Financing Agreement
(Public Sector Modernisation Project)

between

KINGDOM OF LESOTHO

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated April 15, 2016
FINANCING AGREEMENT

AGREEMENT dated April 15, 2016, 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 credit in an amount equivalent to seven million three hundred thousand Special Drawing Rights (SDR 7,300,000) (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 The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.

2.05. The Interest Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to one and a quarter percent (1.25%) per annum.

2.06. The Payment Dates are February 15 and August 15 in each year.

2.07. The principal amount of the Credit shall be repaid in accordance with the repayment schedule set forth in Schedule 3 to this Agreement.

2.08. The Payment Currency is Dollar.
ARTICLE III — PROJECT

3.01. The Recipient declares its commitment to the objective of the Project. To this end, the Recipient shall carry out the Project through MOF, with the participation of other relevant ministries pursuant to Section I.A.2 of Schedule 2 to this Agreement, 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.

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

ARTICLE V — REPRESENTATIVE; ADDRESSES

5.01. The Recipient’s Representative is its Minister of Finance.

5.02. The Recipient’s Address is:

Ministry of Finance
P.O. Box 395
Maseru 100, Lesotho
Facsimile:
(266) 2231 1041

5.03. The Association’s Address is:

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

Telex: Facsimile:
248423 (MCI) 1-202-477-6391
AGREED at Washington D.C., United States of America, as of the day and year first above written.

KINGDOM OF LESOTHO

By

Authorized Representative

Name: Dr. Mampho Khaketla
Title: Minister of Finance

INTERNATIONAL DEVELOPMENT ASSOCIATION

By

Authorized Representative

Name: Daqing Zhang
Title: Country Director, Lesotho
SCHEDULE 1

Project Description

The objective of the Project is to strengthen strategic-level planning, and improve efficiency in the fiscal and human resource management of Selected Ministries.

The Project consists of the following parts:

Part A. Strategic Planning and Fiscal Management

Provide support to the Recipient to strengthen strategic and fiscal planning and decision-making processes and improve expenditure planning and management in the health and education sector in order to achieve more effective and efficient service delivery, through the implementation of the following key activities:

1. Support to strategic planning and budgeting through: (i) the preparation of NSDP-2; (ii) carrying out a public expenditure review for a strategic budget preparation and the development of a wage bill modeling; (iii) improving public investment management; and (iv) updating and revising the MDP strategic plan for a better alignment with NSDP-2.

2. Strengthening expenditure planning and execution for MOH and MOET through: (i) improving budgeting processes at both the ministry and service delivery program levels; and (ii) developing and implementing financial management improvement plans.

Part B. Strengthening Human Resource Management

Provide support to selected ministries to: (i) reduce irregular human resource cases and salary payments; (ii) enhance wage bill and human resource control; and (iii) improve deployment of human resources for better service delivery through, inter alia:

1. Improving the HRIS through migration of verified and reconciled HR data.

2. Strengthening HRM control and processes through: (i) support the setup of the Establishment Committee to undertake strategic planning and control of human resources across the public service, and review of the Establishment List; (ii) support to MPS and MOF to strengthen the mechanism and procedures of establishment control; (iii) support to improve HRM processes and capacities of the HRM staff; and (iv) support for developing and introducing the performance-based management and evaluation system.

3. Improving HRM practices in MOH and MOET through, inter alia: (i) carrying out a staff deployment assessment, develop a strategic staffing plan and revise the establishment list for MOH and MOET; (ii) improve the HRM process and internal
controls by reviewing and strengthening business processes for HRM and salary payments; (iii) support selected districts as pilot cases to apply the improved HRM practices; and (iv) review the wage-scale and payment policy for teachers, including substitute teachers, develop a Performance Management System, and revise the Education Act accordingly.

**Part C. Improving Statistical Capacity**

Provide support to the selected ministries to produce timely and reliable economic, social and poverty statistics through the following key activities:

1. Improving the quality of national accounts statistics through, *inter alia*: (i) introduction of quarterly estimates of the GDP; (ii) development of a SUT; and (iii) development of a business statistics database.

2. Improving poverty and social statistics through the establishment of a multi-year program encompassing design and implementation of the HBS.

**Part D. Strategic Implementation Support**

1. Support for Project implementation through the provision technical assistance, goods and Training to the PCU to coordinate and implement the Project and serve as IRSC Secretariat, including annual audit of the Project.

2. Support to: (i) the PMO to strengthen its capacity building for policy formulation and coordination; and (ii) to IRSC in order to develop its strategy and policy-action plan for civil service reform and enhance its oversight role, and its public communication.
SCHEDULE 2

Project Execution

Section I. Implementation Arrangements

A. Institutional Arrangements

The Recipient shall maintain the following institutional arrangements, further described in the POM, throughout the implementation of the Project and in form and substance and with resources satisfactory to the Association:

1. Improvement and Reform Steering Committee (IRSC)
   (a) The Recipient has established and shall maintain, throughout the implementation of the Project, IRSC with composition and terms of reference satisfactory to the Association.
   (b) Without limitation to the generality of the foregoing provisions of paragraph (a) immediately above, the IRSC shall include, *inter alia*, representatives of the Recipient’s Ministry of Public Service, other key ministries, departments and agencies, PFM development partners, Component Leaders and the PFM reform coordinator.
   (c) Without limitation to the generality of the foregoing provisions of paragraph (a) above, the IRSC shall ensure the overall leadership and oversight of the Project, approving annual work plans and budgets (including related cash forecasts), monitoring implementation and results, approving reports (including progress, financial and audit reports) and recommending corrective measures as necessary.

2. (a) The MOF shall be responsible for: (i) the overview of the Project; and (ii) the implementation of activities under Part A of the Project.
   (b) In particular, the MOF shall overview the Project in association with other institutions as follows: (i) the MPS for the activities under Part B of the Project; and (ii) the MDP for the activities under Part C of the Project.

3. Reform Technical Committee (RTC)

The day-to-day Project activities shall be supported and coordinated by the Reform Technical Committee (RTC) jointly co-chaired by the principal secretaries within the MOF, MPS and MDP.
4. Project Coordination Unit

(a) The Recipient, through MOF, shall maintain, during the Project implementation, the PCU to provide overall monitoring, coordination and support for the implementation of the Project.

(b) The Recipient shall recruit, no later than three (3) months after the Effective Date: (i) a deputy Project coordinator, (ii) a procurement officer and (iii) a monitoring and evaluation expert for the PCU, all with terms of reference, qualifications and experience acceptable to 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. Project Operational Manual

1. No later than two (2) months after the Effective Date, the Recipient shall adopt the POM, in form and substance acceptable to the Association, for the purpose of implementing the Project.

2. (a) The Recipient shall ensure that the Project is carried out in accordance with the POM.

(b) Except as the Association shall otherwise agree, the Recipient shall not assign, amend, abrogate, or waive the POM, or any provision thereof.

3. In the event of any conflict between the provisions of the POM and those of this Agreement, the provisions of this Agreement shall prevail.

D. Annual Work Plans and Budgets

1. No later than May 1st in each Fiscal Year of the Recipient (or one month after the Effective date for the first year of Project implementation), the Recipient shall prepare and furnish to the Association a draft annual work plan and budget for the Project for the subsequent Fiscal Year of Project implementation, of such scope and detail as the Association shall have reasonably requested.

2. For any Training to be included in an Annual Work Plan and Budget, the Recipient shall, inter alia, identify: (a) particulars of the training envisaged; (b) the criteria for selection of the personnel to be trained, and such personnel, if known; (c) the selection method of the institution or individuals conducting such training; (d) the institution conducting such training, if known; (e) the purpose and justification for such training; (f) the location and duration of the proposed training; and (g) the
estimate of the cost of such training, of such scope and detail as the Association shall have reasonably requested.

3. The Recipient shall afford the Association a reasonable opportunity to review such draft annual work plan and budget, and thereafter shall carry out such annual work plan and budget during such subsequent calendar year as shall have been approved by the Association ("Annual Work Plan and Budget"). Only those activities included in the draft annual work plan and budget shall be eligible for financing out of the proceeds of the Financing.

4. Annual Work Plans and Budgets may be revised as needed during Project implementation subject to the Association’s prior written approval.

Section II. Project Monitoring, Reporting and Evaluation

A. Project Reports

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 the 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 one (1) month 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 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 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, commencing with the fiscal year in which the first withdrawal was made under the Preparation Advance for the Project. 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 and Non-consulting Services.** All goods 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 and Non-consulting Services**

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

2.  **Other Methods of Procurement of Goods and Non-consulting Services.** The following methods, other than International Competitive Bidding, may be used for procurement of goods, works and non-consulting services for those contracts specified in the Procurement Plan: (a) National Competitive Bidding subject to the additional provisions provided in section 3 below; (b) Shopping; and (c) Direct Contracting.

3.  **Additional Provisions for NCB.** The Additional Provisions for National Competitive Bidding are as follows:

   (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 percent of the cost estimate will 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 the media for 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 methods, other than Quality- and Cost-based Selection, may be used for procurement of consultants' services for those contracts 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; (d) Single-source Selection of consulting firms; and (e) Single-source procedures for the Selection of Individual Consultants.

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 Financing to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category:
## Percentage of Expenditures to be Financed

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Financing Allocated (expressed in SDR)</th>
<th>Percentage of Expenditures to be Financed (inclusive of Taxes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Goods, non-consulting services, consultants' services, Operating Costs and Training for the Project</td>
<td>6,550,000</td>
<td>100%</td>
</tr>
<tr>
<td>(2) Refund of Preparation Advance</td>
<td>750,000</td>
<td>Amount payable pursuant to Section 2.07 of the General Conditions</td>
</tr>
<tr>
<td><strong>TOTAL AMOUNT</strong></td>
<td><strong>7,300,000</strong></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 May 24, 2020.
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 February 15 and August 15:</td>
<td></td>
</tr>
<tr>
<td>commencing August 15, 2021 to and including February 15, 2031</td>
<td>1.65%</td>
</tr>
<tr>
<td>commencing August 15, 2031 to and including February 15, 2041</td>
<td>3.35%</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

Section I. Definitions


2. "Annual Work Plan and Budget" means each annual work plan, together with the related budget, for the Project approved by the Association pursuant to the provisions of Section 1.D of Schedule 2 to this Agreement.

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


5. "Dollar" means the US Dollar.


7. "Establishment Committee" means the committee to be established under the Project in order to provide for the mechanism for reviewing and controlling the Establishment List.

8. "Establishment List" means the list of fixed number of positions in the public service.

9. "Fiscal Year" or "FY" means the Recipient's fiscal year commencing April 1 and ending March 31 of each year.

10. "General Conditions" means the "International Development Association General Conditions for Credits and Grants", dated July 31, 2010, with the modifications set forth in Section II of this Appendix.


12. "HBS" means Households Budget Survey.

13. "HR" means Human Resources.
14. "HRIS" means Human Resource Information System, a database of human resources records and payroll pension information administered and maintained jointly by MPS and MOF.

15. "HRM" means Human Resources Management.

16. "IRSC" means the Recipient’s Public Sector Improvement and Reform Steering Committee established through the Recipient Cabinet Decision No. C3(2016/9)24 dated March 1, 2016 and operating in the MOF to provide strategic guidance and oversight over the implementation of the Recipient’s PFM Reform Action Plan, as well as civil service reform.

17. "MDP" means the Recipient’s Ministry of Development Planning or any successor thereto.

18. "MOET" means the Recipient’s Ministry of Education and Training or any successor thereto.

19. "MOF" means the Recipient’s Ministry of Finance or any successor thereto.

20. "MOH" means the Recipient’s Ministry of Health or any successor thereto.

21. "MPS" means the Recipient’s Ministry of Public Service or any successor thereto.


23. "NSDP-2" means the NSDP for the period between 2017/2018 and 2021/2022 to be adopted.

24. "Operating Costs" means the reasonable incremental operating expenses, based on annual budgets approved by the Recipient, incurred on account of operation and maintenance costs incurred in connection with the implementation of the Project, including costs related to office 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.


26. "PCU" means the Project coordination unit established as PFM reform secretariat under the Public Financial Management Reform Support Project financed through Financing Agreement between the Kingdom of Lesotho and the Association (Credit No. 5355-LS) dated February 24, 2014.
27. "Project Operational Manual" or "POM" means the Recipient's manual to be adopted in accordance with Section I.C of Schedule 2 to this Agreement, setting out implementation, organizational, monitoring and evaluation, risk mitigation, and fiduciary mechanisms for purposes of implementation of the Project, as well as eligibility criteria and procedures to determine other Selected Ministries, as the same may be amended from time to time with the prior written agreement of the Association, and such term includes any annexes or schedules to such manual.


29. "PMO" means the Recipient's Prime Minister's Office.

30. "PPAD" means the Recipient's Procurement Policy and Advisory Division within the MOF.

31. "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 February 2, 2016 and on behalf of the Recipient on February 3, 2016.


33. "Procurement Plan" means the Recipient's procurement plan for the Project, dated February 9, 2016, 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.

34. "Selected Ministries" means the MOF and MOET and any other ministries as may be selected by the Recipient and the Association as beneficiary institutions under the Project on the basis of eligibility criteria described in the POM.

35. "SUT" means Supply and Use Table, a tool for improvements of the national accounts by providing a framework for reconciliation of production and expenditure estimates.

36. "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).
Section II. Modifications to the General Conditions

The General Conditions are hereby modified as follows:

1. Section 3.02 is modified to read as follows:

   "Section 3.02. Service Charge and Interest Charge

   (a) Service Charge. The Recipient shall pay the Association a service charge on the Withdrawn Credit Balance at the rate specified in the Financing Agreement. The Service Charge shall accrue from the respective dates on which amounts of the Credit are withdrawn and shall be payable semi-annually in arrears on each Payment Date. Service Charges shall be computed on the basis of a 360-day year of twelve 30-day months.

   (b) Interest Charge. The Recipient shall pay the Association interest on the Withdrawn Credit Balance at the rate specified in the Financing Agreement. Interest shall accrue from the respective dates on which amounts of the Credit are withdrawn and shall be payable semi-annually in arrears on each Payment Date. Interest shall be computed on the basis of a 360-day year of twelve 30-day months."

2. Paragraph 28 of the Appendix ("Financing Payment") is modified by inserting the words "the Interest Charge" between the words "the Service Charge" and "the Commitment Charge".

3. The Appendix is modified by inserting a new paragraph 32 with the following definition of "Interest Charge", and renumbering the subsequent paragraphs accordingly:

   "32. "Interest Charge" means the interest charge specified in the Financing Agreement for the purpose of Section 3.02 (b)."

4. Renumbered paragraph 37 (originally paragraph 36) of the Appendix ("Payment Date") is modified by inserting the words "Interest Charges" between the words "Service Charges" and "Commitment Charges".

5. Renumbered paragraph 50 (originally paragraph 49) of the Appendix ("Service Charge") is modified by replacing the reference to Section 3.02 with Section 3.02(a).