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CO-OPERATION BETWEEN THE
EUROPEAN UNION
AND THE
KINGDOM OF LESOTHO**

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in the Kingdom of Lesotho

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Planning

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LIST OF ACRONYMS

ACP	African Caribbean and Pacific Countries
AG	Auditor General
AGOA	African Growth and Opportunity Act
APRM	African Peer Review Mechanism
AU	African Union
BADEA	Arab Bank for Development in Africa
BLNS	Botswana, Lesotho, Namibia and Swaziland
BoS	Bureau of Statistics
CBEP	Capacity Building in Economic Planning
CCM	Country Coordinating Mechanism
CEDAW	Convention on the Elimination of All Forms of Discrimination Against Women
CEO	Chief Executive Officer
CHAL	Christian Health Association of Lesotho
CMA	Common Monetary Area
CoW	Commissioner of Water
CSP	Country Strategy Paper
DCI	Development Cooperation Ireland
DFID	Department for International Development
DHMT	District Health Management Teams
DHP	District Health Package
DHS	Demographic Health Survey
DRR	Department of Rural Roads
DTIS	Diagnostic Trade Integration Study
EC	European Commission
ECHO	European Commission Humanitarian Aid Office
EDAL	European Development Agencies in Lesotho
EDF	European Development Fund
EIA	Environmental Impact Assessment
EIB	European Investment Bank
EPA	Economic Partnership Agreement
EU	European Union
FAO	Food and Agriculture Organisation
FPE	Free Primary Education
GDP	Gross Domestic Product
GFATM	Global Fund to fight Aids, Tuberculosis and Malaria
GoL	Government of Lesotho
GTZ	Gesellschaft für Technische Zusammenarbeit – German Technical Cooperation
HBC	Home-Based Care
IF	Integrated Framework
IMF	International Monetary Fund
IPPF	International Planned Parenthood Foundation
JBCC	Joint Bilateral Commission on Cooperation
LAPCA	Lesotho AIDS Programme Coordination Authority
LCN	Lesotho Congress of NGOs
LDC	Least Developed Country
LFCDD	Lesotho Fund for Capacity Development
LHDP	Lesotho Highlands Development Project
LHWP	Lesotho Highlands Water Project
LPPA	Lesotho Planned Parenthood Association
LRA	Lesotho Revenue Authority
LRMS	Lesotho Road Management System
LSL	Lesotho Maloti (currency)
LSO	Lesotho

MCU	Micro-projects Coordination Unit
MDG	Millennium Development Goals
MFA-ATC	Multi Fibre Agreement - Agreement on Textiles and Clothing
MoFDP	Ministry of Finance and Development Planning
MoHSW	Ministry of Health and Social Welfare
MoLG	Ministry of Local Government
MoNR	Ministry of Natural Resources
MoPA	Maintenance of Public Assets
MoPWT	Ministry of Public Works and Transport
MPP	Micro-Projects Programme
MTEF	Medium Term Expenditure Framework
MTR	Mid Term Review
NAC	National AIDS Commission
NAO	National Authorising Officer
NGO	Non Governmental Organisation
NIP	National Indicative Programme
NSA	Non State Actors
PAC	Public Accounts Committee
PFM	Public Finance Management
PHC	Primary Health Care
PM	Prime Minister
PMU	Project Management Unit
PRBSP	Poverty Reduction Budgetary Support Programme
PSC	Peace and Security Council
PRGF	Poverty Reduction and Growth Facility
PRS	Poverty Reduction Strategy
PRSP	Poverty Reduction Strategy Paper
PSIRP	Public Sector Improvement and Reform Programme
RB	Roads Branch
RSA	Republic of South Africa
RTIP	Road Transport Infrastructure Project
SADC	South African Development Community
SACU	Southern African Customs Union
SEFF	Supplementation Emergency Financing Facility
STABEX	EC Scheme for the Stabilisation of Export Earnings
SWAp	Sector Wide Approach
TA	Technical Advisor
TB	Tuberculosis
TDCA	Trade, Development and Cooperation Agreement
UN	United Nations
UNAIDS	United Nations HIV and AIDS Secretariat
UNDP	United Nations Development Programme
UNICEF	United Nations Children's Fund
WASA	Water and Sewerage Authority
WBHO	Wilson Baylie Holmes – Ovcon
WFP	World Food Programme
WHO	World Health Organisation
WRMP	Water Resources Management Policy

1 EXECUTIVE SUMMARY { TC "Executive Summary" \f C \l "1" }

2004 was a year of peace and stability for Lesotho in the political realm. Internally, preparations for the Local Elections scheduled for the 30th of April were undertaken. In the international arena, Lesotho handed over the chair of the SADC Organ on Policy, Defence and Security Cooperation, joined the African Peer Review Mechanism (APRM) and was elected a member of the Peace and Security Council (PSC) of the African Union (AU).

Economically, the country experienced an estimated GDP growth of 3.4% in 2004 and a surplus in its 2004/05 fiscal year. Nevertheless, erosion of export and Government revenues is to be expected in the near future, as a result of the anticipated decrease in SACU revenues, as well as the closure of AGOA-powered garment factories, which became evident during the year under review. The latter, and the decline in agriculture, is exerting pressure on household level incomes. These negative trends are likely to continue in 2005.

The Poverty Reduction Strategy (PRS) was presented to Cabinet in November 2004, 'Job Creation' having been defined as priority number one. The Public Sector Improvement and Reform Programme (PSIRP), designed to overhaul the public sector, experienced a new thrust by Government of Lesotho (GoL) during the first half of 2004, but did slow down during the second half. Public Finance Management (PFM) remains weak, although a number of initiatives, both by Government and the donor community, addressed the issue in 2004 and will continue to do so in 2005.

The law-making process is still very slow, certain key pieces of legislation (i.e. Land Bill, Married Persons Equality Bill) still awaiting approval and implementation.

HIV/AIDS is the single biggest threat to Lesotho's well being. In terms of adult prevalence (29%), the country ranks third worldwide, after Swaziland and Botswana. Every day some 80 Basotho people die, whilst the number of HIV/AIDS orphans has now surpassed the 100,000 mark. HIV/AIDS is deeply interconnected with food security. GoL has declared two states of emergency in 2004 (February and October) and the World Food Programme (WFP) estimates that 600,000 people will be in need of some degree of food aid in 2005.

Following the mid-term review (MTR) of EC-Lesotho Cooperation and the Country Strategy Evaluation in 2004, it was agreed to modify the country strategy, without altering the total envelope for long-term development. The resources freed by not pursuing direct budget support have been reallocated to the water and sanitation and road transport sectors. New focal areas introduced are the fight against HIV/AIDS, and capacity building for public finance management (PFM).

The re-organisation of the institutional structure for the water and sanitation sector, started in 2003, by bringing coordination under a single Commissioner of Water, was consolidated with TA support in 2004. Policy planning and strategy capacity has been established. Financing proposals have been prepared for the Six Towns Water Supply Project, the Lesotho Lowlands Water Supply Feasibility Study and the Maseru Wastewater Project for presentation to the Commission in 2005.

The review of the transport sector policy was completed in 2004, however, the institutional reform elements were not addressed. A Road Board for planning and monitoring has not yet been established, but a decision 'in principle' is expected before June/July 2005. Under the 8th EDF Road Transport Infrastructure Project, approximately 96% (36 M €¹) of the allocated

¹ Exchange Rates 2004

US\$ / Loti		€ / Loti	
High: 6.9398		High: 8.7689	
Low: 5.7235		Low: 7.5239	
Average: 6.4481		Average: 8.0113	

resources had been committed by the end of 2004 and 90% (34 M €) had been disbursed.

The Support to Health Sector Reform, focussing on decentralisation of health services, which will end in March 2005 was reviewed in mid-2004. Whilst the project had carried out the majority of its planned activities, outcomes at that point in time were considered low. However, with GoL's decentralisation gathering momentum, a more conducive environment has emerged and the "first pull" given by the project to the decentralisation of the services has now resulted in a clear decision to proceed with decentralisation of the health services in the remaining seven districts as soon as possible.

The Delegation experienced a very difficult year due to the inadequate staffing situation. Similar constraints were evident in the Office of the NAO. The key financial indicators for 2004 are: new Global Commitments € 1,985,100; new Individual Commitments € 3,392,071 and Disbursements € 11,056,000.

2 UPDATE ON THE POLITICAL, ECONOMIC AND SOCIAL SITUATION{ TC "Update on the political, economic and social situation" \f C \l "1" }

2.1 Update of the political situation{ TC "Update of the political situation" \f C \l "2" }

2.1.1 Overall situation{ TC "Overall situation" \f C \l "3" }

2004 marked a year of peace, stability and tranquillity in Lesotho.

The Government engaged in vigorous preparations for the Local Government election to be held on 30 April 2005. The Report on the demarcation of constituencies was finalised. The Independent Electoral Commission embarked on voter registration and education and the demarcations of Constituencies. This is the first big step forward towards a major decentralisation.

By December 2016, Lesotho will have fully established Local Governments at District and Sub-district level, performing a wide range of development services in an efficient, effective and accountable manner. In terms of financial outlays for decentralisation for fiscal year 2005/06, the following is documented: 30 M LSL for Capital expenditure, 49 M LSL for Recurrent expenses and an unspecified amount is being sought under Contingency; additionally, the Lesotho Fund for Community Development (LFCD) will shift to the Ministry of Local Government in 2005/06 and will be used for development programs for Local Authorities. Selection of District Administrators², CEOs for the District Councils and a Town Clerk for Maseru Municipal Council is underway with the assessment for appointment of 128 Community Council Secretaries scheduled to start at the end of March. Selected functions from different Ministries have been devolved to the Local Authorities in the Transition Phase (2005/07), the most relevant ones being: disaster management (from the PM Office), district finances management (from the Ministry of Finance and Development Planning - MoFDP), land allocation and management (from the Ministry of Local Government - MoLG), urban and rural water supply related functions (from the Ministry of Natural Resources - MoNR) and prevention of new HIV/AIDS infections and care for the infected and affected (from the Ministry of Health and Social Welfare - MoHSW).

The National Assembly was also able to pass the Lesotho Broadcasting and Cooperation Bill 2004. However, important legislation linked to civil service reform, land reform and women's rights were left pending. A Parliamentary Reform Commission was established in 2004 and commenced working.

Lesotho joined the African Peer Review Mechanism (APRM) of the African Union in August 2004. The Government has deemed Lesotho more than ready to join the APRM as she meets

² Lesotho is administratively divided into ten districts; there are ten district councils and one municipal council.

most of the mechanism's targeted commitments. A workshop will be held soon which will enable Lesotho to establish the APRM institutional framework with the collaboration of the United Nations Development Programme (UNDP) and the APRM Secretariat.

In August, 2004 Lesotho handed over the Chairmanship of the SADC Organ on Politics, Defence and Security Cooperation. One of the major achievements Lesotho made as Chairman was the Implementation of the Strategic Plan for the Organ as well as SADC Principles and Guidelines Governing Democratic Elections. Lesotho remains a Member of the SADC Troika with South Africa as Chair and Namibia as Incoming Chair.

Lesotho was also elected as a Member of the Peace and Security Council (PSC) of the AU in July, 2004 for a period of two years. Fifteen (15) Member States of the AU constitute the PSC with Lesotho, South Africa and Mozambique representing the Southern Region.

2.1.2 Human rights

The country has ratified all the major international and regional conventions. The death penalty remains on the statute book although the *de facto* moratorium effective since the 1990s was again observed during 2004.

2.1.3 Justice

In 2003 an initiative to strengthen the administration of justice was launched with British support, a 5-year project that performed all along 2004 and is currently running. The objectives are to remove the backlog of cases, to reinforce the operation of the legal system (training, court administration and registry, law reporting, equipment etc.) and to strengthen the police force and prison service.

2.1.4 Good governance

Good governance did receive new impetus during 2004 thanks to the rolling out of the Public Service Improvement and Reform Programme (PSIRP), GoL's flagship programme regarding the overhauling of its public service. PSIRP and PRS are to be combined in order to achieve Vision 20/20, GoL's long-term national vision for the development of the country by year 2020. PSIRP is described under 2.2.3 Public Financial Management and PRS under 3.1 Vision 20/20 and PRS.

2.1.5 Corruption

In the fight against corruption, the trial for bribery involving, among others, different European consultancy and construction companies that were part of the Lesotho Highlands Development Project (LHDP) continued in 2004, notably with the conviction and subsequent blacklisting by the World Bank of Acres International Ltd. It is the first time that the World Bank has levied penalties against a Western company for corruption, debarring the Canadian firm from new contracts for three years.

Schneider Electric, formerly Spie-Batignoles (France), was fined 10 M Rand in February 2004 after admitting to bribery and both Lahmeyer International (Germany) and Impreglio (Italy) were called to Court in November of the same year, bringing to 6 the total number of corruption prosecutions against international firms involved in the LHDP case.

Finally, since its establishment in 2003, the office of the Auditor General has pursued the fight against corruption.

2.2 Update of the economic situation

During the year under review the main macroeconomic indicators were kept under control, GDP grew at 3.4% and GoL even benefited from a budget surplus for the 2004/2005 fiscal year. However, a set of emerging threats did also develop during 2004 casting a shadow over the main sources of income both at household and Government level: SACU revenues, AGOA-

supported textile industry, remittances, and agricultural production (See 3.4 Food security). This negative trend is and will be heavily compounded by the HIV/AIDS pandemic.

2.2.1 *Macroeconomic Situation* { TC "Macroeconomic Situation" \f C \l "3" }

The Government of Lesotho does not have long-term macroeconomic targets but pursues a general policy of maintaining economic stability to facilitate high, sustainable growth. It is recognised that sustained growth of at least 7 per cent per annum is required for a significant reduction in the poverty level. Macroeconomic policy in Lesotho aims to limit budget deficits to ensure the sustainability of public debt; to limit the growth in money supply to keep the Loti at par with the Rand and curtail inflation; and to keep adequate foreign currency reserves to ensure convertibility of the currency. For at least two decades macroeconomic performance has broadly been in line with these aims.

The situation of the main macroeconomic policies and indicators is as follows:

The economy has experienced robust levels of growth since the civil disturbances in 1998. **Real GDP growth** (%) since 2000 is as follows: 7.2 (2000, Actual); 10.1 (2001, Actual); 12.3 (2002, Actual); 10.5 (2003, Provisional); 3.4 (2004, Estimate); 1.2 (2005, Estimate); 2.7 (2006, Estimate)³. As regards the **Budget**, the 2004/2005 budget shows an increase in both revenue and grants (up to 4.56bn LSL) and expenditure (up to 4.29bn LSL). **Fiscal deficit** for 2004/05 is budgeted at 0.6% of GDP before grants, whilst a budget surplus of 2.7% after grants is projected. This is explained mainly by a windfall from Southern African Customs Union SACU revenues and, to a lesser extent, by the delivery of enhanced levels of revenue by the LRA (Lesotho Revenue Authority)⁴. Finally, the 2004/2005 budget surplus was used to retire debt of the Lesotho Bank (200 M LSL). The prime focus of **monetary policy** in Lesotho is to support the fixed exchange-rate link (at par) with the Rand. Thus, the objective of monetary policy in the near future will continue to be to meet the 400-450 M US\$ target for net international reserves in order to support the exchange-rate link.

Exchange Rates. The dollar's weakness on international markets, the differential between South African real interest rates and those in other markets, and rising commodity prices have maintained the Rand strong performance against the US dollar through 2004.

Total **external debt** decreased from US\$ M 726.3 in 2001 to US \$ M 492.4 in 2002; debt-service ratio paid amounted to 12.4 % in 2001 and 11.8 % in 2002. The inflation rate in 2003 was 6.1%, whilst the estimate for 2004 is 5.1%. Prices in South Africa, the source of around 80% of Lesotho's imports, will continue to be the main influence on inflation.

Remittances from Basotho migrant mine workers in RSA play a very important role in the economy of Lesotho. The number of Basotho miners working in South Africa, as a result of the retrenchment process experienced in the South African mining industry, is estimated to have declined from a maximum of 120,000 to around 50,000-60,000 at present. Although the amount of remittances has actually increased in recent years (112 M LSL in 2002; 119 M LSL in 2003 and 128 M LSL in 2004), as a result of wage increases in the mining industry, the impact on the Lesotho economy is mixed. While at the macro level Lesotho has not suffered, at the household level the change in distribution of remittances is considered to have a negative impact on food security and poverty.

It is important to underline the fact that the total income generated abroad goes beyond the Miners' Remittances chapter. A second concept, very similar, is the Deferred Pay (transferred to the recipients in Lesotho in arrears), also channelled – and hence traceable – by The Employment Bureau of Africa (TEBA). The Deferred Pay total figure for 2003 was 208 M LSL and the estimated figure for 2004 is 220 M LSL. The third concept, encompassing both Remittances and Deferred Pay and including also any other way miners or any other Basotho

³ Real GDP growth forecast for 2005 and 2006 are largely dependent on the continued growth of the textile industry, driven by the US demand for textile products.

⁴ VAT was introduced in July 2003 at 14%.

national working abroad use to transfer money/goods to Lesotho (i.e. circa 75% of the miners' pay is received in cash and spent in RSA purchasing goods that are then introduced into Lesotho) is called the Net Factor Income from Abroad amounted to 1.9 billion LSL in 2003 (or 22% of GDP) and it is estimated at 2 billion LSL for 2004 (or 19% of GDP).

2.2.2 Integration into the world economy and trade arrangements { TC "Integration into the world economy and trade arrangements" } C \l "3" }

In terms of regional integration the significant issue still remains how to encourage closer economic integration with South Africa while protecting Basotho cultural, economic and political independence. Along with South Africa, Lesotho is member of the Southern Africa Customs Union (SACU), the Common Monetary Area (CMA), the Southern Africa Development Community (SADC) and the African Union (AU) and has established a Joint Bilateral Commission on Cooperation (JBCC), with the Government of South Africa as a vehicle for closer integration with its sole neighbour.

SACU. The revenues from the Southern African Customs Union reached an all-time high during 2004/05 fiscal year (2,012 M LSL), accounting for around 50% of GoL's total budget (or 25% of its GDP); SACU revenues should remain high in 2005. However, changes in world tariffs under the WTO to which Lesotho and its SACU partners are members will probably have a negative impact in Lesotho from 2006/07 onwards. Out of the three basic components of the SACU revenue-sharing formula (Customs, Excise and Development), Lesotho gets most of its monies from the Customs Component, the one that will be most affected by the worldwide trade liberalisation trend. In addition, the "safety net" under the old formula of a guaranteed minimum revenue (equivalent to 17% of Lesotho annual imports) is to be removed. This scenario may force GoL to decrease its level of expenditure relative to GDP.

Additionally, the effect of the EU-South Africa Trade, Development and Cooperation Agreement (TDCA) will also have to be taken into account. The EU-RSA TDCA signed in 1999 is to gradually establish a Free Trade Area between the European Union and the Republic of South Africa and it is anticipated that the removal of tariffs on imports from the EU by South Africa will have mainly direct negative effects due to the loss of customs revenue at SACU level. Indirect effects are more difficult to foresee albeit according to the import/export structure of Lesotho (in 2002 more than 75% of the exports were directed towards the US and almost 75% of the imports came from SACU) a positive outcome could be forecast in the form of cheaper EU goods purchased through SACU (provided, for example, that South African wholesalers do not increase their margins accordingly).

Key Macroeconomic Indicators

	2000	2001	2002	2003	2004	2005	2006
GDP at market prices (LSL bn)	5,963.7	6,564.8	7,370.1	8,143.8	8,851.4	9405.49	10142.4
GDP per capita (LSL)	2,781	2,999	3,300	3,569	3,833	4,025	4,289
GDP per capita (US\$)	401	348	317	472	606	606	601
Real GDP growth (%)	7.2	10.1	12.3	10.5	3.4	1.2	2.7
Consumer Price Inflation (%)	6.0	6.9	10.5	6.1	5.1	5.0	5.0
Exchange rate average (LSL:US\$)	6.9	8.6	10.42	7.56	6.33	6.64	7.14
Population (m)	2.1	2.2	2.2	2.3	2.3	2.3	2.3
Imports (FOB) LSL m	5,051	5,824	8,008	7,454	8,180	8,360	8,671
Exports LSL m	1,468	2,426	3,740	3,557	4,300	4,032	4,116
Total external debt (LSL m)	4,320	6,246	5,131	4,432	3,909	3,813	4,007
Total debt / GDP (%)	85.7	108.9	82.2	68.7	50.4	52.0	53.5

Figures for 2000 - 2003 are actuals. Figures for 2004 - 2006 are GoL estimates and forecasts

African Growth and Opportunity Act – AGOA. AGOA III was signed into law in July 2004, extending the overall programme to 2015 (from original expiry in 2008) and the LDC status (through which countries were allowed to use third country raw materials in textile industry) to 2007 from the original expiry in September 2004. Thanks to the AGOA, the textile sector in Lesotho has overtaken the public sector as the biggest employer in the country (with around 50 companies and more than 50,000 workers, mainly women, before the lay offs of the second half of 2004 and 2005) and accounts for more than 90% of merchandise exports.

However, the euphoria that followed the approval of AGOA III, was overshadowed by two very important related issues that still need to be properly addressed:

- MFA-ATC: expiry of the Agreement on Textiles and Clothing (Multi-Fibre Agreement) on 31 December 2004 that opens the US and EU markets to Asian exporters such as China, India and Pakistan by removing their quotas;
- The strength of the Rand: the Rand – to which Lesotho’s currency, the Loti, is pegged at par – has shown strong growth in 2004 against other currencies. The effect has been the erosion of the profit of the textile industries in Lesotho due to the subsequent weakening of the US\$.

These issues appear to be the main drive behind the – in some cases very hasty – closure of at least nine garment firms in the country since June 2004 (six of them since January 2005), with a subsequent estimated 13,000 workers losing their jobs, half of them just in January 2005. Further developments regarding the garment industry are cause for concern and will need to be closely monitored.

Trade (2002)

Main destination of Exports	% of total	Main origin of Imports	% of total
US	76.4	SACU	73.5
SACU	22.9	Asia	23.7
EU	0.2	EU	1.1

Source: EIU Country Report Lesotho January 2005

Economic Partnership Agreements (EPA): Lesotho decided to join the SADC-EU EPA grouping together with Angola, Botswana, Mozambique, Namibia, Swaziland and Tanzania. The launch of negotiations for SADC-EU EPA took place in Windhoek (Namibia) in July 2004 and the first high-level meeting took place in Brussels in December. The main obstacles stemming from the negotiations are the geographical setting of the SADC grouping and its institutional weakness.

Integrated Framework: Lesotho requested to be a part of the Integrated Framework (IF), whose purpose is to facilitate coordination of trade-related technical assistance and promote an integrated approach to enhance the trading opportunities of LDCs⁵. The initial component of the IF was the preparation of a Diagnostic Trade Integration Study (DTIS). Work on this began in November 2001 and the study was completed in mid-2003. The IF has been included in the Employment Creation priority of the Poverty Reduction Strategy (PRS)⁶. A donor workshop is to be held in 2005 and the expected outcome is the pledging of funds according to the IF Action Matrix.

2.2.3 Public Financial Management { TC "Public Financial Management" \f C \l "3" }

Lesotho has been receiving concessional loans under the IMF-PRGF, subject to compliance with fiscal and monetary targets and with benchmarks for the improvement of public financial management. The 6th IMF PRGF was completed in September 2004 and 5 M US\$ were

⁵ A High-Level WTO Meeting established the Integrated Framework (IF) in October 1997.

⁶ PRS is described in more detail in Chapter 3.

approved since the IMF considered Lesotho to be on. A new PRGF should be devised during the first half of 2005.

The Report of the Auditor General (AG) for the 2002/03 accounts (2003/04 accounts are currently being analyzed) provides a similar picture to the one for 2001/02: the AG is unable to express an opinion as to whether the financial statements give a true and fair view of the state of affairs of the Government of Lesotho. A major problem in this respect is the fact that accounts were not prepared for the period 1996-2000 causing a break in accounts and creating difficulties in establishing accurate opening and closing balances.

However, some encouraging steps to overcome the public finance management problems of the past have been and are currently being implemented by GoL. Following the hiatus in accountability (1995/96 to 2000/01 - related to the 1998 social upheaval and SADC military intervention) the 2001/02 and 2002/03 annual public accounts have been prepared and presented to Parliament (thus resuscitating the Public Accounts Committee - PAC), whilst the 2003/04 accounts are under preparation; introduction of an initial 3-year MTEF in two pilot Ministries – Ministry of Education and Ministry of Health and Social Welfare – whose implementation is to be initiated in 2005/06; the appointment of the Accountant General and two Deputy Accountants General in November 2003.

The Public Sector Improvement and Reform Programme has been designed to guide Government's overhauling along three main Components: 1) Improving Financial Management and Accountability, 2) Improving Service Delivery through Decentralisation and 3) Improving Public Service Management. The EC is one of the main contributors to this programme (mainly Component 1) through the Capacity Building in Economic Planning (CBEP) (See 4.1.3.2 Capacity Building in Economic Planning) and the still to be defined Public Finance Management (PFM) programme. DCI puts most of its effort behind Component 1, German Development Cooperation (GTZ, KfW and DED) put most of their efforts behind Component 2 and 3, and DfID behind Component 3. The World Bank will bridge the funding gap.

GoL pushed PSIRP forward during the first half of 2004 under the leadership of the Government Secretary and a costed Donor Matrix was prepared highlighting the initial pledges of the four European agencies above-mentioned. Three Task Forces were organized by GoL, each of them attached to a particular Component. During the second half of 2004 the process slowed down, although by the end of the year the World Bank started the design of a Project Management unit and DfID fielded its PFM team.

2.3 Update on the social situation { TC "Update on the social situation" \f C \l "2" }

2.3.1 Education

The policy of free primary education was introduced in 2000 and has been gradually extended since then – it is scheduled to reach Standard 6 students in 2005. The policy has led to a significant increase in the number of children attending primary school – with the subsequent increase in the demand for additional schools, class-rooms and teachers – which should produce in time a more educated and competent labour-force. The Government of Lesotho is in the process of adopting an Education Sector Strategic Plan for the period 2005-2015. However, there are still concerns as to how to meet the post-primary demand for education. The future employment prospects for this “improved labour force” – and the solution to Lesotho's brain-drain problem mainly in favour of South Africa – will be dependent on Lesotho's ability to generate domestic and foreign investment, which in turn will be partly dependent on improving its infrastructure.

2.3.2 Health ⁷{ TC "Health" \f C \l "3" }

Although a number of individual policies have been developed in some areas (i.e. Social Welfare), documents such as the national Health Policy have not been adopted yet, while the

⁷ HIV/AIDS not included.

Health Sector Strategic Plan has been adopted. The ten-year Health Sector Reforms Plan initiated in 2000 whose aim is to improve health sector performance should address these policy shortcomings as well as the decentralisation of the sector among other major interventions. The Health Development Partners⁸ closing statement at the end of the Annual Joint Review (27 January 2005) acknowledges that the first phase of the reform process – systems and capacity development – has been virtually achieved even though there is a need to improve the accountability, performance, evaluation and communication at policy and operational levels within the MoHSW. Implementation of the Human Resources Development Strategic Plan 2005-2025 remains a matter of urgency since the shortage of qualified personnel constitutes one of the main issues in MoHSW⁹. Additionally, an eventual Sector-Wide Approach (SWAp) is in the process of preparation for the whole sector.

The Health Sector Strategy Plan Draft has been operationalized through the 2004/05 Operational Plan, which was the first comprehensive Ministerial Plan. An MTEF has also been developed to operationalize the strategic plan in the medium-term (3 years, 2005-2008) albeit it still needs to be cleared with the Ministry of Finance and Development Planning.

The office of the Director Primary Health Care (PHC) continued, with the support of the EDF-financed 8 ACP LSO 008 Support to Health Sector Reform, to move forward in the decentralisation process. Under this scenario, the decentralization framework for health was approved in May 2004 and the District Health Management Teams (DHMTs), the first wave of personnel to be decentralized, were redeployed in three pilot Districts (Thaba-Tseka, Berea and Mohale's Hoek) although issues such as salaries and transportation still need to be tackled. The establishment of the District Health Package (DHP), the standard set of health services available at District level, is still to be finalised and costed. The plan for rolling out decentralisation in the rest of the seven Districts has been developed and costed within the 2005-2008 MTEF.

Key Social Indicators

Type	Indicator ‡	2000	2001	2002	2003	2015
Impact	i) Proportion of population below US\$1 per day	58%				40%
	ii) Prevalence of underweight children (<5 yrs)		22%			11%
	iii) Under five years mortality rate (per 1000 live births)	111	113			N/A
Outcome	iv) Net enrolment ratio in primary education	68.9%	69%	69.2%	73%	100%
	v) Primary education completion rate	85.6%	86.3%	75.5%	85%	90%
	vi) Ratio of girls to boys in: ▪ Primary education ▪ Secondary education ▪ Tertiary education	51:49 57:43 55:45				50:50 50:50 50:50
	vii) Proportion of births attended by skilled health personnel	76%*				80%
	viii) Proportion of 1 year-old children immunised against measles	77%				90%
	ix) HIV prevalence amongst 15 – 24 year-old pregnant women	31%				25%†
	x) Proportion of population with sustainable access to an improved water source	77%				81%
	xi) Child Mortality rate (per 1000 survivors to age 1 yr)		35			10
	xii) Proportion of people with access to basic sanitation		45%			67%

⁸ The Health Development Partners group was established in 2000 and brings together relevant stakeholders in the health sector from the donor community (including the EC) and UN agencies aiming at supporting the MoHSW.

⁹ In the course of 2004, 200 health and social welfare personnel left service (24% died while in service) and during the same period only 132 new appointments were made.

Sources: Bureau of Statistics, Ministry of Health and Social Welfare, LAPCA, UNAIDS/WHO, UNDP, UNICEF, Ministry of Education, Ministry of Finance and Development Planning

‡ MDG targets/indicators numbered in **bold**

* Includes trained traditional birth attendants

† MDG goal is to have halted and begun to reverse the spread of HIV/AIDS by 2007

Note on Indicators

It is recognised that monitoring indicators presently are weakly developed. Government, in the context of the PRS is in the process of establishing monitoring systems designed to provide qualitative and quantitative data that is up-to-date and reliable. Funds for PRS monitoring are also available through DfID. These monitoring systems are to guide in the design, implementation and continuous analysis of poverty reduction strategies. Emphasis will be placed on monitoring inputs, processes, outputs and outcomes as well as on evaluating the impact of specific policies or programmes through indicators that will continuously be refined to be specific, measurable, achievable, realistic and time-bound. Finally, systems should integrate the views and comments of other stakeholders, including the poor.

In this regard, the upcoming strengthening of the Bureau of Statistics (BoS) in the framework of the EDF 9-funded project Capacity Building for Economic Planning is crucial. This action will follow a previous support intervention in the BoS under EDF 7 (7 ACP LSO 45) and should take into account the improvements in the monitoring and evaluation of the health sector brought by the EDF 8 project Support to Health Sector Reform (8 ACP LSO 8).

Additionally, a Rider to the Capacity Building in Economic Planning programme is currently being prepared in order to accommodate the trade database ASYCUDA that will allow GoL a more accurate control of import/export information.

GoL's key partner in the provision of health services remains the Christian Health Association of Lesotho (CHAL): out of the 18 public hospitals, 8 belong to the CHAL, and of the 183 health centres, 73 belong to the same organisation. The Government signed an interim agreement with CHAL in December 2002, whereby it committed to financing a supplementary Emergency Financing Facility (SEFF) for a period of three years starting in 2003/2004.

2.3.3 HIV/AIDS{ TC "HIV/AIDS" \f C \l "3" }

Lesotho is among the countries worst affected by the HIV/AIDS epidemic. With a population of circa 2.2 million and 330,000 of its adults estimated to be infected with HIV¹⁰, the country is facing an unprecedented national disaster if the pandemic is not stopped. The first HIV/AIDS case was reported in Lesotho in 1986, and since then the adult HIV prevalence has reached 29%; during 2004 an estimated 80 people a day died as a consequence of AIDS. The key drivers of the epidemic in the country include social vulnerability of young people and women, migrant workers returning from RSA mines, and a sexual culture that features several facilitators for the spreading of HIV/AIDS (i.e. multi-partnerism¹¹, lack of condomization¹², culture of silence concerning sexuality, older male partners¹³). Besides the high prevalence, the features listed lead to a feminisation of the epidemic with women accounting to some 60% of HIV infected and to almost twice the burden of disease given their earlier infection, early teenage and premature death. Compared to the other neighbouring BLNS¹⁴ countries and Republic of South Africa (RSA), Lesotho lacks enough national financial and human capabilities to effectively tackle the epidemic.

Orphaned and Vulnerable Children (OVCs): Some 22,000 children aged 0-14 years are infected with the HIV virus today. The number of single and dual orphans in Lesotho has risen to its highest level ever at around 90,000 children aged 0-15 years and will surely remain high or increase in the short term, to a large extent due to the HIV/AIDS epidemic.

Antiretroviral Therapy (ART): In July 2004 GoL approved the National Roll-Out Plan for ART with an initial target of 5,000 patients by December of the same year; this objective was not attained. The WHO "3 by 5" Initiative in Lesotho aims at 28,000 patients under antiretroviral

¹⁰ UNAIDS (2004).

¹¹ Allegedly, the majority of new HIV infections in Lesotho result from multiple partnerships outside sex work (USAid Rapid Assessment Team, Sep 2004).

¹² Millions of condoms donated to GoL have to date not been distributed, despite offers from the donor community to provide assistance for this.

¹³ Women start their sexual life earlier, their male partners being, on average, 5 years older; exchange of sexual favours for gifts (money, clothes) is not an uncommon practice (*Ibid*).

¹⁴ Botswana, Lesotho, Namibia and Swaziland.

therapy by the end of 2005, a goal that seems far from attainable at this point in time¹⁵. Currently just four hospitals are able to provide ART. Voluntary Counselling and Testing (VCT): VCT is being provided in most of the facilities and VCT centres have been set up. Prevention of Mother to Child Transmission (PMTCT): PMTCT is being implemented in 15 out of 19 hospitals in the country.

Global Fund to Fight AIDS, Tuberculosis and Malaria (GFATM): the Global Fund approved two components for Lesotho for the 2004/08 period for more than 34 M US\$: HIV/AIDS (29,321,000 US\$) and TB (5 M US\$). For the 2004/05 period, contract agreements were signed as follows: HIV/AIDS (10,557,000 US\$) and TB (2 M US\$). Disbursement for January/September 2004 has been estimated at: 1,229,631 US\$ for HIV/AIDS (or 4.3% of the total amount approved) and 197,553 US\$ for TB (or 3.9% of the total amount approved). Out of the 212 Global Fund grants for which a grant agreement has been signed worldwide, the Global Fund Observer identified 25 of them, including the one for Lesotho, as Slow-Moving (GFO Newsletter 33) in terms of disbursement; local structures in charge of the management of the Fund (CCM etc) need to be seriously improved.

The National HIV/AIDS Strategy expired at the end of 2004 and needs to be renewed. LAPCA – Lesotho AIDS Programme Coordination Authority – the coordinating body established in 2001 maintained its low operational level during 2004 and will become the Secretariat for the long overdue National AIDS Commission (NAC), whose CEO assumed duty in March 2005.

2.3.4 Gender{ TC "Gender" \f C \l "3" }

Women are legal minors. Lesotho signed the Convention on the Elimination of All Forms of Discrimination Against Women (CEDAW) in 1981 and ratified it in 1995. It is also a signatory to the SADC Addendum on the Prevention and Eradication of Violence Against Women and Children. In 1997 the Lesotho Law Reform Commission was established with a mandate to review and update any laws in conflict with the Constitution, including those laws that discriminate against women. Progress in the Commission's work was delayed by the civil disturbances of 1998 and the subsequent focus on amending electoral legislation. There has been progress in that the Sexual Offences Act 2002 has been enacted although the Married Person Equality Bill is still at the stage of draft and white paper. Provision for a minimum one third seats for women in the Local Authorities has been foreseen under the upcoming local elections.

2.3.5 Environment{ TC "Environment" \f C \l "3" }

The Lesotho environment remains very fragile. It is characterised by steep slopes and weak soil formations. The government estimate that 0.25 per cent of the arable land, or 39.6 million tons of soil, is lost through soil erosion each year, with the most visible signs being deep gullies in the lowlands and exposed rock in the mountains. The direct consequence of soil erosion is the decline in agricultural production and productivity, exacerbating the problems of food shortage and poverty.¹⁶ The history of the current status of the environment in Lesotho is clearly outlined in the 2002 State of the Environment Report¹⁷. This report sets the background and groundwork for the strategy outlined in the 2004 Poverty Reduction Strategy (PRS).

In the PRS the Government of Lesotho places heavy emphasis on the need to manage and conserve the environment and the awareness of the combination of factors (forces of nature and human interventions) that lie at the heart of the environmental crisis is highlighted. In particular they note the importance of understanding that poverty is both a cause and a consequence of environmental degradation. In the PRS the key environmental issues facing the country have been highlighted as:

- 1). **Disregard for the rule of law** – Where, while in contravention of the all major land and environment Acts and Policies, the expansion of cultivation to marginal and sensitive land

¹⁵ In order to arrive at this figure, 600,000 people in Lesotho should test first and know their status, from which 180,000 (30%) will probably test positive with about 28,000 (15%) of them requiring immediate access to ART.

¹⁶ PRSP, Chapter 10

¹⁷ An abridged version has been slightly modified to reflect recent changes has been included in Annex 6

(mountain slopes and wetlands) has become common practice and continues unabated.

- 2). **Pressure on natural resources** – with one of the coldest climates in Africa, fuel in Lesotho is essential for heating. The main source of fuel is biomass in the form of trees, shrubs, crop residues and cow dung which are rapidly being depleted. On average fuel use in the form of biomass is about 25kg per household per week.
- 3). **Loss of biodiversity** – In Lesotho this manifests itself through changes in flora and fauna and by the loss or decline of habitats such as grasslands, marshes, bogs and reed meadows which are used for fuel, grazing, plants with medicinal value, etc.
- 4). **Urbanisation** – With the process of industrialisation, mainly in the textile sector, the population in the urban areas has increased significantly. The PRS identifies four areas of concern that require close monitoring: the nature and extent of industrial waste water released into the environment; the quality of water for domestic consumption (solid waste disposal in water catchment areas - as in Maseru); increased risk of air pollution as a result of increased dependence on coal for heating; and the capacity of municipal waste management under pressure from a growing population.

While Government has shown some commitment to this issue¹⁸ there continues to be problems in implementing and enforcing the plans that have been put in place. For example, the 2001 Environment Act has not yet become enforceable so while some developers and line ministries comply with EIA requirements, the majority resist compliance with the process.

In the PRS the government proposes the following strategies;

- a) Promote environmental conservation for improved productivity by targeting committed families to be taught to harness water resources, increase ground cover and incorporate conservation and agro-forestry techniques into production;
- b) Strengthen management of solid and water waste as well as air pollution;
- c) Strengthen curriculum and media programmes on environmental education;
- d) Reduce loss of bio-diversity by maintaining existing reserves and moving towards the establishment of nature reserves and protected areas;
- e) Address range management issues by establishing and/or revitalising grazing associations in collaboration with new local government authorities; and
- f) Improve the legal, policy and institutional framework, giving particular attention to the capacity of the National Environment Secretariat and implementation of the Environment Act 2001.

3 THE LESOTHO DEVELOPMENT AGENDA{ TC "The Lesotho Development Agenda" \f C \l "1" }

3.1 Vision 2020 and PRS{ TC "Vision 2020 and PRS" \f C \l "2" }

The Lesotho Vision 2020 was approved in 2004. The document articulates the long-term national aspirations. The Poverty Reduction Strategy PRS was approved at the very end 2004. This strategy has been developed over four years and is the first PRS for Lesotho. It covers the period 2004/2005 – 2006/2007 and outlines national priorities and strategies to reduce poverty and promote equitable economic growth. The overarching development goal of the PRS is to provide a broad-based improvement in the standard of welfare for the current generation of Basotho, without compromising opportunities for future generations. The PRS formulation process has identified eight priority areas with an added emphasis on the cross-cutting and interdependent nature of the relationship between poverty and HIV/AIDS, gender, and children and youth. The eight priorities areas are:

- 1) **Employment creation** through the establishment of a conducive operating environment that facilitates private sector-led economic growth and through the provision of basic

¹⁸ The commitment is demonstrated through the formulation of the National Environmental Action Plan (NEAP) in 1989; the establishment of the National Environment Secretariat in 1994; Institutional restructuring in the Government was done to ensure the emphasis environmental issues was increased; and the establishment of environmental units in each line ministry to strengthen coordination on environmental issues.

infrastructure and support for small business. Currently the unemployment rate is 31% and the percentage without any form of waged employment is thought to be considerable higher. Particular note is made of the textile sector and the need to ensure that continued employment in this sector by ensuring that firms remain globally competitive.

- 2) **Improve agricultural productivity and food security** using a multi-dimensional approach that will look at production, equitable distribution and household access to food. Population growth, limited arable land, erosion, degradation of the soil and variability of climate have put increasing pressure on Lesotho's ability to grow enough food for the population. GoL has put an emphasis on both employment creation (mentioned above) and making sure those with land use it as productively as possible.
- 3) **Infrastructure development** in order to create a more conducive investment climate. This will primarily involve improving road links, developing water resources to ensure the further growth of wet industries (textiles), and improving water-borne sewerage systems.
- 4) **Deepen democracy, governance, safety and security.** It became clear following the political unrest of 1998 that without national unity and stability, Lesotho would not make economic progress or be able to address the spectrum of poverty issues it faces. Key to this is the establishment of structures for public participation in governance at local levels.
- 5) **Improve access to healthcare and social welfare.** The most critical areas that GOL will be addressing include; rationalised provision of health service facilities, necessary equipment and drugs and the development of maintenance procedures to ensure sustained availability of health services and resources
- 6) **Improve quality and access to education.** While Lesotho has a well developed school system and one of the highest literacy rates in Africa the strategy proposes to expand and promote pre-school education, and expand free primary education as well as to improve teacher/pupil ratios and access, relevance and quality of technical and vocational education and tertiary education.
- 7) **Manage and conserve the environment.** With Lesotho's well documented fragile environment (Annex 6) GoL proposes that as part of its poverty reduction strategy there must be some focus on the environment by; promoting environmental conservation for improved productivity; improving the legal and institutional framework for the management and conservation of the environment.
- 8) **Improve public service delivery.** That goal should be achieved by implementing reforms directed at productivity and management, decentralising service delivery and improving the management of public finances.

3.2 Water Supply and Sanitation{ TC "Water Supply and Sanitation" \f C \l "2" }

The water supply and sanitation¹⁹ sector in Lesotho is undergoing considerable reform. These reforms are driven by:

- the completion of the first phase of the Lesotho Highlands Water Project and initiation of a preliminary study for Phase 2,
- national policies for economic growth, which include a focus on attracting wet industries to drive the country's industrialisation programme; and
- a dramatic increase in urbanisation, with the consequent increase in the demand for domestic water supply and sewerage disposal.

The policy framework for water supply is provided by the Water Resources Management Policy (WRMP) of 1999 (presently under review), which emphasises: the development of secure long-term sources of supply; institutional reform; cost recovery through an appropriate

¹⁹ Sanitation includes wastewater collection, treatment, solid waste collection, and disposal.

tariff structure; greater involvement of the private sector; regional cooperation; and the systematic treatment of wastewater.

To consolidate the dispersed water sector organisations and provide a focus for the coordination of the reforms and related investment, a Commissioner of Water was appointed to the Ministry of Natural Resources (MoNR) in early 2003. The next step will be the development of a SWAp – Sector Wide Approach with the commensurate Policy, Programme and Budget documents. This is due to be finalised by the end of 2006 but the initial working programme and implementation budgets are complete. However, it is expected that a draft Medium to Long Term Strategy Plan for the Water Sector will be ready for discussion before the end of June 2005.

3.3 Road transport{ TC "Road transport" \f C \l "2" }

In December 2002, the Ministry of Public Works and Transport (MoPWT) released the first draft of a transport sector policy document. In the document, GoL's underlying premise for the sector is to develop a network capable of supporting national economic development and providing access to all communities, including those in isolated rural areas. Specific intra-sector objectives are to: facilitate and optimise traffic circulation; lower vehicle running costs; reduce the incidence of road accidents; provide employment through labour-based road construction and maintenance; and enable the establishment of rural infrastructures such as schools, clinics, markets and water supply schemes. The policy, which was discussed with stakeholders during 2003, was to be complemented with the Ministry's institutional reform proposals and be presented to Cabinet in late 2003. The institutional reform proposals have not yet been finalised and this, in turn, has delayed the policy development. (It was originally hoped to include a decision on the institutional reform in the Transport Policy) Work has resumed on the policy drafting and a second document called the "Draft Transport Sector Policy" should be completed in early May 2005. Distribution of this document to key stakeholders will be followed by workshops to obtain further comment, after which a revised draft will be presented to Cabinet for review, amendment and approval. The development of a sector-wide strategic plan will only be finalised once this document has received approval.

3.4 Food security{ TC "Food security" \f C \l "2" }

It is estimated that up to 80% of the population in Lesotho depends to some degree on producing their own food and 46% is wholly dependent on subsistence farming despite the limited arable surface of the country. Agriculture accounted for 17.3% of Gross Domestic Product in 2002. In 2004 the Southern African region experienced its third consecutive year of food shortages and Lesotho, which benefited from food relief operations from 2001 to 2003, was again one of the most heavily affected countries. GoL declared in February 2004 its second state of emergency in three years and the last appeal for food aid (the second for last year) was launched in October 2004. The World Food Programme (WFP) estimates that 600,000 people in the country will still require some kind of food aid during 2005.

In response to this situation, three ECHO missions visited Lesotho during 2004. Their assessment highlights the structural nature of the crisis, attributed to a set of interconnected factors that hamper both local production of food as well as purchase of locally and internationally produced food staples:

- **weather:** untimely and insufficient rain pattern;
- **soil problems:** approximately 9% of the total surface of the country is arable and it is estimated that 0.25% of the arable land in the country, or 39.6 million tons of soil, is lost through erosion each year²⁰;
- **poverty:** exacerbated by the retrenchment of migrant miners working in RSA and now the decline in job opportunities in the textile industry;

²⁰ Food Security Policy for Lesotho (Draft March 2005)

- **HIV/AIDS:** with the third highest HIV/AIDS prevalence rate in the world²¹, the households' productive members gradually weaken and eventually die. This scenario increases the costs related to medical care and diminishes the families' income.

Food security is the second priority under the Lesotho Poverty Reduction Strategy and a Food Security Policy for the country is currently being prepared.

3.5 Land Tenure

The issue of land tenure is very much related to food security and environment. The Land Bill 2004 is now ready for tabling in Parliament. This bill is the result of a number of years in which attempts have been made to review the current Land Act (1979). These attempts have included the establishment of the Land Policy Review Committee and the subsequent drafting of a White Paper and a National Land Policy in 2003. While these have all been positive steps GoL will have to ensure the necessary reforms are actually implemented. As described under 2.1.1 Overall situation, land allocation and management will be devolved to the local level in 2005/07.

Principles of the Land Bill:

1. Land occupied by citizens and others is held of a lease which derives its legitimacy and legality from the Constitution.
2. Land management is devolved from the centre to elected local authorities operating in a transparent and participatory manner.
3. Transparent and consistent regulation of the land market.
4. Efficient, economical and equitable systems of dispute settlement.
5. Administrative justice as the guide for all administrative action.

4 OVERVIEW OF PAST AND ONGOING CO-OPERATION{ TC "Overview of past and ongoing co-operation" \f C \l "1" }

4.1 Focal sectors and macroeconomic support{ TC "Focal sectors and macroeconomic support" \f C \l "2" }

Following the completion of the mid-term review (MTR) of the Country Strategy Paper (CSP) and National Indicative Programme (NIP) during 2004, which took into account an assessment of current needs and performance, it was agreed to modify the country strategy without altering the total amount under the A Envelope. Under macro-economic support and capacity building, direct budget support has been replaced by project-type interventions since the conditions for providing this support were not met and the funds thus freed have been reallocated to the following sectors: Water and Sanitation, Road Transport, HIV/AIDS, PFM.

In the **water and sanitation** sector the resource allocation has been increased. The objective of the sector is to pursue the improvement of the standard of living of both rural and rapidly urbanising population through the provision of domestic and industrial water. Interventions foreseen will include capacity building and education activities in public private sectors in respect of water supply and waste water treatment; the increase of water supply and sanitation facilities in six towns in the Lesotho lowlands; and the securing of medium-term water availability and supply to urban centres in the lowlands.

The resource allocation to the **road transport** sector has also been increased, with the objective of the development of a transport system capable of providing access to essential social services for isolated communities. Major interventions foreseen include institutional capacity building and the development of a medium term strategy for the transport sector; the establishment of a sector wide road maintenance and capital investment programme, and

²¹ After Swaziland and Botswana

upgrading and improvement of the road network both outside and within urban areas; upgrading to all-weather gravel standard of selected rural roads, financing road safety measures and the development of the Maseru railway container terminal.

A new focal sector with the specific objective to fight against **HIV/AIDS** was agreed upon. Major interventions foreseen are the formulation and financing of measures to combat HIV/AIDS, and to improve capacity building in this area, as well as to address issues related to orphans.

Support to capacity building actions connected with assistance in macro-economic and sector policy analysis and in strengthening public expenditure management remains valid as focal sector and the financial allocation for strengthening of **PFM** is increased.

Resources for the programmes outside the focal sector have also been increased and the CSP/NIP objectives of the existing non-focal sector programmes remain valid.

The revised resource allocation means that the initial 9th EDF A Envelope of 86 M € now stands at 106.3 M €, including expected decommitments under previous EDFs. The allocation for the B Envelope, originally at 24 M €, was reduced by 50% (12 M €) as in most other ACP countries, which after deduction of a 1.7 M € contribution to the Peace Facility and ECHO leaves a balance of 10.3 M €. The revised breakdown of the indicative allocations for long-term development is presented below:

€ Million

	Sectors	Initial		Rev. allocation	
1	Water and Sanitation	17.20	20.0%	36.50	35.1%
2	Road Transport	17.20	20.0%	26.40	25.4%
3	Macroeconomic support & capacity building	43.00	50.0%	22.50	21.6%
4	HIV/AIDS*	0	0	8.00	7.7%
5	Programmes outside focal sectors	8.60	10.0%	10.59	10.2%
	Totals	86.00	100.0%	103.99[†]	100.0%

* New Focal Sector † Includes expected decommitments under previous EDF's

The levels of global and individual commitment and disbursement for the 7th, 8th and 9th EDF as at 31 December 2004 are set out below:

		EDF allocation §	Total global commitments	Balance uncommite	Total indiv. commitments	Paid in 2004	Total Paid
7th EDF	€	102,305,760	102,305,760	-	101,697,047	365,830	101,475,916
	%		100.0%		99.4%		99.2%
8th EDF	€	73,842,171	73,842,171	-	66,286,814	10,216,609	56,601,575
	%		100.0%		89.8%		76.7%
9th EDF	€	108,384,550	20,985,100	87,399,450	1,156,794	273,709	278,426
	%		19.4%		1.1%		0.3%
TOTAL		284,532,481	197,133,033	87,399,450	169,140,657	10,856,148	158,355,919

Notes

§ Includes NIP, structural adjustment, Non programme and transferred balances

% indicates percentage of Allocations

4.1.1 Water and Sanitation Sector { TC "Water and Sanitation Sector" \f C \l "3" }

The sector continues to play an important role in the economy. The Lesotho Highlands Water Project (LHWP) dominated Lesotho's capital investment programme in recent years and provides an annual contribution of some 200 M LSL to GoL revenues from the sale of water to South Africa. This past emphasis on water for export from the highlands was not matched by development of water resources and supplies for Lesotho as a whole and the populous western lowlands in particular. The lowlands region covers almost half of the country's total area and

holds more than two-thirds of the population and all industrial development. The critical situation of the water resources in the lowlands, and its effects on the well-being of the people, is apparent in increasingly unreliable supplies to existing consumers and an inability to meet the increasing demand of new consumers, especially in Maseru.

The continued trend of the movement of population from the highlands to the lowlands; the demand for higher levels of service, including increasing expectation of reticulated water systems; the demand for industrial water; increased environmental problems, including declining winter flows in the main river during the dry season, high sediment loads and inadequate wastewater treatment; and the limited institutional capacity in the sector, all contribute to the fragile situation, which leads to a disproportionate impact on the poor.

In line with GoL's priority for improved access to water and sanitation, given its potentially strong impact on poverty reduction, and the premise that within ten years the lowlands will be in critical water shortage, the sector was selected as the major focus for EC-Lesotho co-operation. The EC response strategy takes a two-pronged approach. On one hand, it aims to consolidate current EC assistance for improving water supply in six urban centres in the Lesotho lowlands. On the other hand, it will identify, design and develop a long-term solution for the provision of water throughout the lowland areas, for both domestic and industrial use. To initiate the process a feasibility study has been completed using resources from the 8th EDF. The proposed 9th EDF support is complementary to a comprehensive integrated sector-wide approach involving GoL, EC and a number of Lesotho's co-operating partners, under which the lessons learned from past involvement will be addressed and included in the interventions and measures proposed (special attention should be given to DCI's efforts, together with Swiss Development Corporation, regarding the SWAp in the rural water sector). Due to the international dimension of a shared watercourse, co-operation with South Africa will be important.

All these provide a good background to the achievement of the water-related Millennium Development Goals (MDGs) by 2015. The EIB remains closely involved in the water sector operations (refer to Annex VII).

a) Results

It has been recognised that, in order to achieve the primary objective for the 8th EDF-NIP in the water sector (to provide adequate access to safe water supply and sanitation facilities for the majority of Lesotho's people), a major re-organisation of the sector's institutional structures was required. This should be accompanied by considerable investment, particularly in the supply of bulk water, water storage and delivery. As a result a broader sector approach was adopted for the 9th EDF-NIP, with initial attention being given to two key aspects: institutional constraints and the problem of longer-term security of supply.

The re-organisation of the institutional structure started in early 2003 with the appointment of a Commissioner of Water (CoW) and his supplementary staff. The CoW is charged with the responsibility of ensuring that the Millennium Challenge Goals are achieved. To assist him in this objective the EDF has provided a Technical Adviser who is attached to the Office of the CoW. Also attached to the Office of the CoW is the Policy Planning and Strategy Unit, which now has an almost complete complement of staff.

Given the rapid urbanisation and industrial development, the concern over the inadequacy of wastewater treatment and disposal assumed a high priority. Government has embarked on a number of measures, the first of which has been the adoption of a national policy on wastewater management; the second being the implementation of a number of interrelated feasibility studies and the third the issuing of a draft Industrial Wastewater Management Policy.

b) Progress in activities

In terms of specific activities financed from the NIP substantial progress has been made during 2004 with the completion of three major studies, which have led to the submission of draft

financing proposals in December 2004. The contract for the **Six Towns Water Supply Study & Supervision of Phase II (8 ACP LSO 017)** was awarded in September 2003. The Consultant submitted the Final Feasibility Report and Design Reports for all Six Towns in November 2004 and following approval of the Report by GoL in November 2004 a Draft Financing Proposal was submitted to the EC in mid-December 2004. The Consultant also submitted the Draft Tender Dossiers for the implementation of the Works in November 2004.

The contract for the **Lesotho Lowlands Water Supply Feasibility Study (8 ACP LSO 011)**, designed to address the problem of lowland Lesotho becoming “water critical” by 2015, was awarded in December 2002. The Government has placed the highest priority on developing an investment programme for securing affordable potable water supplies for domestic and commercial use. The Final Report and Draft Tender Dossiers were submitted in September 2004. Approval of the report and acceptance of the recommended option (the “no-dams” option) by the GoL is awaited, but pending this approval, drafting of a Draft Financing Proposal was undertaken in December 2004.

Sanitation is included in the Six Towns Project, but this does not include the city of Maseru. To cover this shortfall the **Maseru Wastewater Project (8 ACP LSO 018) Consultancy for a Feasibility Study** was awarded in September 2003. The Consultant submitted the Final Report and Draft Tender Dossiers in September 2004. It had been agreed among the EIB, EC and GoL that the Terms of Reference for the Consultancy Contract could be expanded to allow for a more in-depth study of Industrial Wastewater, specifically the recycling thereof. Unfortunately, the requirement to follow EIB Procurement Procedures meant a substantial delay in the awarding of the Sub-Contract such that the work will not be completed until late March 2005. The requirement for a proper tendering process resulted in the appointment of a Consultant different from the one undertaking the main study.

With the approval of the Final Report by the GoL, a draft financing proposal for the immediate works and the appointment of a Technical Assistant for WASA was submitted to the EC in mid-December 2004.

The immediate works consist of the rehabilitation of the existing sewerage system under the supervision of the TA. Expansion of the sewerage system (the medium term works) has been put on hold until such time as there is adequate water in the system – through the construction of the Metholong dam – to ensure that a water-borne sewerage system can work efficiently.

4.1.2 Road Transport Sector{ TC "Road Transport Sector" \f C \l "3" }

The intervention strategy under the 9th EDF for the transport sector is to continue the multi-donor, sector-wide approach adopted under the 8th EDF. The strategy responds to both the population movement to the lowlands and the need to provide basic services to rural communities in the highlands (in particular education and primary healthcare). Building on the lessons learned from past involvement in the sector, the focus of the 9th EDF-NIP programme is to continue support for institutional reform, with key targets being:

- To develop a medium-term strategy for the whole sector. The strategy will take into account existing and possible future institutional structures, GoL policies for economic growth, employment creation and the provision of services, and the limitations that result from present levels of institutional capacity;
- To secure adequate funding for sustainable sector wide road maintenance and road safety (motorised and pedestrian traffic); and
- To address the institutional weaknesses that result from GoL’s inability to retain medium-level professional cadres in relevant agencies (MoPWT, local government).

In addition to the institutional support, resources are to be used for the limited extension and improvement of the road network, where proven relevant and feasible and where the intervention will result in:

- Improved access in the lowlands to planned centres of production (e.g. industrial estates) in support of employment creation;
- Providing isolated rural highland communities with year-round access to the road network and hence, to basic social services and agricultural/commercial markets.

a) Results

Policy and Strategy

Transport Policy: A ‘*Review of Transport Sector Policy*’ was completed in 2004; however, a major element of this, the proposed Institutional Set-up, was missing. It was hoped to include this before a final draft was produced, however, the institutional reform process has been delayed and it was recently decided to finalise the Lesotho Transport Policy with an outline of the ‘expected’ institutional arrangements.

The Policy is currently being redrafted to include Stakeholder comments and it is expected to have a draft document by April 2005. The World Bank financed Sub-Saharan Africa Transport Policy project will also evaluate the Policy to ensure it responds to the objectives of the Poverty Reduction Strategy. This document will then be taken through a series of workshops before presentation to the Minister and then Cabinet in June/July 2005.

Road Maintenance Strategy: The Lesotho Road Management System (LRMS) assists the MoPWT to determine the optimal strategy for maintenance of the road network, accommodating economic, technical and financial restraints. Whilst a five-year or ten-year rolling roads programme is produced to give an indicative budget and a long term strategy for each link on the road network, the LRMS is run each year, after a series of visual assessments, to determine an annual road maintenance programme. The basic principles of the system ensure that routine and periodic maintenance are carried out before rehabilitation and upgrading. Different benefits are evaluated for Roads Branch, where a pure economic analysis is used, and the Department of Rural Roads, which has a system to include social benefits.

Funding

A Review of the Projected Road Maintenance Needs and the Generation of Road Fund Revenue was completed in June 2003. It determined that, for the full network, the routine and periodic maintenance need was in the order of LSL 88.5 M LSL whilst total financing to include maintenance, rehabilitation and upgrading was approximately 272.9 M LSL.

There has been a gradual increase in direct expenditure on road maintenance, from 65.4 M LSL in 1998/99 to 76.6 M LSL in 2002/03. In 2002/03 the Road Fund provided 31.5 M LSL towards maintenance, of which 19.8 M LSL came from the Road Maintenance Levy (RML). The remainder of the maintenance monies came from the MoPWT Maintenance of Public Assets Votes and Minor Works Votes. The Review concluded that a gradual rise in the RML, over the next ten years, was the best mechanism to close the present gap in the maintenance-funding requirement.

The Capital estimates show that for rehabilitation and upgrading works in 2002/03, 177.85 M LSL was budgeted, with 126.2 M LSL being provided by donors. The total for maintenance and capital works for 2002/03 was thus 254.45 M LSL, a figure which compares favourably with the requirement estimated by the Review. While the overall situation is satisfactory, there is still too great a bias towards capital works at the expense of maintenance and rehabilitation with insufficient financing for urban roads where the traffic densities are the highest.

Institutional Reform and Capacity Building

Institutional Reform: A Road Board for planning and monitoring has not yet been established,

as it is being considered in the context of the wider Institutional Reform Process currently underway in the Ministry. A more determined effort has been planned for the first quarter of 2005 to enable decisions to be made on institutional reform and the completion of the Lesotho Transport Policy. In Lesotho, collections of transport-sourced revenues by the Road Fund are only adequate for routine and periodic maintenance of the existing network whereas rehabilitation, upgrading and network development are reliant on Government and Donor contributions. The Road Fund still struggles with administrative issues such as the appointment of the Road Fund Board; however, it is now up to date with annual audits. In the institutional reform discussions, it was agreed that the Road Fund should be retained although there is much work to be done before it will be operating in a fully efficient manner.

Capacity in Department of Rural Roads (DRR) and Roads Branch (RB): Capacity in the Ministry of Public Works and Transport (MoPWT) was certainly enhanced with the assistance of the various interventions; however, the long-term solution lies in the development of sustainable institutions. This 'in-house' process is continuing, albeit fairly slowly. The new Minister has been briefed and has requested a number of clarifications. A decision 'in principle' is expected before June/July 2005.

Road Fund Management: Annual technical and financial audits are now forthcoming on a regular basis, as well as annual reports. Given the likely increase in responsibilities for the Road Fund, extra capacity will, no doubt, be required but it should be developed in line with the recommendations of the institutional reform process.

Donor Co-ordination

The main donors operating in the sector are the EC, the World Bank, Development Co-operation Ireland (DCI), the African Development Bank, the Kuwait Fund and Arab Bank for Development in Africa (BADEA). There has been limited formal donor co-ordination (there was an impromptu meeting in Lesotho last year), however, all donors clearly would like to see improvements in efficiency and effectiveness in the Transport Sector. The EC and the World Bank have taken the lead in assisting GoL to develop a transport policy and the implementation of the institutional reform. Further to this, recent projects have been designed to incorporate the principles of the PRS.

DCI has representation in Maseru and continues to support the DRR in the rehabilitation of rural roads. The other donors tend to support the GoL on a project level; however, they have all expressed their concern about the need for effective institutions and an 'enabling policy environment'.

b) Progress in activities

7th EDF

The **Axle Load Control Project (7 ACP LSO 038)**, financed from the residual reserves of the 7th EDF was successfully completed and the final payment has been made following the issue of the final statement of account. Available data from the weighbridges has highlighted the overloading problem, and the introduction of the appropriate overloading legislation.

8th EDF

Under the 8th EDF external assistance to the road transport sector has been channelled through a multi-donor funded, sector-wide programme. Within this programme EDF-financed assistance has focussed on a **Road Transport Infrastructure Project (8 ACP LSO 002)**, for which a Financing Agreement in the amount of 37.7 M € was signed in August 1999. By the end of 2004 approximately 96% (36 M €) of the resources approved for the programme had been committed and 90% (34 M €) had been disbursed. A 10% (3.7 M LSL) increase in the amount has been requested to complete road safety works and additional rural roads that were

included in the RTIP. Provision is also required for legal assistance in a pending arbitration case (see below).

The purpose of the RTIP has been to provide substantive support to a number of aspects in the Government's programme of sectoral reform in the road transport sector. Specific activities financed under the RTIP are:

- i) To upgrade 114 km of roads to bitumen status, in areas presently constrained by a lack of good year-round access;
- ii) To upgrade 61.5 km of un-engineered earth tracks to Labour Construction Unit (LCU) standard;
- iii) To support the training of local contractors;
- iv) To strengthen the institutional capacity of the Ministry of Public Works and Transport (MoPWT); and
- v) To introduce a Road Safety Improvement Programme.

The Final Acceptance Certificate has been issued for the works contract for the construction of the 114km of main bitumen roads; however, a draft final statement of account is still required from the contractor, WBHO Construction, who has lodged a claim for an additional 160 M LSL. This claim is currently under arbitration proceedings

During 2004 an interim social impact study was undertaken by a local consultant (Business Support Southern Africa) on the 61.5 km of earth tracks, which were upgraded to gravel standard all weather roads by labour intensive construction methods in the preceding year. The same consultant had already undertaken a base-line study on these roads prior to the upgrading. The study shows a considerable improvement in the access of socio-economic services by the population in the vicinity of the roads. However, economic benefits were rather limited probably due to the HIV/Aids situation. With regard to the employment of the unskilled labour from the project areas, the study concluded that the involvement in the project implementation by the Ministry of Health, carrying out HIV/AIDS awareness activities, had been successful. The study found that after the project the HIV/AIDS awareness amongst household heads in the area had doubled from the number recorded during the base line study. However, it was also noted that the use of preventive measures had actually decreased, largely due to apparent difficulties in accessing supplies of condoms.

During 2004 support in the area of labour- intensive public works schemes focussed on road construction and maintenance using residual STABEX funds. This activity has been carried out as an income support initiative for livestock owners and other rural families in designated drought affected areas. To date over 150,000 man days of labour have been generated with approximately 5.2 M LSL being injected into target communities. Work was virtually completed in December 2004.

A new programme estimate for rural roads was approved in November 2004 from balances under the 8th EDF RTIP. The objectives are to provide all weather access roads to the rural areas of Mafeteng District, as well as create temporary employment for the local population. The Programme foresees the construction of one mini-bridge and a vented ford by direct labour (€ 220,000), whilst the upgrading to all-weather gravel standard of 10.6 km of earth tracks at an estimated cost of € 580,000 will be executed by contractor following tender.

Under the RTIP, financial and technical assistance has been given for a programme of Road Safety which aims at strengthening the institutional capacity in this field as well as prevention of serious accidents. To address the latter remedial works, including the construction of pedestrian walkways and service roads in the vicinity of the industrial estates in Maseru South, have been undertaken. The contract for the construction of the road safety works, awarded in

December 2002 was substantially completed after considerable delays in September 2004, at a cost of almost 2.6 M €. The contractor's performance has been less than satisfactory (after 12 months on an 8 month contract only 50% of the monies have been spent) and project completion was delayed to March 2004.

9th EDF

The 9th EDF Pipeline includes the Upgrading and Strengthening of 110km paved primary network at a value of 15.25 M € (incl. the feasibility, design and supervision) and the RTIP Phase II (22.4 M €), which will include provision for rehabilitation of rural roads, road safety and technical assistance.

The restricted tender for the Feasibility and Design Study was about to be launched at the end of 2004. Preparations were also underway to conduct a study for the review of RTIP and the preparation of RTIP Phase II.

4.1.3 Macroeconomic support and Capacity Building

4.1.3.1 { TC "Macroeconomic support and Capacity Building" \f C \l "3" } Macroeconomic support

a) Results

The third and final tranche (variable) of the 8th EDF Poverty Reduction Budgetary Support Programme PRBSP was transferred to GoL in 2004. An analysis of the performance of the programme was undertaken – assessment of the reliability of the social indicators under the third tranche by a consultancy firm, audit of the transfer of the third tranche by Ernst and Young and a mission from AIDCO C/3 – and it was recommended not to proceed with a new budget support scheme under EDF 9. The main reasons supporting this decision were the inability of GoL to account for approximately 40% of its expenditure (Report of the Auditor General for 2001/02) and the inaccuracy of the education and health indicators used to calculate the results of the programme and thus final amount of the third tranche.

The decision to discontinue budget support was contested by the Government of Lesotho. The reports on which the decision was based were considered by GoL as historical in nature and not adequately forward-looking to take into account and give credit for efforts government had taken to improve financial management. The EC made clear that the assessment and proposed decision was made following a mission by AIDCO and furthermore stated that the EC would be favourably inclined to consider budget support in the future.

The funds freed were reallocated to different already existing and newly created sectors, as follows: 19.5 MEURO for Water and Sanitation, 10.5 MEURO for Transport, 5 MEURO for PFM and 8 MEURO for the fight against HIV/AIDS. This rearrangement of the programme is contained in the Addendum to the Country Strategy Paper and National Indicative Programme that was signed in February 2005.

b) Progress in activities

The last tranche of EDF 8 Budget Support was received by GoL in August 2004. The amount effectively transferred was 5.5 M € out of a total of 8 M €. This figure was calculated as follows:

IMF-related percentage: 50% of the total amount (4 M €) was to be disbursed upon confirmation by the IMF of GoL's adequate performance under the PRGF; since the Fund's Fifth Review of the PRGF considered Lesotho on track, 4 M € was allocated to Government;

Indicator-related percentage: 50% was to be disbursed according to the performance against ten agreed targets (hence 0.4 M € attached to each one of them) belonging to indicators both in the social sectors (three in the health sector and three in education) and in the PFM area (four indicators). The scoring system was defined as follows: 1 point for every indicator meeting the set target, 0.5 for every indicator that, although not meeting

the target, shows “a considerable positive development” and 0 points for indicators not achieving the target nor showing a positive trend. The total of points was to be upgraded by 25% according to the Financing Agreement as an incentive measure.

The accuracy and success of the 6 social indicators was independently evaluated by the firm AEDES under an AMS/451 Framework Contract. Out of a maximum total of 6 points (or 2.4 M €), 0 were allocated to the health and education indicators, either due to their unreliability or non-achievement of targets. The PFM indicators fared better, with three of them being granted 1 point each. Therefore, and according to the calculations above described, 1.5 M € out of a total of 4 M € was allocated to GoL) 3 targets met x 0.4 M € x 1.25).

The final figure corresponding to the third instalment of the EDF 8 Budget Support is therefore 5.5 M €. The transfer was audited by Ernst and Young as per FA. A mission by AIDCO/C/3 supported the Delegation both during the assessment of the performance of the third instalment and the discussions concerning the future of the PRBS in Lesotho. The Mission’s conclusions concurred with the views expressed by the Delegation.

c) Cross-cutting themes, institutional development and capacity building

See PSIRP (2.2.3 Public Financial Management).

4.1.3.2 Capacity Building in Economic Planning

a) Results

CBEP current level of implementation is too low to yield any measurable results (See Progress in activities).

b) Progress in activities

CBEP consists of 7 different components: 1) Support to the Bureau of Statistics (BoS); 2) Macroeconomic Modelling; 3) Institutional Capacity Building – Planning Cadre; 4) Sectoral Programming, Monitoring and Evaluation; 5) Training and Institutional Strengthening; 6) Population and Manpower Modelling; 7) Assistance to the NAO. The total amount for the programme is 17.5 M €. Out of this figure, 10.6 M € are to be allocated to Technical Assistance and 6.003 M € to Training.

Implementation of CBEP programme in 2004 has been seriously hampered by a set of factors, the main one clearly being the insufficient staffing of the Delegation during the reporting year. Other difficulties to be taken into account are: the still ongoing merger of the former Ministries of Finance and Development Planning into a single Ministry (MoFDP) that delays Components 3 and 5 (TA and training to the MoFDP); the absence of a Director in the Bureau of Statistics that delays a support intervention in the BoS.

Additionally, the NAO requested a modification of the CBEP in order to accommodate the purchase and operationalisation of a customs software package, ASYCUDA ++, to upgrade the Lesotho Revenue Authority (LRA) and GoL’s ability to accurately record import and export flows to and from Lesotho.

CBEP operations in 2004 and immediate outcomes amount to the following:

- A TA to the NAO (Component 7) was recruited in May 2004;
- A TA to the CBEP who will ensure overall coordination and speed up tendering was recruited in March 2005;
- The Tender Dossier for the Macroeconomic Modelling (Component 2) was launched in February 2005;

- Following an upcoming request from the NAO, two TAs will be hired as soon as possible to proceed to a first assessment of the assistance needs for BoS and to support the 2006 Population Census (Component 1);
- Following a request by the NAO, a Rider to the FA will be prepared in order to include ASYCUDA++.

4.2 Projects and programmes outside focal sectors

4.2.1 *{ TC "Projects and programmes outside focal sectors" \f C \l "2" }Health Sector{ TC "Health Sector" \f C \l "3" }*

a) Results

The assistance to the Health Sector has been provided through support to the reform process in the form of technical assistance to planning (monitoring and evaluation) and the decentralisation of health services (**Support to Health Sector Reform – 8 ACP LSO 008**) to take place in 3 pilot Districts out of 10. The Project was reviewed (MTR) in mid-2004 and the major conclusion at the time was that while the project had carried out the majority of its planned activities, outcomes at the result level were, at that point in time, still low. The review pointed out that this was largely due to conceptual, institutional and management factors in the Ministry.

However, the fact that presently GoL's decentralisation process is consistently gathering momentum (See 2.1.1 Overall situation) has created a far more conducive environment for the "first pull" given by the project to the decentralisation of the Health Sector to continue developing until eventual completion (i.e. it is now the Ministry's clear strategy to proceed with decentralisation of the Health Sector in the remaining seven Districts as soon as possible). The project came to an end in March 2005.

b) Progress in activities

Decentralisation: Based on the recommendations of the health sector review EDF-financed assistance was redirected to support the process of developing a comprehensive health sector policy, the development of a district health package and the formulation of a strategic plan for decentralising health care as part of the overall decentralisation of the Government. Adoption of the approach commenced in 2004. Three Districts have been piloted and after serious delay, District Health Management Teams have been appointed and partly equipped and are operational to a degree. Logistical issues continue to hamper operations and this will continue to be the case until the Ministry of Health and Social Welfare makes appropriate provisions in the annual budget for deconcentrated functions.

Monitoring and Evaluation: At the start of the project there was no effective Health Information System in place in Lesotho. A four year data backlog (1998 through 2002) had to be dealt with and the project assisted in clearing this. The focus of the component has been on the collection and analysis of decentralised health data. However, due to the delays in district level implementation capacity, the developed instruments have not been fully tested and as a result the health management information system has not been delivered. There are, however, a number of qualitative improvements noted in the review; strengthened staffing and capacity in the Health Planning and Statistics Unit; significantly improved data delivery from hospitals and health centres; the national demographic health survey (DHS), which will provide more accurate data on the incidence of HIV/AIDS, was initiated during 2004.

4.2.2 *HIV/AIDS*

a) Results Refer to 2.3.3 HIV/AIDS.

b) Progress in activities

EC contributions to the fight against HIV/AIDS in Lesotho up to date have been financed from sources other than the NIP. Exceptions to this being the **Support to Health Sector Reform – 8 ACP LSO 008** (see 4.2.1) that contains concrete initiatives aiming at streamlining HIV/AIDS

in a decentralized (District-devolved) Health Sector (i.e. a 6-months Short Term Expert deals exclusively with this aspect of the project) and certain HIV/AIDS awareness actions implemented in the Micro-project Programme and Transport Programme. These EC Budget-funded actions are:

- 1) the ECHO-funded, 7-months food aid programme through the German Red Cross in 2003-2004 (0.5 M € worth of food parcels hand-outs in Berea and Leribe Districts, project to be terminated by June 2005);
- 2) Additional circa 1 M € for food aid for Lesotho is still in ECHO's pipeline;
- 3) the Community Budget Line on co-financing activities from NGOs is currently financing the German and Lesotho Red Cross Home Based Care (HBC) Programme in Lesotho (training of community HBC facilitators); the project is worth circa 1 M €, it started in July 2004 and will run for five years; In 2004, commitments amounted to € 744,000 and payments to € 151,000.
- 4) the NGO Lesotho Planned Parenthood Association - LPPA in Maseru received funding from the EC through the "decency gap" initiative of 32 M € that the EU allocated in 2002 to the UNPF and the International Planned Parenthood Foundation - IPPF in order to bridge the sudden funding gap for family planning programmes; LPPA will continue running youth-friendly health services up to 2006 (total budget: 1.4 M €).

As previously mentioned the fight against HIV/AIDS is a new sector that was created under the CSP using funds reallocated from the budget support under EDF 9. Thus, 8 M € has been earmarked for this purpose. In order to maximize the impact of these funds, an identification mission will take place beginning of 2005 and will suggest the most appropriate interventions. ToRs have been prepared by the Delegation by the end of 2004 and once the NAO and other stakeholders have submitted their inputs an AMS/451 Framework Contract will be prepared for a consultancy to take place as soon as possible.

4.2.3 Management of EC/LSO Cooperation { TC "Management of EC/LSO Cooperation" \f C \l "3" }

The 8th EDF **Support to the Department of Economic Cooperation** (8 ACP LSO 007) was completed during the year. Its successor is the component Support to the Office of the NAO, part of the **Capacity Building for Economic Planning** (9 ACP LSO002), became operational with the arrival of the TA Adviser in May 2004.

Under the 8th EDF support, capacity was largely provided in the form of TA and training of staff in the Department of Economic Cooperation (DEC), which had responsibility for the coordination of bi-lateral and multi-lateral cooperation and the preparation of the capital budget.

It has been agreed that the building of permanent capacity for the management of EC-Lesotho programme of cooperation in the DEC be given the highest priority. At the end of the reporting period, the NAO was actively pursuing the appointment of a full-time senior economic planner and an accountant to form the nucleus of the Office of the NAO. With the impending deconcentration of responsibilities to the Delegation of the EC, the responsibilities of the Office of the NAO will increase accordingly and further staff may be required to be able to fully take responsibility for all functions. An operational programme estimate was ready to be approved by end of 2004.

4.3 Utilisation of resources for non-State actors (NSAs) { TC "Utilisation of resources for non-State actors (NSA)" \f C \l "2" }

4.3.1 Micro-project Programme

Under EDF 8 a 5.3 M € Financing Agreement (signed in 1999 and running until June 2005) has provided for 4 Micro-Project Programmes (MPPs), the fourth one being implemented during 2004. The MCU (Micro-project Coordination Unit) placed under the Ministry of Finance and Development Planning and entirely manned by local staff is the body tasked with the overall management of the programme. The actual implementation of the works is carried out by the communities and NGOs with the technical support of local Government bodies. Under the 4th MPP the actions implemented were: about 40 schools assisted with additional classrooms, 21 villages' water schemes constructed and 350 ventilated improved pit latrines. Due to factors such as a growing number of students in the first 7 grades of schooling as a consequence of the gradual implementation of Free Primary Education (FPE), classroom construction has been the main area of activities of the programme.

A MTR of the Programme took place in October and a set of recommendations was submitted to the NAO and the Delegation for implementation in 2005 Among the most relevant ones: clearing the backlog of 258 proposals submitted by the communities and still not fully evaluated; recruitment of a short-term expert for a general overhauling of the programme efficiency regarding aspects such as procedures, forms and monitoring and evaluation; recruitment of a Village Liaison Officer (VLO) for the MCU in order to improve the appraisal at community level and ensure a subsequent adequate communication.

Due to the inadequate management of the programme during 1999 and 2000 an audit took place in 2001, the final report being delivered in October of the same year. In response to the inadequate practices highlighted by the audit, the programme underwent a reorientation and was again operational in 2002. As a consequence of this gap in the implementation, the amount of funds under EDF 8 is still considerable, hence the request submitted by the NAO for an extension of the Financing Agreement from June 2005 to December 2006 in order to maximize the use of the funds available. The Request is being processed.

Also as a consequence of the above mentioned audit, a Recovery Order of more than 15 M LSL (circa 2 M €) was sent to the Delegation in August 2004 for notification to the NAO. The deadline for the payment was set at 4 November 2004. The NAO replied before expiry of the deadline requesting a payment in two instalments (April 2005 and 2006) and a waiver in the interests. By the end of 2004 no official answer from Headquarters to the NAO's request had been received.

4.3.2 Non-State Actors{ TC "Non-State Actors" \f C \l "3" }

Support to and dialogue with NSAs is defined in Article 4 (General Approach) of the Cotonou Agreement. In order to develop this approach and taking into account the low level of engagement with Non-State Actors to date (basically through the previously mentioned Micro-project Programme where NGOs act as service providers in construction projects) the Delegation organized in 2004 a number of meetings with NGOs and other NSAs (i.e. Chamber of Commerce) and launched a consultation among other donors and UN agencies. As a result of that, the ToRs for an identification mission were established together with the NAO and an invitation to submit offers has been issued in February 2005. The identification mission will map the NSA landscape in the country and, on the basis of the outcome, suggest courses of action for an adequate engagement.

4.4 Utilisation of B Envelope{ TC "Utilisation of B Envelope" \f C \l "2" }

The B Envelope for Lesotho stands currently at 10.3 M €. Following discussions during the past year with the NAO, World Food Programme (WFP), Food and Agricultural Organisation (FAO) and the textile industry triggered by the 2004 official appeals for aid related to the food situation in the country and the closure of textile firms during the same period, a two-pronged proposal for use of the B Envelope was sent to Brussels. This was however rejected beginning 2005 and a different strategy linked to the ETR 2006 will be prepared.

4.5 Other instruments{ TC "Other instruments" \f C \l "2" }

4.5.1 STABEX

As reported in section 4.1.2. Road Transport Sector above, during 2004 the remaining STABEX funds (2.59 M LSL) were used to provide support for labour-intensive public works schemes for road construction and maintenance. With the completion of this activity in the first quarter of 2005 all STABEX funds will have been committed and spent.

Reporting in the past has not been systematic and the reporting exercise undertaken during 2003/04 has revealed some gaps in the information recorded for STABEX. Preparations have been made to engage an audit firm to assist in the finalisation of the reporting task, so that this matter can be closed.

4.5.2 *SYSMIN*

N/a.

4.5.3. *Regional co-operation*

The Regional arm of the EC cooperation in Lesotho for 2004 remains very feeble. Communication and coordination between the Delegation and the different regional initiatives was substandard and actual level of implementation seemingly very low. The programmes and actions the Delegation is aware of are as follows (refer to Annex VI) :

- 7 ACP RPR 600 - SADC-HYCOS (Hydrological Observation System): no activities were performed during 2004; the commitment is about to be closed at the beginning of 2005 after a long overdue request by the World Meteorological Organisation in Geneva;
- 8 ACP TPS 154 – EISP (Economic Integration Support Programme to the BLNS): the programme was designed to support the BLNS states coping with the negative effects of the Trade, Development and Cooperation Agreement (TDCA) signed between the EU and RSA. No activity foreseen under the project was implemented; a review mission travelled to Lesotho as part of a BLNS tour in mid-2004 to gauge whether GoL would agree on a time extension of the programme;
- 8 ACP RAU 014 – Regional Support for an Expanded Multi-Sectoral Response to HIV/AIDS in the SADC Region: a set of different initiatives were scheduled to take place in Lesotho in 2004 under this programme (i.e. strengthen support to migrants and mobile populations; reduce the effects of HIV infection among nurses and midwives);
- 8 ACP TPS 097 - EUMETSAT – Meteorological Transition in Africa Project (MTAP/PUMA): the project aims at positively impacting the countries' economies by providing meteorological information via satellite. During 2004 GoL technicians were trained and the installation of the ground equipment should be completed by March/April 2005.

4.5.4. *Community budget lines*

The operations financed and implemented through community budget lines in Lesotho during 2004 have already been discussed under 4.2.2 HIV/AIDS.

New Calls for Proposals during the year in review have been duly publicized; the most important one in terms of budget being the ACP-EU Water Facility (Call closed 31 January 2005). An information workshop was organized by the Delegation and one proposal from GoL was received in Brussels before the expiry of the deadline.

4.5.5. *European Investment Bank*

As at the end of 2004, EIB's loan portfolio in Lesotho stood at € 89.6 million (see Annex VII). Under the two Financial Protocols of the Lomé IV Convention, the Bank has signed commitments for a total of € 77 million (comprising € 59 million on the Bank's own resources and € 18 million on risk capital resources). These resources were made available for the co-financing of the following projects:

Muela Hydropower Project: The Muela Hydropower Project is part of Phase 1A of the Lesotho Highlands Water Project (LHWP) and EIB contributed to the funding of the project in the form of a € 15 million loan from risk capital resources and a € 5 million loan from own resources. After a difficult implementation period, electricity generation at Muela started in early 1999. However, major issues regarding the necessary reform of the power sector, such as the privatisation of the Lesotho Electricity Corporation (LEC), the commercialisation of Muela and the finalisation of a revised Power Sales Agreement between Muela and LEC, based on tariffs which over time would generate acceptable returns on Muela's assets, were still outstanding at the end of 2004.

Lesotho Highlands Water Project – Phase 1B: EIB support to Phase 1B of the LHWP consisted of two loans from own resources for a total of € 54 million for the construction of the Matsoku Diversion Weir and Tunnel. Following a final disbursement of ZAR 21.5 million (€ 2.7 million) made in June 2004 and cancellation of the remaining balance of € 1.9 million, total disbursements under both loans now amount to € 52.1 million.

Lesotho National Development Corporation (LNDC): Following three previous global loans of € 3 million each, a fourth global loan facility of € 3 million from risk capital was provided to LNDC under Lomé IV in 1994 with the following components: Loan "A" (€ 0.75 million) for Government of Lesotho equity in LNDC, Loan "B" (€ 1.75 million) for the financing of small and medium-sized enterprises and factory shells and Loan "C" (0.5 million) for LNDC equity participations in SMEs. Whilst the "A" loan was fully and the "B" loan largely allocated and disbursed, no equity allocations were made under the "C" envelope, and part of the funds were therefore reassigned to meet the costs of carrying out a Feasibility Study of Effluent Treatment & Recycling for a Sustainable Textile Industry in Maseru; the final report is expected to be submitted in May 2005.

Outlook on EIB's possible future activities in Lesotho: Under the Cotonou Agreement/Investment Facility, the Bank will continue to follow closely all opportunities for supporting viable projects in Lesotho, while giving particular attention to possible private sector projects or public sector infrastructure projects that contribute to improving the efficiency of public utilities.

In view of the priority GoL attributes to improved access to water supply and sanitation services, and in close cooperation with the EC regarding its activities in this focal sector, EIB funding could be provided in particular for sustainable investments in the water and sanitation sectors.

4.5.6. ECHO

The ECHO financed operations in Lesotho are discussed under 4.2.2 HIV/AIDS. { TC "4.5.1. STABEX" \f C \l "3" }

5 PROGRAMMING PERSPECTIVES FOR THE FOLLOWING YEARS { TC "Programming perspectives for the following years" \f C \l "1" }

The revised programming resulting from the MTR exercise in 2004 should lead to a total 9th EDF commitment of 72 M € by the end of 2005. Taking into account the **A-envelope** plus transfers from previous EDFs totalling 104 M €, this is equivalent to 70 %. For the end of 2006, global commitments are forecast at 102 M € (98%). The percentage could be less for 2005 depending on the dates of the signing of the financing agreements for the bigger water- and road projects. Similar the major road project (Upgrading of 110 km paved primary road network, 14.5 M €) could be delayed into 2007. This delay was caused by a 12 months delay in 2003/2004 by AIDCO C in approving the TA tender documents.

Taking into account that the work on the 9th EDF preparations and implementation to all intents and purposes ground to a temporary halt in 2004 due to the Delegation staffing situation this forecast should nevertheless be achievable due to an expected 100% staffing of the Delegation by mid-2005 and an expected increase in the capacity of the NAO and technical ministries.

The changes introduced following the MTR were, to a certain degree, based on the Evaluation of the EDF Strategy in Lesotho carried out in the first half of 2004. The introduction of new funding envelopes for HIV/AIDS and for Public Finance Management leads by the necessity of proper project preparations to a delay in the global commitments of funds.

The successor to the 9th EDF should be ratified in 2007 and presumably only becoming operational in 2008. Thus, if the above robust forecasts are maintained, it can be foreseen that Lesotho will remain without any EDF funding in 2007. However there is a need to prepare funding for the successor financial envelope.

This envelope could be used for developing the EDF support to the **water sector** into a full sector support programme provided the Government takes the necessary political decisions and other donors, in particular the World Bank, agrees to this development.

The perspectives for the battle against **HIV/AIDS** are not (yet) positive. Government needs to establish a robust all-encompassing implementation- and co-ordination National Aids Commission in 2005. Pending this it could be foreseen to use the experience gained in implementing the 9th EDF 8 M € intervention for a successor action.

Support to the **road sector** could involve the assistance in developing solid road maintenance and financing systems. Any new investment financing of roads should await GoL's action in this area (See 4.1.2 Road Transport Sector, Results).

If the GoL continues its improvement of the public finance management in 2005 and 2006, a return of direct **budgetary support** could be considered. This would be based on an increase in transparency of the budget process, the implementation of the MTEF based on the PRSP. It should also involve a better co-operation between the GoL and the IMF. Finally the impact of the capacity building projects under the 9th EDF in both the public finance and the planning domain should be tangible at that time and thus provide the basis for a successful intervention.

Crosscutting issues linked to good governance, rule of law, gender and environment should benefit both from integration in the above sectors but also, if needed, as stand alone actions.

6 DIALOGUE IN COUNTRY WITH THE NAO AND NSAS, AND DONOR CO-ORDINATION { TC "Dialogue in country with the NAO and NSAs, and Donor co-ordination" \f C \l "1" }

6.1 Dialogue in country with the NAO and NSAs

6.1.1 { TC "Dialogue in country with the NAO and NSAs" \f C \l "2" } **NAO** { TC "NAO" \f C \l "3" }

The dialogue between the Commission and the National Authorising Officer during 2004 was intense albeit, due to the serious staffing problems in both the Delegation and the NAO's

Office, it was also conducted on a more *ad hoc* basis than otherwise desirable. The end of 2004 and beginning of 2005 have seen a more structured dialogue with monthly meetings Delegation / Deputy NAO and quarterly meetings EC Delegation / NAO f.f.

The Delegation has stressed the necessity for the NAO to increase its staff in order to be able to cope with the workload ensuring adequate levels of quality and speed, especially under the recently devolved environment. Additionally, the NAO is to improve its internal communication as well as reinforce its coordination role in relation with the line ministries and other government bodies. Finally, NAO is to move towards a more strategic role.

6.1.2 NSAs{ TC "NSAs" \f C \l "3" }

Up to 2004, the main NSA-related initiative implemented under the EC-Lesotho Cooperation has been the Micro-Project Programme, where different small and medium sized NGOs and church organisations have assisted the rural communities to build basic infrastructures such as water systems, latrines and additional school classrooms.

During 2004 various meetings and consultations took place between the Delegation and different NGOs, donors and UN agencies in order to assess what the future role of the Commission in Lesotho will be regarding the NSA sector, both in terms of establishing a dialogue and devising funding mechanisms.

So far, the only umbrella organisation at country level seemingly capable of ensuring a dialogue with the Delegation and the NAO seems to be the Lesotho Congress of NGOs (LCN). Even though various steps were taken in order to engage LCN – sharing the draft JAR 2003 for comments, invitation to participate in the MTR process in November 2004 – they proved insufficient and yielded no results.

In order to assist the NAO and the Delegation, an Identification Mission under the AMS/451 Framework Contract venue is scheduled for April-May 2005. Following a comprehensive mapping of the NSA sector in Lesotho (number of organisations, geographical area of intervention, type of mission, financial capabilities etc.), several options for the EDF strategy concerning Non-State Actors will be presented by the Mission and the preferred one will be implemented.

6.2 Donor coordination{ TC "Donor coordination" \f C \l "2" }

During the reporting year the communication and coordination with the rest of the donor community was enhanced, especially regarding Member States. It is to be taken into account that the Commission plus the resident European development agencies²² constitute the biggest grant donor in Lesotho.

In order to complement the more politically and economically-oriented Heads of Mission monthly meetings (that involve the British High Commissioner, Irish Consul-General, German Honorary Consul, French Honorary Consul and Head of Delegation) a second group, more focused on development aid, was constituted in 2004. The European Development Agencies in Lesotho (EDAL) bring together DCI, DfID, GTZ and EC also on a monthly basis in order to discuss any issue related to development assistance, from coordination of micro-project schemes in the rural areas to avoid duplication, to meetings with monitoring missions from the respective Headquarters. EDAL shares also a common project database, meets as a group with the World Bank and IMF and increasingly speaks with one single voice in different international fora (i.e. HIV/AIDS Expanded Theme Group).

Beyond the EDAL initiative, the UN faced problems in adequately fulfilling the coordination role by engaging the whole donor and implementing partner's community as well as GoL. This should change during 2005 thanks to a more robust UNDP approach to coordination. It has to be said, though, that the Delegation's communication and cooperation with non-European

²² Development Cooperation Ireland (DCI), Development for International Development (DfID) and German Technical Cooperation (GTZ)

partners (i.e. US Embassy, UN agencies) during the last year has been, and remains, very positive and a high degree of openness and partnership has been achieved.

7 CONCLUSIONS

7.1 Key political, economic and social developments over the past year 2004

7.1.1 Key political developments over 2004

2004 was a year of peace and stability in the political realm for Lesotho, further consolidating the democratic process that the country has engaged in since the 1998 crisis. The deepening of democracy in the Kingdom will move up a new step through the devolution of government structures to the local level. The Local Elections have been organized throughout 2004 and are scheduled for 30 April 2005; Government of Lesotho (GoL) has already defined an initial set of functions to be devolved from the central level during the 2005/07 Transition Phase and selection of candidates for District and Community level positions is already underway.

In the international arena, Lesotho handed over the chair of the SADC organ on Policy, Defense and Security Cooperation, joined the African Peer Review Mechanism and was elected a member of the Peace and Security Council of the African Union.

7.1.2 Key economic developments over 2004

Lesotho experienced an estimated GDP growth of 3.4% in 2004 and a surplus in its 2004/05 fiscal year. Nevertheless, erosion of export and Government revenues is to be expected in the near future, as a result of the anticipated decrease in SACU revenues, as well as the closure of AGOA-powered garment factories, which became evident during the year under review. The latter, and the decline in agriculture, is exerting pressure on household incomes. These negative trends are likely to continue in 2005 (See Heading 7.4 *Key perspectives for the future*).

SACU revenues: the revenues from the Southern African Customs Union reached an all-time high during 2004/05 fiscal year (2,012 M LSL), accounting for around 50% of GoL's total budget (or 20% of its GDP) and should remain high in 2005.

AGOA: the African Growth and Opportunity Act (III) was signed in July 2004, extending the overall programme to 2015 and the LDC status – through which countries were allowed to use third country raw materials in the textile industry – to 2007. Thanks to AGOA, the textile sector in Lesotho overtook the public sector as the biggest employer in the country with around 50 companies and more than 50,000 workers up to the first half of 2004. However, the expiry of the Multi-Fibre Agreement on 31 December 2004 on the one hand – that opens the US and EU markets to Asian behemoths such as China and India by removing their quotas – and the strength of the Rand (to which Lesotho's currency, the Loti, is pegged at par) during 2004 on the other have plotted against the garment industry in Lesotho. As a result, an estimated nine textile factories closed business in the country since June 2004, six of them since January 2005, with a subsequent estimated 13,000 workers losing their jobs.

Remittances: the Net Factor Income from Abroad displays the value of all remittances from Basotho workers abroad, mainly miners working in South Africa. The figure for 2003 is 1.9 billion LSL, or 23% of GDP, and estimated at 2 billion LSL for 2004 (or 19% of GDP). From a

maximum of 120,000 migrant miners in RSA some years ago, the current figures are around 50,000 to 60,000. Although the amount of remittances has actually risen in recent years as a result of wage increases in the mining industry, the impact on the Lesotho economy is mixed: while at the macro level Lesotho has not suffered, at the household level the change in distribution of remittances is considered to have a negative impact on food security and poverty.

Agriculture: it is estimated that up to 80% of the population in Lesotho depend to some degree on producing their own food and 46% is wholly dependent on subsistence farming despite the limited arable surface of the country (around 9%). Erratic weather patterns, heavy erosion (estimated at 39.6 million tons of soil/year) and HIV/AIDS have negatively impacted on agricultural production during the past year (2004 registered two official appeals for food aid).

7.1.3 Key social developments over 2004

HIV/AIDS remains probably the single biggest threat to the well-being of Lesotho. The country ranks third worldwide in terms of adult prevalence (officially 29%) only surpassed by Swaziland and Botswana. As a consequence of the pandemic, 80 people a day die in the country and the number of HIV/AIDS orphans is around the 100,000 mark. Even though efforts were made during the past year to tackle the pandemic, these were insufficient, especially regarding Government's intervention. The rhythm of disbursement for the Global Fund to Fight AIDS, Tuberculosis and Malaria (GFATM) for 2004 was substandard. HIV/AIDS is deeply interconnected with food security (infected and affected people see their assets, cash and/or agricultural output decline due to their incapacity to earn a salary or work in the fields and their increase in medical costs). The World Food Programme estimates that 600,000 people will be in need of some degree of food aid in 2005.

7.2 Progress achieved in poverty reduction

GDP has experienced sustained growth during the past 5 years (LSL bn): 6.2 (2000), 6.5 (2001), 7.8 (2002), 8.6 (2003) and 10.4 (2004). Wages earned through AGOA-created employment did contribute to this trend and have improved the conditions of many households in the country. Free primary education, gradually implemented since its introduction in 2000, has reached level 5 in 2004.

However, in 2003 Lesotho ranked 137th out of 175 listed countries in the UNDP Human Development Index (HDI); in 2004 it retrograded to the 145th position out of a total of 177²³. Life expectancy at birth (years) for the period 1970-75 was 49.5, whereas for 2000-05 it is estimated at 35.1. Undernourished people (% of total population) for the 1990/92 period was 27; in 1999/01 it was still 25.

One of the main reasons behind this disparity in the two sets of data is the HIV/AIDS pandemic and its linkage with food security. GoL needs to scale up its response in order to address these two issues in 2005 and beyond.

Related positive steps are as follows: the Poverty Reduction Strategy (PRS) was presented to Cabinet in November 2004; a Food Policy for Lesotho is about to be finalized; the CEO to the new National AIDS Commission (NAC) was announced in March 2005. Additionally, Local

²³ The HDI has been declining for the past 10 years: 0.549 (1995), 0.513 (2000), 0.493 (2002). In total, only 17 countries in the world experienced negative HDI growth between 1995 / 2002, Lesotho being one of them.

Elections will take place on 30 April 2005 and the subsequent decentralization process is expected to improve service provision and thus positively impact on the poverty level.

7.3 Results and activities in focal sectors and relevant programmes

Commitments and payments during most of 2004 were negatively affected by the very severe understaffing in the Delegation and the NAO's office.

Following the mid-term review (MTR) of EC-Lesotho Cooperation in 2004, it was agreed to modify the country strategy, without altering the total envelope for long-term development. The resources freed by not pursuing direct budget support have been reallocated to the water and sanitation, and road transport sectors. New focal areas introduced are the fight against HIV/AIDS, and capacity building for public finance management (PFM).

The re-organisation of the institutional structure for the water and sanitation sector (Focal Sector 1), started in 2003 by bringing coordination under a single Commissioner of Water, was consolidated with TA support in 2004. Policy planning and strategy capacity has been established. Financing proposals have been prepared for the Six Towns Water Supply Project, the Lesotho Lowlands Water Supply Feasibility Study and the Maseru Wastewater Project for presentation to the Commission in early 2005.

Road transport sector (Focal Sector 2): the review of the transport sector policy was completed in 2004; however, the institutional reform elements were not addressed. A Road Board for planning and monitoring has not yet been established, but a decision 'in principle' is expected before June/July 2005. Under the 8th EDF Road Transport Infrastructure Project, approximately 96% (36 M €) of the allocated resources had been committed by the end of 2004 and 90% (34 M €) had been disbursed.

A Focal Sector in 2004, the 8 EDF Poverty Reduction Budget Support Programme saw the Third (and last) Tranche transferred to Lesotho in September of last year. 5.5 M € out of a maximum total of 8 M € were disbursed, inaccurate indicators and/or unachieved targets preventing the release of the remnant 2.5 M €. The inaccuracy of the indicators used to measure progress together with the Auditor General's inability to express an opinion regarding the use of the 2001/02 accounts motivated the temporary suspension of new Budget Support schemes although a resumption should be envisaged once the PFM environment becomes adequate.

Provision for the new Focal Sector Fight against HIV/AIDS is 8 M € after MTR-reorganisation; an identification mission will take place as soon as possible in order to support GoL and other stakeholders to define the concrete use of these funds.

With 9 ACP LSO 002 Capacity Building for Economic Planning (CBEP), capacity building remains the biggest Non-Focal Sector, especially if we take into account the additional 5 M € for PFM freed after NIP reformulation. The programme contains 7 Components and its implementation was delayed during 2004. Implementation is currently being accelerated notably through tendering for a Macroeconomic Model for GoL.

Under the 8th EDF a 5.3 M € Financing Agreement has provided for 4 Micro-Project Programmes (MPPs), the fourth one being implemented during 2004. The actual implementation of the works is carried out by the communities and NGOs with the technical support of local Government bodies. Under the 4th MPP the actions implemented were: about 40 schools assisted with additional classrooms, 21 villages' water schemes constructed and 350 ventilated improved pit latrines.

The Support to Health Sector Reform, which ended in March 2005, focussed on decentralisation of health services and has provided a valuable "first pull" to this process in 3 pilot Districts; GoL will now proceed with decentralisation of the health services in the remaining seven districts as soon as possible.

7.4 Key perspectives for the future

The major issues regarding the EC / GoL cooperation which should be taken into account for the foreseeable future are:

SACU revenues: changes in the revenue-sharing formula and the worldwide gradual removal of import tariffs (i.e. the EU-RSA Trade, Development and Cooperation Agreement is to gradually establish a Free Trade Area between the two signatories) will have a negative impact in Lesotho from 2006/07 onwards.

AGOA: the textile industry in Lesotho currently finds itself in a wait-and-see situation, showing an increasing interest in the up to now largely unexplored EU market. A GoL delegation headed by the Minister for Trade and Industry toured the US in February 2005 in order to secure orders from different brands and retailers. Lesotho could still export its textiles to the US due to a (still partial) local capacity for production of fabric in the country.

Employment in general: “Diversification” is currently one of the main issues in Government circles regarding employment and a high-level workshop will take place in Maseru shortly to address this issue.

HIV/AIDS: the CEO for the National AIDS Commission (NAC), the new coordinating body in the fight against HIV/AIDS, has just been appointed in March 2005. This should boost GoL’s response to the pandemic (and trigger World Bank’s 5 M US\$ grant for capacity-building in government and NGOs that should speed up the GFTAM’s disbursements). However, WHO’s goal of 28,000 patients under antiretroviral therapy (ART) by December 2005 according to the “3 by 5” Initiative remains very unlikely at best; Orphan and Vulnerable Children need to be taken care of; Voluntary Counseling and Testing (VCT) needs to be expanded and actually used and behavioral change related to sexuality and AIDS (i.e. condomization, male/female asymmetric relations) needs to take place as soon as possible.

Food Security: a Food Security Policy for Lesotho is currently being drafted; the impact of HIV/AIDS and the incapacity of Lesotho to be self-sustainable in terms of food production hence the need to provide employment for people to be able to purchase imported food are to be taken into account.

Decentralization of GoL: Local elections in Lesotho (30th April 2005) will trigger a long and complex process of decentralization that is foreseen to be completed by 2016; the impact of such a process in the delivery of services by Government in general and in the EDF projects in particular cannot be overlooked.

EDF: due to the delays arising from the 2004 staffing situation, the full commitment of 9th EDF funds by the end of 2007 represents a significant challenge.

7.5 Refinement of indicators and dialogue with NSAs

7.5.1 Indicators

During the year under review two interventions related to the refinement of indicators took place:

8 ACP LSO 8 – Support to Health Sector Reform (Component 2): the project contained two Components, the second one (“Monitoring and Evaluation”) focused on the collection and analysis of decentralised health data. At the start of the project there

was no effective Health Information System in place in Lesotho. A four year data backlog (1998 through 2002) had to be dealt with and the project assisted in clearing this. The component achieved a number of qualitative improvements: strengthened staffing and capacity in the Health Planning and Statistics Unit of the Ministry of Health and Social Welfare; significantly improved data delivery from hospitals and health centres; the national demographic health survey (DHS), which will provide more accurate data on the incidence of HIV/AIDS was initiated during 2004;

Analysis of Social Indicators under Third Tranche of 8 EDF Poverty Reduction Budgetary Support Programme (PRBSP): 50% (or maximum 4 M €) of the Third Tranche was to be disbursed according to the performance against 10 agreed targets belonging to indicators both in the social sectors (3 in the health sector and 3 in education) and in the PFM area (4 indicators). The accuracy and success of the 6 social indicators was independently evaluated by the firm AEDES under an AMS/451 Framework Contract. Out of a maximum total of 6 points (or 2.4 M €), 0 were allocated to the health and education indicators, either due to their unreliability or non-achievement of targets. The Consultant's findings and recommendations were shared with GoL.

Finally, the main EDF-financed effort to improve the statistics in Lesotho is for **9 ACP LSO 002 – Capacity Building in Economic Planning (CBEP)** to deliver. Component 1 of this Programme, Support to the Bureau of Statistics (BoS), will provide short and long-term TA and training. One TA will be specifically tasked to assist BoS carrying out the 2006 Population Census. A new Component, the installation of the import/export database ASYCUDA, will be added to the CBEP programme through a Rider to the Financing Agreement.

7.5.2 Dialogue with NSAs

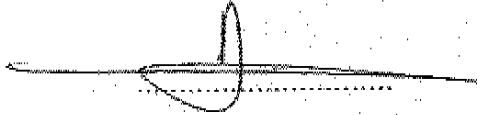
Up to 2004, the main NSA-related initiative implemented under the EC-Lesotho Cooperation has been the Micro Project Programme, where different small and medium size NGOs and church organisations have assisted the rural communities to build basic infrastructure such as water systems, latrines and additional school classrooms.

During 2004 various meetings and consultations took place between the Delegation and different NGOs, donors and UN agencies in order to assess what the future role of the Commission in Lesotho will be regarding the NSA sector, both in terms of establishing a dialogue and devising funding mechanisms.

So far, the only umbrella organisation at country level seemingly capable to ensure a dialogue with the Delegation and the NAO seems to be the Lesotho Congress of NGOs (LCN). Even though various steps were taken in order to engage LCN – sharing the draft JAR 2003 for comments, invitation to participate in the MTR process in November 2004 – those proved insufficient and yielded no results.

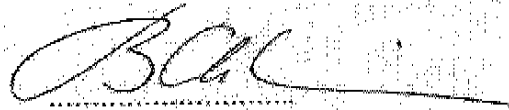
In order to assist the NAO and the Delegation, an Identification Mission under the Framework Contract venue is scheduled for April-May 2005. Following a comprehensive mapping of the NSA sector in Lesotho, several options for the EDF strategy concerning Non-State Actors will be presented by the Mission and the preferred one will be implemented.

SIGNED



National Authorising Officer
Ministry of Finance and Development Planning

Date 28 OCT 2005



Head of Delegation
Delegation of the European
Commission in Lesotho

PETER BECK GRIES
Head of Delegation
European Commission Delegation

Date 6/9 05

ANNEXES

- ANNEX I - INTERVENTION FRAMEWORK
- ANNEX II - CHRONOGRAM OF ACTIVITIES
- ANNEX III - INDICATIVE TIMETABLE COMMITMENTS/DISBURSEMENTS
- ANNEX IV - DONOR MATRIX
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INTERVENTION FRAMEWORKS

SUMMARY TABLE

NARRATIVE	PERFORMANCE INDICATORS	ASSUMPTIONS
<p>Focal Area I – Water Supply and Sanitation</p> <p>Intervention objective: Capacity of the sector to provide water and sanitation strengthened in medium to long-term</p> <p>Results: Water/sanitation services to Six Towns; Investment programme for the LL bulk water supply; Enhanced public/private sector capacity for water supply/wastewater treatment; SWAP prepared</p>	<p>No. Households in Six Towns with permanent access to potable water; Investment Programme design completed by Q1 2007; Reduction in unaccounted-for water/breakdown incidence; Zero raw sewage discharge into river system; No. of households in Maseru connected to wastewater system</p>	<p>GoL continues to implement PRS</p> <p>GoL continues to honour obligations under SADC Protocol shared water resources</p> <p>GoL agrees on sustainable and equitable tariff structure</p>
<p>Focal Area II – Transport</p> <p>Intervention objective: Access to isolated areas, markets and economic and social services improved</p> <p>Results: Transport Sector policy defined and adopted by GoL; Road Sector Institutional Framework strengthened; Lesotho Road network improved; Road safety improved</p>	<p>Transport Sector Policy adopted; Lesotho Road Authority approved and operational; 110 km of Rural Paved Roads rehabilitated; 100 km of Unpaved Roads upgraded; Road fatalities reduced; National Road Safety Council launched</p>	<p>Adequate funds for regular maintenance and Road Safety made available through the Road Fund</p> <p>Position of Rural Roads Department in the context of the Local Government Reform is resolved</p> <p>Road Traffic Act is gazetted by 2005</p>
<p>Focal Area III – Capacity Building Economic Planning & PFM</p> <p>Intervention objective: GoL's capacity for economic planning and public financial management strengthened</p> <p>Results: Bureau of Statistics capacitated to produce adequate statistics; Macro-economic and Population and Manpower models developed and operational; Economic/Sectoral planning and M&E capacity strengthened; Public Financial Management strengthened</p>	<p>GoL budget fully MTEFed by 2009; Fiscal deficit maintained within IMF target; Timely production and accurate statistics, macro-economic and population and manpower data; % of Projects/ Programmes in Capital Budget approved and monitored by PAC</p>	<p>GoL fully committed to implementation of the PRS and public sector reform; negative impacts of externalities (reducing SACU revenue, expiration of AGOA & MFA) reversed or compensated; HIV/AIDS interventions are successful</p>
<p>Focal Area IV – Fight Against HIV/AIDS</p> <p>Intervention objective: HIV/AIDS free society</p> <p>Results: To be defined</p>	<p>Zero HIV/AIDS prevalence</p>	

IFW FOCAL AREA I – WATER SUPPLY AND SANITATION

(Update March 2005)

NARRATIVE	PERFORMANCE INDICATORS	SOURCE OF VERIFICATION	ASSUMPTIONS
<p>Long-term national sector targets</p> <p>The standard of living of the population of Lesotho improved through the provision of domestic and industrial water and improved sanitation services</p>	<ol style="list-style-type: none"> 1. Incidence of enteric diseases reduced 2. Permanent access to potable water increased (75 % by 2012) 3. Employment created through the development of industry 	<p>MoHSW reports/Data-base</p> <p>MoNR reports</p> <p>Bureau of Statistics reports</p>	
<p>Intervention objective</p> <p>Capacity of the sector to provide water and sanitation strengthened in medium to long-term</p>	<p>Permanent access to potable water in Lesotho Lowlands increased (75 % of households by 2012)</p>	<p>Regular reports of the Commissioner of Water (CoW)</p>	<p>GoL continues to implement PRS</p> <p>GoL continues to honour obligations under SADC Protocol shared water resources</p>
<p>Results:</p> <p>Medium-term water and sanitation services to Six Towns provided</p> <p>Medium to long-term investment programme for the Lesotho Lowlands bulk water supply prepared</p> <p>Public and private sector capacity for water supply and waste water treatment enhanced</p> <p>Existing Maseru wastewater treatment enhanced</p> <p>Maseru wastewater system expanded</p> <p>Sector-wide approach programme (SWAP) prepared</p>	<ol style="list-style-type: none"> 1. 28,000 households in Six Towns have permanent access to potable water (80 litres/caput/day) by 2007 2. Programme design completed by Q1 2007 3. Reduction achieved in: <ol style="list-style-type: none"> a) Unaccounted for water b) Breakdown incidence 4. Zero raw sewage discharge into river system by end 2006 5. 3,500 households in Maseru connected to wastewater system by 2010 (currently 1,700) 6. SWAP ready to be launched by end of 2006 	<p>Regular reports of the Commissioner of Water (CoW)</p>	<p>GoL agrees on sustainable and equitable tariff structure</p>

IFW FOCAL AREA II– TRANSPORT

(Update March 2005)

NARRATIVE	PERFORMANCE INDICATORS	SOURCE OF VERIFICATION	ASSUMPTIONS
<p>Long-term national sector targets:</p> <p>A transport sector capable of supporting national economic and social development</p>	<ol style="list-style-type: none"> 1. Key macro-economic indicators 2. Key social development indicators 	<ol style="list-style-type: none"> 1. Reports from MoFDP 2. Reports Bureau of Statistics 	
<p>Intervention objective:</p> <p>Access to isolated areas, markets and economic and social services improved</p>	<p>Proportion of people having access to basic services and markets using motorised and non-motorised roads</p>	<p>Baseline study National Census 2006/HH surveys Traffic surveys</p>	<p>GoL implements its investment policy in the sector and encourages economic development.</p>
<p>Results:</p> <ol style="list-style-type: none"> 1. Transport Sector policy defined and adopted by GoL 2. Road Sector Institutional Framework strengthened 3. Lesotho Road network improved 4. Road safety improved 5. Temporary employment generated by labour based road maintenance and upgrading 	<ol style="list-style-type: none"> 1. Transport Sector Policy adopted by June 2005 2. a) Lesotho Road Authority approved by June 2005 b) Lesotho Road Authority operational by 2008 3. a) 110 km of Lesotho Rural Paved Roads rehabilitated by 2009; IRI reduced from 5 to 3 b) 100 km of Lesotho Unpaved Road network upgraded from earth to all weather standard by 2007 4. a) Lesotho road fatalities reduced from 371/year (2000) to 250 (2007) b) Lesotho National Road safety Council Gazetted and launched by 2006 5. a) 200,000 person-days of employment generated on unpaved rural roads by 2007 b) 60,000 person-days of employment generated on paved rural roads by 2009 	<ol style="list-style-type: none"> 1. Publication in the government's gazette; 2. Regular reports of MPW&T 3. Regular reports of MPW&T & implementing agencies: DRR, RB; MPW&T road use surveys 4. Regular reports of MPW&T & Road Safety Department; traffic statistical data 5. Project interim and completion reports 	<p>Adequate funds for regular maintenance and Road safety will be made available through the Road Fund.</p> <p>Position of Rural Roads Department in the context of the Local Government Reform is resolved</p> <p>Road Traffic Act is gazetted by 2005</p>

IFW FOCAL AREA III – CAPACITY BUILDING FOR ECONOMIC PLANNING AND FINANCIAL MANAGEMENT

(Update March 2005)

NARRATIVE	PERFORMANCE INDICATORS	SOURCE OF VERIFICATION	ASSUMPTIONS
<p>Overall objective Economic growth enhanced and poverty reduced</p>	<ol style="list-style-type: none"> 1. Economic growth at 4% per annum 2. Proportion of population living below the poverty datum reduced by 10% between 2002 and 2007 	<ol style="list-style-type: none"> 1. National accounts 2. Household budget and expenditure survey 	
<p>Intervention objective] GoL's capacity for economic planning and public financial management strengthened</p>	<ol style="list-style-type: none"> 1. GoL budget fully MTEFed by 2009 2. Fiscal deficit maintained within IMF target 	<ol style="list-style-type: none"> 1. GoL Annual Estimates of Revenue and Expenditure 2. IMF Country Report 	<ul style="list-style-type: none"> • GoL fully committed to implementation of the approved Poverty Reduction Strategy • Negative impacts of externalities (reducing SACU revenue, expiration of AGOA & MFA) reversed or compensated • HIV/AIDS interventions are successful
<p>Results:</p> <ol style="list-style-type: none"> 1. Bureau of Statistics capacitated to produce adequate statistics 2. Macro-economic model developed and fully operational 3. Population and Manpower model developed and fully operational 4. Economic and Sectoral planning and M&E capacity strengthened 5. Public Financial Management strengthened 	<ol style="list-style-type: none"> 1. Timely production of relevant and accurate periodic statistics 2. Timely production of relevant and accurate Macro-economic data for budgeting and fiscal planning 3. Timely production of relevant and accurate Population and Manpower data for budgeting and fiscal planning 4. <ol style="list-style-type: none"> a. Minimal 90% of Projects/Programmes in Capital Budget approved by PAC by 2006 b. All Projects/Programmes in Capital Budget monitored by sectoral ministry and evaluated by PAC. 	<p>Reports MoFDP</p>	<ul style="list-style-type: none"> • GoL fully committed to implementation of the public sector reform

IFW FOCAL AREA IV – FIGHT AGAINST HIV/AIDS

(Update March 2005)

NARRATIVE	PERFORMANCE INDICATORS	SOURCE OF VERIFICATION	ASSUMPTIONS
<p>Long-term national sector targets:</p> <p>HIV/AIDS free society</p>	<p>Zero HIV/AIDS prevalence</p>	<p>Reports from Lesotho Health related bodies (MoHSW, NAC, etc.)</p>	
<p>Intervention objective:</p>			
<p>Results:</p>			

TO BE DEFINED

CHRONOGRAM OF ACTIVITIES

CHRONOGRAMME OF ACTIVITIES - 9TH EDF
(Including use of balances from previous EDFs)

Lesotho – 9 TH EDF Indicative Programme A-envelope € 86 m + balances from previous EDF Total	€ m	2004		2005		2006		2007		2008		2009	
		1 st half	2 nd half	1 st half	2 nd half	1 st half	2 nd half	1 st half	2 nd half	1 st half	2 nd half	1 st half	2 nd half
FOCAL SECTORS													
1. WATER & SANITATION	36.50												
Lesotho Lowlands Water Supply (Design)	10.00	FS	PF	FP	FD/PC	PC/IM	IM	IM	IM	IM	IM		
Six Towns Water Supply (Works)	23.00	FS	PF	FP/PC	FD/PC	PC/IM	IM	IM	IM	IM	IM		
Maseru Wastewater (incl. TA to WASA)	2.75	FS	PF/FP	FP/PC	FD/PC	PC/IM	IM	IM	IM	IM	IM		
TA to Commissioner of Water	0.75	IM	IM	IM	IM	IM	IM	IM	IM	IM	IM		
2. ROAD TRANSPORT SECTOR	26.40												
Upgrading & strengthening 110 km of PPR Network	15.25		PC	FS	FS/PF	FP**	FD/PC	PC	IM	IM	IM		
Road Transport Infrastructure Programme Phase 2	7.85		FS	FS	PF	FP	FD	IM	IM	IM			
Increase RTIP (EDF 8)	3.30			FD	IM	IM	IM						
3. MACRO SUPPORT & CAPACITY BUILDING													
Capacity Building Economic Planning	22.50	PC	PC	IM	IM	IM	IM	IM/MR	IM	IM			
Capacity Building PFM	5.00	PC	PC/IM		IM	IM	IM	IM/MR	IM	IM			
Capacity Building PFM	5.00				PF/FP	FD/PC	IM	IM	IM				
4. HIV/AIDS	8.00			PF/FP	FD/PC	IM	IM	IM	IM				
5. NON-FOCAL	10.59												
Micro-projects, decentralised cooperation and Support to NSA	8.60		PF/FP	FD	IM	IM	IM	IM	IM	IM	IM		
Technical Cooperation Facility (TCF)	1.99	FD	IM	IM	IM	IM	IM	IM	IM	IM	IM		
Reserve	2.31												

Legend **FS = Planned CSP** FS = Update 03/05 * Study ** Works *** TA WASA
 FS Feasibility Study PF Project Formulation FP Financing Proposal & TA NAO
 FD Financing Decision PC Procurement IM Project Implementation
 MR Mid-term Review EV Evaluation

CHRONOGRAMME OF ACTIVITIES - 8TH EDF

Lesotho – 8 th EDF NIP Total € 54.3 million (Ongoing projects only)	1999		2000		2001		2002		2003		2004		2005		2006	
	1 st half	2 nd half	1 st half	2 nd half	1 st half	2 nd half	1 st half	2 nd half	1 st half	2 nd half	1 st half	2 nd half	1 st half	2 nd half	1 st half	2 nd half
FOCAL SECTORS																
1. INFRASTRUCTURE SECTOR																
RTIP Ph 1 (National roads, LCU roads, Road Safety, TA)	IM	IM	IM	IM	IM	IM	IM	IM	IM	IM	IM	IM	IM	IM	IM	IM
Lowlands Water Supply FS					PF/FP	FD	IM	IM	IM	IM	IM	IM	IM			
					PF/FP	FD	IM	IM	IM	IM	IM	IM	CL			
2. OTHER PROGRAMMES																
Multi-annual Micro-projects Programme	PF	FP	FD	IM	IM	IM	IM	IM	IM	IM	IM/EV	IM	IM			
	PF/FP	FD	IM	IM	IM	IM	IM	IM	IM	IM	IM/MT R	IM	IM	IM	IM	IM
Support to Health Sector Reform	IM	IM	IM	IM	IM	IM	IM	IM	IM	IM	IM	IM	IM	CL		
Information, Workshops, Conferences & Cultural Initiatives	IM	IM	IM	IM	IM	IM	IM	IM	IM	IM	IM			CL		
			PF/FP	FD	IM	IM	IM	IM	IM	IM				CL		
Support to Dept. of Economic Cooperation		PF/FP	FD	IM	IM	IM	IM	IM	IM	IM	IM					
			PF/FP	FD	IM	IM	IM	IM	IM	IM	IM	IM	CL			
Support to Economic Planning						PF/FP	FD	IM	IM	IM	IM	IM	IM	IM	IM	
Support to Lesotho Independent Electoral Commission							PF/FP	FD	IM	COMP	CL					
Maseru Wastewater FS								PF/FP	FD		IM	IM	IM	CL		
Macro-economic Support																
				PF	FP	FD	IM	IM	IM	IM	IM	CL				

Legend FS = Planned NIP EDF8 FS = Update 01/05 * Study ** Works *** TA WASA & TA NAO
 FS Feasibility Study PF Project Formulation FP Financing Proposal CL Closure
 FD Financing Decision PC Procurement IM Project Implementation
 MR Mid-term Review EV Evaluation

INDICATIVE TIMETABLES FOR COMMITMENTS AND DISBURSEMENTS

All amounts are in million €
GLOBAL COMMITMENTS TIMETABLE FOR THE 9TH EDF
 Cumulative

LESOTHO	€ 106.30	2004		2005		2006		2007		2008	
		SoY	EoY	SoY	EoY	SoY	EoY	SoY	EoY	SoY	EoY
EDF Co-operation Programmes											
1. WATER & SANITATION		0.75	0.75	0.75	13.50	13.50	36.50	36.50	36.50	36.50	36.50
Lesotho Lowlands Water Supply (Design)		0.00	0.00	0.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00
Six Towns Water Supply (Works)		0.00	0.00	0.00	0.00	0.00	23.00	23.00	23.00	23.00	23.00
Maseru Wastewater (incl. TA to WASA)		0.00	0.00	0.00	2.75	2.75	2.75	2.75	2.75	2.75	2.75
TA to Commissioner of Water		0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
2. ROAD TRANSPORT SECTOR		0.75	0.75	0.75	4.52	4.52	26.87	26.87	26.87	26.87	26.87
Upgrading 110 km of PPR Network		0.75	0.75	0.75	0.75	0.75	15.25	15.25	15.25	15.25	15.25
RTIP Phase 2		0.00	0.00	0.00	0.00	0.00	7.85	7.85	7.85	7.85	7.85
Increase RTIP (EDF 8)		0.00	0.00	0.00	3.77	3.77	3.77	3.77	3.77	3.77	3.77
3. MACRO SUPPORT & CAPACITY BUILDING		17.50	17.50	17.50	17.50	17.50	22.50	22.50	22.50	22.50	22.50
Capacity Building Economic Planning		17.50	17.50	17.50	17.50	17.50	17.50	17.50	17.50	17.50	17.50
Capacity Building PFM		0.00	0.00	0.00	0.00	0.00	5.00	5.00	5.00	5.00	5.00
4. HIV/AIDS		0.00	0.00	0.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00
NON-FOCAL AREAS		0.00	1.99	1.99	10.59	10.59	10.59	10.59	10.59	10.59	10.59
MPP, Decentralised cooperation & Support NSA		0.00	0.00	0.00	8.60	8.60	8.60	8.60	8.60	8.60	8.60
Technical Cooperation Facility (TCF)		0.00	1.99	1.99	1.99	1.99	1.99	1.99	1.99	1.99	1.99
SUB-TOTAL		19.00	20.99	20.99	54.11	54.11	104.46	104.46	104.46	104.46	104.46
EC Budget Lines											
EIB											
SUB-TOTAL		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
GRAND TOTAL		19.00	20.99	20.99	54.11	54.11	104.46	104.46	104.46	104.46	104.46
% NIP 9th EDF			19.74%		50.90%		98.26%		98.26%		98.26%

All amounts are in million €
INDIVIDUAL COMMITMENTS TIMETABLE FOR THE 9TH EDF

Cumulative

LESOTHO	€ 106.30	2004		2005		2006		2007		2008	
		SoY	EoY	SoY	EoY	SoY	EoY	SoY	EoY	SoY	EoY
EDF Co-operation Programmes											
1. WATER & SANITATION		0.50	0.50	0.50	13.25	13.25	36.50	36.50	36.50	36.50	36.50
Lesotho Lowlands Water Supply (Design)		0.00	0.00	0.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00
Six Towns Water Supply (Works)		0.00	0.00	0.00	0.00	0.00	23.00	23.00	23.00	23.00	23.00
Maseru Wastewater (incl. TA to WASA)		0.00	0.00	0.00	2.75	2.75	2.75	2.75	2.75	2.75	2.75
TA to Commissioner of Water		0.50	0.50	0.50	0.50	0.50	0.75	0.75	0.75	0.75	0.75
2. ROAD TRANSPORT SECTOR		0.00	0.00	0.00	2.83	2.83	26.13	26.13	26.87	26.87	26.87
Upgrading 110 km of PPR Network		0.00	0.00	0.00	0.75	0.75	15.25	15.25	15.25	15.25	15.25
RTIP Phase 2		0.00	0.00	0.00	0.00	0.00	7.85	7.85	7.85	7.85	7.85
Increase RTIP (EDF 8)		0.00	0.00	0.00	2.08	2.08	3.03	3.03	3.77	3.77	3.77
3. MACRO SUPPORT & CAPACITY BUILDING		0.00	0.59	0.59	8.17	8.17	22.50	22.50	22.50	22.50	22.50
Capacity Building Economic Planning		0.00	0.59	0.59	8.17	8.17	17.50	17.50	17.50	17.50	17.50
Capacity Building PFM		0.00	0.00	0.00	0.00	0.00	5.00	5.00	5.00	5.00	5.00
4. HIV/AIDS		0.00	0.00	0.00	0.00	8.00	8.00	8.00	8.00	8.00	8.00
NON-FOCAL AREAS		0.00	0.07	0.07	0.41	9.01	9.51	9.51	10.01	10.01	10.58
MPP, Decentralised cooperation & Support NSA		0.00	0.00	0.00	0.00	8.60	8.60	8.60	8.60	8.60	8.60
Technical Cooperation Facility (TCF)		0.00	0.07	0.07	0.41	0.41	0.91	0.91	1.41	1.41	1.98
SUB-TOTAL		0.50	1.16	1.16	24.66	41.26	102.64	102.64	103.88	103.88	104.45
EC Budget Lines											
EIB											
SUB-TOTAL		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
GRAND TOTAL		0.50	1.16	1.16	24.66	41.26	102.64	102.64	103.88	103.88	104.45
% NIP 9th EDF			1.09%		23.20%		96.56%		97.72%		98.26%

All amounts are in million €
DISBURSEMENTS TIMETABLE FOR THE 9TH EDF

Cumulative

LESOTHO	106.3		2004		2005		2006		2007		2008	
EDF Co-operation Programmes	SoY	EoY	SoY	EoY	SoY	EoY	SoY	EoY	SoY	EoY	SoY	EoY
FOCAL AREAS												
1. WATER & SANITATION	0.01	0.14	0.14	3.31	3.31	19.27	19.27	28.50	28.50	36.50		
Lesotho Lowlands Water Supply (Design)				3.00	3.00	9.00	9.00	10.00	10.00	10.00		
Six Towns Water Supply (Works)			0.00	0.00	0.00	9.60	9.60	16.30	16.30	23.00		
Maseru Wastewater (incl. TA to WASA)			0.00	0.00	0.00	0.20	0.20	1.45	1.45	2.75		
TA to Commissioner of Water	0.01	0.14	0.14	0.31	0.31	0.47	0.47	0.75	0.75	0.75		
2. ROAD TRANSPORT SECTOR			0.00	0.81	0.81	2.86	2.86	14.18	14.18	23.72		
Upgrading 110 km of PPR Network			0.00	0.30	0.30	0.75	0.75	7.28	7.28	12.11		
RTIP Phase 2			0.00	0.00	0.00	0.10	0.10	4.10	4.10	7.85		
Increase RTIP (EDF 8)			0.00	0.51	0.51	2.01	2.01	2.81	2.81	3.77		
3. MACRO SUPPORT & CAPACITY BUILDING	0.00	0.10	0.10	2.03	2.03	7.83	7.83	15.33	15.33	22.50		
Capacity Building Economic Planning	0.00	0.10	0.10	2.03	2.03	6.83	6.83	11.83	11.83	17.50		
Capacity Building PFM			0.00	0.00	0.00	1.00	1.00	3.50	3.50	5.00		
4. HIV/AIDS			0.00	0.00	0.00	4.90	4.90	8.00	8.00	8.00		
NON-FOCAL AREAS	0.00	0.04	0.04	0.55	0.55	3.90	3.90	7.05	7.05	10.05		
MPP/decentralised coopn & Support NSA			0.00	0.00	0.00	2.60	2.60	5.60	5.60	8.60		
Technical Cooperation Facility (TCF)	0.00	0.04	0.04	0.55	0.55	1.30	1.30	1.45	1.45	1.45		
SUB-TOTAL 9th EDF NIP	0.01	0.28	0.28	6.69	6.69	38.76	38.76	73.06	73.06	100.77		
EC Budget Lines												
EIB												
SUB-TOTAL	0	0	0	0	0	0	0	0	0	0		
GRAND TOTAL	0.01	0.28	0.28	6.69	6.69	38.76	38.76	73.06	73.06	100.77		
% NIP 9th EDF	0.01%	0.26%	0.26%	6.29%	6.29%	36.46%	36.46%	68.73%	68.73%	94.80%		

DONOR MATRIX

Donors	As indicated in Capital Estimates for 2001/02	% of Total	Total reported Disbursement for Year	% of Total	As indicated in Capital Estimates for 2002/03	% of Total	Total reported Disbursement for Year	% of Total	As indicated in Capital Estimates for 2003/04 (Approved by MoF& DP)	% of Total	Total reported Disbursement for Year (Maloti)
CAPITAL PROJECT GRANTS											
EC (EDF)	84,261,333	26	60,267,852	32	89,083,308	22	89,939,325	29	87,704,000		84,578,400*
Ireland (IrelandAid)	38,243,000	12	30,950,934	16	83,600,000	21	59,137,982	19	88,319,000		75,360,000 **
Germany (GTZ/KFW/DED)	15,119,000	5	8,995,045	5	10,295,000	3	4,562,985	1	8,525,000		Not available
Britain (DFID/ODA)	2,284,222	1	354,229	0	6,000,000	1	1,852,994	1	Not available		79,140,114
Denmark (DANCED)	7,051,306	2	1,748,671	1	10,673,067	3	1,151,620	0	2,000,000		Not available
Total EU	146,958,861	46	102,316,731	54	199,651,375	49	156,644,906	50			239,078,514
UNICEF	6,842,000	2	1,381,963	1	2,952,000	1	45,796,399	15	3,152,000		Not available
UNDP	7,739,000	2	1,173,610	1	20,014,698	5	34,974,742	11	13,830,000		Not available
GEF (WB)	10,689,000	3	0	0	9,800,000	2	674,728	0	5,000,000		Not available
WFP	6,498,000	2	8,187,376	4	22,637,500	6	481,298	0	24,516,000		Not available
UNFPA	449,436	0	0	0	2,004,500	0	43,499	0	567,300		Not available
WHO	2,829,000	1	0	0	4,348,000	1	36,735	0	3,300,000		18,793,000
FAO	1,634,000	1	0	0	2,043,000	1	0	0	2,173,000		Not available
Total "UN Family"	36,680,436	11	10,742,949	6	63,799,698	16	82,007,401	26	52,538,300		18,793,000
Japan	54,000,000	17	49,000,000	26	15,000,000	4	12,931,424	4	10,000,000		1,000,000 *
ADF/ADB	11,668,900	4	4,576,580	2	0	0	1,267,292	0	1,487,000		Not available
Kellog Foundation	210,000	0	0	0	210,000	0	36,656	0	500,480		Not available
Swiss	228,000	0	214,986	0	220,000	0	0	0	3,778,000		Not available
China	5,000,000	2	0	0	5,000,000	1	0	0	6,100,000		Not available
India	1,032,000	0	0	0	1,290,000	0	0	0	1,290,000		Not available
BADEA	2,340,000	1	0	0	770,000	0	0	0	2,491,000		Not available
USA	0	0	0	0	0	0	0	0	Not available		Not available
Total Other Donors	74,478,900	23	53,791,566	28	22,490,000	6	14,235,372	5	25,646,480		
Total Capital Project Grants	258,118,197	80	166,851,246	88	285,941,073	71	252,887,679	82			

NON-PROJECT GRANTS

EDF Budgetary Support	63,000,000	20	22,001,978	12	119,000,000	29	57,389,286	18			
Total Non-Project Grants	63,000,000	20	22,001,978	12	119,000,000	29	57,389,286	18			
GRAND TOTAL GRANTS	321,118,197	100	188,853,224	100	404,941,073	100	310,276,965	100			
Of which EDF	147,261,333	46	82,269,830	44	208,083,308	51	147,328,611	47			

Source: Ministry of Finance and Development Planning

* Proposed Spending for 2005

** Disbursement in 2004

'Not available: we are still waiting for the agency to respond

FINANCIAL SITUATION PER EDF

FINANCIAL SITUATION FOR 9TH EDF (GRANTS)

Project No.	Project Title	Date committed	Global Commit.	Individual Commit.	%	Total Paid	% Exp.	2004 Disbursement
9 LSO 001	TA to Ministry of Natural Resources	1-Aug-03	750,000	500,000	66.67%	137,158	27.43%	132,440
9 LSO 002	Capacity Building in Economic Planning	17-Dec-03	17,500,000	586,800	3.35%	99,272	16.92%	99,272
9 LSO 003	Study - Upgrading 110 km of PPR Network	22-Dec-03	750,000	0	0.00%	0	0.00%	0
9 LSO 004	Technical Cooperation facility (TCF)	19-Oct-04	1,985,100	69,994	3.53%	41,996	60.00%	41,996
TOTAL ONGOING PROJECT			20,985,100	1,156,794		278,426		273,709
CLOSED PROJECTS			0	0		0		0
TOTAL 9th EDF			20,985,100	1,156,794		278,426		273,709

Allocation (A envelope)	98,084,550
Uncommitted balance	77,099,450
%Committed (global)	21.39%
% 9th EDF disbursed	0.28%

FINANCIAL SITUATION FOR 8TH EDF (GRANTS)

Project No.	Project Title	Date committed	Global Commit.	Individual Commit.	%	Total Paid	% Exp.	2004 Disbursement
8 LSO 002	Road Transport Infrastructure Programme	30-Jun-99	37,700,000	36,024,812	95.56%	33,360,552	92.60%	2,596,499
8 LSO 003	8th EDF Multi-Annual Micro projects	9-Sep-99	5,300,000	2,307,611	43.54%	1,572,061	68.13%	378,749
8 LSO 005	Information, W/Shop, Conferences & Cultural Init.	8-Jan-00	476,000	242,200	50.88%	110,998	45.83%	2,441
8 LSO 007	Support to the Dept. of Economic Cooperation	16-Jan-01	1,100,000	800,790	72.80%	578,759	72.27%	126,679
8 LSO 008	Support to the Health Sector reform	24-Apr-01	1,800,000	1,792,289	99.57%	823,407	45.94%	423,526
8 LSO 009	Poverty Reductn.Budget Support Progr. PRBSP 2001/2	13-Sep-01	8,500,000	7,283,929	85.69%	6,266,735	86.04%	66,830
8 LSO 010	Poverty Reductn.Budget Support Progr. PRBSP 2001/2	13-Sep-01	10,000,000	10,000,000	100.00%	8,500,000	85.00%	5,500,000
8 LSO 011	Lesotho Lowlands Water Supply feasibility study	26-Oct-01	1,750,000	1,506,700	86.10%	1,052,261	69.84%	386,823
8 LSO 012	Support to the Dept. of Economic Planning	7-Sep-01	750,000	725,000	96.67%	454,999	62.76%	163,849
8 LSO 016	Review of current HIV/AIDS related activities	26-Jun-02	40,000	39,500	98.75%	33,179	84.00%	0
8 LSO 017	Six Towns Water Supply - Phase II	24-Oct-02	1,900,000	1,568,000	82.53%	230,708	14.71%	198,344
8 LSO 018	Maseru Wastewater Feasibility Study	19-Aug-02	750,000	749,812	99.97%	407,920	54.40%	273,460
8 LSO 019	Adviser, Economic Planning and Budget support	7-Nov-02	230,000	230,000	100.00%	193,825	84.27%	99,411
8 LSO 020	TA to the Bureau of Statistics	27-Mar-03	530,000	0	0.00%	0	0.00%	0
TOTAL ONGOING PROJECT			70,826,000	63,270,642		53,585,404		10,216,609
PROJECTS CLOSED 2004			2,935,286	2,935,286		2,935,286		0
PROJECTS CLOSED PRIOR TO 2004			80,885	80,885		80,885		0
TOTAL 8th EDF			73,842,171	66,286,814		56,601,575		10,216,609
Commitments (NIP+structural adjustments)			72,745,842					
Outside of NIP Commitment			1,096,329					
Total commitments			73,842,171					
Uncommitted balance			0					
% Committed			100.00%					
% 8th EDF disbursed			76.65%					

FINANCIAL SITUATION FOR 7TH EDF (GRANTS)

Project No.	Project Title	Date Committed	Global Commit.	Individual Commit.	%	Total Paid	% Exp.	2004 Disbursements
7 LSO 001	Muela Hydro-electric central	21-Oct-91	32,300,000	32,273,646	99.92%	32,103,041	99.47%	155,373
7 LSO 014	2nd Micro projects programme	18-May-94	1,978,252	1,978,252	100.00%	1,978,251	100.00%	0
7 LSO 020	Global loan to LNDC	30-Jun-95	200,000	200,000	100.00%	73,000	36.50%	0
7 LSO 027	TA to the Office of the NAO	04-Jun-96	750,000	697,418	92.99%	697,418	100.00%	9,684
7 LSO 033	3rd Micro projects programme	07-Oct-96	1,766,689	1,766,689	100.00%	1,766,689	100.00%	0
7 LSO 035	High value crops sector TA Coordinator	18-Oct-96	110,000	90,000	81.82%	78,750	87.50%	0
7 LSO 038	Axle load control	22-Sep-97	850,000	802,907	94.46%	735,042	91.55%	57,373
7 LSO 041	Six towns urban water supply	16-Mar-98	1,996,000	1,831,108	91.74%	1,831,108	100.00%	0
7 LSO 045	Assistance to the Bureau of Statistics	25-May-99	851,000	799,600	93.96%	735,036	91.93%	100,345
7 LSO 048	Micro projects 8th EDF	09-Sep-99	407,000	394,315	96.88%	383,877	97.35%	37,080
7 LSO 049	DevT.finance admin.software for NAO	13-Apr-00	25,000	21,885	87.54%	21,885	100.00%	5,975
TOTAL ONGOING PROJECTS			41,233,941	40,855,820		40,404,097		365,830
PROJECTS CLOSED IN 2004			5,623,187	5,623,187		5,623,187		-
PROJECTS CLOSED PRIOR TO 2004			55,448,632	55,448,632		55,448,632		-
TOTAL 7th EDF			102,305,760	101,927,639		101,475,916		365,830

Commitments (NIP+structural adjustments)	69,196,647
Outside of NIP commitment	33,109,113
Total commitments	102,305,760
Uncommitted Balance	0
% Committed	99.63%
% 7th EDF disbursed	99.19%

REGIONAL PROJECTS

Regional Projects

All regional projects previously listed in JAR 2003 were closed by the end of the previous reporting year except for **7 ACP RPR 600 SADC-HYCOS** whose activities were already completed at that time. A final payment for this project was processed in December 2004 (9,000 EUR) and both the Global and Individual Commitment (7 ACP RPR 600 1 Agreement with World Meteorological Organization) are about to be closed.

Regional projects “alive” during 2004 in which Lesotho is involved without being the Leading Country and that this Delegation has knowledge about are as follows:

8 ACP TPS 154 – EISP (Economic Integration Support Programme to the BLNS): the programme was designed to support the BLNS states coping with the negative effects of the Trade, Development and Cooperation Agreement (TDCA) signed between the EU and RSA. No activity foreseen under this project was implemented; a review mission travelled to Lesotho as part of a BLNS tour in mid-2004 to assess whether GoL would agree on a time extension of the programme;

8 ACP RAU 014 – Regional Support for an Expanded Multi-Sectoral Response to HIV/AIDS in the SADC region: a set of different initiatives were scheduled to take place in Lesotho in 2004 under this programme (i.e. strengthen support to migrants and mobile populations; reduce the effects of HIV infection among nurses and midwives); the Delegation tried unsuccessfully to contact the implementing bodies;

8 ACP TPS 097 – EUMETSAT – Meteorological Transition in Africa project (MTAP/PUMA): the project aims at positively impacting the countries’ economies by providing meteorological information via satellite. During 2004 GoL technicians were trained and the installation of the ground equipment should be completed by March/April 2005.

EIB PROJECTS

EIB Investment Portfolio

Loan No	Name of contract	Loan signed on	Loan amount	Loan disbursements (amounts in EUR)				
				Amount disbursed	(Actual) Date of first disbursement	Amount cancelled	Amount to be disbursed	Contractual date of last disbursement
Loans on EIB's own resources								
17170	LESOTHO-MUELA HYDROPOWER <i>Conditions: grace period ; interest rate: 3%</i>	3/15/1994	5,000,000.00	5,000,000.00	3/28/1994	0.00	0.00	n/a
17455	LESOTHO HIGHLANDS WATER A (PHASE 1B) <i>Conditions: grace period ; interest rate: open</i>	5/25/1998	44,000,000.00	42,122,243.19	5/25/2000	1,877,756.81	0.00	n/a
17690	LESOTHO HIGHLANDS WATER - B (PHASE 1B) <i>Conditions: grace period ; interest rate: open</i>	10/7/1998	10,000,000.00	10,000,000.00	n/a	0.00	0.00	n/a
<i>sub-total own resources</i>			59,000,000.00	57,122,243.19		1,877,756.81	0.00	
Loans on risk capital resources								
70206	LESOTHO - LNDC TOURISM STUDY <i>Conditions: grace period ; interest rate: 2%</i>	2/13/1981	50,000.00	50,000.00	3/12/1981	0.00	0.00	n/a
70207	LESOTHO-LNDC CERAMICS STUDIES <i>Conditions: grace period ; interest rate: 2%</i>	2/13/1981	50,000.00	47,516.50	9/16/1981	2,483.50	0.00	n/a
70259	LESOTHO - LNDC PG <i>Conditions: grace period ; interest rate: 2%-8%*</i>	12/17/1981	3,000,000.00	2,513,000.00	6/7/1982	487,000.00	0.00	n/a
70560	LESOTHO - LNDC PG II <i>Conditions: grace period ; interest rate: 2%-8%*</i>	8/13/1985	3,000,000.00	2,815,500.00	3/20/1986	184,500.00	0.00	n/a
70630	LESOTHO HIGHLANDS WATER STUDY <i>Conditions: grace period ; interest rate: 2%</i>	12/15/1986	3,500,000.00	3,500,000.00	9/4/1987	0.00	0.00	n/a
70794	LNDC INDUSTRIAL ESTATE <i>Conditions: grace period ; interest rate: 5%</i>	10/26/1989	3,000,000.00	1,459,171.00	11/25/1992	1,540,829.00	0.00	n/a
70942	LESOTHO-MUELA HYDROPOWER <i>Conditions: grace period ; interest rate: 2%</i>	3/15/1994	15,000,000.00	15,000,000.00	9/18/1995	0.00	0.00	n/a
70968	LNDC IV GL A <i>Conditions: grace period ; interest rate: 1%</i>	9/28/1994	750,000.00	750,000.00	9/20/1995	0.00	0.00	n/a
70969	LNDC IV GL B <i>Conditions: grace period ; interest rate: 1%</i>	9/28/1994	1,750,000.00	1,265,000.00	9/3/1996	485,000.00	0.00	n/a
70970	LNDC IV GL C <i>Conditions: grace period ; interest rate: 1%</i>	9/28/1994	500,000.00	73,000.00	1/20/2000	300,000.00	127,000.00	n/a
<i>sub-total risk capital resources</i>			30,600,000.00	27,473,187.50		2,999,812.50	127,000.00	

USE OF BUDGETARY SUPPORT / COUNTERPART FUNDS

{ TC "Macroeconomic support and Capacity Building" \f C \l "3" } Budgetary support

a) Results

The third and final tranche (variable) of the 8th EDF Poverty Reduction Budgetary Support Programme PRBSP was transferred to GoL in 2004. An analysis of the performance of the programme was undertaken – assessment of the reliability of the social indicators under the third tranche by a consultancy firm, audit of the transfer of the third tranche by Ernst and Young and a mission from AIDCO C/3 – and it was recommended not to proceed with a new budget support scheme under EDF 9. The main reasons supporting this decision were the inability of GoL to account for approximately 40% of its expenditure (Report of the Auditor General for 2001/02) and the inaccuracy of the education and health indicators used to calculate the results of the programme and thus final amount of the third tranche.

This course of action was discussed with and agreed by the National Authorizing Officer during the MTR mission in November, albeit the NAO clearly stated its preference for macroeconomic support once the adequate conditions are in place. The funds thus freed were reallocated to different already existing and newly created sectors, as follows: 19.5 MEURO for Water and Sanitation, 10.5 MEURO for Transport, 5 MEURO for PFM and 8 MEURO for the fight against HIV/AIDS. This rearrangement of the programme is contained in the Addendum to the Country Strategy Paper and National Indicative Programme that was signed in February 2005.

b) Progress in activities

The last tranche of EDF 8 Budget Support was received by GoL in August 2004. The amount effectively transferred was 5.5 M € out of a total of 8 M €. This figure was calculated as follows:

IMF-related percentage: 50% of the total amount (4 M €) was to be disbursed upon confirmation by the IMF of GoL's adequate performance under the PRGF; since the Fund's Fifth Review of the PRGF considered Lesotho "on track", 4 M € was allocated to Government;

Indicator-related percentage: 50% was to be disbursed according to the performance against ten agreed targets (hence 0.4 M € attached to each one of them) belonging to indicators both in the social sectors (three in the health sector and three in education) and in the PFM area (four indicators). The scoring system was defined as follows: 1 point for every indicator meeting the set target, 0.5 for every indicator that, although not meeting the target, shows "a considerable positive development" and 0 points for indicators not achieving the target nor showing a positive trend. The total of points was to be upgraded by 25% according to the Financing Agreement as an incentive measure.

The accuracy and success of the 6 social indicators was independently evaluated by the firm AEDES under an AMS/451 Framework Contract. Out of a maximum total of 6 points (or 2.4 M €), 0 were allocated to the health and education indicators, either due to their unreliability or non-achievement of targets. The PFM indicators fared better, with three of them being granted 1 point each. therefore, and according to the calculations above described, 1.5 M € out of a total of 4 M € was allocated to GoL) 3 targets met x 0.4 M € x 1.25).

The final figure corresponding to the third instalment of the EDF 8 Budget Support is therefore 5.5 M €. The transfer was audited by Ernst and Young as per FA. A mission by AIDCO/C/3 supported the Delegation both during the assessment of the performance of the third instalment and the discussions concerning the future of the PRBS in Lesotho. The Mission's conclusions concurred with the views expressed by the Delegation.

c) Cross-cutting themes, institutional development and capacity building

See PSIRP (2.2.3 Public Financial Management).

ANNEX IX

PROJECT SHEETS

(Ongoing projects and projects completed during 2004)

PROJECT SHEET

9th EDF

Title	Adviser (Water) to Ministry of Natural Resources		N°	9 ACP LSO 001
Date of Financing Agreement/Primary Commitment		1 st October 2003		
Date of termination of Financing Agreement		30 th November 2006		
End Phase 1 - implementation:	n/a	Date of N+3:	n/a	
Global Commitment	€ 750,000	Total disbursement 2004	€ 132,440	
Individual Commitment(s) 31/12/04	€ 500,000	Total disbursement to end 2004	€ 137,158	
		Forecast disbursement end 2004	€ 147,600	
Objective	Provide technical support to the Commissioner of water and the Lowlands Water Supply Unit on matters related to the potable water and wastewater sectors, primarily, but not exclusively, in the Lesotho Lowland.			
Purpose	To advise and assist the Commissioner for Water in the implementation of EDF-financed studies and projects in the potable water and wastewater sectors, in particular the Lowlands Water Supply Feasibility Study (LLWSFS) and the Six Towns Water Supply – Phase II.			
Results expected	<ol style="list-style-type: none"> 1. The supervision of the LLWSFS in all its stages and phases resulting in recommendations, acceptable to GoL on the most suitable infrastructure development option, implementation schedule and financing options for securing the long-term availability for the population, institutions and industries in the Lesotho Lowlands; 2. The supervision of the studies and subsequent implementation of the Six Towns Water Supply Phase 2 Project, resulting in medium-term availability of potable water for Maputsoe, Teyateyaneng, Mapoteng, Roma, Morija and Quthing. 3. The supervision of the studies and subsequent implementation of the Maseru Wastewater Project. 4. Initiating, managing and supervising other studies and projects aimed at alleviating potable water shortages in Lesotho; 5. Strengthening the technical capacity of the Department of Water Affairs and the Office of the Commissioner for Water. 			
Results Achieved and/or Progress in 2004	<ol style="list-style-type: none"> a. The Final Feasibility Study Report; the Draft Tender Dossiers and the Draft Financing Agreement were completed for the LLWSP in 2004. b. The Feasibility Study, the Design Reports; the Draft Tender Dossiers and the Draft Financing Agreement were completed for the Six Towns Water Supply Project in 2004. c. The Feasibility Study; the Draft Tender Dossiers and the Draft Financing Agreement for the Immediate Works for the MWWP were completed in 2004. d. The Terms of Reference and the Draft Financing Proposal for the placement of a TA within WASA were completed in 2004. 			

PROJECT SHEET

Title	CAPACITY BUILDING FOR ECONOMIC PLANNING		N°	9 ACP LSO 002
Date of Financing Agreement/Primary Commitment		17 th December 2003		
Date of termination of Financing Agreement		31 st December 2011		
End Phase 1 - implementation:	31 st December 2009	Date of N+3:	16 th December 2006	
Global Commitment	€ 17,500,000	Amount disbursed in 2004	€ 99,272	
Individual Commitment(s) 31/12/04	€ 586,500	Total disbursement to end 2004	€ 99,272	
		Forecast disbursement 2005	€ 1,938,000	
Objective	Poverty alleviation through increased economic growth and improved economic management			
Purpose	To strengthen GoL's capacity for macroeconomic management, sectoral planning, the collection, analysis and dissemination of statistical data, demographic research and population and manpower modelling			
Results expected	<ol style="list-style-type: none"> 1. Sustained upgrading of analytical and planning capacity within the Planning Cadre; 2. Capital Budget targeted at national development objectives; 3. Macroeconomic planning based on rigorous economic analysis; 4. Ministerial/sectoral planning procedures and practices established and adhered to; 5. Improvement in quality and timeliness of statistics reports; 6. Sector programming, Monitoring and Evaluation a routine feature of public expenditure management; 7. Medium Term Expenditure Framework approach to planning and budgeting introduced and operational 			
Results Achieved and/or Progress in 2004	<ul style="list-style-type: none"> • Recruitment of the TA Adviser for the NAO (Component 7) was completed when the Adviser Mr. Jan van Kamp commenced duty on 18 May 2004. • Start was made with the establishment of the Office of the NAO; recruitment of counter-part staff and equipment; • Recruitment of a TA Programme Coordination Adviser for project coordination was initiated December 2004; selection will be completed by February 2005; • The Tender Dossier for the Macroeconomic Modelling (Component 2) was prepared during the last quarter of 2004 and will be launched in February 2005; • Two TAs will be brought on deck as soon as possible to proceed to a first assessment of the assistance needs for BoS and to support the 2006 Population Census (Component 1); • A Rider to the FA will be requested in order to include the procurement of software for the customs database (ASYCUDA++); • ToRs have been prepared for Manpower modelling, and a debt-study. 			

PROJECT SHEET

Title	STUDY - UPGRADING & STRENGTHENING OF PAVED PRIMARY ROAD NETWORK		N°	9 ACP LSO 002
Date of Financing Agreement/Primary Commitment		17 th December 2003		
Date of termination of Financing Agreement		n/a		
End Phase 1 - implementation:	31 st December 2009	Date of N+3:	16 th December 2006	
Global Commitment	€ 750,000	Amount disbursed in 2004	€ 0	
Individual Commitment(s) 31/12/04	€ 0	Total disbursement to end 2004	€ 0	
		Forecast disbursement 2005	€ 300,000	
Objective	To improve access to isolated areas, markets and economic and social services			
Purpose	To provide the required information to enable decision making on the proposed Upgrading and Strengthening of 110km of the Paved Primary Network (A1-A2-A11-B23)			
Results expected	<p>The study is expected to deliver the following results:</p> <ul style="list-style-type: none"> • verification of the relevance of the proposed project to address the existing problems in the economic and social sectors in the western lowlands of the country; • detailed analysis of the technical, economic and financial, institutional and management, environmental and socio-cultural feasibility of the proposed Upgrading and Strengthening of 110km of the Paved Primary Network (A1-A2-A11-B23); • detailed analysis of the potential sustainability of the project results; • detailed plan which specifies indicators for project objectives, results and activities and incorporates required resources, the institutional structure for implementation and stipulates the responsibilities of various bodies, project timing/phasing, estimated costs and a logical framework planning matrix; • detailed engineering design, technical specifications and tender documents for physical works and supplies; • recommendations for the following steps and any further actions to secure project financing and implementation 			
Results Achieved and/or Progress in 2004	The tender dossier for a restricted tender was prepared during 2003 and finally approved in December 2004. The Procurement notice was published on 19 May 2004; Invitation to Tender issued on 8 February 2005; the deadline for submission of tenders is 21 April 2005; the anticipated start of the study is July 2005.			

PROJECT SHEET

Title	TECHNICAL COOPERATION FACILITY (TCF)		N°	9 ACP LSO 004	
Date of Financing Agreement/Primary Commitment			13 th February 2004		
Date of termination of Financing Agreement			31 st January 2009		
End Phase 1 - implementation:		n/a	Date of N+3:	n/a	
Global Commitment		€ 1,985,100	Amount disbursed in 2004		€ 41,996
Individual Commitment(s) 31/12/04		€ 69,994	Total disbursement to end 2004		€ 41,996
			Forecast disbursement end 2005		€ 510,000
Objective	<p>A. The implementation of the Government of Lesotho's Development Strategy through the support of sound development programmes financed from the European Development Fund (EDF).</p> <p>B. The fostering of a more coherent and informed approach to development and trade issues among decision-makers in Lesotho.</p>				
Purpose	The project purpose is the identification and implementation of actions under the NIP and other EDF funds together with improved awareness among key actors of general development and trade issues and of EU policies in these areas by means of training for beneficiaries in the Kingdom of Lesotho.				
Results expected	<ul style="list-style-type: none"> i. Identification of programmes to be financed from the EDF. Approximately six (6) such exercises will be completed during the project period; ii. Preparation and formulation of programmes to be supported from the EDF. Approximately five (5) such exercises will be completed during the project period; iii. The NAO's Office will be enabled to maintain satisfactory monitoring of - and tendering procedures for - ongoing projects - where this cannot be provided for in the projects themselves or other projects; iv. Audits and evaluations of other projects will be financed through this initiative whenever they cannot be financed out of the project itself or where it is convenient or efficient to combine a number of audits/evaluations of related interventions; v. Increased understanding of development and trade issues by key actors - to this end approximately eight (8) conferences and/or seminars will have been organised in Lesotho and the participation of (approximately) thirty-five (35) participants from Lesotho will have been financed in conferences, seminars etc. organised by bodies other than the Commission. 				
Results Achieved and/or Progress in 2004	One service contract was engaged for the execution of the identification/preparation of financing proposals for the water/sanitation sector. Mission took place during November/December 2004.				

8th EDF

Title	Road Transport Infrastructure Programme		N°	8 ACP LSO 002
Date of European Commission approval	10 th June 1999			
Date of Financing Agreement/Primary Commitment	25 th August 1999			
Start Date:	30 th June 2000	End Date:	31 st December 2006	
Global Commitment	€ 37,700,000	Amount disbursed in 2004	€ 2,596,499	
Individual Commitment(s) 31/12/04	€ 36,024,812	Total disbursement to end 2004	€ 33,360,552	
		Forecast disbursement end 2005	€ 2,050,000	
Objective	To improve the well being and livelihoods of all Basotho			
Purpose	To improve access to isolated areas and to basic services			
Results expected	<ol style="list-style-type: none"> 1. Improved all-weather access in areas serviced by project roads 2. Enhanced private sector capacity for carrying out labour intensive road construction and maintenance 3. GoL capacity for management of roads sector policy and administration strengthened. 4. Improved Road Safety 			
Results Achieved and/or Progress in 2004/05	<p>The largest component of the RTIP was the <u>upgrading to bitumen standard</u> of 115 km gravel roads in Mafeteng and Maseru districts (B 42, B 43, B47). The works contract (Open tender) was signed with WBHO for an amount of LSL 105M (€ 20.8M) in July 2000; works commenced in September 2000 with a contractual time for completion of 24 months.</p> <p>Supervision was carried out by the Roads Department in the Ministry of Public Works and Transport assisted by Bergman-Ingérop (SA) (Restricted tender). The Bergman Ingérop supervision contract was increased to LSL 17,731,648 (compared with the price at award of LSL 8,380,191). The major part of the increase in the contract price resulted from the additional services required for the design and supervision of the road safety measures in the Maseru South industrial (see below) and residential areas, although there was also an increase in the supervision for the main contract. These areas adjoin the B 47 road, which is being upgraded under the project.</p> <p>Implementation delays were attributed to design discrepancies, delays in land acquisition and periods of heavy rainfall. Administrative Orders resulted in an increase of about 43% in the amount of physical works. Extensions of time of 2.1 months for delays, 7.1 months for increases in quantity of work and 2.13 months for inclement weather were awarded during the course of the contract, however, the contractor has lodged a claim for approximately LSL 161 million (€21million). This claim could not be settled amicably and there is currently an arbitration procedure in process. A preliminary meeting has been held and a timetable established, with an expected date for the hearing in February 2006.</p> <p>Final Acceptance of the works took place in July-August 2004, and the contractor has forwarded a draft final statement of account to the Supervisor. The Supervisor is currently preparing the final statement of account, which will exclude the amount in dispute.</p> <p><u>Results:</u> This contract has resulted in 115km of rural road being upgraded to an all-weather standard, including the provision of three bridges and substantial drainage structures. The provision of this type of access has meant that there are no longer extensive delays due to inadequate drainage structures and there has been a more direct result in saving lives. (In the past vehicles would often have been washed away when trying to cross flooded vented fords).</p> <p>This upgrading has also encouraged a certain amount of economic activity along the road, evidenced by increased traffic in the bi-annual counts along with a reduction in vehicle operating costs.</p> <p>The completion of this contract has prompted the development of feeder roads from more isolated areas in the district, giving the wider populace access to schools, clinics and shops.</p> <p>This district is now seen to be ‘much closer’ to the Maseru district (given the improved access) and a new housing development has started at the Maseru end of the B47. Further industrial parks have also been planned for these roads. In the regional context, these roads have now provided an alternative link to South Africa.</p>			

Title	Road Transport Infrastructure Programme	N°	8 ACP LSO 002
<p><u>Upgrading of Earth tracks to LCU gravel standard:</u> Under the RTIP the Department of Rural Roads undertook the upgrading of some 61 kms of earth track to all-weather gravel status, using labour-based techniques. The roads upgraded under this element of the programme were:</p> <ul style="list-style-type: none"> ▪ BB09 from Ha Selomo to Tsimbe in Butha Buthe district (19.3 km) ▪ BR02 from Teyateyaneng to Ha Senekane in Berea district (16 km) ▪ MF13 (North) from Van Rooyen's Gate to Tsupane in Mafeteng district (9.3km) ▪ MK10 from Mokhotlong to Phahameng in Mokhotlong district (16.6 km) <p>The final cost was LSL 20,295,483, of which paid by EDF 18,985,188; a total labour input amounted to 188,590 man-days (md); labour productivity 3,257 md/km; average cost LSL 319,542 per km</p> <p><u>Institutional strengthening and capacity building:</u> In support of the improvement to the road network, the Road Transport Infrastructure Programme is providing technical assistance for strengthening and building the institutional capacity of the Ministry of Public Works and Transport Planning Unit and the Department of Rural Roads. The advisers for these positions took up their positions in September and October 2000 and their contracts have been extended to September/October 2005. In the initial parts of their assignments both advisers were required to give substantial support to the implementation of the district/rural feeder road upgrading activities, however, throughout 2002 both advisers have been able to give greater attention to the issue of policy development with result that a draft national transport sector policy paper was completed in December 2002. The policy paper was discussed with a wider representation of stakeholders during 2003 and, along with other changes, it was thought that the Ministry's current institutional reform proposals should be included as part of policy. The institutional reform paper was not presented to Cabinet and the policy was delayed.</p> <p>Recent initiatives (January 2005) provided the policy development programme with a fresh impetus and it is now planned that a Lesotho Transport Policy can be presented to the Minister of Public Works and Transport by June 2005.</p> <p><u>Road Safety Improvement Programme:</u> In addition to the construction activities and transport sector institutional issues, the RTIP, has a provision for financial and technical assistance in support of a Road Safety Improvement Action Plan. The introduction of this Plan, in conjunction with the simultaneous introduction of Axle Load Control (also EU-financed) will begin to address the problem of Lesotho's poor road safety record. The major activities carried out during the year have included monitoring the police surveillance programme, developing educational materials for schools and piloting the same through a number of schools in Maseru, developing recommendations for the establishment of a National Road Safety Council, setting up a survey to determine road accidents costs in Lesotho and initiating a programme for the identification and rectification of danger spots within Maseru.</p> <p><u>Road Safety Works Maseru South:</u> The upgrading of the B 47 road under the project has highlighted the growing problem of pedestrian and vehicle safety within the area served by the interface between the B 47 and the main Maseru South arterial road. The rapid industrialisation and residential development in the Thetsane and areas of Maseru South has resulted in a situation where there are very large numbers of both pedestrian and vehicle traffic using the present road system during peak hours, with a corresponding increase in the risks of pedestrian and traffic accidents. In order to address the problem a proposal was submitted for the construction of suitable pedestrian facilities and service roads in the area. The design and supervision of the works are being carried out as an addendum to the Bergam-Ingerop contract and following a local open tender a construction contract was awarded to Lesotho Consolidated Civil Contractors for an amount of LSL 22,247,291.15.</p> <p>The works contract started mid-January 2003 and with a period of performance of 9 months was due to finish in October 2003, however, two extensions of time were issued giving a revised completion date of 15th December 2003. The works were further delayed, due mainly to poor performance by the contractor, and a provisional acceptance certificate was only granted in September 2005.</p> <p><u>Results:</u> The provision of these access roads and pedestrian ways has created a much safer environment for both road users and pedestrians. The roundabouts have brought down the average speeds along the main Maseru by-pass and with the provision of 'no-stopping' signs, taxis, which cause a lot of the congestion, will be restricted to the access roads, giving a good level of service along the by-pass. The new configuration has also meant that there are far fewer accesses to the by-pass, which has a direct result in decreasing the accidents. Pedestrians no longer walk along the by-pass and safety should be further enhanced with street lighting planned for the walkways, access roads and the bypass.</p>			

Title	8 th EDF Multi-annual Micro-projects Programme		N°	8 ACP LSO 003
Date of Financing Agreement/Primary Commitment				
Start Date:	31 st December 1999	End Date:	30th June 2005	
Global Commitment	€ 5,300,000	Total disbursement 2004	€ 416,689	
Individual Commitment(s) 31/12/04	€ 2,307,611	Total disbursement to end 2004	€ 729,379	
		Forecast disbursement 2005	€ 394,000	
Objective	Create sustainable social and economic development in the poorest areas of Lesotho			
Purpose	The implementation of a programme of self-help projects in rural and peri-urban areas			
Results expected	Up to 130 Micro-projects have been successfully implemented by a locally staffed coordination unit			
Results Achieved and/or Progress in 2004	<p>Implementation: During the 2004, the MP Coordination Unit under the NAO continued with a greater emphasis on the coordination of decentralised implementation. A total of 13 project agreements were signed; total cost LSL 4,212,925; EDF contribution: LSL 2,816,021 (67 %). 12 projects were implemented through NSA agencies; one by a Government department, which is a new departure for the Micro-projects Programme. This heralds greater future involvement of NSA in the CSP/NIP for Lesotho.</p> <p>Beneficiaries: <u>Water and Sanitation:</u> Water projects approx. 3500 households 108 VIP pit-latrines were constructed; <u>Education:</u> construction of two-classroom blocks in 8 primary schools and two secondary schools; <u>Roads:</u> construction of 2 rural roads of 0.7 and 0.8 kilometres respectively, serving approx. 4,500 households; <u>Irrigation:</u> rehabilitation of one scheme; <u>Community Development:</u> construction of a two-classroom block at a community training centre.</p> <p>Training: To ensure sustainability, community/group/individual training was provided: health and hygiene; simple maintenance and repair for water schemes and roads.</p> <p>Mid Term Review: A review of the programme took place in October; a set of recommendations was submitted to the NAO and the Delegation for implementation in 2005. Recommendations: clearing the backlog of 258 proposals submitted by the communities and still not fully evaluated; recruitment of a short-term expert for a general overhauling of the programme efficiency regarding aspects such as procedures, forms and monitoring and evaluation; recruitment of a Village Liaison Officer (VLO) for the MCU in order to improve the appraisal at community level and ensure a subsequent adequate communication.</p>			
Projects executed during 2004				
Project name	Sector	Total Cost (LSL)	Contribution EDF (LSL)	Expenditure at 31.12.04
Hangers's Hope Secondary	Education	211,853	140,640	113,860.66
Khukhune High School	Education	211,853	140,640	134,632.92
Education Facility Programme Phase II	Education	635,562	421,920	374,893.00
Education Facilities Programme Phase II	Education	423,706	281,279	251,757.10
Water Supply Schemes in Quthing	Water	243,096	170,916	170,054.00
Water Supply Scheme in Mohope	Water	272,460	204,015	191,314.27
Boinyatso Chief's place Road	Roads	365,307	274,544	11,460.00
Lithathane-Kori Road	Roads	372,968	251,048	24,150.00
Mahuu Sanitation Project	Sanitation	75,620	42,300	17,086.60
Hobme Economics Classrooms	Education	167,404	87,505	17,501.00
Education Facility Programme Phase III	Education	635,562	421,920	84,384.00
Basieng Farmers' Irrigation Project	Agriculture	113,710	81,870	2,500.00
Sanitation Programme in Semonkong	Sanitation	483,824	297,424	59,484.00
Totals		4,212,925	2,816,021	1,453,077.55

Title	Support to the Department of Economic Cooperation		N°	8 ACP LSO 007
Date of Commission Approval		22 nd December 2000		
Date of Financing Agreement/Primary Commitment		6 th February 2001		
Latest Start Date:	30 th September 2001	End Date:	31 st December 2004	
Global Commitment	€ 1,100,000	Amount disbursed in 2004	€ 126,679	
Individual Commitment(s) 31/12/04	€ 800,790	Total disbursement to end 2004	€ 578,759	
The project is to be closed in Q 2 2005		Forecast disbursement 2005	€ 20,000	
Objective	To achieve and maintain levels of economic growth necessary for progress, the alleviation of poverty and social development			
Purpose	To develop in Government a capacity for the effective coordination and management of external assistance			
Results expected	<ol style="list-style-type: none"> 1. Policy on external assistance adopted by Cabinet. 2. External assistance management information system operating and producing regular reports 3. Guidelines on preparation and implementation of external assistance projects published 4. Lesotho/EC development cooperation strategy for 2000/2005 agreed and signed 5. National Indicative Programme for 9th EDF signed 			
Results Achieved and/or Progress in 2004	<ul style="list-style-type: none"> • During the final year of the Project the services of the TA Adviser came to an end in March 2004. A new Adviser was recruited under the NAO Support component of the 9th EDF Capacity Building project (9 ACP LSO 002). • As part of the continuing programme for the development of capacity within the Department of Economic Cooperation one Senior Economic Planner attended a 2-week course on Fiscal Policy and Management in Luanda, Angola and one staff member attended a 3-week course attended and Advanced Management and Development Course for Executive Secretaries. • Logistic support was also provided for attendance of the DNAO and the Budget Adviser to the Regional Workshop in Botswana and for a mission to Brussels for the NAO A and Budget Adviser. 			

Title	Support to Health Sector Reform			N°	8 ACP LSO 008
Date of Commission Approval				19 th February 2001	
Date of Financing Agreement/Primary Commitment				2 nd April 2001	
Latest Start Date:	30 th June 2001		End Date:	27 March 2005	
Global Commitment		€ 1,800,000	Total disbursement 2004		€ 423,526
Individual Commitment(s) 31/12/04		€ 1,792,289	Total disbursement to end 2004		€ 823,407
Project to be closed Q 3 2005			Forecast disbursement 2005		€ 908,000
Objective	An affordable equitable health care system				
Purpose	The purpose of the project is to support the development of a unified health information system and the development and piloting of a strategic plan for decentralisation				
Results expected	<ol style="list-style-type: none"> 1. Regular and timely production of valid and reliable data of key health performance indicators; 2. Health Service Area boundaries redefined 3. Unified M&E system within MoHSW and in 3 pilot Health Service Areas; 4. Proposals for District Health Management Teams developed and implemented 5. Health Boards revitalised. 				
Results Achieved and/or Progress in 2004	<p>The contract for TA to the Ministry of Health and Social Welfare was awarded to the National Research and Development Centre for Welfare and Health (STAKES), Finland in January 2002.</p> <p><i>Decentralisation:</i> Based on the recommendations of the health sector review EDF-financed assistance was redirected to support the process of developing a comprehensive health sector policy, the development of a district health package and the formulation of a strategic plan for decentralising health care as part of the overall decentralisation of the Government. Adoption of the approach commenced in 2004. Three Districts have been piloted and after serious delay, District Teams have been appointed and partly equipped and are operational to a degree. Logistical issues continue to hamper operations and this will continue to be the case until the Ministry of Health and Social Welfare makes appropriate provisions in the annual budget for deconcentrated functions.</p> <p><i>Monitoring and Evaluation:</i> At the start of the project there was no effective Health Information System in place in Lesotho. A four year data backlog (1998 through 2002) had to be dealt with and the project assisted in clearing this. The focus of the component has been on the collection and analysis of decentralised health data, however due to the delays in district level implementation capacity the developed instruments have not been fully tested and as a result the health management information system has not been delivered. There are however, a number of qualitative improvements noted in the review: strengthened staffing and capacity in the Health Planning and Statistics Unit; significantly improved data delivery from hospitals and health centres; The national demographic health survey (DHS), which will provide more accurate data on the incidence of HIV/AIDS was initiated during 2004.</p>				

Title	Poverty Reduction Budgetary Support Programme		N°	8 ACP LSO 090/010
Date of Commission Approval		23 rd July 2001		
Date of Financing Agreement/Primary Commitment		26 th October 2001		
Latest Start Date:	31 st December 2001	End Date:	30 th June 2004	
Global Commitment	€ 18,500,000	Total disbursement 2004	€ 5,566,830	
Individual Commitment(s) 31/12/04	€ 17,283,929	Total disbursement to end 2004	€ 14,766,735	
Project to be closed Q 2 2005		Forecast disbursement end 2005	€ 0	
Objective	To create a stable macroeconomic environment, which is conducive to for private sector development and equitable economic growth			
Purpose	To support government's general budget expenditures in the fields of health, education and social services.			
Results expected	<ol style="list-style-type: none"> 1. Reduction of Government's budget deficit and related financing gap to bring it below the figure of 2. Government foreign exchange reserves maintained at equivalent to 6 months of imports. 			
Results Achieved and/or Progress in 2004	<p>The programme came to an end in August 2004 with the disbursement of the third and final tranche. Only € 5.5 million out of a possible € 8 million were disbursed due to poor performance against indicators relating to public financial management (PFM) and unreliable statistics for the social sector performance indicators used.</p> <p>Missions from Commission Services in May and October 2004 determined that a budget support programme financed under EDF 9, as foreseen in the Country Strategy Paper, would not be viable due to lack of progress in PFM and a low probability that the quality of statistics in the social sectors would improve quickly enough to be used in support of budget support indicators.</p> <p>Nevertheless, the GoL has taken the criticism from donors on board and a DfID-sponsored three-year capacity building project in PFM in MFDP will be implemented from January 2005. The European Commission intends to resume budget support under the successor to EDF 9. Once confirmation that funds are available is given by the European Commission the GoL should develop a financing proposal for any capacity building measures that are required in addition to the current DfID-funded intervention.</p>			

Title	Lesotho Lowlands Water Supply Feasibility Study		N°	8 ACP LSO 011
Date of Commission Approval		8 th October 2001		
Date of Financing Agreement/Primary Commitment		23 rd November 2001		
Latest Start Date:	1 st March 2002	End Date:	1 st September 2004	
Global Commitment	€ 1,750,000	Amount disbursed in 2004	€ 386,823	
Individual Commitment(s) 31/12/04	€ 1,506,700	Total disbursement to end 2004	€ 1,052,261	
		Forecast disbursement end 2005	€ 453,715	
Objective	To achieve sustainable economic growth and reduce poverty			
Purpose	The development of an investment programme that will secure the medium- and long-term water supply for human and industrial consumption to the urban and peri-urban populations of the lowlands of Lesotho.			
Results expected	<ol style="list-style-type: none"> 1. Financing Proposal for submission under the 9th EDF; 2. Tender dossier for the design of the proposed solution 3. Recommendations for institutional and management procedures and long-term capacity building 4. Water sector personnel trained for implementation phase. 			
Results Achieved and/or Progress in 2004	<p>The tender for a Lesotho Lowlands Water Supply Feasibility Study was launched on 14th February 2002, with seven (7) European and regional consultancy firms being invited to make submissions. The tender closed on 15th May 2002 and a contract was awarded to the Centre for Ecology and Hydrology (UK) to assist the Department of Water Affairs, Ministry of Natural Resources in the technical evaluation of the tenders submitted. Following the evaluation three companies were considered as being eligible to progress to the second stage (Price evaluation) and on opening the price envelopes for the three companies the offer submitted by Parkman International was found to be the lowest priced and an offer of award of contract followed. The contract with Parkman was signed on 11th December 2002 for an amount of LSL 13,537,244. The consultant mobilised his team in early 2003 and the intermediate report outlining the prospective options was presented in September 2003. A decision on the chosen options was submitted in February 2004 and the final report with Draft Terms of Reference and Tender Documents for the next phase (detailed design) was submitted in September 2004.</p> <p>The Draft Financial Proposal for undertaking the next phase was prepared in late 2004. It is expected that the Financing Agreement will be signed in mid to late 2005 and that the Detailed Design of the preferred options will commence before the end of 2005.</p>			

Title	Support to Department of Economic Policy		N°	8 ACP LSO 012
Date of Commission Approval		1 st June 2001		
Date of Financing Agreement/Primary Commitment		1 st June 2001		
Latest Start Date:	31 st December 2001	End Date:	30 th November 2005	
Global Commitment	€ 750,000	Total disbursement 2004	€ 163,849	
Individual Commitment(s) 31/12/04	€ 725,000	Total disbursement to end 2004	€ 454,999	
		Forecast disbursement 2005	€ 270,000	
Objective	Strengthen the Ministry of Development Planning's capacity for guiding policy makers on development priorities through sound macroeconomic analysis and forecasting			
Purpose	Integrate the work of the Department of Economic Policy into the budgetary process and develop tools (including macroeconomic modelling) for ensuring an efficient allocation of government resources in accordance with the overall objectives of augmenting economic growth and poverty reduction			
Results expected	<ol style="list-style-type: none"> 1. A clear definition of the functions of the Department of Economic Policy, and of the tasks, routines and individual job descriptions needed to fulfil the functions; 2. The development of a clear understanding of the relative roles of DEP, the Fiscal Analysis and Policy Unit in the Ministry of Finance and the Research Department in the Central Bank, together with the establishment of appropriate means of ensuring the complementarities and effectiveness of the three units; 3. The introduction of a macroeconomic forecasting model as a basic tool in Government's planning and budgeting process, 4. The annual production of the three-year rolling Development Plan based <i>inter alia</i> on the scenarios and projections produced by the model; 5. The integration of the Public Sector Investment Plan into the Development Plan; 6. The incorporation into the Poverty Reduction Strategy Paper of an "Economic Policy Framework" as a guide for subsequent strategic planning and decision making; 7. A training needs analysis and staff development plan for DEP; 8. The preparation of a broader institutional capacity building proposal for key areas within the central ministries. The proposal to be submitted for consideration under the 9th EDF National Indicative Programme. 			
Results Achieved and/or Progress in 2004	<p>Following restricted consultations, a three-year direct agreement contract was awarded to Mr. G. West. He took up this assignment in December 2001. Rider No.1 extended the contract to December 2005.</p> <p>The Technical Assistant has continued his detailed involvement in all aspects of the preparation of the Poverty Reduction Strategy, which was approved by Cabinet in November 2004. He is a member of the Macroeconomic Working Group (MWG) which is responsible for preparing a medium-term fiscal framework (MTFF). The baseline MTFF was considered by Cabinet in November 2004 and provided indicative revenue and expenditure ceilings used in preparation of the Budget 2005/06. The MWG engaged with the International Monetary Fund during the sixth review of the Poverty Reduction and Growth Facility and the preparation of an Ex Post Assessment. The Government has adopted the Medium-Term Expenditure Framework (MTEF) approach as the basis for an integrated planning and budget system (replacing the rolling Development Plan). As a member of the MTEF task force, the TA conducted sensitisation workshops, designed revised budget forms and prepared guidance notes. During 2004, key outputs have included:</p> <ul style="list-style-type: none"> - Lead editor responsible for Background to the 2004/05 Budget (including A Review of Economic Performance, 1998-2002; Economic Prospects, 2003-2007; and Fiscal Strategy, 2004/05-2006/07) - Papers on the introduction of the Medium-Term Expenditure Framework approach (e.g. Role of Sectoral Teams in the Annual MTEF Cycle) - Input on the merger of the Ministry of Development Planning and the Ministry of Finance - Improvements in the spreadsheet model used to prepare the MTFF and write-up of the assumptions - Design of revised Budget Forms in the MTEF format and drafting of detailed Guidance Notes - Input to various consultancy studies and comments on reports - Training members of the MWG on fiscal forecasting 			

Title	Feasibility Study - Six Towns Water Supply Phase 2		N°	8 ACP LSO 017
Date of Commission Approval		18 th October 2002		
Date of Financing Agreement/Primary Commitment		24 th October 2002		
Latest Start Date:	31 st December 2002	End Date:	31 st December 2007	
Global Commitment	€ 1,900,000	Total disbursement 2004	€ 198,344	
Individual Commitment(s) 31/12/04	€ 1,568,000	Total disbursement to end 2004	€ 230,708	
		Forecast disbursement 2005	€ 350,000	
Objective	The provision of medium-term ¹ security of safe and reliable water supplies together with adequate wastewater treatment in six urban centres (Maputsoe, Mapoteng, Teyateyaneng, Roma, Morija and Quthing)			
Purpose	<p>The purpose of the study is:</p> <ul style="list-style-type: none"> - To investigate and develop in greater detail the works identified in earlier reports as being necessary for the medium term security of water supply at the six urban centres - To investigate and develop proposals for any additional works (e.g. sewage treatment, water reticulation, etc) that may be appropriate at each centre - To develop a financing proposal for submission to the European Commission under the 9th EDF European Development Fund. - Subject to the launch of tender for works, to assist the Supervisor, in the launch evaluation of tenders for construction works for Phase II. - Subject to the award of the works contract for Phase II, to assist the Supervisor, in the adequate supervision of the works during the construction period of 18 months and the subsequent maintenance period of 12 months. 			
Results expected	<ol style="list-style-type: none"> 1. A feasibility study report, including the appropriate technical, environmental and financial/economic annexes and relevant tender documentation in sufficient detail to enable GoL to prepare a financial proposal for the Six Towns Water Supply Project – Phase II for submission to the EC. 2. A contract for the works of Phase II; and 3. The completion of the works of Phase II of the Six Towns Water Supply Project 			
Results Achieved and/or Progress in 2004	<p>Following the signing on 3rd December 2002 of the Financing Agreement for the study, letters of invitation to tender were sent out to six (6) European and regional companies on 18th December 2002. The date for closure of the tender was 6th March 2003.</p> <p>After Technical and Financial Evaluation, the Consultancy Contract was awarded to Consulting Engineers Salzgitter (CES), a German Consultant, on the 15th August 2003 in the sum of LSL 14,560,769.28 (equivalent € 1,567,764.47)</p> <p>CES mobilised its team during the Fourth Quarter of 2003 and submitted its Inception Report on 15th November 2003.</p> <p>The Feasibility Report, Detailed Designs and Draft Tender Dossiers were submitted in November 2004.</p> <p>The Draft Financing Proposal was completed in December 2004. It is expected that the Financing Agreement for the Implementation of the Works will be signed in mid to late 2005. The Works Contract is expected to commence before the end of 2005.</p>			

¹ Medium-term defined as a period spanning 10 to 15 years

Title	Maseru Wastewater Feasibility Study		N°	8 ACP LSO 018
Date of Commission Approval	1 st January 2002			
Date of Financing Agreement/Primary Commitment	1 st August 2002			
Latest Start Date:	1 st January 2003	End Date:	31 st December 2004	
Global Commitment	€ 750,000	Total disbursement 2004	€ 273,460	
Individual Commitment(s) 31/12/04	€ 749,812	Total disbursement to end 2002	€ 407,920	
		Forecast disbursement 2005	€ 340,000	
Objective	The cost-effective, financially viable and environmentally sound collection, treatment and disposal of domestic and industrial wastewater in Maseru.			
Purpose	To identify an immediate, medium and long-term investment programme to meet realistic objectives			
Results expected	<ol style="list-style-type: none"> 1. The identification of feasible options for an appropriate immediate- (2 years), medium- (7 years) and long-term (20 years) policy for domestic and industrial wastewater collection, treatment and disposal; 2. The identification of rehabilitation/extension needs for wastewater collection and treatment facilities; 3. The preparation of an investment project to cover the immediate and mid-term needs of wastewater collection, treatment and disposal. The activities envisaged to include: <ul style="list-style-type: none"> – The rehabilitation and extension of Ratjomose wastewater treatment facilities including provisions for environmentally safe disposal of effluents and residues arising from wastewater treatment; – Construction of new treatment facilities as justified by the feasibility study and approved by the Government; – Abolishing of Maseru West Industrial Estate Wastewater treatment ponds. Installation of pre-treatment units in the individual factories in order to meet WASA standards for acceptance into the communal sewers. – Rehabilitation and extension of the sewerage system (trunk mains, interceptors, pumping stations and possibly limited secondary mains). 4. The determination of separate average full cost recovery tariffs for domestic and industrial customers, that will ensure the financial viability of the proposed investment project and the wastewater services in general. The tariff system recommended will cross checked against affordability and willingness to pay, and acceptability of higher-level service. 			
Results Achieved and/or Progress in 2004	<p>Following their confirmation of intention to tender for the study, letters of invitation to tender were sent out to five (5) European and regional companies on 18th December 2002. The date for closure of the tender was 6th March 2003.</p> <p>After Technical and Financial Evaluation, the Contract was awarded to GKW, a German Consultant, on 15th August 2003 in the sum of LSL 6,276,667.22 (equivalent € 675,811.54).</p> <p>The Consultant mobilised his team during the Fourth Quarter of 2003 and submitted his Inception Report on 18th December 2003.</p> <p>The Feasibility Study and the Draft Tender Dossier for the “immediate” works was submitted in November 2004. The Draft Financing Proposal for the implementation of the Immediate Works was prepared in December 2004. It is expected that the construction of the “immediate” works will commence in late 2005.</p>			

Title	Adviser, Economic Planning and Budget Support		N°	8 ACP LSO 019
Date of Commission Approval	6 th November 2002			
Date of Financing Agreement/Primary Commitment	7 th November 2002			
Latest Start Date:	16 th November 2002	End Date:	15 th November 2004	
Global Commitment	€ 230,000	Total disbursement 2004	€ 99,411	
Individual Commitment(s) 31/12/04	€ 230,000	Total disbursement to end 2004	€ 193,825	
Project to be closed Q 2 2005	Forecast disbursement 2005		€ 31,600	
Objective	To strengthen the Ministry of Development Planning's capacity for guiding policy makers on efficient and effective resource management			
Purpose	To optimise the contribution of the Department of Economic Cooperation to the preparation and implementation of economic policy, by reviving the Public Sector Investment Programme, by capacity building in public finance management, economic analysis and in the collection of national statistics			
Results expected	<ul style="list-style-type: none"> - The publication of the Public Sector Investment Programme as part of the annual National Development Plan; - A Project Appraisal Committee using established national development priorities as criteria for the approval and ranking of capital investment initiatives; - A Capital Budget Estimates document that can be used as a management tool; - The preparation of a capacity building proposal for submission to the EDF as a possible activity to be undertaken as part of the 9th EDF CSP/NIP 			
Results Achieved and/or Progress in 2004	<p>The Adviser commenced work in December 2002 and ended his assignment in December 2004. The assignment may be broadly divided into two areas: Capacity building in economic planning; and administrative and analytical support in relation to EDF-funded budget support.</p> <p><u>Capacity building in economic planning</u> The economic planning capacity within MFDG generally remains weak, but two encouraging developments in the Ministry emerged during the consultancy:</p> <ol style="list-style-type: none"> 1. The capacity for macroeconomic management, traditionally relatively strong in Lesotho, has been further consolidated through a refinement of the numerical database and the analytical tools which support it. Political commitment to prudent macroeconomic policy strengthened over the period. 2. In 2004, preparations for the Call Circular for the 2005/06 national budget revealed enthusiasm in the Planning Cadre across ministries to embark on the administrative reforms required to implement a Medium-term Expenditure Framework (MTEF); other evidence also emerged that planning officers are often acquainted with the ideas that underlie the MTEF. <p>By the end of the assignment, two principal constraints to the success of further planning initiatives in MFDG were noted, including Capacity Building in Economic Planning (CBEP, 9 ACO LSO 002):</p> <ol style="list-style-type: none"> 1. The lack of progress of other activities under the Public Sector Reform and Improvement Programme (PSIRP), especially civil service reform, means that it will be difficult to find staff with sufficient aptitude and motivation to undertake the planning activities foreseen. Uncertainty about the organisational structure of MFDG means that it is not possible to elaborate manuals or devise a training programme since the functions of departments and individuals are not known. 2. With regard to the CBEP, the lack of response from the European Commission to any proposals for activities, comments on reports or other inputs since the inception of the project in November 2003, apart from the recruitment of a TA to the NAO, has effectively put implementation on hold. <p><u>EDF-funded Budget Support</u></p> <p>The 8th EDF Poverty Reduction Budgetary Support Programme came to an end in August 2004 with the disbursement of the third and final tranche. (Refer to Project Sheet for 8 ACP LSO 009 & 010)</p> <p><u>Other activities and results in 2004.</u> The Adviser informally acted for two months as interim TA to the NAO, following the departure of the previous TA in March 2004. Due to a complete change of expatriate personnel at the EC Delegation, and the resulting increased administrative burden on the Office of the NAO, the Adviser continued to spend a significant amount of time on administrative matters relating to EDF-funded projects. The Adviser participated in workshops and commented on reports relating to economic planning, food security, the macroeconomic situation and the introduction of MTEF, and has formed part of an advisory team to review the income tax system in Lesotho.</p>			

7th EDF

Title	Muela Hydropower Project		N°	7 ACP LSO 001
Date of Financing Agreement/Primary Commitment		29 th July 1991		
Start Date:	8 th October 1991	End Date:		
Global Commitment	€ 32,300,000	Total disbursement 2004	€ 155,373	
Individual Commitment(s) 31/12/04	€ 32,273,646	Total disbursement to end 2004	€ 32,103,041	
The project is to be closed in Q 2 2005		Forecast disbursement 2005	€ 45,800	
Objective	To develop hydroelectric potential sufficient to meet Lesotho's normal requirements by 2003			
Purpose	The construction of a 72 Mw Hydroelectric Power Plant			
Results expected	<ol style="list-style-type: none"> 1. The construction of a 72 Mw underground powerhouse and associated waterways; access facilities; upstream surge shaft, downstream surge chamber; tailpond and dam; operations building; transmission lines and sub-stations 2. Environmental Action Plan and Awareness Programme 3. Technical training 4. Institutional support for the Lesotho Highlands Water Commission (formerly JPTC) 5. Environmental protection and enhancement in the Muela area 			
Results Achieved and/or Progress in 2004	<p>With the commissioning of the dam and hydropower station in 1998 the project reached substantial completion. The only remaining outstanding activity i.e. the provision of a treated water supply to nine villages in the Muela area was completed in 2004.</p> <p>Following discussions between the EC Delegation, the NAO's office and the LHDA it was agreed that the Department of Rural Water Supplies would be responsible for supervising the project and that the works would be conducted on a design and build basis using a local contractor.</p> <p>Subsequently, following a local open tender, for which 5 companies submitted offers, a contract was awarded to Sigma Construction in the amount of LSL 2,303,884.60. The survey and design phase commenced in September 2003 and the works were completed by March 2004.</p>			

Title	Axle Load Control		N°	7 ACP LSO 038
Date of Financing Agreement/Primary Commitment			6 th November 1997	
Start Date:	8 th August 1998		End Date:	n/a
Global Commitment		€ 850,000	Total disbursement 2004	€ 57,373
Individual Commitment(s) 31/12/04		€ 802,907	Total disbursement to end 2004	€ 735,042
The project is to be closed in Q 2 2005			Forecast disbursement end 2004	€ 4,070
Objective	To develop and maintain a road transport network capable of supporting sustained economic development and giving equitable access to basic services			
Purpose	To develop in Government a capacity to maintain the national road network and carry out effective road management			
Results expected	<ol style="list-style-type: none"> 1. Monitoring of heavy vehicle axle loads 2. Enforcement of axle load control legislation 3. Improved and up-to-date Traffic Information System 			
Results Achieved and/or Progress in 2003	<p>After lengthy delays in the preparation of suitable designs, the tender for the construction and installation of the permanent weighbridges and temporary lay-byes was launched in October 2000 and closed on 12th December 2000. Five tenders were received of which two were subsequently adjudged to be responsive. As the prices offered for the responsive tenders were in excess of the amount allocated under the project it was agreed that the tender should be annulled. The tender for works was annulled in May 2001. A new restricted tender for 2 lots was launched in late 2001 and a contract (LSL 3,391,504) for both Lot 1 (Installation of permanent weighbridge sites at Maseru Bridge and Maputsoe) and Lot 2 (purchase and supply of portable weighbridges and construction of lay-byes) was awarded to M & C Construction in July 2002. The works contract was completed successfully with the Provisional Acceptance Certificates being issued in May 2003 and both permanent weighbridges are now fully operational. Final acceptance took place in July 2004. Final payment was in process at the time of reporting.</p> <p>New legislation, to increase the fines for overloading, has not yet been approved by the Traffic Department and is hampering enforcement.</p> <p><u>Results:</u> Records over the first few months showed how serious the overloading problem had been with some 50% of weighed vehicles crossing Maseru Bridge, being overloaded. Existing legislation enabled the traffic inspectorate to immediately enforce axle load limits at the permanent weighbridge sites and over the next number of months the overloading was drastically reduced. There are two main results from overload control:</p> <ol style="list-style-type: none"> 1. Reduction in the damage to the road pavement with a resultant saving in maintenance and rehabilitation costs. 2. Reduction in traffic accidents, which were caused by the reduced effectiveness of brakes and suspensions of overloaded vehicles. <p>The new legislation will mean an increase in the fines and penalties, providing some revenue to the Road Fund, but the main purpose will remain that of controlling overload.</p>			

Title	8th EDF Multi-annual Micro-projects Programme		N°	7 ACP LSO 048
Date of Financing Agreement/Primary Commitment		2 nd September 1999		
Start Date:	31 st December 1999	End Date:	30 th June 2005	
Global Commitment	€ 407,000	Total disbursement 2004	€ 37,080	
Individual Commitment(s) 31/12/04	€ 394,315	Total disbursement to end 2004	€ 383,877	
The project is to be closed in Q 2 2005		Forecast disbursement end 2005	€ 0	
Objective	Create sustainable social and economic development in the poorest areas of Lesotho			
Purpose	The implementation of a programme of self-help projects in rural and peri-urban areas			
Results expected	Up to 405 Micro-project Agreements successfully concluded and implemented by a locally staffed coordination unit			
Results Achieved and/or Progress in 2004	This commitment has been used to finance technical assistance as an adviser to the Micro-projects Programme. The technical assistance completed his assignment in September 2003 and the payment recoded during 2004 constituted the final payment.			

Title	Development of financial administration software for the office of the National Authorising Officer		N°	7 ACP LSO 049
Date of Financing Agreement/Primary Commitment		12 th April 2000		
Start Date:	14 th August 2000	End Date:	13 th May 2001	
Global Commitment	€ 25,000	Total disbursement 2004	€ 5,975	
Individual Commitment(s) 31/12/04	€ 21,855	Total disbursement to end 2004	€ 21,855	
Project to be closed Q 2 2005		Forecast disbursement end 2005	€ 0	
Objective	To facilitate the payment procedure for EDF-financed projects and provide adequate information for the management of EU/Lesotho development cooperation			
Purpose	To provide the NAO and the EC Delegation with a Windows based programme that will assist in the preparation of payment orders and in the monitoring of the financial progress of projects and programmes implemented under the various EDF-financed instruments.			
Results expected	The production and installation of a complete software programme, able to prepare payment orders and record all necessary data for the efficient management of EDF-financed activities in Lesotho			
Results Achieved and/or Progress in 2004	<p>During 2003 The programme was put through extensive testing and was successfully used for making payments. However, a number of minor problems remained and adjustments were necessary at the level of the core programme. In December 2003 the consultant delivered the operating manuals and a copy of the programme's architecture and design.</p> <p>No activities took place during 2004.</p>			

COUNTRY ENVIRONMENT PROFILE

Country environmental profile

This Annex is based on the second State of the Environment Report (SoER) for Lesotho² and the Poverty Reduction Strategy Paper³.

The Lesotho environment remains very fragile. It is characterised by steep slopes and weak soil formations. The government estimate that 0.25 per cent of the arable land, or 39.6 million tons of soil, is lost through soil erosion each year, with the most visible signs being deep gullies in the lowlands and exposed rock in the mountains. The direct consequence of soil erosion is the decline in agricultural production and productivity, exacerbating the problems of food shortage and poverty.⁴ In the 2004 Poverty Reduction Strategy Paper the Government of Lesotho place heavy emphasis on the need to manage and conserve the environment and the awareness of the combination of factors (forces of nature and human interventions) that lie at the heart of the environmental crisis is highlighted. In particular they note the importance of understanding that poverty is both a cause and a consequence of environmental degradation – natural resources are depleted because people are poor and as a result they are further impoverished and are unable to maintain their livelihoods. The following section outlines from the two most recent guiding documents the reasons why the environment in Lesotho has become so degraded and what measures the Government of Lesotho will try to put in place to mitigate.

State of the Environment

Accurate environmental assessment and access to good quality information for decision making are critical to the implementation of Agenda 21. Similarly, regular environmental reporting with periodic review of data is also an important requirement for monitoring progress towards sustainable development. In this regard, Lesotho, with the assistance of the Danish Cooperation for Environment and Development (DANCED), prepared a report on the state of the environment in the country in 1997. The report titled "The State of the Environment in Lesotho 1997" was published in 1999 (Chakela, eds. 1999). The framework or the approach used in the development of the 1999 SoER was sectoral and covered 16 chapters aligned along the important economic sectors in the country. These were 1) the Environment and Economic Development, 2) the Human Environment, 3) Culture and Historical Heritage, 4) Arable Agriculture, 5) Rangeland and Livestock, 6) Indigenous Forests, Trees, Shrubs and Afforestation, 7) Mining, 8) Roads, 9) Land Use Planning and Soil Conservation, 10) Climate and Climate Change, 11) Water Resources and Water Use, 12) Biodiversity and Protected Areas, 13) Energy Resources and Energy Use, 14) The Urban Environment, 15) Environmental Policies, Legislation and Institutional Arrangements and 16) Environmental Trends and Scenarios. For each chapter, an attempt was made to address the following key questions:

² Second State of the Environment Report, Lesotho - National Environmental Secretariat, Ministry of Tourism, Environment and Culture . July 2002

³ The paper covers the period 2004/2005 – 2006/2007 and includes a substantial chapter on managing and conserving the environment

⁴ PRSP, Chapter 10

- What was the previous status of the sector?
- What is the current status of the sector?
- What is happening to the sector?
- Why is it happening?
- How do the changes impact on livelihoods?
- What is our current response and is it effective?
- What can be done to improve the situation?

The Lesotho country plan is to produce the SoER regularly every five-years. Therefore, the second SoER attempts to implement this country plan. Furthermore, the second SoER had in mind a participatory approach in its reporting. In an effort to improve on the first SoER, the National Environment Secretariat (NES) and DANCED facilitated a participatory SoER review process with stakeholders in 2001. The stakeholder review process produced a report with a list of sustainability indicators to be used in subsequent SoER. These were the core datasets for the second SoER, information on depositories of data relevant to the core datasets and reference materials for the authors of the current SoER (Mabote and Molapo, 2001).

The authors for the second SoER used an integrated environmental reporting approach as opposed to the sectoral approach that was used in the first SoER. The first SoER highlighted the linkages between sectors and used cross-sectoral indicators to present a more realistic picture of the environment in Lesotho at the time of its reporting. The integration of many of the chapters of the first SoER has resulted in the number of chapters in the second SoER being reduced to five. They are;

1. Introduction
2. Socio-economic and Cultural Dimensions
3. Water Resources
4. Climate and Atmospheric Change
5. Aquatic and Terrestrial Ecosystems
6. Land Use and Management
7. Environmental Governance

The indicator framework used for analysis of information in first SoER was the Pressure-State-Response (PRS) model. This framework was however found to be inadequate as it failed to capture the complexity of interactions in the natural environment. Therefore, to correct this weakness, the analysis and reporting format used in the second SoER is based on the Driving Force-Pressure-State-Impact-Response (DPSIR) model. The DPSIR framework is holistic and integrates various components of the environment as it lays out the relationships among (a) the underlying anthropogenic factors that lead to environmental change, (b) the pressures human society puts on the environment, (c) the resulting state or condition of the environment, (d) the results of pressures on the environment and (e) the societal action taken collectively or individually to reduce the adverse environmental impacts, correct environmental damage or conserve natural resources. Some indicators can be put under one or more categories, depending on the relationship analyzed. The framework, therefore, should be used for complex analysis, rather than rigid and simplistic categorization. For example, policies and legislation can be formulated as a Response to mitigate environmental change (e.g. Environmental Act, 2001) but once enacted can subsequently act as Driving Forces towards environmental improvement. On the other hand, some policies may have a negating effect to the proposed

legislation and thus act as a pressure on the environment and its components. For instance, while the National Environment Policy (NEP) of 1998 encourages the Government to respond to environmental problems, some Government policies such as the agricultural subsidy programme promote water pollution resulting from over-use of agrochemicals and a general use of marginal lands.

Limitations of the SoER

As mentioned above, regular state of the environment reporting is crucial for informed decision-making and this requires good quality data sets and selection of appropriate environmental indicators, which would provide decision-makers with accurate environmental trends. Although the current SoER contains useful information it lacks accurate data sets and therefore does not sufficiently answer some questions about environmental status, trends and scenarios. There is therefore a need to intensify the gathering of accurate and up-to-date primary data and develop digital database for the entire country in collaboration with the Bureau of Statistics (BOS) and the Environmental Units (EUs).

SoER: Key Points

Socio-economic dimension

From the analysis conducted in the preparation for the report, it is evident that the main driving force behind environmental change in Lesotho has been, and continues to be, the policies that have been adopted by the government as encapsulated in the five-year development plans. To this end, it is noted that before and shortly after her 1966 independence, Lesotho was largely an agrarian country with agriculture constituting approximately 40% of the Gross Domestic Product (GDP) in the 1960's.

It is worth noting that this pursuit of agriculture as the mainstay of economic growth was a result of a conscious policy decision to make agriculture "the back-bone of the Lesotho economy". The result of this policy was to act as a remarkable driving force for environmental change, since the agricultural sector is by nature highly reliant on the environment. Indeed, such highly environmentally intensive policies were the norm in the early days following Lesotho's independence as sectors such as Mining, Construction and Tourism were among the most vibrant. It is, for example, not unreasonable to observe that due to poor farming methods that were used, a lot of soil erosion was caused by mainly subsistence agriculture that was the norm in those days.

Economic performance as measured by growth in GDP declined over time along with the decreasing importance of agriculture. For example, whereas GDP grew at around 8% in the 1960's and part of the 1970's, the agrarian era, it took a knock in the 1980's, growing at an average of 3.9%; 50% decline compared with the previous decades. The adoption of the Structural Adjustment Program along with the Lesotho Highlands Water Project in the latter part of the 1980's decade saw the economy growing at a moderately better rate of 4.2% in the 1980's. Though an improvement over the previous decade, it still underscores the fact that there has been a gradual decline in the economic performance over time. For the first 4 years of the new millennium growth has been on average 3.34%⁵. This is indicative of the rising poverty levels in the country ever since independence.

⁵ Taken from the yet to be published Fiscal Strategy Paper 2005, produced by the Ministry of Finance and Development Planning

In cognisance of this worsening state of affairs, the Government of Lesotho adopted its sustainable human development policy in 1996 thus ushering in a new strategy of poverty alleviation. The policy also had significant environmental implications that were, arguably, not foreseen. For example, the heavy reliance on labour intensive methods under the '*fata-fato*'⁶ of the late 1990's laid more emphasis on giving people livelihoods through the food or money earned than on the actual infra-structure projects. The result of this has been catastrophic on the environments with a lot of road and dam projects ending up as catalysts of environmental degradation rather than, as was intended, development.

The dominating theme of the sustainable human development policy is based on three elements namely: - to enable people to lead long and healthy lives, acquire knowledge and have access to resources needed to accommodate acceptable levels of human needs. Consequently, poverty alleviation has, since the sixth development plan, heavily influenced all other socio-economic policies, as they too had to be geared towards the overall direction of sustainable human development. In pursuit of these three policy objectives labour intensive methods were adopted under the Lesotho Fund for Community Development and "Food for Work" programmes to the detriment of the environment. It is in this, and many other ways, that the poverty alleviation policy objective has been, and continues to be, a major driving force for environmental change in Lesotho.

The other policies, identified as driving forces, were the export biased economic policies that were predicated on attracting more and more foreign direct investment particularly in the manufacturing sector. The positive result of this policy has been the creation of jobs in the sector; however a consequence has been the negative impact on the environment as a result of the transformation of the economic structure from the more environmentally friendly tertiary base to a much more environmentally risky manufacturing base.

With regard to pressures on the environment, the main economic pressures are brought about by both the industrial structure of the Lesotho economy as illustrated by the sectoral composition and, also, the rates of growth of respective sectors. An industrial structure that is biased towards sectors such as agriculture, mining and manufacturing, that rely heavily on the environment for both raw materials and absorptive capacity of by-products, tends to exert significant pressure on the environment. Consequently, in such an economy, the attainment of sustainable development requires a conscious effort of mitigating against all possible negative environmental impacts resulting from economic activity.

The Lesotho economic structure has been progressively changing from dominance by the services sector to the manufacturing sector, the result of which has been to exert more pressure on the environment. Even more notable is the fact that the manufacturing sector is not only dominant in terms of shares to GDP but also the highest growing of all sectors thus indicating growing pressure on the environment⁷. This clearly underscores the need to encourage growth in more environmentally friendly, hence more sustainable, sectors such as tourism and the

⁶ The construction of un-engineered earth tracks, dams and bridges with largely unqualified supervision. Similar problems have been experienced through the "Food for Work" programmes operated in times of drought and famine under the auspices of organisations such as the World food Programme. In recent years, the Department of Rural Roads has been increasingly requested to rehabilitate the tracks and bridleways in an effort to contain environmental damage.

⁷ Recent trends in the manufacturing sector indicate that the sector may be in the early stages on decline as textile companies have begun to close and relocate in search of more favourable market conditions in which to operate.

financial sectors⁸. Population growth and the associated rural to urban migration along with the high incidence of poverty have also been identified as pressures for environmental change.

A discussion on the state of the socio-economic environment and the impacts reveals the socio economic challenges facing Lesotho. To avoid the usual error of assessing a country's socio economic development by solely its GDP growth rate, a much more social, progress focused measure, the Human Development Index (HDI) compiled and published by the UNDP, is used. A comparison of Lesotho's HDI with other SADC countries reveals the average socio economic performance of the country within the regional context as the country ranks seventh out of 13. Furthermore, Lesotho's HDI has been declining lately from a peak of 57% in 1995 to 54.1% in 1999. According to these HDI trends, Lesotho is, in terms of quality of life, a worse place to live in now than it was in 1985.

Regarding the state of the poverty situation, it is notable that particularly as a result of HIV and AIDS (combined with the 2002/3 food crisis) the poverty situation is not improving. UNDP note that between 1987 and 1995 the percentage of the population living below the poverty line was virtually unchanged at about 58%⁹. For instance, people spending less than M80 per month, considered as poor, have increased from 49% in 1990 to 68% in 1999. Even worse is the finding that of those falling below this poverty line, 70% (49% of the entire population) are classified as destitute since their monthly expenditure is below M40. Recent studies have estimated Lesotho's income distribution measure, Gini-coefficient at 60¹⁰, a level that indicates high inequality in income distribution in Lesotho.

To absorb the pressure brought about by the poverty alluded to above, many people resort to subsistence agriculture for their survival such that in spite of the declining agricultural productivity, approximately 85% of the population still depends partly or fully on agriculture for part of their livelihood and household resource security. Crop production in Lesotho is extensive and involves cultivation of maize (60% of arable land), wheat (10%), sorghum (20%), beans and peas (8%) and vegetables (2%). In the 1980s, Lesotho produced 50% maize, 98% sorghum and 15% wheat of its annual grain requirement but the current demand exceeds local production by 90%. Lesotho is therefore heavily dependent on imported cereal crops.

With respect to progress on other socio-economic factors such as health and access to basic resources, the performance has been somewhat mixed. For example, whereas Lesotho, as per the UNDP, has achieved an impressive oral dehydration rate of 84%, it has achieved a somewhat poor rate of immunization of one year olds against measles at only 55% compared with 90% for Mozambique on the same variable. Access to basic resources such as electricity, water and telecommunications the country is still at its rudimentary stages of development with only 1% of population having access to basic telephony.

Economic performance was, on the other hand, very satisfactory in much of the 1990's with economic growth rates in excess of 5%. An exception is 1998 when the economy actually contracted by 4.6%; a substantial change compared to a growth of 8% achieved just a year before in 1997. As an indication of its resilience, Lesotho's economy recovered some lost ground as it grew, in 1999, by 2.2%; a 50% less than the targeted rate of 4% but a positive indication nonetheless when compared with the 4.6% decline a year before. The GDP growth rate further picked up and between 2000 and 2004 the economy recorded an average annual

⁸ The need to diversify into other sectors particularly tourism was also highlighted in the 2004/2005 Budget Speech given by the Minister of Finance and Development Planning.

⁹ Outlined in the soon to be launched Progress report on the Millenium Development Goals for Lesotho

¹⁰ From PRSP 2004/2005 – 2006/2007

growth rate of 3.34 %. Despite all these economic gains in recent years, Lesotho remains a desperate country with most of its people classified as being destitute.

As an indication of sustainable economic progress, rates of inflation stabilised at rates below 10% percent; the so-called single digit rate, following a steep increase in 2002. For the first two quarters of 2004 year on year consumer price changes were negative at -7.9% and -14.8% respectively¹¹.

As depicted by a deficit of M177.40 Million in 2000 (after correcting for the effect of the depreciating exchange rate) Lesotho's Balance of Payments actually deteriorated. The implication of this is that the stock of foreign reserves had to be drawn to make good the deficit. As such, the balance of payments position remained very weak.

The government enacted a plethora of responses to these challenges. Chief among these is the poverty alleviation strategy process as encapsulated in the **Poverty Reduction Strategy Paper (PRSP)**. This follows comprehensive work in the form of a poverty mapping exercise and the subsequent poverty action plan that were completed in 1996. The finalisation of the PRSP in 2004 gives clear guidelines to all stakeholders on the Governments priorities. In the context of poverty reduction the following key environmental issues facing the country have been highlighted in the PRSP:

Disregard for the rule of law in the face of hunger – Where the expansion of cultivation to marginal and sensitive land – including mountain slopes and wetlands and leading to overgrazing, soil erosion and desertification – has become common practice and continues unabated in direct contravention of the Land Act 1979, the Environmental Policy of 1998 and the Environment Act 2001. It is clear that when people are hungry, environmental considerations are secondary.

Pressure on natural resources – On average fuel use in the form of biomass is about 25kg per household per week. As one of the coldest climates in Africa, fuel in Lesotho is essential for heating. The main source of fuel is biomass in the form of trees, shrubs and crop residues which are rapidly being depleted.

Loss of biodiversity – In Lesotho this manifests itself through changes in flora and fauna and by the loss or decline of habitats such as grasslands, marshes, bogs and reed meadows which are used for fuel, grazing, plant with medicinal value etc.

Urbanisation – With The process of industrialisation mainly in the textiles sector, the population in the urban areas has increased significantly. The PRSP outline 4 areas of concern that will need monitoring over the next three years:

- the nature and extent of waste water released into the environment from the factories, particularly from the 'wet' industries of the textile sector;
- the quality of the water used for domestic consumption, particularly where the dam catchment area is also used for solid waste disposal (as in Maseru);
- unless municipal waste management capacity grows as fast as the population, it will be overwhelmed and poor disposal practices (particularly in peri-urban areas) will result in an environmental health risk; and
- with poorer urban households being heavily dependent on coal for heating in winter, there is an increasing risk of air pollution reaching dangerous levels, particularly as winter

¹¹ Economic Intelligence Unit Country Report, January 2005

'temperature inversion' patterns often prevent the movement of air for much of the day. Winter air pollution by coal is exacerbated by the burning of used car tyres for warmth, a practise that carries serious risks, especially for young children who are most vulnerable to respiratory tract infections.

Looking outside of the lens of poverty reduction the following issues have been identified

Mining, construction, transport and infrastructure

Mining, construction, transport and infrastructure have contributed to negative environmental impacts change. This is through habitat destruction, water, noise and air pollution and visual impacts. There are three large-scale diamond-mining activities in the country - Kolo, Liphobong, and Letšeng-La-terai. Over and above this, there are individuals engaged in diamond mining on a small scale. Slurry from diamond mines has an impact on the environment (water quality) and stone crushing activities create noise and air pollution. Borrow-pits utilized for road construction and other infrastructural activities tend not to be rehabilitated thereby creating the negative visual impact on the natural landscape.

Water resources

Water is the most valuable of Lesotho's natural resources. It is a key determinant of economic growth and a resource that must be carefully managed as part of environmentally sustainable development. Overall, total water resources in Lesotho are abundant in relation to the demand. Nevertheless, there are severe localised water shortage problems. For surface water sources, which are mostly direct river abstractions, variability of flows and lack of regulation facilities leads to seasonal shortages. Groundwater sources are generally smaller if explored in perched water tables, and a lack of sufficient capacity to drill deeper means that some of these boreholes are often overused leading to local depletion and a shortfall in supply. This problem is realised in those constructed without acquisition of borehole construction permits from Department of Water Affairs.

The Water and Sewerage Authority (WASA) is the sole provider of reticulated water in Lesotho, provided water services to around 176,000 inhabitants, or approximately 50% of the population, living within its designated area of responsibility in 1997. By the year 2000, 31,685 customers were served and this figure rose to 34,492 during the 2000/2001 water year.

Water availability now and in the future heavily depends on climate, water resources use and management and land management practices.

Water abstraction and consumption rates are important factors affecting water resources capacity and use in Lesotho. Surface water has been developed through the Lesotho Highlands Water Project (LHWP) by building a series of dams to transfer of water to Republic of South Africa (RSA) and generation of electricity to Lesotho at Muela Dam. Historically use of surface water for town supplies and naturally occurring springs for rural village supplies did not necessitate examination of groundwater occurrence and availability. However, with the rapid growth in water demand for urban, peri-urban and rural areas, the need for reliable water sources has become a priority. Several Towns have augmented river abstraction systems with water from boreholes and well fields.

Pollution and rates of ground water depletion and the efficiency of water treatment plants to meet demand affect water resources quality and quantity. A holistic catchment management

program in Lesotho under comprehensive catchment based rural development programmes may lead to a sustainable water quality management programme.

In urban areas, as the number of private connections increase, the total consumption will increase according to the present per capita value for private systems. The urban domestic water consumption for the year 2025 is projected at 61 l/c/d, compared to 30 l/c/d in 1995. .

In 1996 an estimated 58% of the rural population had access to the Department of Rural Water Supply's (DRWS) public water supply schemes, although there were substantial variations across the country. There is a trend towards higher levels of service; over 70% of water points are based on reticulated systems, and there is increasing demand for private connections. In the last 4 years DRWS has not constructed a single hand pump-based project. Because of the restrictions on WASA's activities, DRWS has played a substantial part in water provision in the expanding peri-urban areas.

The Government in May 1999 adopted a new Water Resources Management Policy, and this sets out the framework for sector-wide reform. This includes the need for the economic pricing of water resources, recognizing the benefits of introducing private sector participation, the necessity of institutional reform, and the requirement for a strong regulatory framework. The policy recognized the seriousness of the water situation in the lowlands, and the Lesotho Lowlands Water Supply Scheme is specifically included within the new policy.

With regard to rural water supply and sanitation, DRWS produced a Strategy for the Future in 1997, which included demand-driven expansion, full recurrent cost recovery, private sector delivery of services, increased community participation, and a shift from construction towards maintenance. The Water Resources Act 1978 needs to be revised and harmonized with Environment Act 2001.

On the international arena, the Protocol on Shared Watercourse Systems in the Southern African Development Community (SADC) Region was ratified in 1995. The protocol sets out objectives for the sustainable, equitable and reasonable utilization of shared river basins in the SADC region, promoting regional integration, poverty alleviation and environmentally sound development and management.

Climate and the atmosphere

The global concern about climate change has increased since the 1980's due to scientific evidence that linked Green House Gas (GHG) emissions with global climate change. It has also been discovered that the ozone layer, which filters the sun's harmful ultraviolet rays from reaching penetrating and causing harm, is being depleted due to emissions of Ozone Depleting Substances (ODS's) - e.g. chlorofluorocarbons. The observation is that population growth affects climate through increased demand for fossil fuels which emit GHG's, and depletion of ozone layer through an increase in demand for ODS's.

Studies carried out in Lesotho show that the residential sector is responsible for more than 90% of energy consumption (including fossil fuel that emits GHG's) for household activities. Transport, industry, governmental and other institutions are other sectors that consume fossil fuel in the country. Though the country's contribution of GHG's is minor, its insufficient vegetation cover to absorb these gases makes it a net emitter of GHG's. As for ODS's, most of them emanate from refrigeration services sector. But emission of these has decreased with time in the country and the intention is to eliminate them by the year 2008.

Due to its geographical location, Lesotho is vulnerable to climate change, with rainfall and temperature varying in all time scales. This climatic variability places critical constraints on

crop production. In recent years, the country has experienced droughts associated with El Niño conditions, and studies show that the frequency of these droughts is increasing with time. In response to this kind of climate change and ozone layer depletion, Lesotho has ratified the following conventions:

- The UN Frameworks Convention on Climate Change in 1995.
- Vienna Convention for the Protection of the Ozone Layer, 1994
- Montreal Protocol on Substances that Deplete the Ozone Layer, 1994
- Kyoto Protocol to the Convention on climate Change

Lesotho has also initiated the project “*Enabling Activities for the Implementation of UNFCCC*” with the main objective of assisting the country to meet its obligation under the convention and to help in the formulation and implementation of a National Action Programme on Climate Change. The set back is that the country does not have a National Climate Policy and a National Plan of Action, which makes it difficult to implement the Convention effectively.

Aquatic and terrestrial ecosystems

Current data shows that aquatic and terrestrial ecosystems are being degraded at an alarming rate, mostly by human-induced factors. Loss of habitats, extinction of species and reduction in genetic variability can directly be linked to human behaviour. The increases in population density coupled with livestock population pressure have serious implications on the country’s natural resources and consequently environmental degradation. Population growth has necessitated a need for increased productivity, which has further contributed, to the loss of biological diversity. Poverty exerts a huge pressure on natural resources; poor people rely on the environment to sustain their livelihoods. Subsistence agriculture, using improper agricultural practices, has become the mainstay of survival, also dependency on biomass as the main source of energy has placed a tremendous pressure on indigenous trees and shrubs. Pollution, invasion of exotic species and overexploitation have contributed to an increase in the number of threatened plant species, and in low diversity in the country’s fauna especially in fish, reptiles and amphibians species.

The Parliament of Lesotho passed the Lesotho Environmental Act in 2001. When enacted, the law will provide for the management of the environment and natural resources of the country. This law, if enforced correctly, will improve the current decline in biological diversity as well as other environmental issues in Lesotho.

Environmental governance

Lesotho is party to a number of environmental conventions and protocols and to implement them it has affected appropriate policy and legal frameworks as well as effective institutional arrangements. The country has prepared a National Environment Action Plan, which incorporates environmental issues into the country’s economic development and coordinates its environmental challenges. As a response to implement Agenda 21, it formulated National Action Plan under the guidance of NES.

Also the National Environment Policy was finalized and approved by the Cabinet in 1996 and was further reviewed in 1998. The NEP reinforces powers of sectoral ministries and focuses on areas of high environmental priority in Lesotho. Apart from that, the country has established

Environmental Units within the planning division of each line ministry. This is to ensure that the role and efforts of NES are effective and to ensure that environmental considerations are incorporated at every level of decision-making in all line ministries.

For NES and line ministries to execute their responsibilities efficiently, it is necessary that their capacity in environmental management be enhanced, and trends over the past years show an increase in capacity of the Government to manage the environment and increase in financial resources allocated to environmental management although human resources and financial resources are still inadequate. So far, the country has achieved the following:

- In preparation for the implementation of Environmental Act 2001, the government with assistance of DANCED offered 16 short courses to enhance capacity of NES, EU's, Ministry of Planning and some parastatals.
- Despite inadequacy of staffing with NES and absence of legal mandate, the unit has successfully reviewed numerous EIA project briefs before implementation of projects. However, most developers did not follow recommendations made by NES.
- In order to improve the environmental quality, the country has prepared environmental standards and guidelines. These include WASA Effluent Standards, NES Draft Water Quality Standards, NES EIA Sectoral Environmental Checklists, EIA Draft Manual and DRWS EIA Manual.
- A number of committees have also been established to work with NES in implementing mandate of coordination and environmental Management. These are as follows:

CHEMAC	- Chemical Management Committee
COWMAN	- Committee on Waste Management
NDSC	- National Desertification Steering Committee
CEDAMA	- Committee on Environmental Data Management

Land use and management

The Basotho way of life is underpinned by the principle and an understanding that all land and natural resources are strictly communal; i.e. Land belongs to the nation (*mobu ke oa Sechaba*). It is the inalienable right of every Mosotho to have access to land, water, pasture, woodland and wildlife. This notion, characteristic of the tragedy of the commons, has serious implications in respect of land and land resources use and management. In most instances proper management and sustainable use of resources is a foreign metaphor to most Basotho. Serious interventions have been undertaken by the Government to foster attitudes of better and appropriate land management, but with limited success. The Government has introduced a series of interventions in an effort of arresting the misuse of the land resources. The interventions however had mixed results as a few of them achieved their intended objectives whereas the majority of them failed to achieve their objectives. Land resources management has been characterised by constraints such as fragmented efforts, lack of clear framework for land use planning, absence of security of tenure, declining traditional authority and mixed rule of law

between government institutions and traditional authorities. These dynamic factors have resulted in the bad land use practices highlighted above and outlined in the PRSP,

It is popularly stated that up to eighty percent (80 %) of the population in Lesotho derives part of its livelihood from agricultural activities but the total arable land is estimated at 9 % of the country's land base, creating conditions for extreme poverty and tremendous pressure on the natural resource base. The Government of Lesotho together with interested and affected stakeholders have embarked on adopting an integrated approach in land use and resource management strategies in order to minimize pressures imposed on land by natural and man made activities. The initial steps in implementing the land management strategy were to undertake a land resources studies in 1989 and 1994.

The Land Use Division of the Ministry of Local Government – then under the Ministry of Agriculture - used Landsat Satellite Imagery to classify land cover. The interpretation of data was based on 1: 250 000 South African Land Cover Database (NLC DATA) which covered the whole of South Africa including Lesotho. The images used to interpret the land cover were taken in March 1989 and April/May 1994. The images showed a general decrease in rangeland and arable land, an increase of up to 177 % for residential area, 4 % increase in industrial/road infrastructure and 73 % increase in mines and quarries.

Problems have not been encountered in land use and management alone but also in institutional and legislative instrumentation to effectively manage the resource base. In the past different institutions, dealing with land resources problems, have enacted several laws for their own working conditions and thus creating disparity and ineffectiveness in implementation of efforts meant to alleviate land degradation. The main weakness of these laws has been fragmentation and failure to provide sufficient security of tenure required for the sustainable use of land resources. The Land Policy Reform Commission, established in 1999, was charged with the responsibility of reviewing land tenure system as well as all laws governing access to land so as to enable the very illusive attempt of conservation and sustainable use of land and land based resources.

While the government has shown some commitment to this issue¹² there continue to be problems in implementation. For example, the 2001 Environment Act has not yet become enforceable so while some developers and line ministries comply with EIA requirements, the majority are not cooperative and resist compliance with the process. Other problems that affect the implementation of the EIA include a national shortage of relevant skills and a shortage of expertise to monitor EIA compliance. Despite these shortcomings the PRSP highlight the following key strategies and activities for implementation over the next few years:

- Strengthen the capacity of NES to enforce environmental standards through implementation of the Environmental Act, 2001.
- Develop and enforce pollution control and waste management regulations and guidelines.
- Raise public awareness and promote environmental education.
- Assess the safety of water systems to ensure high standards of hygiene practices.
- Develop proper waste management system to strengthen management of solid and water waste.
- Sensitise communities against over harvesting of natural resources such as trees, grass and water.

¹² The commitment is demonstrated through the formulation of the National Environmental Action Plan (NEAP) in 1989; the establishment of the National Environment Secretariat in 1994; Institutional restructuring in the Government was done to ensure the emphasis environmental issues was increased; and the establishment of environmental units in each line ministry to strengthen coordination on environmental issues.

- Establish and maintain systems of protected areas and nature reserves to reduce loss of bio-diversity.
 - Advocate the use of energy efficient technologies to reduce over reliance on bio-mass energy by rural communities.
 - Promote tree planting and vegetative cover activities.
- Incorporate agro- forestry practices into all scales of family farming systems.

The Way Forward

In the PRSP the government propose the following strategies

- a) Promote environmental conservation for improved productivity by targeting committed families to be taught to harness water resources, increase ground cover and incorporate conservation and agro-forestry techniques into production;
- b) Strengthen management of solid and water waste as well as air pollution;
- c) Strengthen curriculum and media programmes on environmental education;
- d) Reduce loss of bio-diversity by implementing the Maloti-Drakensberg Trans-Frontier Park, maintaining existing reserves and moving towards the establishment of nature reserves and protected areas;
- e) Address range management issues by establishing and/or revitalising grazing associations in collaboration with new local government authorities; and
- f) Improve the legal, policy and institutional framework, giving particular attention to the capacity of the National Environment Secretariat and implementation of the Environment Act 2001.

Cultural and historical heritage

Driving forces identified as currently shaping the current state of cultural and historical heritage are: development initiatives; education systems and the values they promote; the influence of globalisation; dominant colonial religions and their impact on the local cultural norms and values; international legal instruments of which Lesotho is a signatory, and special international events that Lesotho participates in. The interplay of these forces has given rise to conditions that create pressures on the environment and the heritage. These pressures include the burgeoning population, urbanisation, and activities that adversely impact on the heritage due to lack of awareness about its existence and value.

Palaentological work in Lesotho has drawn the world's attention and made a significant contribution to the understanding of the past forms of life. The earliest significant assets may be traced to 1880s and more recent work is associated with the LHWP operations to rescue valuable resources that would otherwise be affected adversely by the project. The absence of a National Museum, lack of a framework for training of palaeontologists, and the limited role of education are identified as drawbacks to locally driven development of palaeontological work.

Archaeology also has a great potential and there are many possible archaeological sites. Excavations have been initiated by foreign researchers and expeditions and may be traced to the 1960s under the British colonial rule. Recently LHDA rescue operations have made

possible some important finds. There is no framework for systematic archaeological explorations, training of archaeologists, and awareness about the heritage is limited

Rock paintings are widespread in Lesotho and it is estimated that there could be about 3000 sites. The paintings are the work of the San, the earliest inhabitants of Lesotho, and often reflect extinct animals and aspects of San's culture. Vandalism and natural processes are key threats to the heritage. The LHDA rescue operations have conserved a number of rock paintings that were to be affected by the project. The absence of a museum and functioning national archives to keep and display the findings are drawbacks in protecting the artwork. The Ministry of Tourism and Environment is currently compiling a list of rock painting sites and holding *Pitsos* to raise communities' awareness about the heritage.

Historic buildings constitute an important heritage and are found mainly in towns, villages of former principal chiefs and Christian missionary stations. Only three historic buildings are legally protected in the country. Many of these buildings are gradually lost, since there is no framework to protect them. The official listing of buildings was last done in 1969.

There are presently nine legally proclaimed monuments and they include rock painting sites, fossil sites, archaeological sites, a tower, and fortresses. The official listing of historic sites was last made in 1969.

There is one Christian mission-promoted Museum at Morija, and a temporary national 'museum' quarters in the Ministry of Tourism, Environment and Culture. A lot of valuable data from Lesotho is still found outside Lesotho due to lack of a developed National museum and archives. The Government is, however, in the process of soliciting funding for the development of these structures.

National parks and nature reserves are significant aspects of the cultural heritage, in terms of their rich biodiversity and the associated local knowledge; there are up to 9 such areas. Other than biodiversity related local knowledge, there is evidence of knowledge embodied in Sesotho on environmental management, medicinal plants and food plants. More research is required to establish the actual status of this knowledge.

The performing arts, visual arts, literary arts and ethnographic arts have developed over time with the support of the public and private sectors. In formal education art is part of the curricula at both primary and tertiary institutions. The non-formal is largely supported by the business sector foreign organisations/institutions. There are a number of community-based art associations, but due to the absence of an umbrella body the artwork in has remained uncoordinated at the national level. However, the government is in the process of developing a national policy on culture. The annual 'Morija Arts and Cultural Festival' has played a catalytic role in the promotion of Basotho culture for economic development nationally; the festival has received support from the government and wide ranging donors.

In order to promote the cultural and historical heritage, the government has established Lesotho Tourism and Development Corporation (LTDC). LTDC is semi-autonomous and its key functions are development of marketing and investment promotion.

The government of Lesotho has set up legal frameworks and policies as responses to the threat facing the heritage. This initiative may be traced to the 1960s with the enactment of the *Historic Monument relics, Flora and Fauna Act 41 of 1967*; and recent responses include *The Constitution of Lesotho, National Tourism Policy, National Culture Policy Framework*, and a *Bill on Traditional Medical Practice*.

MIGRATION PROFILE

COUNTRY MIGRATION PROFILE (LESOTHO)

Total Number of Residents

Of which: Own nationals: **circa 2.2 million**
Immigrants: **6,900**

Immigrants

Status of immigrants

Refugees: **55**
Labour migrants/permanent: **N/a**
Labour migrants/seasonal: **N/a**
Internally displaced persons: **N/a**

Immigration trend

Number of arriving immigrants in 1995/2000: **N/a**
Number of arriving immigrants 2000/2004: **4 to 5 per year**

Education

Skilled labour: teachers and medical doctors

Main country of origin

Democratic Republic of Congo

Rate of return/Number of immigrants leaving Lesotho:

Normally they do not report.

Finance

Amount of outgoing migrant remittances: **N/a**
Remittances as % of GDP: **N/a**

Emigrants

Total number of emigrants in 2004: **N/a**

Status émigrants

Refugees: **None left Lesotho in 2004**
Labour migrants/permanent: **26% of family members stay in RSA**
Labour migrants/seasonal: **37% family members work in RSA**
50 000 to 60 000 mine workers in 2004
Net migration rate is -0.74

Légal situation émigrants

Documented:
Undocumented:

- While there are a high number of recorded border crossings, unauthorised crossings are not uncommon, either;
- Moreover, a relatively small number of Basotho does overstay their permits and only a few are repatriated to Lesotho.

Trend

Border crossings into RSA in 2004:
Record of returns from RSA in 2004:

There are no data available for reasons such as the fact that many people are given renewable 6 months exemption from the requirement to report to an immigration officer at the port of entry basically because of frequent crossings per person.

Educational level of emigrants

Skilled labour: Miners (predominantly), engineers, doctors, nurses, etc

Main country of destination: RSA

Rate of return:

No records, often they do not report when they no longer work outside borders.

Finance

Amount of incoming migrant remittances (2004): **128 M LSL**
Remittances as % of GDP: **10.4 b**

Any other comments

Emigrant labour remittances, especially from miners employed in RSA, has been a traditional source of income for Lesotho families for decades. From a peak of circa 120,000 miners some years ago, the current figure is somewhere between 50,000 and 60,000 individuals, although the total amount of remittances has increased during the past years: 112 M LSL (2002); 119 M LSL (2003); 128 M LSL (2004). That is due to a general increase in the wage level and the fact that the miners retrenched are those with the lowest qualification levels hence the lowest salaries.

The impact on the Lesotho economy of this state of affairs is mixed. While at the macro level Lesotho has not suffered, at the household level the change in distribution of remittances is considered to have a negative impact on food security and poverty.

Immigrant workers, on the other hand, provide a very important percentage of the workforce in such sensitive public services as health and education (i.e. as high as 80% of the total number of medical doctors in the country according to certain sources). Basotho medical doctors and especially nurses migrate to RSA looking for greener pastures (salaries in South Africa can be up to 400% higher than the ones in Lesotho for certain categories). That creates a void that is filled in mainly with African professionals (especially from RDC) and such reinforcements as Cuban health professionals “donated” for a two-year period by the Cuban government as development cooperation.

Turnover of foreign health professionals in the country is seemingly high, Lesotho eventually facilitating entrance to the more lucrative South African labour market.