IFMIS custodian, super users, administrators, application support team, ICT support team, training team, and others as needed).

   (b) Support to the MoF in: (i) the development of the requisite capacity and skills amongst the IFMIS stakeholders; (ii) the assignment of the IFMIS training function to the Lesotho Centre for Accounting Studies (CAS); and (iii) strengthening the capacity and training capability of the Application Support Team to deliver the necessary accounting and
systems training to end users on a sustainable basis, with the support from CAS as needed.

(c) (i) User database clean-up to ensure that only valid users remain registered for access to the IFMIS Software; (ii) development of a training program to deliver the necessary training; and (iii) development of a core training team to carry out training of end users and managers.

(d) Full PFM and relevant IFMIS training for management of Ministries and DCs, Cabinet and the Public Accounts Committee including the full PFM cycle and how the IFMIS supports the objectives of fiscal discipline, strategic allocation of resources, efficient service delivery and financial accountability.

(e) Technical assistance to the Recipient: (i) for the development and implementation of a retention and succession plan for the core IFMIS team; (ii) to develop the skill and competency profiles for all functions required to support the continued operation and maintenance of the IFMIS; and (iii) to explore options to appoint key IFMIS staff on performance contracts to support better retention of such staff in such positions.

2. Support for Project Implementation

Provision of: (i) technical assistance to set-up and run the Project in IFMIS, and financial management and procurement assistance; (ii) basic office and IT equipment for the core IFMIS team; (iii) technical assistance to supplement capacity gaps in the core IFMIS team; and (iv) monitoring and evaluation, and reporting progress on all components.

3. Audit of Project/Financial Activities

Financing of the annual audit and reporting of Project activities.
SCHEDULE 2

Project Execution

Section I. Implementation Arrangements

A. Institutional Arrangements

The Recipient shall maintain, throughout Project implementation, the following arrangements, in form and substance and with resources, staffing and functions satisfactory to the Association:

Ministry of Finance (MoF)

The MoF, through the Accountant-general as Component Leader, and the Deputy Accountant-general (Cash Management) as Sub-component Leader, shall be the implementing entity for the Project, and the Deputy Accountant-general (Cash Management), shall be responsible for overall Project implementation and coordination.

Oversight/Steering Committee (IRSC)

The Oversight/Steering committee of the Recipient for PFM reforms, to be chaired by the Minister of Finance, and its membership shall include, inter alia: PFM Development Partners; chairperson of the Parliamentary Public Accounts Committee; Ministry of Public Service; representatives from key Line Ministries, Departments and Agencies (Education, Health, Agriculture, Local Government, etc.); Component Leaders; and a PFM Reform Coordinator, who shall serve as the IRSC Secretariat.

PFM Reform Technical Committee (RTC)

The day-to-day PFMRA activities shall be supported / coordinated by a PFM Reform Technical Committee (RTC), which shall comprise of all Component Leaders and shall be chaired by the Principal Secretary, Ministry of Finance, with the support of the PFM Reform Secretariat.

PFM Reform Secretariat

A central PFM Reform Secretariat shall provide overall monitoring, coordination and support for the implementation of the PFMRA by the CLs.

B. Anti-Corruption

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

1. (a) The Recipient shall, no later than September 30, 2015, or any other date agreed with the Association, carry out jointly with the Association a mid-term review of the progress made in carrying out the Project. The mid-term review shall cover, among other things: (i) the progress made in meeting the objectives of the Project; and (ii) the overall performance of the Recipient under the Project.

(b) The Recipient shall, upon completion of the mid-term review referred to in sub-paragraph (a) above take such measures as necessary to implement the recommendations of the mid-term review in accordance with such time frames and other modalities as agreed with the Association.

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 acceptable to the Association. Each Project Report shall cover the period of one calendar quarter, and shall be furnished to the Association not later than forty-five (45) days after the end of the period covered by such report.

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 forty-five (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 Project Financial Statements audited in accordance with the provisions of Section 4.09 (b) of the General Conditions. Each audit of the Project 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 (6) months after the end of such period.
Section III. Procurement

A. General

1. Goods, Works and Non-consulting Services. All goods, works and non-consulting 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 Section I of the Procurement Guidelines, and with the provisions of this Section.

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 Section.

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 Sections II and III of the Procurement Guidelines, or Sections II, III, IV and V of the Consultant Guidelines, as the case may be.

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

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

2. Other Methods of Procurement of Goods, Works and Non-consulting Services. The following paragraphs set forth the methods of procurement, other than International Competitive Bidding, which may be used for goods, works and non-consulting services. The Procurement Plan shall specify the circumstances under which such methods may be used:

<table>
<thead>
<tr>
<th>Procurement Method</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) National Competitive Bidding, subject to using National Standard Bidding Documents acceptable to the Association and complying with the provisions below in (*)</td>
</tr>
<tr>
<td>(b) Shopping</td>
</tr>
<tr>
<td>(c) Direct Contracting</td>
</tr>
</tbody>
</table>

(*) National Competitive Bidding may be used subject to the following: (a) use of World Bank's Standard Bidding Documents (SBDs); (b) registration and/or
classification of bidders by the Procurement Policy Advisory Department within the Recipient's Ministry of Finance, Ministry of Public Works and Transport or any other body shall not be used as a condition of bidding; (c) preferences shall 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 shall not be used; (e) award of contract must be made to the lowest evaluated tender; and (f) award of contracts shall be publicly disclosed in media of wide circulation.

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 paragraphs set forth the 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:

<table>
<thead>
<tr>
<th>Procurement Method</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Quality Based Selection</td>
</tr>
<tr>
<td>(b) Least Cost Selection</td>
</tr>
<tr>
<td>(c) Selection Based on Consultant's Qualifications</td>
</tr>
<tr>
<td>(d) Procedures set forth in paragraphs 5.2, 5.3, and 5.6 of the Consultants' Guidelines for the Selection of Individual Consultants</td>
</tr>
<tr>
<td>(e) Single Source Selection</td>
</tr>
</tbody>
</table>

D. 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. 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 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 Credit Allocated (expressed in SDR)</th>
<th>Percentage of Expenditures to be Financed (inclusive of Taxes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Goods, Works, non-consulting services, consultants' services, Training and Operating Costs for the Project</td>
<td>3,600,000</td>
<td>100%</td>
</tr>
<tr>
<td>TOTAL AMOUNT</td>
<td>3,600,000</td>
<td></td>
</tr>
</tbody>
</table>

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 July 3, 2017.

C. Other Undertakings - Counterpart Funding

The Recipient shall: (a) provide in its budget for its Fiscal Year 2014-2015 as its counterpart contribution to the financing of the Project adequate funds to carry out the following activities; and (b) thereafter promptly make available said funds in support of:

(i) Part A.2 of the Project: IFMIS data center electrical works, upgrade of generators, and cooling systems, estimated at US$130,000; and

(ii) Part B.(3)(b) of the Project: Upgrade of IFMIS primary and backup data center servers for upgraded version of IFMIS Software, estimated at US$461,737.
SCHEDULE 3

Repayment Schedule

<table>
<thead>
<tr>
<th>Date Payment Due</th>
<th>Principal Amount of the Credit repayable (expressed as a percentage)*</th>
</tr>
</thead>
<tbody>
<tr>
<td>On each July 15 and January 15:</td>
<td></td>
</tr>
<tr>
<td>commencing July 15, 2024, to and including January 15, 2034</td>
<td>1%</td>
</tr>
<tr>
<td>commencing July 15, 2034, to and including January 15, 2054</td>
<td>2%</td>
</tr>
</tbody>
</table>

* 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. "Accountant-general" means the Recipient's Accountant-general in the MoF.


3. "Application Support Team" means the team responsible for providing user support on IFMIS Software.

4. "Cabinet" means the Recipient's Cabinet.

5. "CAS" means the Recipient's Centre for Accounting Studies.


7. "Category" means a category set forth in the table in Section IV of Schedule 2 to this Agreement.

8. "Component Leaders" and "CLs" means the Recipient's Accountant-general in charge of a Part of the Project.


10. "Deputy Accountant-general (Cash Management)" means the Recipient's Deputy Accountant-general for Cash Management in the MoF.

11. "Districts" means the Recipient's Districts.

12. "District Councils" and "DCs" each means the Recipient's Councils of its respective Districts.

13. "EFT" means Electronic Funds Transfer.

14. "Fiscal Year" means the Recipient's fiscal year from April 1 to March 31.


17. "IFMIS Software" means the central financial management software of the Recipient.

18. "IRSC" means the Recipient's PFM Integrated Reform Steering Committee established and operating in the MoF to provide strategic guidance and oversight over the implementation of the Recipient's PFM Reform Action Plan.


20. "IT" means Information Technology.

21. "Line Ministries, Departments and Agencies" means the Recipient's Ministries, Departments and Agencies in the areas of education, health, agriculture, local government, etc.


24. "Operating Costs" means the reasonable incremental operating expenses, based on annual budgets approved by the Association, incurred on account of operation and maintenance costs incurred in connection with the implementation of the Project, including costs related to office, vehicles and office equipment; water and electricity utilities, telephone, office supplies, bank charges, additional staff costs, travel and supervision costs, per diem, but excluding the salaries and indemnities of officials and public servants of the Recipient's civil service.


27. "PFM Development Partners" means the African Development Bank, the European Union and the International Monetary Fund.


29. "PFM Reform Secretariat" means the Recipient's Secretariat for PFM Reform established and operating in the MoF to provide implementation coordination and support for the PFMRAP and report to the IRSC.

31. "Procurement Plan" means the Recipient's procurement plan for the Project, dated November 15, 2013, and referred to in paragraph 1.18 of the Procurement Guidelines and paragraph 1.25 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.

32. "Public Accounts Committee" means the Recipient's Public Accounts Committee.

33. "RTC" means the Recipient's PFM Reform Technical Committee.

34. "Sub-component Leader" means the Recipient's Deputy Accountant-general (Cash Management) in charge of the Project.

35. "Training" means the reasonable costs, which shall have been agreed by the Association for the training and workshops, including tuition, travel and subsistence costs for training and workshop participants, costs associated with securing the services of trainers and workshop speakers, rental of training and workshop facilities, preparation and reproduction of training and workshop materials, and other costs directly related to training course and workshop preparation and implementation (but excluding goods and consulting services).


37. "UPS" means Uninterrupted Power Supply.