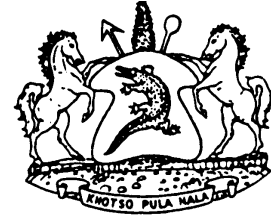




European Union



Kingdom of Lesotho

**JOINT ANNUAL REPORT ON
CO-OPERATION BETWEEN THE
EUROPEAN UNION
AND THE
KINGDOM OF LESOTHO**

2003

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in the Kingdom of Lesotho

National Authorising Officer
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1. Executive Summary

Throughout 2003 the Government of Lesotho has continued to pursue its policies for economic growth and poverty reduction with varying degrees of success. The expansion of the textile and garments industry remains the main driver of economic growth though there are growing concerns over the sustainable availability of water for “wet” industries and the narrowness of this productive base. Similarly, the low levels of public sector performance are a constraint on more effective service delivery in all sectors, with the area of public expenditure management acknowledged as being particularly problematic. Illustrative of the problem, which is founded on systemic weaknesses within the public service, are: poor fiscal discipline; delays in the production of the Poverty Reduction Strategy Paper and the National Vision 20/20 documents; the continuing failure to prepare annual iterations of a three-year rolling National Development Plan; and the Auditor General’s failure to verify the accuracy of the 2001/02 accounts due to generally inadequate public financial management. Effective public service delivery and sound public expenditure management are critical to economic growth and poverty reduction and it is likely that a greater priority will need to be given to public sector improvement both in Government’s own priorities and in donor-supported activities. On the positive side, Government successfully introduced Value Added Tax (VAT) during the year, Phases 1A and 1B of the Lesotho Highlands Water Project (LHWP) were officially completed and charges have been laid against a further number of international companies associated with corruption in the LHWP.

The exceptionally dry winter and the very late onset of the summer rains highlighted Lesotho’s growing vulnerability to water shortages. As drought conditions continued to prevail at year’s end Government negotiated a release from the LHWP to alleviate water shortages in a number of towns and villages in the western Lowlands, including Maseru. This problem has emphasised the need for the development of a longer-term secure water supply and has given urgency to the ongoing Lesotho Lowlands Water Supply Feasibility Study.

Faced with the growing spectre of an HIV/AIDS disaster and frustration at a lack of measures to mitigate and control the disease the Cabinet agreed to establish an autonomous National AIDS Commission. A first priority for the Commission, once operational in early 2004, will be to work with senior national leaders to counter the stigma attached to contracting the disease and encourage voluntary counselling and testing.

Lesotho’s performance under its cooperation programme with the European Union has continued satisfactorily. Primary commitments approved during the year totalled €19.00

million whilst disbursement over 2003 (for all EDF) amounted to €17.62 million or LSL 140.55 million¹ (inclusive of budgetary support payments).

2. The Policy Agenda of Lesotho

Government's commitments to poverty reduction and improved governance are contained in the draft Vision 20/20 document, which articulates long-term national aspirations, and the draft Poverty Reduction Strategy Paper, which should provide a medium-term framework for Government policies and interventions. The priorities for both initiatives are employment creation, a well-developed human resource base, sustainable economic growth, public sector reform and decentralisation. Both the Vision 20/20 and PRSP documents are to be submitted for approval during the first half of 2004 and should provide a platform for coherent national development planning. This has been lacking for the past decade, as evidenced by the lack of annual plans and ad hoc sector development. The remedy is to be the introduction of a medium-term expenditure framework approach to public expenditure management linked to sector-wide strategies.

The *water supply and sanitation sector* in Lesotho is undergoing considerable reform. Driving the reforms are: the completion of the first phase of LHWP, without the immediate prospect of further phases; national policies for economic growth, which include a focus on attracting wet industries to drive the industrialisation programme; and a dramatic increase in urbanisation, with the consequent increase in the demand for water supply and sewerage collection. The policy framework for water supply is the Water Resources Management Policy (WRMP) of 1999, which emphasises: the development of secure long-term sources of supply; institutional reform; cost recovery; involvement of the private sector; regional cooperation; and the treatment of wastewater. To consolidate the water sector organisations and provide a focus for 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 sector-wide strategic plan for the sector.

In December 2002, the Ministry of Public Works and Transport (MoPWT) released the first draft of a *transport sector* policy 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 objectives are to: facilitate and optimise traffic circulation; lower vehicle running costs; reduce 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. After discussion with stakeholders during 2003 it was thought that the Ministry's institutional reform proposals should be included. The institutional reform paper has been presented to Cabinet, however, there has been no

¹ The comparable figures for 2002 are €13.8 million and LSL 137.7 million

feedback and the policy document has been held in abeyance. The sector-wide strategic plan will only be finalised once the document has received approval.

As regards the *government sector*, the Lesotho Government has continued to carry out a Poverty Reduction and Growth Facility (PRGF) under agreement with the IMF. The PRGF is based on the need for structural reforms and the attainment of macro-economic, fiscal and monetary policy objectives. These latter are to strengthen fiscal management, accelerate economic growth, improve social services and reduce poverty. The structural reforms focus on tax administration, tax policy, public expenditure management, civil service reform and privatisation. The macro-economic policy objectives are to: reach and maintain economic growth of at least 3.9% a year in the medium-term; keep gross international reserves at the equivalent of at least six months imports of goods and services; and maintain the external current account deficit at a sustainable level. In terms of fiscal policy the objective is to strike a balance between medium-term growth, poverty reduction targets and short-term balance of payments constraints. GoL expenditure control focuses on recurrent expenditures, with the target of rationalising and lowering the government wage bill and gradually reducing the budget deficit to less than 1% of GNI.

In recognition of Lesotho's limited natural resource base, retrenchment of migrant mine labour and agriculture's inability to provide a significant living to more than a few commercially oriented families, GoL has given priority to economic policies aimed at creating job-opportunities. The strategy is divided into two approaches: the first being labour-intensive public works programmes as a short-term measure and the second being the trade opportunities offered by the USA under the African Growth and Opportunity Act (AGOA) and by the EU under the Cotonou Agreement.

To counter falling SACU revenues GoL has strengthened tax administration through the establishment of an independent Lesotho Revenue Authority (LRA) and introduced value-added tax (VAT) in July 2003.

In 1979 the Government adopted primary health care as the focal strategy for the *health sector* and good progress was achieved throughout the 1980's in strengthening the health services. However, a lack of clear policies, a changing health environment brought on by the AIDS pandemic, the loss of medical staff to South Africa and a lack of co-ordination between GoL and its non-state partner (CHAL) undermined previous accomplishments. For the past six years GoL has attempted to reform the health sector, with the aim of attaining affordable, universal coverage and equity in services delivery. However due to the low levels of institutional capacity the first phase of the reform programme has focussed on capacity building. Progress continues to be modest and the seriousness of the underlying problems may have been underestimated.

Since the mid-1970s the policies for the *education sector* have been to provide every Mosotho with access to primary education; to facilitate the acquisition of occupational, technical and managerial skills and to ensure the quality, efficiency and relevance of the education system. Interventions include the introduction of free primary education, the expansion and improvement of vocational and technical training and greater use of opportunities for cooperation with South Africa. Of these i, the most significant has been the introduction of free primary education, which is to be extended to include the fifth year commencing January 2004.

Government's involvement in the *agriculture sector* is focussed on rationalising the roles of government, farmers and commercial operators and creating a market driven, sustainable and dynamic agri-products sector. Measures being implemented to attain these objectives include the restructuring of public sector institutions; the privatisation of agricultural parastatals; land tenure reform; and soil and water conservation. Progress in the reform of the ministry has been slow, particularly as a major part of the ministry's time in recent years has been diverted towards ambitious programmes for food production and livestock registration and marking, which have had only minimal success.

2.1. Update on the Poverty Reduction Strategy Paper (PRSP) process

The final drafts of Vision 20/20 and the PRSP will be submitted to Cabinet in the first quarter of 2004 and distributed to development partners shortly thereafter. It is expected that the Government will organise a donor conference once the documents have been formally approved.

Work on the PRSP in 2003 has included the several drafts of the operational version and an indicative costing exercise to assess the resource implications of the activities proposed for inclusion. The Implementation Matrix was prepared by prioritising sectoral plans based on national consultations. Outstanding tasks include the identification of indicators that have acceptable baseline data, and projected outcomes over the PRSP period.

3. Update on the Political, Economic and Social Situation

The Government of Lesotho has incorporated the principle of the Millennium Development Goals (MDG) within the framework of Vision 20/20 and the PRSP, where the targets and indicators are to provide a focus for policies that can lead to real poverty reduction.

In determining MDG targets the Government of Lesotho has been constrained by two factors. First, the availability and accuracy of statistical data, particularly for social indicators, is of a low level. In some instances data has not been collected and analysed for years, there is no consistency in the sampling framework and definitions vary from year to year and across institutions. Unfortunately some international agencies frequently

derive data from ad hoc studies of uncertain statistical value or from their own extrapolations based on data produced in the eighties. This data then enters the national system and engenders further inaccuracies and uncertainty. This weakness is symptomatic of the lack of appreciation of the role of data in effective governance ² and the absence of evidence-based planning. The uncertain statistical information and the lack of accurate baseline measurements have led to delays in the adoption of the MDG targets in Lesotho. The MDG Report for Lesotho should nevertheless be adopted during 2004.

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%	85%	
	v) Primary education completion rate	85.6%	86.3%	75.5%	85%	90%	
	vi) Ratio of girls to boys in: <ul style="list-style-type: none"> • 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%	
	Macroeconomic	Government wage bill < 12.6% GDP				13.1%	<12.6%
		Fiscal balance as % of GDP (Target 2005/06)			- 4.2		2%
GDP growth rate (Base 2002 3.8% - target 2006)					3.8%	4%	
Per capita GNI (LSL) (Target 2006)				4,196		5,843	

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

* Includes trained traditional birthing attendants

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

With approximately 31% of the population between 15 and 49 years believed to be HIV+ve it can be expected that the impact of AIDS on all levels of society will be

² An example of the problem with data collection, analysis and the monitoring of indicators is the health sector where there has been no collection, entry, validation and analysis of basic data from the health service areas between 1998 and 2002. Hence, no epidemiological profiles have been produced for this period and no figures on health service delivery. If measures targeted at poverty reduction and public expenditure management are to be effective greater attention will need to be applied to the collection, analysis and use of data and information

significant. The impact is apparent already in the Human Development Index, where Lesotho's overall ranking dropped from 127 in 2000 to 134 in 2002 and 137 in 2003³. Whilst the 8 key MDG's⁴ are strongly interrelated, the most critical in Lesotho is the goal of reversing the incidence of HIV/AIDS. Effectively combating HIV/AIDS will yield significant benefits in child and maternal welfare, in human resource development, and will be critical for eradicating poverty. Because of the significance of HIV/AIDS the global targets set by the Millennium Declaration are being shaped to fully reflect the national context.

The Government of Lesotho does not have long-term macroeconomic targets but pursues an 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 cushion fluctuations in the trade balance. For at least two decades macroeconomic performance has broadly been in line with these aims.

It is not possible to set long-term targets for most macroeconomic indicators, since the sustainability of individual indicators depends on the evolution of the others; for example the maximum sustainable public deficit depends on both the rate of inflation and economic growth. In the medium term (2 - 4 years), quantitative targets to ensure long-term macroeconomic stability are agreed with the IMF on an ad-hoc basis. The indicators used include revenue and expenditure, money supply and foreign currency reserves.

3.1. Overall update on the political situation

2003 was a year of political stability in Lesotho, following the successful May 2002 elections, which marked a significant break in a long history of civil unrest and dissent. The contestation of the electoral results by one party was finally rejected by the court. The new and enlarged parliament met periodically but no major legislation was passed during the year. Elections for local government were to have been held in 2003 but were in the event postponed as a result of the large amount of preparatory work required. There was no civil unrest during 2003 apart from brief but demonstrations by university students in August and by garment factory workers in November.

Lesotho's most significant external relations are with the Republic of South Africa (RSA). Cooperation with RSA continued in a number of fields, notably in cross-border and security issues, in water affairs and in the monetary and financial sectors. The Joint

³ Out of 175 countries

⁴ Combat HIV/AIDS; Eradicate extreme poverty and hunger; achieve universal primary education; promote gender equality and empower women; reduce child mortality; improve maternal health; ensure environmental sustainability; develop a global partnership for development.

Bilateral Commission on Cooperation, set up in April 2001, continues to meet but has not yet resulted in intensified cooperation or in concrete development projects. Relations with the European Union (EU) countries are essentially limited to those with Britain, Ireland, Germany, France and Denmark. Ireland and Germany renewed their cooperation agreements with Lesotho during the year. The EU and its member states provide the majority (> 90%) of donor grant funding to Lesotho. Among other countries, the USA, China and Libya maintain diplomatic missions in Maseru, and provide some development or other assistance, as do Canada, India and Japan.

On the multilateral level, Lesotho continues to be an active member of the Southern African Customs Union (SACU), the Southern African Development Community (SADC) and the African Union (AU), as well as the Commonwealth and the UN with its agencies. At present SADC affairs are predominant, with Lesotho having assumed in August 2003 the rotating presidency of the Organ on Politics, Defence and Security Cooperation. Lesotho also hosted the SADC Summit on HIV/AIDS in July and the SADC Parliamentary Forum in December.

3.2. Human rights, rule of law, good governance and the fight against corruption

No particular human rights issues are presently of concern in Lesotho. The country has ratified all the major international and regional conventions. EU HoMs visited Maseru prisons on March 2003 and submitted a generally favourable report on conditions while recognising some overcrowding. The death penalty remains on the statute book although there has been a de facto moratorium for a number of years. The status of women has steadily advanced in Lesotho but a number of legal restrictions remain.

In 2003 an initiative to strengthen the administration of justice was launched with British support. 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. A Labour Appeal Court and an Directorate of Dispute Prevention and Resolution were set up during the year.

Although good governance is at the centre of Lesotho's strategy for poverty reduction, it does not at present receive great attention. In particular, the long-acknowledged shortcomings in public financial management continue to compromise effective government as well as to discourage foreign investment and donor support. The Public Sector Improvement and Reform Programme (PSIRP) has been under discussion for several years with encouragement from World Bank and several aid donors but has not yet materialised as an operational project. As a preliminary contribution, the European

Commission has given its approval to a capacity-building project for improving macroeconomic management, planning and budgeting⁵.

In the fight against corruption Lesotho has received prominence in recent years with the conviction of the former Chief Executive of the Lesotho Highlands Development Authority (LHDA) for bribery and the conviction or pending prosecution of a number of European, North American and South African consultancy firms and construction companies. The Government has also established a Directorate against Corruption and Economic Offences and a Police Complaints Commission.

3.3. Macroeconomic and structural reform performance, including external debt burden

The economy has experienced robust levels of growth since the civil disturbances in 1998. Indicative figures show GDP to have grown by 3.9% in 2003, though GNI, which is a better indicator of disposable income in Lesotho due to the large transfers from abroad, grew by 3.4%. GNI per capita in 2003 grew by approximately 1.4%, following the negative growth in the past decade. Per capita GNI growth is expected to stabilise in the medium term, which may result in a moderate decline in the poverty rate. However, the impact on poverty is difficult to ascertain since changes in the income distribution are only recorded at intervals of several years.

The overall fiscal deficit is expected to have declined from 4.2% of GDP in 2002/03 to 3.1% in 2003/04. In future years, public accounts should exhibit moderate surpluses, but fiscal projections are highly uncertain due to poor information about the effect of the new SACU revenue sharing formula, expected to come into effect with the 2005/06 fiscal year. Transfers from SACU account for approximately 50% of GoL's total revenue.

Public expenditure as a share in GDP is expected to have declined slightly to 45.6% in 2003/04⁶, and a further reduction is expected in future years in line with GoL's objective of reducing GoL's share in the economy.

The value of foreign debt is currently LSL 5.7 billion. The value outstanding reduced considerably in 2003, principally due to a sharp appreciation of the Loti against the US Dollar. Expressed as a share of GDP, foreign debt thus fell from 73% in March 2003 to approximately 50% in January 2004. The burden should decline to approximately 42% of

⁵ Capacity Building in Economic Planning (9 ACP LSO 001) - €17.5 million for technical assistance, training and the development of systems suited to the Medium Term Expenditure Framework (MTEF) approach to planning and budgeting.

⁶ The public sector is exceptionally large in Lesotho. The average ratio of public expenditure to GDP amongst LDC's is 18%. However Lesotho has been able to afford this on account of exceptionally high revenues from the Southern African Customs Union.

GDP by 2006/07. All foreign debt reflects concessionary lending and debt service does not represent a significant share of public expenditure.

3.4. Integration into the world economy and trade arrangements

Three key features that impact upon Lesotho's economy are:

1. The fact that it is surrounded entirely by South Africa which, should Lesotho embrace greater economic integration with its neighbour, opens opportunities for Lesotho to link into wider global markets via South African supply chains and the better developed infrastructure in South Africa;
2. After years of negotiation, a new Southern Africa Customs Union (SACU)⁷ Treaty was signed in August 2002. Although the revised formula for sharing out pool revenues contains a "development" factor and although Lesotho is the least developed member of SACU, it is likely that revenues received by Lesotho will decline. This decline would result from a reduction in the overall size of the pool following the lowering in common external tariffs and the conclusion of further free trade agreements. This is significant as a large portion (approximately 50%) of Government's revenues derives from SACU receipts.
3. As an LDC Lesotho should be able to take advantage of the trading preferences associated with such status and should be able to position itself to be more competitive than its SACU partners in attracting FDI. One negative aspect of Lesotho's business environment, compared to other countries in the region, is a lower quality of infrastructure, as reflected in the poor condition of the Maseru railhead; growing water supply constraints, power interruptions; poor voice and data communications; bottlenecks in the cross-border movement of goods and people.

Given the openness of its economy and its limited natural resource base, Lesotho is vulnerable to exogenous events. The changing international and regional trade environment could have a profound impact on future macroeconomic stability and growth. It is thus essential that Lesotho is able to participate effectively in, *inter alia*, the SADC Free Trade Area, the EU-South Africa Trade, Development and Cooperation Agreement, and further rounds of trade liberalisation. Similarly, despite the poor quality of its infrastructure, Lesotho as a member of SACU is in a position to benefit from its unique association with Africa's largest economy and from the proposed SACU trade negotiations with EFTA, USA, MERCOSUR and others. The major uncertainties are the implications of the ending of the Multi-fibre Agreement in 2005 and the EPA negotiations with the EU, where Lesotho will participate under the SADC umbrella.

Lesotho has requested to be a part of the Integrated Framework (IF), whose purpose it is to facilitate coordination of trade-related technical assistance and promote an integrated

⁷ SACU consists of South Africa and the BLNS States of Botswana, Lesotho, Namibia and Swaziland

approach to enhance the trading opportunities of LDCs. The initial component of the IF has been the preparation of a Diagnostic Trade Integration Study (DTIS). Work on this began in November 2001 with consultations with participating agencies in Geneva (ITC, UNDP, UNCTAD) and with government and non-government organizations in Maseru. The study was launched in March 2002 at a national conference. The study was completed in mid-2003 and Government is expected to approve it shortly.

3.5. Quality of management of public finances and budgetary expenses

After several years without the Government preparing accounts for audit, a firm of accountants was commissioned to prepare the 2001/1002 accounts during the latter half of 2002. These were submitted to the Auditor General during 2003. The audited accounts marked a significant period of returning to accountability that had been interrupted during the 1990s. Although the audit reflected significant lapses in accounting, several reforms in accounting were already underway during 2002 and are continuing steadily. The effect of these will be reflected in the audited accounts for later years, however qualified audit opinions are expected to continue until the 1995/1996-2000/2001 accounts have been prepared and audited.

GoL is soliciting donor support to strengthen Public Finance Management under the Public Sector Improvement and Reform Programme. Ireland Aid has extended limited support to the Office of the Auditor General. GoL and DfID are negotiating about a more comprehensive capacity building project to cover the treasury functions in MoFDP. However, it is especially important for the success of capacity building efforts in MoFDP that GoL embark on a wider programme of civil service reform.

3.6. Interventions in the social sectors that impact on poverty reduction

The Government of Lesotho has recognised that HIV/AIDS is a serious threat to its interventions in the social sectors, particularly health and education. Recent estimates suggest that the incidence of sero-positivity is in excess of 30% of the population 15 to 49 years, which places Lesotho amongst the countries with the highest HIV prevalence in the world. In particular the trend of marked gender differences in HIV/AIDS prevalence is alarmingly high, with a significantly worsening trend for women. There is an ever-growing need for government to give greater attention to the wider and more insidious implications of the disease. Particular concerns are the impact such as: decreased productivity; increased expenditure on health care, funerals, etc.; accelerated loss of skilled workers; the care of large numbers of orphans; and the disruption to household resource security. To-date these considerations have not been accorded sufficient attention and they will have to be included in poverty reduction and development policies in all sectors. In 2003 Government decided to establish an autonomous National AIDS Commission (NAC) to replace LAPCA in due course.

Given that the people of Lesotho represent the country's most significant resource, the Government in 2000 introduced a policy of free primary education, which was extended to Standard 4 students in 2003. The policy has led to a significant increase in the number of children attending primary school, which should produce in time a more educated and competent labour-force. However, there are concerns as to how to meet the post-primary demand for education. The future employment prospects for this "improved labour force" will be dependent on Lesotho's ability to generate domestic and foreign investment, which in turn will be partly dependent on improving its infrastructure.

3.7. Regional politics and progress in regional integration

In terms of regional integration the significant issue is 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), and the Southern Africa Development Community (SADC) 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.

Following an EDF-financed study into the impact and sustainability of an Economic Partnership Agreement with the EU, which was discussed by a wide spectrum of interested parties at two workshops, Lesotho has elected to negotiate an EPA with the EU under the umbrella of SADC.

3.8. Food security

The limited area of arable soils (approximately 9% of total) and low levels of fertility, plus the often unfavourable climatic conditions, mean that Lesotho relies on imports to meet its food requirements. In the 2001/02 and 2002/03 crop seasons, Lesotho experienced difficulties that worsened the vulnerability of those already suffering from poverty. To counter the problem Government, with assistance from donors and the private sector, undertook a number of activities aimed at relieving immediate problems (schools feeding programmes, subsidizing unsifted maize flour, food distribution, etc) and at assisting in the rehabilitation of crop production (subsidised ploughing, crop inputs, etc). Although the former has some limited success in relieving what was essentially a long-term problem of endemic poverty, the "agricultural solution" was less successful, and planting was considerably lower than expected due to the late distribution of GoL-subsidised agricultural inputs. The situation was saved in part by a successful crop in South Africa and in part by a stronger Rand, which led to a lowering of basic food prices and lower inflation. However, the failure of the "winter rains" in 2003 has led to virtually no planting of the traditional winter crops (wheat and peas) and the poor early "summer rains" suggest that the 2003/04 crop season will be one of the poorest on record. With the same problem being experienced in South Africa it is certain that basic food prices will increase, leading to further hardship for vulnerable groups. External assistance may well

be required, including income support and targeted feeding programmes for children and the elderly.

3.9. Critical environmental trends

The central environmental issues for Lesotho are: unplanned urbanisation; rural settlement in marginal areas, leading to overgrazing, soil erosion and desertification; the Lesotho Highlands Water Project and its effects; pollution and wastewater problems associated with the growing textile industry in the lowlands.

The highlands region of Lesotho is a centre of endemism of continental and global significance and the high quality water flowing from the region is its most valuable natural resource. Very little of the area is protected and there is the concern that unregulated infrastructure development in the area may have negative effects on biodiversity (species and habitat destruction). Indirectly, it is likely that improved access into previously isolated areas will allow for further exploitation leading to a cycle of biodiversity loss, erosion, land degradation and a decline in the volume and quality of water flows.

Since 1989 Lesotho has a National Environmental Action Programme, providing for: the rights of all citizens to a healthy environment; use and conservation for present and future generations; preservation of biodiversity and cultural heritage; land reclamation; environmental standards and monitoring; environmental impact assessments for all development activities.

The Lesotho Environmental Act of 2001, which provides a legislative framework for environmental control and protection, however, has still to be properly enabled by the promulgation of detailed regulations. This creates uncertainty in the planning and implementation of infrastructure and commercial development and lessens the effectiveness of environmental impact assessments (EIA). The Act provides for the establishment of an independent Lesotho Environmental Authority, to replace the National Environment Secretariat which is presently responsible for dealing with environmental issues. Although the existing Secretariat is supposed to have coordinating, advisory, regulatory and enforcement duties, it is weak institutionally.

Lesotho is a signatory to the major multilateral environmental agreements, such as the Convention on Biological Diversity, the UN Framework Convention on Climate Change (UNFCCC), the Kyoto Protocol, the Convention to Combat Desertification, the Convention on the Control of Trans-boundary Movements of Hazardous Wastes and the Convention for the Protection of the Ozone Layer. The Conventions on Trade in Endangered Species (CITES), Law of the Sea and Marine Dumping have been signed but not ratified.

In 2000 Lesotho prepared a National Report on Climate Change to the UNFCCC, which underscored the vulnerability of Lesotho to climate changes. The modelling associated with this report suggests that Lesotho in the future will experience a warmer climate with lower rainfall in the spring/summer months and increased rain during autumn/winter. The effects could be quite marked, as higher temperatures and lower rainfall in the main crop season would make production more difficult whilst increased winter/autumn rainfall would mean more severe snowfalls and hailstorms.

Although there are a number of environmental NGO's active in Lesotho, environmental issues do not have a high public profile. Lesotho has not prepared a national strategy for sustainable development although the draft PRSP is expected to contain a section on the environment.

3.10. Migration

Given its small size and the fact that Lesotho is surrounded by South Africa, accurate data and information on in- and out-migration and its social and economic impact is scarce, incomplete and not necessarily reliable. Labour migration into South Africa is widespread, so that remittances contribute significantly to the balance of payments and make up a high proportion of the country's GDP (20%). The two governments (South Africa and Lesotho) are presently holding discussions on opening up the borders to the free movement of people in both directions.

3.11. Gender issues

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 nevertheless been progress in that the Sexual Offences Act 2002 has been enacted, which radically alters the conception and treatment of sexual offences inside and outside the home. This will assist in the prosecution of hitherto intractable cases such as marital rape and other forms of sexual violence. Moreover, the Government has adopted a comprehensive National Gender Policy, which will be the basis for mainstreaming gender concerns into the design, implementation and monitoring of Government policies.

3.12. Cross-cutting issues and the adequacy of public policy responses

The major crosscutting issues are those of HIV/AIDS and governance, both of which are of the highest significance in addressing poverty reduction. As mentioned above, GoL has policies for tackling these issues but is constrained by low levels of institutional capacity in the public sector and in civil society.

4. Overview of past and ongoing cooperation

For the purpose of this Annual Report and the subsequent Mid-Term Review, the framework of interventions agreed for EU/Lesotho development cooperation are those of the 9th EDF/NIP with the addition of those interventions from the 8th EDF/NIP where activities are ongoing.

The CSP/NIP for the 9th EDF identified the priority areas for EC assistance as:

- *Provision and access to water and sanitation*
- *Up-grading institutional capacity and accessibility in the Road Transport sector.*

Concurrent assistance is to be provided for *macro-economic support and capacity building*. Within these focal areas of support, HIV/AIDS, gender, decentralisation and environmental management will form important cross-cutting thematic issues. Across all areas of EC support, it is expected that NSAs will be able to contribute to the design, implementation and monitoring of the interventions through the instruments of decentralised cooperation.

For both past and ongoing programmes the primary objective of EDF/NIP support has been the alleviation of poverty through measures that will place the economy on a more sustainable footing. Hence the focal sectors for co-operation are water supply and road transport, with supplementary assistance to capacity building in economic management, decentralised cooperation (microprojects), health sector reform and the administration of the EDF programme. The levels of primary and secondary commitment and disbursement for the 6th, 7th, 8th and 9th EDF as at 31st December 2003 are:

EDF		Amount allocated to NIP*	Primary commitment	Secondary commitments	Disbursements at 31.12.03
6 th EDF	€mio	41.5	40.3	40.3	40.3
	%	100%	97%	97%	97%
7 th EDF	€mio	50.0	47.8	47.4	46.9
	%	100%	96%	95	94
8 th EDF	€mio	61.5	54.4	45.7	37.2
	%	100%	88%	74%	60%
9 th EDF	€mio	86.0	19.0	0.5	0
	%	100%	22%	<1%	0%

* Programmable resources only, incorporating initial allocation plus additional resources provided after mid-term review

4.1. Focal sectors and macroeconomic support

4.1.1. Water Sector

The water sector has an important role in Lesotho's economy, with the Lesotho Highlands Water Project (LHWP) having dominated Lesotho's capital investment programme in recent years and with the sale of water to South Africa contributing some LSL 200 million per year to GoL revenues. However, the emphasis given to the LHWP and water for export from the highlands is in contrast to the lack of development of water resources and supplies for Lesotho as a whole and the populous western lowlands in particular. The lowlands region covers a little less than half of the country's total area but 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, are apparent in increasingly unreliable supplies to existing consumers and an inability to meet the increasing demand of new consumers, especially in Maseru. Other factors contributing to the already fragile situation include:

- *Movement of population from the highlands to the more water-scarce lowlands;*
- *Demand for higher levels of service, with an increasing expectation of reticulated water systems in both urban and rural areas;*
- *A rapidly increasing demand for industrial water;*
- *Increased environmental problems, including declining winter flows in the Mohokare/Caledon river, high sediment loads and inadequate wastewater treatment;*
- *The inability of the formal institutions to supply sufficient water to the whole population, leading to a disproportionate impact on the poor.*

Since improved access to water and sanitation is considered by GoL as having one of the strongest impacts on poverty reduction it has been chosen as a focus for EC-Lesotho cooperation. This choice is reinforced by the premise that within ten years the whole of the lowlands will be in critical water shortage. The main elements of the EC response strategy will, on one hand, consolidate current EC assistance for improving water supply in six urban centres in the Lesotho lowlands and on the other hand, the identification, design and development of 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 is under implementation 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 cooperating partners, under which the lessons learned from past involvement will be addressed and included in the interventions and measures proposed. Because of the international dimension of a shared watercourse, cooperation with South Africa will be important.

a) Results

The primary objective for the 8th EDF-NIP in the water sector was to give adequate access to safe water supply and sanitation facilities for the majority of Lesotho's people. However, it has since been recognised that to attain this objective will require a major re-organisation of the sector's institutional structures, followed by considerable investment, particularly in the supply of bulk water, water storage and delivery. It was for this reason that a broader sector approach is given prominence 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. Consequently, during the 2002 Joint Annual Review, in recognition of the importance of the institutional constraints, it was agreed that as a first step indicator that a Water Commissioner be appointed and that both a Water Directorate and a Policy Planning and Strategy Unit be in place by March 2003.

Subsequently, in the context of the current rapid urbanisation and industrial development, the concern over the inadequacy of wastewater treatment and disposal assumed a high priority. As a result 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 (November 2002).

b) Progress in activities

In compliance with the commitment to address institutional constraints the Office of the Commissioner for Water has been established and fully staffed with the Commissioner for Water; the Director of the Lowlands Water Supply Project Unit; the Policy Planning and Strategy Unit; the Technical Adviser to the Commissioner and all necessary ancillary staff.

In terms of specific activities financed from the NIP substantial progress has been made during 2003 with the commencement of three major studies which are to lead to the submission of financing proposals in late 2004 to early 2005. After a three year delay, as a result of the European Commission's rejection of GoL's proposals for implementing what are relatively simple and unsophisticated schemes, the contract for the **Six Towns Water Supply Study & Supervision of Phase II (8 ACP LSO 017)** was finally awarded in September 2003. The Consultant submitted the Inception Report in November 2003 and following approval of the Report by GoL in early 2004 it is expected that the Feasibility Study will be submitted and approved by GoL by the end of 2004 with presentation of a Financing Proposal soon thereafter.

During 2002 GoL launched the tender for a medium/long-term study (**Lesotho Lowlands Water Supply Feasibility Study – 8 ACP LSO 011**), which is to address the problem of lowland Lesotho becoming "water critical" by 2015. The implications of this are severe,

which has led to Government placing the highest priority on developing an investment programme for securing affordable water supplies for domestic and commercial use. A contract for the study was awarded in December 2002 and work on this most significant activity commenced in early 2003. The first presentation of possible options for developing the necessary sources of supply were given in late 2003 and the draft final report is scheduled for submission in March 2004. Subject to GoL approval of the accepted options being given a financing proposal for the next step is expected in late 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 inception report was submitted in mid – December 2003 and GoL acceptance should be given in mid- February 2004. It has been agreed between the EIB and EU that the terms of reference for the consultancy contract can be expanded to allow for a more in-depth study of industrial wastewater, specifically the recycling thereof. Subject to the EIB being satisfied that the consultant and WASA have fulfilled the requirements of the contract, the funding for this additional work should be available.

Whilst the water sector content of the multi-annual **Micro Project Programmerr (8 ACP LSO 003)** is small (some €250,000 for 2003), it does fill an important gap that is not presently addressed by the DRWS. During the course of 2003 potable water supplies were constructed in some 13 villages all over Lesotho, bringing water to some 25,000 people. A further 8 village water schemes have already been identified for the year 2004.

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

A fundamental premise underlying EU/Lesotho cooperation is that water is a key contributor to economic development, is central to improved public health and is critical factor in poverty reduction. EU/Lesotho cooperation in the water sector is being undertaken in the context of a sector wide approach in coordination with other donors (Ireland Aid, World Bank/IDA, ADB).

4.1.2. Road Transport Sector

a) Results

To respond to both the population movement to the lowlands and the need to provide basic services to communities in the highlands, the strategy for the transport sector is to continue the multi-donor, sector-wide approach adopted under EDF8. 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;*

- *To secure adequate funding for sustainable sector wide road maintenance and road safety; and*
- *To address the institutional weaknesses.*

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;*
- *Providing highland communities with year-round access to the road network.*

In the area of institutional reform a Road Board for planning and monitoring has not yet been established, but is being considered in the context of the wider institutional reform process currently underway in the Ministry. 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. It is debatable whether a road fund is the correct financial instrument for financing the transport sector in Lesotho and much work remains to be done. The audit report of the Fund for 2000/2001 was only submitted in December 2003 and that for 2002/2003 is still outstanding.

b) Progress in activities

In recent years 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 million was signed in August 1999. By the end of 2003 approximately 92% (€34.5 million) of the resources approved for the programme had been committed and 83% (€ 31.2 million) had been disbursed. The balance of the uncommitted funds has been allocated to road safety works, additional rural roads and technical assistance projects.

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

- i) To upgrade 114 km of roads to bitumen status;*
- ii) To upgrade 61.5 km of un-engineered earth tracks;*
- iii) To support the training of local contractors;*
- iv) To strengthen the institutional capacity of the ministry (MoPWT); and*
- v) To introduce a Road Safety Improvement Programme.*

The contract for the construction of the main bitumen roads was signed for an amount of LSL 105M (€20.8M) in July 2000 and work commenced in September 2000. Provisional Acceptance of took place in July-August 2003, some 33 months after commencement with a final value assessed at LSL 182M (€23.7M). Progress of the works was affected by design discrepancies, delays in land acquisition and periods of heavy rainfall. Partly as a result of these delays the contractor has lodged a claim for an additional LSL 181 million (€22million). This has yet to be settled although various attempts at amicable settlements have been tried.

Building on a long established tradition for labour- intensive public works schemes, a total of 61.5 kms of earth tracks have been upgraded to all-weather gravel status. The use of these labour-based techniques during the project period created 278,590 person days of employment providing much needed income in all the target areas. The roads upgraded are located in two lowland and two mountain districts and with the exception of one major river crossing all works are now complete. The final cost was LSL 20.3 million, which is an over-run of 16.4% compared with the budget of LSL 17.4 million. The reasons for the increase have been the 25% increase in minimum wage and the increase in the standard width for rural roads from 5 m to 6 m. In addition to the RTIP, labour intensive road construction and maintenance has been supported using residual STABEX funds. This has been carried out as an income support initiative for rural families in drought affected areas. To date over 56,000 man days of labour have been generated with approximately LSL 2.1 million being injected into target communities.

Lesotho has one of the poorest road safety records in the world. Under the RTIP, financial and technical assistance has been given for a programme of road safety improvement and, in recognition of the potential for serious accidents near the industrial estates in Maseru South, a number of measures have been decided including the construction of pedestrian walkways and service roads. A contract for the construction of the road safety works was awarded in December 2002 for an amount of LSL 22.25 million, with the works to be completed in the third quarter of 2003. 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 has been delayed to March 2004.

In addition to the 8th EDF financed RTIP a number of road transport sector related interventions, including the **Axle Load Control Project (7 ACP LSO 038)**, have been financed from the balances of the 7th EDF. A contract was awarded in March 2002 for the construction of permanent weighbridges at the two major border posts (Maseru Bridge and Maputsoe) and for the supply of mobile weighbridge equipment to be used at designated lay-byes. Provisional Acceptance of the works took place in May 2003 and weighing operations have started at each site. Data from both weighbridges has highlighted the overloading problem, and urgent action is required by the Ministry on the introduction of relevant legislation.

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

Two problems identified throughout implementation have been the lack of a specific and cohesive set of policies for the sector and a low level of institutional capacity. In part this is due to weaknesses associated with public service terms and conditions. As a short-term measure, pending the development of more substantive capacity building proposals, the RTIP is providing technical assistance to the ministry Planning Unit and the Department of Rural Roads. The advisers for these assignments have provided substantial assistance to the issue of transport sector policy analysis and development, with the result that a draft sector policy document was completed in December 2002 and subsequently disseminated for discussion by a wider audience of stakeholders prior to its submission to Cabinet in mid-2003. A Cabinet decision is expected during 2004.

4.1.3. Macroeconomic support

a) *Results*

Although economic growth in 2003 is estimated to be in the 3½ to 4% range there are a number of negative influences that are in part a result of a failure to pursue the necessary structural reforms and the non-observance of performance criteria agreed for the PRGF and the 8th EDF PRBSP. Of continuing concern is Government's problem in bringing public expenditure under control, as illustrated by the Auditor-General's report rejecting the 2001/02 accounts. The report noted that there frequent instances of non-compliance with government financial regulations and that the same regulations were in urgent need of updating. These findings concurred with the those of the report carried out by Pricewaterhouse Coopers under the EDF PRBSP, which in turn was used to establish a number of indicators both for the 2002 annual operational review ⁸ and for the release of the third tranche of the PRSBP. To-date GoL has failed to meet the indicators set.

b) *Progress in activities*

Lesotho receives direct budgetary support under the 8th EDF PRBSP. The PRBSP is divided into three tranches, of which the first two are fixed and the third is variable and depends on Lesotho's performance with regard to indicators in the social sectors and in PFM. During 2003 GoL and the EC reached agreement on the indicators to be used in determining the quantum of the third transfer. The indicators in PFM coincide with indicators used under the IMF-PRGF and the assessment of performance will take into account the periodic PRGF review carried out by the IMF.

A serious constraint is that the data available to determine performance in the social sectors is of questionable quality. Data collection and treatment in the statistics units in the ministries and in the BoS needs strengthening. An EDF-funded capacity-building project in MoHSW ⁹ is assisting the MoHSW statistics unit but data is not yet sufficiently precise to ascertain progress in the sector with an acceptable degree of accuracy. The

⁸ Joint Annual Report 2002 – pp 22

⁹ 8 ACP LSO 007 – Support to Health Sector Reform

same considerations apply to education data. Hence, the exercise of establishing indicators and ascertaining needs for data refinement does not represent an ambition to ensure accurate reporting under the current PRBSP, but rather an attempt to refine and systematize data reporting for future budget support and for GoL's other information needs. Although this process will be aided by the statistics component under the CBEP, the present situation implies that the amount disbursed in the third instalment will be influenced by statistical errors. The EDF is currently the only source of grant budget support to Lesotho.

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

Systemic institutional weakness throughout the public service is considered to be the single most important constraint in the sustainable improvement of public sector service delivery and good governance. In an attempt to address a worsening situation Government has restarted dialogue with the World Bank, the EU/EDF, DfID, and Ireland Aid on the possibility of providing assistance in public service reform in general and public expenditure management in particular.

4.1.4. Capacity Building

In November 2003, the EDF Committee approved the Capacity Building in Economic Planning (CBEP) project. The project comprises the provision of technical advisers, targeted training for members of the planning cadre and the development of operational manuals and other documentation in support of the planning processes. The areas of intervention are Bureau of Statistics; macroeconomic modelling; the development of a planning manual; sectoral programming, monitoring and evaluation; population and manpower modelling; and assistance to the National Authorising Officer. Recruitment under the project was initiated in December 2003 and project implementation will commence in the second half of 2004. The CBEP project forms part of the PSIRP and is the only component of the PSIRP which is agreed on and close to implementation. Progress in determining other components under the PSIRP has been disappointingly slow. It is especially important for the success of the CBEP that other functions of the MoFDP are strengthened and that there be a general and urgent reform of the civil service.

4.2. Projects and programmes outside focal sectors

In the period following the signing of the 8th EDF-NIP it was agreed that non-focal sector assistance would be directed towards health sector reform and that education would only be supported through the medium of community-based activities under the Microprojects Programme. This decision emanated from a joint assessment that the support provided to the education sector by other donor agencies (Ireland Aid, World Bank/IDA, African Development Bank and UNICEF) would be sufficient within the context of government's annual budget and within the limits of existing institutional and absorptive capacities

4.2.1. Health Sector

During the negotiations for the 8th EDF-NIP the indicators agreed for the health sector were;

- i) *Completion of the health sector review and development of a programme of action for health care reform*

The health sector review resulted in an extensive reform plan that was to be carried out in phases. Although progress during the first phase (institutional capacity building) was slow, it did involve strong participation by a wide range of actors engaged in the sector. One achievement of the first phase has been the development of a national social welfare and health policy, which is in the final stages of completion.

- ii) *Decentralisation of financial and administrative management.*

The decentralisation of financial management to the districts is fundamental to the reform process. Although substantial progress has been achieved at the central level much remains to be implemented, including the introduction of activity based budgeting. In addition to financial management, the recently developed District Health Package (DHP) involves the introduction of new administrative and decision-making systems and procedures. The testing of these will be an important element in the piloting of the DHP.

Progress in activities

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**).

Decentralisation: Following the health sector review it was recommended that EDF-financed assistance be redirected to support the development of a comprehensive health 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. The initial aspects of all three activities were completed in 2003 and adoption or implementation will commence in 2004.

Monitoring and Evaluation: There is no effective Health Information System in Lesotho. As a result decision-making is rarely evidence-based and the health service is ill prepared to respond to changing demands. During 2003 the collection, capture and verification of the data backlog for 1998 through 2002, together with the analysis of the data and the production of reports for both the individual years and the overall period 1998 – 2002 were completed. Preparations were started for a national demographic health survey (DHS), which should provide a more accurate indication of the incidence of HIV/AIDS. Finally a social welfare recording and reporting system has been developed and will be tested in the 3 pilot districts.

4.2.2. HIV/AIDS

Based on sentinel site surveillance the indications are that the overall HIV prevalence amongst the adult (15 to 49 years) population is approximately 30%, which places Lesotho as one of the countries most affected by the pandemic. If these indicative levels are correct, then in the short- to medium-term HIV/AIDS can be expected to impact on all aspects of Basotho life and it is likely that Lesotho may find it difficult to reach even the modest health oriented MDG's set for 2015. Despite Government's recognising the gravity of the HIV/AIDS issue, and with the exception of the universal availability of ARV drugs to pregnant women, programmes to address the problem are not commensurate with the severity of the challenge and the institutional structures have not been able to cope. This is reflected in Cabinet's acceptance of a policy document, prepared with the considerable assistance of UNDP, on intensifying the response to the AIDS epidemic and the consequent decision to establish a National AIDS Commission. However, despite these intentions the institutional arrangements for NAC and the involvement of donor agencies have yet to be decided and only limited use has been made of the grant (US\$ 37 million) received from the Global Fund . Given this situation, any EDF-NIP assistance will need to take a flexible approach, with constant monitoring of the wider aspects of the disease. It is expected that non-state actors will be well placed to play a significant role in the planning and implementation of relevant interventions.

4.2.3. Management and coordination of EC/Lesotho cooperation

Cooperation between the EC Delegation and the office of the NAO continues to be most cordial and positive. In part this must be credited to the assistance provided through **Support to the Department of Economic Cooperation – 8 ACP LSO 007**, and is illustrated by the performance of EDF-financed activities in GoL's investment programme relative to those for other donors, where the disbursement for EDF-financed projects under the 2002/03 Annual Capital Budget Estimates was 101% of the amount projected and approved for the year, compared to the average of 58% for all others donors and 71% for the "next best" performing donor.

4.2.4. Decentralised cooperation and Non-State Actors

During the 2003, the re-established Microprojects Programme Coordination Unit continued with the implementation of community-based projects in the areas of water supplies, sanitation, education (provision of classrooms for rural schools) and small, medium and micro-enterprises (SMME). By the end of the Cost Estimate period 11 agreements had been concluded with NGOs and Government line departments, 99% of the funds budgeted (LSL 7.7 million) had been committed and 84% of the committed funds had been disbursed. Of the funds committed approximately LSL 6.2 million or 80% had been channelled through NSA. In addition to the aforementioned a further LSL 300,000 was channelled through NSAs for cultural initiatives, HIV/AIDS awareness and activities in support of 2003 European Year for People with Disabilities.

4.2.5. Other cooperation

Shortly before the May 2002 General Election, the EC gave approval for a project to assist to the Electoral Commission (**Support to the Independent Electoral Commission – 8 ACP LSO 013**). The assistance provided was to be a refinancing of GoL expenditures on items associated with logistical requirements in the immediate run-up to polling day and during the rollback period. During 2003 a total of LSL 14 million was thus disbursed.

4.2.6. Cross-cutting themes, institutional development and capacity building

The majority of the actions supported outside of the focal areas are directed at a broad range of cross-cutting themes, institutional development and capacity building. Aside from the specific interventions targeted at greater competency in aid coordination, planning and budgeting, the microprojects programme is of particular relevance in that the eligibility criteria set for support under the programme require the active involvement and participation of both communities and women.

4.3. Utilisation of resources for Non-State Actors

Present involvement of NSA's in the NIPs is limited to the Microprojects Programme avenue, where NSA's are partner implementing agencies. Because of the innovative nature of the approach and the general low levels of institutional capacity amongst those NSA established in Lesotho it was decided that their involvement be limited to 12 organisations. Approximately LSL 6.2 million or 86% of the programme for 2002/03 has been allocated to programmes implemented by partner NSA. The programme is to incorporate additional NSA in 2003/04.

The low levels of technical and managerial skills amongst the NSA, particularly in community mobilisation, project design, monitoring, reporting; logistics and administration procedures; and insufficient accounting and financial control systems are a serious concern. The conclusion drawn from experience is that some form of initial scoping or management audit should be conducted with a potential partner NSA before the particular agency is considered for involvement in the implementation of EU/Lesotho cooperation. Further, it would be appropriate that as a preliminary to wider involvement of NSA's there should be some form of programme assistance in capacity building for NSA.

4.4. Utilisation of "B" Envelope

To-date no use has been made of the "B" Envelope, though emergency assistance may be necessary in 2004 given the probability that regional crop production for 2003/04 will be well below previous years and that there will widespread crop failure at the small-farmer/subsistence level.

4.5. Other Instruments

4.5.1. *European Investment Bank (EIB)*

The European Investment Bank's objective is to contribute favourably to the long-term sustainable development of Lesotho. In pursuit of this aim EIB can fund economically, financially, technically and environmentally viable projects at attractive conditions in all key sectors of the economy.

As at the end of 2003 EIB's loan portfolio for Lesotho stood at €89.6 million. 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), an amount which exceeds the indicative amounts envisaged at the time. 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). 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. During the implementation of the project allegations of corruption were initially raised against the Chief Executive of the Lesotho Highlands Development Authority (LHDA) who was later dismissed and convicted and subsequently legal action was instituted against a number of the companies and individuals that were mentioned during the legal proceedings. Two companies have since been found guilty and fined. Further cases will be introduced to the High Court during 2004. 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) and the finalisation of a new Power Sales Agreement were still outstanding at the end of 2003.

Lesotho Highland's Water Project – Phase 1B: Following the completion of Phase 1A in 1998, which comprised Katse and Muela dams and a system of tunnels for the transfer of 16.8 cubic metres per second to South Africa and the generation of 72 MW electricity, the LHWP moved into Phase 1B which had as its aim the transfer of an additional 11.8 cubic metres per second of water to South Africa. EIB support to Phase 1B consisted of two loans from own resources for a total of €54 million for the construction of the Matsoku Diversion Weir and Tunnel. These works were completed on time and within budget and were inaugurated in October 2001. In this context it is worth noting that EIB also supports Phase 1B of the project under its South African lending programme with a loan of €45 million to the Trans Caledon Tunnel Authority (TCTA) for the construction of Mohale Dam which was substantially completed in 2002. The final element of the project, the transfer tunnel linking Mohale and Katse Dams was handed over on November 2003.

Lesotho National Development Corporation (LNDC): Following three Global Loans of €3 million each made to LNDC under previous Lomé Conventions, a fourth global loan of €3 million from risk capital was provided to LNDC under Lomé IV in 1994. The components of the loan were: 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” largely allocated and disbursed, no equity allocations were made under the “C” Loan and it was therefore partly reassigned to meet the costs of carrying out a small study of possible options for wastewater treatment in the Maseru South industrial estates. This study has been followed by a feasibility study (financed from the 8th EDF-NIP) into measures for improving wastewater treatment in Maseru, which in turn is expected to lead to a financing proposal. Subject to a satisfactory organisation of the water and waste water sectors, including a clearly defined industrial waste water policy, future investments in these sectors could be supported by EIB.

Outlook on EIB’s possible future activities in Lesotho: The Bank will continue to follow closely all opportunities for viable projects in Lesotho, in line with the focus of the Investment Facility under the Cotonou Agreement, with particular attention being given to possible projects from the private sector. The financing of infrastructure projects in the power, water and sewerage, transport and telecommunications sectors is expected to remain one of the main areas of EIB activity in Lesotho. The emphasis will be to help to eliminate the significant backlog of investments and to improve the efficiency of public utilities, notably by substantially increased private sector participation.

5. Programming perspective for the following years

The focal sectors for the 9th EDF are those of water, road transport and macroeconomic support.

Water: Following the commencement of the Lesotho Lowlands Water Supply Feasibility study in early 2003 possible options for the development of primary sources of supply were submitted for public discussion in September 2003. Subsequently, based on the most suitable option, work commenced on the preparation of a financing proposal for detailed design, which is to be submitted in the second half of 2004. In conjunction with the main Lowlands study, two further studies commenced during 2003. The first is the preparation of short-term water and sanitation measures for six urban centres in the lowlands and the second is a study and design of measures for improving the wastewater treatment capacity in Maseru. Both studies and eventual implementation are considered urgent, as there is a real possibility that urban and industrial expansion will exceed treatment capacity to the extent that the environmental implications could be serious and the demands on water supply could have negative effects on poverty reduction. Proposals emanating from the

two studies are scheduled for mid to end 2004 with the result being that a total financial commitment of €30 million would be made in 2005.

Road Transport: For the transport sector, terms of reference have been drawn up for a feasibility study leading to the rehabilitation and strengthening the main arterial road linking rural and urban centres in the west of the country. The programme will also include provision for feeder roads (using labour intensive techniques) together with a complementary programme of road safety measures. The study will commence in mid 2004 and a financing proposal will be submitted in the first half of 2005.

The Maseru railhead and container terminal is the primary bulk arterial connecting Lesotho to South Africa and is a key factor in economic growth. However, the deteriorating condition of the terminal limits the numbers of containers it can load, unload and store, and is a bottleneck for further industrial growth. Discussions are to be initiated with the main operator of the terminal with view to drawing up proposals for improving and expanding the facilities. The development of the terminal is seen as complementing the measures proposed for the road transport sector and together with measures for strengthening the capacity of the relevant government agencies will form part of a programme of integrated investment.

Macroeconomic Support: An evaluation of the 8th EDF PRBSP and a review of progress in PFM following the 2002 study¹⁰, will take place in the course of 2004 and will form the basis for discussions between GoL and the EC about continued budget support. GoL has requested that further resources be allocated to direct, untargeted budget support under a three-year EDF 9 programme. To reach a financing decision, GoL and the EC will critically review GoL's internal practices, capabilities and incentive structures, to determine whether budget support is a useful tool in raising standards of governance and alleviating poverty, or whether support earmarked for specific projects produces better results. The severe weaknesses presently experienced in PFM and economic planning would suggest that the outcome of budget support cannot be expected to rival that of project support. It may therefore be desirable to limit the share of the NIP allocated for budget support in order to provide more funds for capacity building and improve GoL's capacity to manage its resources.

Institutional Capacity Building: The CBEP is a five-year programme and is to cover all the capacity-building needs of the Planning Cadre in this period. However there remains a considerable need for capacity building in the treasury and budgeting functions of MoFDP. GoL receives support for the Office of the Auditor General from Ireland Aid and is currently in the process of determining the nature of DfID support for the Treasury department.

¹⁰ Study into Public Financial Management in Lesotho, PricewaterhouseCoopers, October 2002

Outside of the focal areas, the programming perspective from 2003 onwards is to be directed towards a further programme of decentralised cooperation through Microprojects, combined with a proposal for building up the capacity of NSA to take advantage of opportunities available in terms of the Cotonou agreement and the Global Fund. A nominal amount of €8.6 million has been allocated for this purpose.

It is estimated that the programming perspectives outlined above would lead to the commitment of all available funds – approximately €5.5 million, made up of balances from previous EDFs (€17.6 million) and the balance of the 9th EDF A-envelope (€67 million) - by the end of 2005 or 2006.

EDF	Amount Allocated	Amount Committed	Amount disbursed	Amount to be decommitted	Balance available for commitment
6/4	42,600,903	41,352,008	41,352,008	0	1,248,895
7/5	56,495,500	53,163,998	51,784,268	629,931	3,961,433
8	61,500,000	54,355,729	37,205,921	5,256,467	12,400,738
9	86,000,000	19,000,000	9,175	0	67,000,000
Total available for commitment					84,611,066

5.1 Integration of new EC/EU policy initiatives and commitments

The following new EC/EU policy initiatives and commitments are integrated with its development cooperation with Lesotho:

- *Social sectors*: EC has made a commitment to allocate 35% of development resources to the social sectors, including macroeconomic support linked to social sectors, direct support to the social sectors and social infrastructure (including water and support to civil society). In the case of Lesotho the sectoral allocations within the EDF9 indicative programme include up to 50% for macroeconomic support linked to ensuring equitable access to social services and up to 20% for provision of and access to water and sanitation. The EC commitment is therefore integrated in the NIP.
- *Health*: EC has undertaken international commitments on health and poverty reduction, and in particular on the fight against communicable diseases. In cooperation with Lesotho the EC implements these commitments by its several projects for the provision of clean water and sanitation, by its support to health sector reform (8-ACP-LSO-008) and by its contributions to the fight against HIV/AIDS (directly and through Global Fund).
- *Water*: In line with the new EU Water Initiative, support to the water sector has been a major feature of EC/Lesotho cooperation under EDF 7, 8 & 9 NIPs (including micro projects) as well as under the regional fund. More extensive support can be expected

once the water facility becomes operational, particularly with relation to the integrated management of the Orange/Senqu river basin.

- *Trade*: EC cooperation with Lesotho currently includes support to the trade sector, by provision of expertise in preparation for EPA negotiations and at regional level through assistance to the SACU secretariat.

5.2 Proposal on a review and adaptation of the CSP

The severe drought conditions at the start of the of 2003/04 crop season and the importance of a good road transport infrastructure to Lesotho's strategies for industrial development and improved rural access have reinforced the choice of water and road transport as the focal sectors. Similarly the problems of institutional capacity within the area of public expenditure management and the urgent need for public sector improvement and reform support the choice of capacity building for good governance, particularly given the critical relationship between governance and poverty reduction. The only possible adaptation to be considered is that of the proportional allocation of resources within the "A" envelope. The continuing weakness in public financial management militates against Lesotho's qualifying for increased macroeconomic support. It is possible that during the Mid-Term Review consideration will have to be given to increasing the nominal allocation for the water sector.

6. Conclusions of the Joint Annual Report

Summary: There is a common agreement that the current cooperation strategy as contained in the Country Strategy Paper and in the National Indicative Programme as agreed in September 2002, is no longer appropriate and that a revision of the strategy is required. According to the Mid-Term Review Conclusions this revision can be summarized as the redirection of the financial resources freed as a result of the discontinuation of the budget support scheme due to the currently inadequate public finance management (PFM) system and statistics collection of GoL. Resources therefore available will now be reallocated as proposed by the Commission as follows: 19.5 MEURO for Water and Sanitation, 10.5 MEURO for Transport, 5 MEURO for PFM; in addition, a new focal sector on measures to fight against HIV/AIDS with an allocation of 8 MEURO will be introduced. Nevertheless, the NAO states its preference for budget support aid and would welcome a review of the decision on macroeconomic support following the completion of the End-of-Term Review. In line with this view, the provision for 5 MEURO intended to enhance the PFM should help pave the way for eventual budget support mechanisms. Both the MTR Conclusions and the response of the National Authorising Officer to the Draft MTR Conclusions are annexed.

Pipeline: since the Review meeting in Maseru took place, the water sector pipeline has been modified according to GoL's request in the light of the recommendations contained in the different EC-funded studies on the water issue: out of 10 MEURO originally allocated to Maseru Wastewater, 8 MEURO will be transferred to 6 Towns Water Supply bringing its total to 23 MEURO (according to the corresponding study, the original 15 MEURO were in fact an underestimation); the 2 MEURO remaining for Maseru Wastewater will finance both a TA for capacity building and urgent maintenance works whilst the 8 MEURO "deficit" for this project could be funded by the EIB.

NSAs: the Lesotho Council of NGOs (LCN) – the main NGO umbrella organization – was invited to the Review but was not able to attend. The representative from the Maseru Chamber of Commerce was the only NSA attendant. The extent of NSAs actors’ participation in the policy dialogue and development process in Lesotho needs to be further developed.

Finally, issues which arose from the MTR exercise and which require further discussions between Government and the EC and which should take place within the context of the preparation of the Joint Annual Report 2004 include:

- In the context of the public sector reform, the need for comprehensive institutional performance assessment (key institutional constraints, analysis and impact assessment of government's policy responses), which could guide the policy discussions between Government and the EC.
- The need for including a more in-depth analysis to complement the existing environmental profile, with the view to identify trends and priorities for action.
- The need to develop the extent of NSA participation in the development process and the development policy dialogue.

SIGNED

.....
National Authorising Officer
Ministry of Finance and Development Planning

.....
Head of Delegation
Delegation of the European
Commission in Lesotho

Date

Date

Annexes

Annex 1: EC-Lesotho CSP/NIP 2002-2007: Intervention framework and performance indicators – Review of sector indicators

TYPE OF INDICATORS	Main Performance indicators	Latest data covering two periods		Target	
				Data	Year
Focal sector: Macro-economic support and capacity building (<i>Indicators drawn from Government's policies, Millennium Development Goals and/or agreed between the Delegation and the Government</i>)					
a. Input indicators					
	– Development and approval of a full Poverty Reduction Strategy Paper		10/2002		07/2003
	– GoL's annual recurrent budgetary allocations for education maintained - 2002/03 & 2003/04 (% of GoL total recurrent budget)	25.2%	24.0%	25%	2004/05
	– GoL's annual recurrent budgetary allocations for health maintained – 2002/03 & 2003/04 (% of GoL total recurrent budget)	7.9%	7.9%	8%	2004/05
	– Fiscal deficit maintained at less than (% GDP) - 2002/03 & 2003/04	-5%	-5.2%	-1%	2005/06
	– GoL wage bill reduced (% GDP) - 2002/03 & 2003/04	14.0%	12.9%	12.6%	2004/05
	– Economic growth increased per annum – 2001 & 2003	3%	5%	4%	
	– Introduction of Value Added Tax (VAT)				07/2003
b. Output Indicators					
	– Annual proportion of under 1 yr vaccinated against measles – (1990 & 1999)	80%	77%	80%	2006
	– Tuberculosis treatment success rate			75%	2003
	– Supervision of deliveries by qualified birth attendants			65%	2003
	– Contraception prevalence rate (1991/92 and 2000)	19%	41%	60%	2006
	– Complete GoL accounts for 2002/03 and present to Auditor General				30/09/03
	– Submit for audit a report on below-the-line accounts				30/09/03

TYPE OF INDICATORS	Main Performance indicators	Latest data covering two periods		Target	
				Data	Year
	– Present plans for the introduction of “Medium Term Economic Framework” planning and budgeting as a basis for improved Public Expenditure Management.				31/12/03
c. Outcome Indicators					
	– Net enrolment rate in primary school increased (2000 & 2001)	69%	69%	73%	2003
	– Equitable access to quality education and training increased – (1990 and 2000)				
	– Ratio of girls to boys in primary education (per 100 boys)	121	102	100	2007
	– Ratio of girls to boys in secondary education	149	131	100	
	– Ration of girls to boys in tertiary education	111	123	100	
	– Pass rate in primary school leaving examinations increased – (1990)	64%		85%	2003
	– Repetition rate in primary schools reduced			19%	2003
	– Adult literacy (2002)	82%		85%	2006
d. Impact Indicators					
	– Unemployment rate reduced – (2000 est)		45%	35%	2007
	– Proportion of population living below the poverty datum reduced – (1986/87 and 1994/95)	59%	58%	45%	2006

TYPE OF INTERVENTION/INDICATORS	Indicators	Source	Latest data covering two/three periods			Target	
						Data	Year
Focal sector: Water Supply and Sanitation (<i>Indicators drawn from Government's policies, Millennium Development Goals and/or agreed between the Delegation and the Government</i>)							
a. Input							
<ul style="list-style-type: none"> - Long-term strategy adopted for potable water supply to the Lesotho Lowlands - GoL implements its investment policy in the sector - Wastewater policy adopted - Government policy for private sector participation in respect of water supply and waste water treatment developed and adopted 	<ul style="list-style-type: none"> - Strategy document submitted to donor as basis for development cooperation in the water sector - Government and donor expenditures in the sector - Wastewater policy document used as basis for government and donor investment - Private sector participation in water supply and waste water treatment 	<ul style="list-style-type: none"> - Cabinet minutes - Financial Report and donor reports - Cabinet minutes - Financial Report and donor reports - Annual reports 					2004 2006 2004 2006
b. Output							
<ul style="list-style-type: none"> - Investment Plan for bulk supply and distribution of water to population residing in Lesotho Lowlands - Investment Plan for industrial and domestic wastewater treatment in Greater Maseru area - Capacity building in public institutions (Office of the water Commissioner and WASA) - Water supply augmented and respective waste water treatment systems developed/constructed in Six Towns 	<ul style="list-style-type: none"> - Lesotho Lowlands Water Supply Feasibility Study completed and investment proposals included in Public Sector Investment Programme (PSIP) - Maseru Wastewater Study completed and investment proposals included in PSIP - Proposals for reform of WASA management and operational structures approved by the respective boards/MoNR - Annual work programme published - Timely annual audits (technical and financial) - Number of private companies involved in the water sector - Number of private companies involved in the sanitation sector - Capacity (in m³/d) of abstraction, treatment and supply facilities increased by the end of the period 	<ul style="list-style-type: none"> - PSIP; Annual Govt. Estimates; External Funding agency Financing Agreements and report - WASA Annual reports - WASA Annual reports - Baseline and periodic surveys - Baseline and periodic surveys 					2005 2005 2004

TYPE OF INTERVENTION/INDICATORS	Indicators	Source	Latest data covering two/three periods			Target	
						Data	Year
c. Outcome							
<ul style="list-style-type: none"> - Access to water services for domestic use - Access to water services for industrial use - Sanitation improved - Incidence of water-borne diseases reduced 	<ul style="list-style-type: none"> - Water coverage in urban and peri-urban areas (population) - Sanitation coverage in urban and peri-urban areas (population and SMEs) - Incidence of waterborne infections - Percentage of mortality – adult/infant 	<ul style="list-style-type: none"> - Baseline and periodic surveys, WASA and DRWS reports - MoHSW Annual Statistical Reports 					
d. Impact			2000	2001			
<ul style="list-style-type: none"> - Improve standard of living of the rapidly urbanising population of Lesotho. 	<ul style="list-style-type: none"> - Population with sustainable access to safe water - Population with access to basic sanitation 	<ul style="list-style-type: none"> - Population Census 2006; Baseline and periodic reports 	77%	45%		81% 67%	2015 2015

TYPE OF INTERVENTION/INDICATORS	Indicators	Source	Latest data covering two/three periods			Target	
						Data	Year
Focal sector: Transport (<i>Indicators drawn from Government's policies, Millennium Development Goals and/or agreed between the Delegation and the Government</i>)							
a. Process interventions (input/assumption).							
GoL develops and adopts transport sector policy	<ul style="list-style-type: none"> - Policy document adopted by Cabinet 	Cabinet Minutes					2003
Road maintenance strategy confirmed and implemented	<ul style="list-style-type: none"> - Annual programme for routine and periodic maintenance - Level of annual budget for maintenance 	MoPWT Annual Work Plan; Local Government and MCC Work Plans; Road Fund Reports					2003

TYPE OF INTERVENTION/INDICATORS	Indicators	Source	Latest data covering two/three periods			Target	
						Data	Year
		Annual Budget Estimates					2003
Review of Road Fund/Road Board operations completed and recommendations introduced	<ul style="list-style-type: none"> - Road Fund/Road Board assumes responsibility for funding all routine and periodic maintenance 	<ul style="list-style-type: none"> - Review Report - Road Fund Annual Report - GoL Annual Estimates 					2003 2004
b. Sector intervention (output/outcome)							
Department of Rural Roads capacity enhanced	<ul style="list-style-type: none"> - DRR operating LRMS system as basis for maintenance planning - DRR has in-house capacity for rural road planning/design, training/supervision of contractors, monitoring and evaluation of GoL rural roads investment/maintenance programmes 	<ul style="list-style-type: none"> - DRR Annual Maintenance Plan - DRR Annual Report; Baseline and periodic surveys 					2004
Roads Department capacity enhanced	<ul style="list-style-type: none"> - LRMS operating as basis for planning routine and periodic maintenance of entire road network and as basis for decision making on rehabilitation and upgrading of priority roads - Roads Department has in-house capacity for checking/approving roads and bridges designs for national road network; - Roads Branch has capacity for timely implementation of appropriation plans, supervision of consultants and contractors; 	<ul style="list-style-type: none"> - PSIP, Project Implementation Reports 					2006
Road Fund management transparent and accountable	<ul style="list-style-type: none"> - Annual work programme published - Timely annual audits (technical and financial) 	Annual Road Fund Report					2003

TYPE OF INTERVENTION/INDICATORS	Indicators	Source	Latest data covering two/three periods			Target	
						Data	Year
Sufficiency of road maintenance resources	Resource allocation to road maintenance via Road Fund matched to maintainable network needs	Annual Estimates Annual Road Fund Report					2003
Improved road network in peri-urban and rural areas	- Kms of roads in good/fair/poor condition Network traffic flows – all modes – for roads, motorised and non-motorised	Annual road condition survey Annual road traffic (LRMS) surveys by MoPWT					
Improved Road safety	Number of fatalities and accidents reduced by 20%	Annual Road Safety Report LRMP Accident Reports/Statistics					2006
c. Impact Intervention (impact)							
Access to basic services and markets using feeder, district and main arterial roads.	<ul style="list-style-type: none"> - Condition of strategic road network (main +other roads) in peri-urban and rural areas - Number of SMEs served by bitumen access - Number (%) of communities served by all-weather roads - Road traffic mix on feeder, district and arterial roads - Transport expenditure relative to household expenditure - Time spent travelling and average length of trips - Freight tariffs and passenger fares 	<ul style="list-style-type: none"> - Annual road condition survey (LRMS) - Specific survey of SMEs - Household expenditure surveys carried out by Bureau of Statistics - Baseline and periodic surveys to supplement LRMS - Household surveys carried out by Bureau of Statistics - Domestic, regional truckers/haulage association and bus companies 					From 2004
Employment generated by labour intensive road maintenance and construction	Employment statistical data desegregated by income groups, family type, gender	<ul style="list-style-type: none"> - DRR baseline and periodic surveys - DRR monthly reports 					From 2003
Transport sector capable of supporting national economic	<ul style="list-style-type: none"> - Transport cost element of 	<ul style="list-style-type: none"> - Freight forwarders and/or 					

TYPE OF INTERVENTION/INDICATORS	Indicators	Source	Latest data covering two/three periods			Target	
						Data	Year
activities	export/import and internally traded goods; - Trade flows (Total, by category and by mode of transportation)	regional and domestic truckers/haulage associations - MoTIMC surveys and reports					

TYPE OF INDICATORS	Main Performance indicators	Latest data covering two periods		Target	
				Data	Year
Cross-cutting issues – Fight against HIV/AIDS/Gender: (Indicators drawn from Government's policies, Millennium Development Goals and/or agreed between the Delegation and the Government)					
a. Input indicators		2002/03	2003/04		
Annual recurrent budgetary allocation to Health Services reflects National Development Policy	– GoL's annual recurrent budgetary allocations for health maintained at a minimum of 8 % of GoL total recurrent budget allocation	7.9%	7.9%	8.0%	2004/05
National Programme for combating HIV/AIDS and related diseases	– Government establishes realistic estimate of HIV/AIDS sero-prevalence as basis for national policy on HIV/AIDS epidemic				2003
	– National policy on measures to combat HIV/AIDS epidemic reviewed, adopted by Cabinet and introduced into Annual Development Plan/Annual Estimates				2004
	– High level Government committee or similar body established to oversee development and implementation of national plan for combating HIV/AIDS				2003
	– LAPCA fully staffed with professional and administrative staff and provided with sufficient resources to carry out mandate				2003
	– Treatment guidelines and strategy for application of Anti-retroviral drugs developed				2003
	– HIV/AIDS data/information incorporated into health services reporting systems				2003

TYPE OF INDICATORS	Main Performance indicators	Latest data covering two periods		Target	
				Data	Year
	– Government to enhance Population modelling capacity in Dep. of Pop. & Manpower Development, MoDP				
Strategy developed for support to orphaned and vulnerable children	– Study completed into numbers, distribution and geographic location of orphaned children				2004
	– Plan of action for support to orphaned and vulnerable children developed and included in annual National Development Plan and Budget Estimates				2005/06
National Gender Policy	– National Gender Policy document completed and adopted by Cabinet				
	– Married Persons Equality Act presented to Parliament and passed into law				
b. Output Indicators		2002/03	2003/04		
Effective implementation of National Strategic Plan for combating HIV/AIDS	– Strategic plan for a national/regional approach to combating HIV/AIDS adopted and implemented				2003
	– LAPCA sub-offices established in all districts			10	2004
	– Number of patients on Antiretroviral drugs			2,000	2004
	– Number of Voluntary counselling and testing sites established	5	5	17	2003
	– Number of Home-based care Centres established			30	2007
	– Population model developed and incorporated into national planning process				2006
	– HIV/AIDS impact integrated into macro-economic modelling and planning				2006
	– Use of condoms increased per year	No data			
c. Outcome Indicators					
	– Increase in number of orphans attending school and decrease in number of school drop-outs	No data : baseline survey required			
	– Decrease in number of deaths due to AIDS and Tuberculosis				

TYPE OF INDICATORS	Main Performance indicators	Latest data covering two periods		Target	
				Data	Year
d. Impact Indicators		1999	2001		
Effects of HIV/AIDS on social and economic life in Lesotho mitigated and reversed	– Incidence of HIV/AIDS amongst pregnant women 15-24 years of age decreased - (1999) ¹¹	26.4%	31.1%	25%	2015
	– Number of worker days in the formal and commercial sector lost to absenteeism reduced	No data: baseline survey required			
	– Life expectancy at birth increased to 65 years				
Gender Equality strengthened	– Proportion of seats held by women in National Assembly increased (1993 & 2002)	0.4%	12%	30%	2007

¹¹ UNAIDS

Annex 2: 1. Chronogramme of Activities - 9th EDF (including use of balances from previous EDF)

Lesotho – Indicative Programme – EDF 9 Grant aid – NIP €86 mio plus balances from previous EDF (± €17.6 mio) = Total approximately €103.6 mio	2003		2004		2005		2006		2007		2008	
	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 supply sector (± €35 mio)												
Lesotho Lowlands Water Supply (± €10 mio)		<i>FS</i>	<i>FS</i>	<i>PF</i>	<i>FP</i>	<i>FD/PC</i>	<i>PC/PIM</i>	<i>PIM</i>	<i>PIM</i>	<i>PIM</i>	<i>PIM</i>	<i>PIM</i>
		<i>FS</i>										
Six Towns Water Supply Phase 2 (± €15 mio)		<i>FS</i>	<i>FS</i>	<i>PF</i>	<i>FP</i>	<i>FD/PC</i>	<i>PC/PIM</i>	<i>PIM</i>	<i>PIM</i>	<i>PIM</i>	<i>PIM</i>	<i>PIM</i>
		<i>FS</i>										
Maseru Wastewater (± €10 mio)		<i>FS</i>	<i>FS</i>	<i>PF/FP</i>	<i>FD/PC</i>	<i>PC/PIM</i>	<i>PC</i>	<i>PIM</i>	<i>PIM</i>	<i>PIM</i>	<i>PIM</i>	<i>PIM</i>
Institutional Capacity Building (± €1.5 mio) – TA to Commissioner of Water plus TA to WASA				<i>PF/FP**</i>	<i>FD/PC</i>	<i>PC/PIM</i>	<i>PIM</i>	<i>PIM</i>	<i>PIM</i>	<i>PIM</i>	<i>PIM</i>	<i>PIM</i>
	<i>FP/FD</i>	<i>PIM *</i>										
2) Road Transport Infrastructure Programme Phase 2 (± €25.5 mio)												
Mafeteng-Maseru-Buthe Buthe Roads Rehabilitation and Upgrading (± €8 mio)			<i>PC</i>	<i>PC</i>	<i>FS</i>	<i>PF</i>	<i>FP</i>	<i>FD</i>	<i>PC</i>	<i>PC</i>	<i>PIM</i>	<i>PIM</i>
Maseru Road/Rail Container Terminal (± €2.5 mio)			<i>PC</i>	<i>PC</i>	<i>FS</i>	<i>PF</i>	<i>FP</i>	<i>FD</i>	<i>PC</i>	<i>PC</i>	<i>PIM</i>	<i>PIM</i>
Rural feeder roads, road safety programme, technical assistance (± €15 mio)				<i>FS</i>	<i>FS</i>	<i>PF</i>	<i>FP</i>	<i>FD</i>	<i>PC/IM</i>	<i>PC/IM</i>	<i>PIM</i>	<i>PIM</i>
3) Macroeconomic support and Capacity Building (± €32.5 mio)												
Poverty Reduction Budgetary Support (± €15 mio)				<i>FS/PF</i>	<i>FP</i>	<i>FD</i>	<i>PIM</i>	<i>PIM</i>	<i>PIM</i>	<i>PIM</i>	<i>PIM</i>	<i>PIM</i>

Lesotho – Indicative Programme – EDF 9 Grant aid – NIP €86 mio plus balances from previous EDF (± €17.6 mio) = Total approximately €103.6 mio	2003		2004		2005		2006		2007		2008	
	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
Capacity building for Economic Planning (€17.5 mio)	<i>FP</i>	<i>FD</i>	<i>PC</i>	<i>PC</i>	<i>PIM</i>	<i>PIM</i>	<i>PIM</i>	<i>PIM</i>	<i>PIM/MR</i>	<i>PIM</i>	<i>PIM</i>	<i>PIM</i>
	FP	FD										
Other sectors/interventions (± €8.6 mio)												
Microprojects, decentralised cooperation and Capacity Building Support to Non State Actors (€8.6 mio)				<i>PF/FP</i>	<i>FD</i>	<i>PIM</i>	<i>PIM</i>	<i>PIM</i>	<i>PIM</i>	<i>PIM</i>	<i>PIM</i>	<i>PIM</i>
Technical Cooperation Facility (± €2 mio)			<i>FD</i>	<i>PIM</i>	<i>PIM</i>	<i>PIM</i>	<i>PIM</i>	<i>PIM</i>	<i>PIM</i>	<i>PIM</i>	<i>PIM</i>	<i>PIM</i>
	PF/FP											

* TA to Commissioner of Water

** TA to WASA

FS = Planned action

FS = Actual action

Abbreviations:

FS Feasibility Study
FD Financing Decision
MR Mid-term Review

PF Project Formulation
PC Procurement (prequalification, tender)
EV Evaluation

FP Financing Proposal
PIM Project Implementation

2. Chronogramme of Activities - 8th EDF (including use of balances from previous EDF)

Lesotho – Indicative Programme – EDF 8 Grant aid – Total €61.5 million (Ongoing projects only)	1999		2000		2001		2002		2003		2004		2005		
	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) Transport Sector															
Road Transport Infrastructure Programme 1 (National roads, LCU roads, Axle Load 2, Road Safety, Technical Assistance)	<i>IM</i>	<i>IM</i>	<i>IM</i>	<i>IM</i>	<i>IM</i>	<i>IM</i>	<i>IM</i>	<i>IM</i>	<i>IM</i>	<i>IM</i>	<i>IM</i>	<i>IM</i>	<i>IM</i>	<i>IM</i>	
	FD	IM	IM	IM	IM	IM	IM	IM	IM	IM					
Lowlands Water Supply Feasibility Study					<i>PF/FP</i>	<i>FD</i>	<i>IM</i>	<i>IM</i>	<i>IM</i>	<i>IM</i>	<i>IM</i>	<i>IM</i>	<i>IM</i>	<i>PC</i>	
					<i>PF/FP</i>	<i>FD</i>	<i>IM</i>	<i>IM</i>	<i>IM</i>	<i>IM</i>					
Other Programmes															
Multi-annual microprojects programme	<i>PF</i>	<i>FP</i>	<i>FD</i>	<i>IM</i>	<i>IM</i>	<i>IM</i>	<i>IM</i>	<i>IM</i>	<i>IM</i>	<i>IM</i>	<i>IM</i>	<i>IM/EV</i>	<i>IM</i>	<i>IM</i>	<i>PC</i>
	<i>PF/FP</i>	<i>FD</i>	<i>IM</i>	<i>IM</i>	<i>IM</i>	<i>IM</i>	<i>IM</i>	<i>IM</i>	<i>IM</i>	<i>IM</i>					
Support to Health Sector Reform	<i>IM</i>	<i>IM</i>	<i>IM</i>	<i>IM</i>	<i>IM</i>	<i>IM</i>	<i>IM</i>	<i>IM</i>	<i>IM</i>	<i>IM</i>	<i>IM</i>	<i>IM</i>	<i>IM</i>	<i>IM</i>	<i>PC</i>
			<i>PF</i>	<i>FP</i>	<i>FD</i>	<i>IM</i>	<i>IM</i>	<i>IM</i>	<i>IM</i>	<i>IM</i>					
Information, Workshops, Conferences and Cultural Initiatives Fund	<i>IM</i>	<i>IM</i>	<i>IM</i>	<i>IM</i>	<i>IM</i>	<i>IM</i>	<i>IM</i>	<i>IM</i>	<i>IM</i>	<i>IM</i>	<i>IM</i>	<i>PC</i>			
			<i>PF/FP</i>	<i>FD</i>	<i>IM</i>	<i>IM</i>	<i>IM</i>	<i>IM</i>	<i>IM</i>	<i>IM</i>					
Support to Dept. of Economic Cooperation		<i>PF/FP</i>	<i>FD</i>	<i>IM</i>	<i>IM</i>	<i>IM</i>	<i>IM</i>	<i>IM</i>	<i>IM</i>	<i>IM</i>	<i>IM</i>	<i>PC</i>			
			<i>PF/FP</i>	<i>FD</i>	<i>IM</i>	<i>IM</i>	<i>IM</i>	<i>IM</i>	<i>IM</i>	<i>IM</i>					
Support to Economic Planning															
						<i>PF/FP</i>	<i>FD</i>	<i>IM</i>	<i>IM</i>	<i>IM</i>					

Lesotho – Indicative Programme – EDF 8 Grant aid – Total €61.5 million (Ongoing projects only)	1999		2000		2001		2002		2003		2004		2005	
	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
Support for Lesotho Independent Electoral Commission	<i>Not foreseen under the NIP</i>													
							PF/FP	FD	IM	COMP	PC			
Maseru Wastewater Feasibility Study	<i>Not foreseen under the NIP</i>													
								PF/FP	FD		IM	IM	IM	IM
Macroeconomic support	<i>Not foreseen under the NIP</i>													
				PF	FP	FD	IM	IM	IM	IM	IM	PC		

FS = Planned action

FS = Actual action

Abbreviations:

FS Feasibility Study
FD Financing Decision
MR Mid-term Review

PF Project Formulation
PC Procurement (prequalification, tender)
EV Evaluation

FP Financing Proposal
PIM Project Implementation

3. Chronogramme of Activities - 7th EDF (including use of balances from previous EDF)

Focal Sector	Project/Intervention	Date of Primary Commitment	Amount Committed		Amount disbursed at 31.12.2003		Date expected closure/Date closed
			€m	% of NIP	€m	% of NIP	
Lesotho – Indicative Programme – EDF 7							
Grant aid – Total €50.0 m *							
Focal Sector: Natural resources (water and energy) Nominal allocation 80% of NIP or approximately €34 m	Muela Hydro-electric Project	08.10.91	32.30	64.6	31.8	63.6	31.12.2004
	Six Towns Water Supply Project	27.01.98	1.99	3.98	1.83	3.7	31.03.2004
Focal Sector: Agriculture and rural development Nominal allocation 10 – 15 % of NIP or approximately €4.25m - €6.4 m	1 st EDF 7 Microprojects Programme	21.11.91	1.00	2.0	0.96	1.9	21.08.1996
	2 nd EDF 7 Microprojects Programme	10.05.94	2.00	4.0	1.98	4.0	29.02.2000
	3 rd EDF 7 Microprojects Programme	17.09.96	2.00	4.0	1.77	3.5	31.03.2003
	8th EDF Microprojects Programme	18.06.99	0.41	0.8	0.22	0.3	31.03.2004
<u>Other Sectors</u> - Nominal allocation 5 – 10 % or approximately €2.2 m – 4.2 m							
Road Transport	Feasibility Study for upgrading district roads	13.08.96	0.55	1.1	0.45	1.0	31.03.2003
	Roads and bridges design standards	27.08.96	0.25	0.5	0.23	0.5	22.12.1999
	TA to Roads Branch	25.07.97	0.27	0.5	0.24	0.6	17.04.2000
Capacity building	Assistance to Bureau of Statistics	37.12.98	1.10	2.2	0.36	0.8	30.06.2003
Structural Adjustment Facility Nominal allocation under NIP - €8.5 m Additional allocations €20.7 m	1 st Structural Adjustment Programme	28.09.92	8.5		8.5		12.12.1997
	2 nd Structural Adjustment Programme	08.06.94	8.0		7.9		09.04.1997
	3 rd Structural Adjustment Programme	21.09.95	4.1		4.1		07.04.1997
	4 th Structural Adjustment Programme	01.07.96	5.7	11.4	5.7	11.4	19.11.2001

* Initial allocation €42.5 million to which an additional amount of €7.5 million was allocated after mid-term review. All proportional estimates are based on the total allocation of €50 million

Annex 3: Indicative timetables for commitments and disbursements

1. EDF 9 - Indicative commitments schedule (€millions) including use of reliquats from previous EDF
Planned commitments as at end 2003 vs Actual commitments as at end 2003

Lesotho – Indicative Programme – EDF 9 Grant aid – NIP €86 mio plus balances from previous EDF (± €17.6 mio) = Total approximately €103.6 mio	Primary commitments (€mio)											
	2003		2004		2005		2006		2007		2008	
	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 supply sector (± €35.75 mio)												
Lesotho Lowlands Water Supply (± €10 mio)	-	-	-	-	-	10.0	-	-	-	-	-	-
Six Towns Water Supply Phase 2 (± €15 mio)		-	-	-	-	15.0	-	-	-	-	-	-
Maseru Wastewater (± €10 mio)	-	-	-	-	10.0	-	-	-	-	-	-	-
Institutional Capacity Building (± €1.5 mio) – TA to Commissioner of Water plus TA to WASA	-	0.75	-	-	0.75	-	-	-	-	-	-	-
Water supply sector total	-	0.75	-	-	10.75	25.0	-	-	-	-	-	-
Water supply sector cumulative	-	0.75	-	-	10.75	35.75	35.75	35.75	35.75	35.75	35.75	35.75
2) Road Transport Infrastructure Programme Phase 2 (± €25.5 mio)												
Mafeteng-Maseru-Buthe Buthe Roads Rehabilitation and Upgrading (± €8 mio)	-	-	-	-	-	-	-	8.0	-	-	-	-
Maseru Road/Rail Container Terminal (± €2.5 mio)	-	-	-	-	-	-	-	2.5	-	-	-	-
Rural feeder roads, road safety programme, technical assistance (± €15 mio)	-	-	-	-	-	-	-	15.0	-	-	-	-

Lesotho – Indicative Programme – EDF 9 Grant aid – NIP €86 mio plus balances from previous EDF (± €17.6 mio) = Total approximately €103.6 mio	Primary commitments (€mio)											
	2003		2004		2005		2006		2007		2008	
	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
Road Transport Infrastructure Total	-	-	-	-	-	-	-	25.5	-	-	-	-
Road Transport Infrastructure Sector cumulative total	-	-	-	-	-	-	-	25.5	25.5	25.5	25.5	25.5
3) Macroeconomic support and Capacity Building (± €32.5 mio)												
Poverty Reduction Budgetary Support (± €15 mio)	-	-	-	-	-	15.0	-	-	-	-	-	-
Capacity building for Economic Planning (€17.5 mio)	-	17.5	-	-	-	-	-	-	-	-	-	-
Macroeconomic Support and Capacity Building Total	-	17.5	-	-	-	15.0	-	-	-	-	-	-
Macroeconomic Support and Capacity Building Cumulative Total	-	17.5	-	-	-	32.5	32.5	32.5	32.5	32.5	32.5	32.5
Other sectors/interventions (± €8.6 mio)												
Microprojects, decentralised cooperation and Capacity Building Support to Non State Actors (€8.6 mio)	-	-	-	-	8.6	-	-	-	-	-	-	-
Technical Cooperation Facility (± €2 mio)	-	-	2.0	-	-	-	-	-	-	-	-	-
Other sectors/Interventions total	-	-	2.0	-	8.6	-	-	-	-	-	-	-
Other sectors/Interventions cumulative total	-	-	2.0	2.0	10.6	10.6	10.6	10.6	10.6	10.6	10.6	10.6
EDF 9 CSP/NIP Annual totals	<i>Planned (revised December 2003)</i>	-	18.25	2.0	-	19.35	40.0	-	25.5	-	-	-
	Actual at end 2003	-	18.25									
EDF 9 CSP/NIP Cumulative totals	<i>Planned (revised December 2003)</i>	-	18.25	20.25	20.25	39.6	79.6	79.6	105.1	105.1	105.1	105.1
	Actual at end 2003	-	18.25									

2. EDF 9 - Indicative disbursements schedule (€millions) including use of reliquats from previous EDF

Planned disbursements vs Actual disbursements

Lesotho – Indicative Programme – EDF 9 Grant aid – NIP €86 mio plus balances from previous EDF (± €17.6 mio) = Total approximately €103.6 mio	Disbursements (€mio)											
	2003		2004		2005		2006		2007		2008	
	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 supply sector (± €35.75 mio)												
Lesotho Lowlands Water Supply (± €10 mio)	-	-	-	-	-	-	2.5	1.0	1.5	1.5	1.5	1.5
Six Towns Water Supply Phase 2 (± €15 mio)		-	-	-	-	-	3.75	1.5	2.0	2.5	2.5	2.5
Maseru Wastewater (± €10 mio)	-	-	-	-	-	2.5	1.0	1.5	1.5	1.5	1.5	-
Institutional Capacity Building (± €1.5 mio) – TA to Commissioner of Water plus TA to WASA	-	<0.1	0.07	0.07	0.07	0.15	0.15	0.15	0.15	0.15	0.15	0.15
Water supply sector total	-	<0.1	0.07	0.07	0.07	2.65	7.4	4.15	5.15	5.65	5.55	4.65
Water supply sector cumulative	-	<0.1	0.07	0.14	0.21	2.86	10.26	14.41	19.56	25.21	30.76	35.41
2) Road Transport Infrastructure Programme Phase 2 (± €25.5 mio)												
Mafeteng-Maseru-Buthe Buthe Roads Rehabilitation and Upgrading (± €8 mio)	-	-	-	-	-	-	-	-	2.75	0.5	2.0	2.0
Maseru Road/Rail Container Terminal (± €2.5 mio)	-	-	-	-	-	-	-	-	0.8	0.2	1.0	0.2
Rural feeder roads, road safety programme, technical assistance	-	-	-	-	-	-	-	-	1.5	2.5	2.5	2.5

Lesotho – Indicative Programme – EDF 9 Grant aid – NIP €86 mio plus balances from previous EDF (± €17.6 mio) = Total approximately €103.6 mio (± €15 mio)	Disbursements (€mio)												
	2003		2004		2005		2006		2007		2008		
	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	
Road Transport Infrastructure Total	-	-	-	-	-	-	-	-	5.05	3.2	5.5	4.7	
Road Transport Infrastructure Sector cumulative total	-	-	-	-	-	-	-	-	5.05	8.25	13.75	18.45	
3) Macroeconomic support and Capacity Building (± €32.5 mio)													
Poverty Reduction Budgetary Support (± €15 mio)	-	-	-	-	-	-	5.0	3.0	-	7.0	-	-	
Capacity building for Economic Planning (€17.5 mio)	-	-	0.1	0.1	0.25	0.5	1.0	2.0	2.5	3.0	3.0	2.5	
	-	-	-	-	-	-	-	-	-	-	-	-	
Macroeconomic Support and Capacity Building Total	-	-	0.1	0.1	0.25	0.5	6.0	5.0	2.5	10.0	3.0	2.5	
	-	-	0.1	0.2	0.45	0.95	6.95	11.95	14.45	24.45	27.45	39.95	
Macroeconomic Support and Capacity Building Cumulative Total													
Other sectors/interventions (± €10.6 mio)													
Microprojects, decentralised cooperation and Capacity Building Support to Non State Actors (€8.6 mio)	-	-	-	-	-	1.0	1.0	1.5	1.5	1.0	1.0	1.0	
Technical Cooperation Facility (± €2 mio)	-	-	-	0.1	0.2	0.5	0.5	0.2	0.3	0.2	-	-	
Other sectors/Interventions total	-	-	-	0.1	0.2	1.5	1.5	1.7	1.8	1.2	1.0	1.0	
Other sectors/Interventions cumulative total	-	-	-	0.1	0.3	1.8	3.3	5.0	6.8	8.0	9.0	10.0	
EDF 9 CSP/NIP Annual totals	<i>Planned (revised December 2003)</i>	-	<0.1	0.17	0.27	0.52	4.65	14.9	10.85	14.5	20.05	15.15	12.85
	Actual at end 2003		<0.1										
EDF 9 CSP/NIP Cumulative totals	<i>Planned (revised December 2003)</i>	-	<0.1	0.17	0.44	0.96	5.61	20.51	31.36	45.86	65.91	8.06	93.91

Lesotho – Indicative Programme – EDF 9 Grant aid – NIP €86 mio plus balances from previous EDF (± €17.6 mio) = Total approximately €103.6 mio	Disbursements (€mio)											
	2003		2004		2005		2006		2007		2008	
	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
Actual at end 2003		<0.1										

1. EDF 8 - Indicative commitments schedule (€millions)

Planned commitments as at end 2003 vs Actual commitments as at end 2003

Lesotho NIP EDF 8	Indicative allocation €61.5 million	Primary commitments (€million)													
		1997		1998		1999		2000		2001		2002		2003	
Focal Sectors		S1	S2	S1	S2	S1	S2	S1	S2	S1	S2	S1	S2	S1	S2
<u>Transport sector</u> (Nominal allocation under NIP – 45% or approximately €27.7 m)		-	-	19.0		-	-	8.5	-	-	-	-	-	-	-
		-	-	-	-	37.7	-	-	-	-	-	-	-	-	-
<u>Social sector</u> (Nominal allocation under NIP – 35% or approximately €21.5 m)		-	3.5	7.5	3.0	-	-	4.5	3.0	-	-	-	-	-	-
		-	-	-	-	5.3	-	-	1.8	-	1.8	1.9	0.8		
Other programmes (Nominal allocation under NIP – 20% or approximately €12.3 m)		-	-	1.5	2.0	2.5	3.0	2.5	1.0	-	-	-	-	-	-
		-	-	-	-	-	-	0.5	1.1	-	0.8	1.9	0.2	0.5	
Macroeconomic support (not foreseen in NIP)		-	-	-	-	-	-	-	-	-	-	-	-	-	-
		-	-	-	-	-	-	-	-	18.5	-				
Annual totals		-	3.5	28.0	5.0	2.5	3.0	15.5	4.0	-	-	-	-	-	-
		-	-	-	-	43.0	-	0.5	2.9	18.5	2.6	3.8	1.0	0.5	
Cumulative totals (excluding macroeconomic support)		-	3.5	31.5	36.5	39.0	42.0	57.5	61.5	61.5					
		-	-	-	-	43.0	43.0	43.5	46.4	46.4	49.0	52.8	53.8	54.3	
Cumulative totals (including macroeconomic support)		-	-	-	-	43.0	43.0	43.5	46.4	64.9	67.5	71.3	72.3	72.8	

2. EDF 8 - Indicative disbursements schedule (€millions)

Planned disbursements vs Actual disbursements

Lesotho NIP EDF 8	Indicative allocation €61.5 million	Disbursements (€million)						
		1997	1998	1999	2000	2001	2002	2003
Focal Sectors								
<u>Transport sector</u> (Nominal allocation under NIP – 45% or approximately €27.7 m)		-	3.5	6.0	8.0	6.0		
		-	-	0.18	5.6	7.88	4.7	12.4
<u>Social sector</u> (Nominal allocation under NIP – 35% or approximately €21.5 m)		-	4.0	5.0	7.0	3.5		
		-	-	0.08	0.15	0.22	0.31	2.1
Other programmes (Nominal allocation under NIP – 20% or approximately €12.3 m)		-	1.0	2.5	5.5	2.5		
		-	-	-	-	0.21	0.35	2.7
Macroeconomic support (not foreseen in NIP)		-	-	-	-	6.0	3.0	8.0
		-	-	-	-	-	6.1	3.0
Annual totals		-	8.5	13.5	20.5	18.0		
		-	-	0.26	6.28	8.31	11.46	20.2
Cumulative totals (excluding macroeconomic support)		-	8.5	23.5	44.0	56.0		
		-	-	0.26	6.54	14.84	20.2	40.4
Cumulative totals (including macroeconomic support)		-	-	0.26	6.54	14.84	26.3	46.5

3. EDF 7 - Indicative commitments schedule (€millions)

Planned commitments vs Actual commitments

Lesotho NIP EDF 7	Indicative allocation €42.5 million	Primary commitments (€million)											
		1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Focal Sectors													
<u>Natural Resources</u> (Nominal allocation under NIP – 80% or approximately €34 m)		34	-	-	-	-	-	-	-	-	-	-	-
		34	-	-	-	-	0.8	0.5	-	-	-	-	-
<u>Agriculture and rural development</u> (Nominal allocation under NIP 10 -15% or approximately €4.25 m - €6.4 m)		-	3.0	-	-	1.5	-	-	-	-	-	-	-
		1.0	-	-	2.0	-	2.0	-	-	0.4		-	-
Other programmes (Nominal allocation under NIP 5 - 10% or approximately €2.2 m - €4.25 m)		-	3.0	-	1.0	-	-	-	-	-	-	-	-
		-	<0.1	-	-	0.15	0.2	< 0.1	1.2	0.1	0.1	0.1	-
Structural Adjustment (not foreseen in NIP)		-	-	-		-	-	-	-	-	-	-	-
		-	8.5	-	8.0	4.1	5.7	-	-	-	-	-	-
Annual totals (excluding Structural Adjustment Support)		34.0	6.0	-	1.0	1.5	-	-	-	-	-	-	-
		35.0	<0.1	-	2.0	0.15	3.0	0.5	1.2	0.5	0.1	0.1	-
Cumulative totals (excluding macroeconomic support)		-	40.0	40.0	41.0	42.5	42.5	42.5	42.5	42.5	42.5	42.5	42.5
		35.0	35.0	35.0	37.0	37.15	40.15	40.65	41.85	42,35	42.45	42.55	42.55
Cumulative totals (including macroeconomic support)		35.0	35.0	43.5	53.5	57.75	66.45	66.95	68.15	68.65	68.75	68.85	68.85

4. EDF 7- Indicative disbursements schedule (€millions)

Planned disbursements vs Actual disbursements

Lesotho NIP EDF 7	Indicative allocation €42.5 million	Disbursements										
		1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Focal Sectors												
<u>Natural Resources</u> (Nominal allocation under NIP – 80% or approximately €34 m)		10.5	7.5	6.0	2.0	2.0	2.0	-	-	-	-	-
		4.7	1.9	8.3	2.6	4.3	4.9	4.0	0.3	0.4	0.16	0.13
<u>Agriculture and rural development</u> (Nominal allocation under NIP 10 - 15% or approximately €4.25 m - €6.4 m)		0.5	1.0	0.5	0.5	1.0	1.0	-	-	-	-	-
		0.25	0.12	0.9	0.6	0.9	0.65	0.8	0.74	0.1	< 0.1	<0.1
Other programmes (Nominal allocation under NIP 5 - 10% or approximately €2.2 m - €4.25 m)		-	0.5	1.0	1.0	1.0	0.5	-	-	-	-	-
		-	-	-	-	-	0.34	0.36	0.57	< 0.1	0.4	0.4
Structural Adjustment (not foreseen in NIP)		-	-	-	-	-	-	-	-	-	-	-
		-	8.4	3.9	4.0	4.1	4.1	4.2	0.9	< 0.1	-	-
Annual totals (excluding Structural Adjustment Support)		11.0	9.0	7.5	3.5	4.0	3.5	-	-	-	-	-
		4.95	2.0	9.2	2.8	5.2	5.89	5.16	1.61	0.5	0.56	0.63
Cumulative totals (excluding macroeconomic support)		15.0	24.0	31.5	35.0	39.0	42.5	-	-	-	-	-
		4.95	6.95	16.15	18.95	24.15	30.04	35.2	36.81	37.31	37.87	39.5
Cumulative totals (including macroeconomic support)		4.95	15.35	28.45	35.25	44.55	54.54	63.9	66.41	66.91	67.47	68.1

Annex 4: Summary of commitments, disbursements and balances for all active EDF as at 31st December 2003

	Total	Amount Primary Commitments @ end 2003	Amount secondary Commitments @ end 2003	Amount disbursements @ end 2003	Balance of NIP not allocated to Primary commitments	Balance of Primary commitments not allocated	Balance of NIP not disbursed
Programmable Aid							
Allocation under 6 th EDF NIP	41,500,000	40,298,861 (97%)	40,298,861 (97%)	40,298,861 (97%)	1,201,139 (3%)	0 (0%)	1,201,139 (3%)
Carry forward from 4 th EDF	1,100,903	1,053,147 (96%)	1,053,147 (96%)	1,053,147 (96%)	47,756 (4%)	0 (0%)	47,756 (4%)
Allocation under 7 th EDF NIP	50,000,000	47,860,253 (96%)	47,454,814 (94%)	46,880,191 (93%)	2,139,757 (4%)	405,439 (<1%)	3,119,809 (6%)
Carry forward from 5 th EDF	6,495,500	5,303,745 (82%)	5,079,253 (78%)	4,904,077 (75%)	1,191,755 (18%)	224,492 (4%)	1,591,423 (24%)
Allocation under 8 th EDF NIP	61,500,000	54,355,729 (88%)	45,716,230 (74%)	37,205,921 (60%)	7,144,271 (12%)	8,639,499 (14%)	24,294,079 (40%)
“A” Envelope 9 th EDF	86,000,000	19,000,000 (22%)	500,000 (<1%)	9,175 (0%)	67,000,000 (78%)	18,500,000 (97%)	85,990,825 (100%)
Total Programmable aid	246,596,403	167,871,735 (68%)	140,102,305 (57%)	130,351,372 (53%)	78,724,668 (32%)	27,769,430 (20%)	116,245,031 (47%)
Non-programmable aid							
“B” Envelope 9 th EDF	24,000,000	0 (0%)	0 (0%)	0 (0%)	24,000,000 (100%)	0 (0%)	24,000,000 (100%)
GRAND TOTAL	270,596,403	167,871,735 (62%)	140,102,305 (52%)	130,351,372 (48%)	102,724,668 (38%)	27,769,430 (20%)	140,245,031 (52%)

Note:

6th EDF: The initial allocation set in the NIP document signed in November 1985 (€36.5 million) was increased in March 1989 to €41.5 million, of which a total of €10 million was in special loans. These loans were subsequently converted into grants in 1997.

7th EDF: The allocation set in the NIP document signed in February 1991 amounted to €58.5 million, of which €42.5 million was in the form of grants, €8.5 million as a first allocation from the Lomé IV resources earmarked for Structural Adjustment Support and €7.5 million in the form of Risk Capital managed by the EIB. To this were added additional allocations from the Structural Adjustment Facility (SAF) plus additional resources for the NIP (€7.5 million) to be used in conjunction with the SAF. The total programmable element of the NIP was thus raised to €50 million.

8th EDF: The allocation set in the NIP document signed in February 1997 amounted to €61.5 million of which €43 million was available for immediate commitment. The balance of €18.5 million was released for commitment following the mid-term review in 1999.

9th EDF: The nominal allocation contained in the 9th EDF (Cotonou Agreement) NIP, signed in September 2002, consists of a programmable “A” envelope of €86 million and a non-programmable “B” envelope of €24 million. Total nominal allocation €110 million.

Annex 5: Lesotho - Donor Matrix

Agency	Planning period	Economic development	Social development	Productivity sector	Thematic /crosscutting issues
Development Co-operation Ireland	3 year (2002-2004)	Public Sector Reform - €1.62 million	Health - €6.65 million Education - €5.7 million Rural Water Supply - €6.3 million Rural Access - €5.2 million	Enterprise Development €1.9 million	Governance, democracy - €2.08 million HIV/AIDS - €2.5 million
UK DfID	2004-2005 Allocation €7.1 m	Lesotho Revenue Authority - €5.7 million Public Finance Management (under preparation)	IOM/PSCAAL - €1.1 million	Livelihoods recovery through Agriculture – €2.1 million LHWC technical Assistance - €0.77 million	Lesotho Justice sector development - €7.8 million Support to PRSP preparation €1.million Support to IEC/Elections €1.5 million
Germany GTZ	Biannual			Small and Medium Enterprises - €0.5 mio	Decentralisation and District Planning - €2 mio Capacity building in land management - €2 mio Decentralised Rural Development - €1.5 mio Vocational Training - €1.88 mio
Germany KfW	Biannual	Labour intensive road construction - €2.7 mio			Infrastructure for local government - €2.56 mio Family planning, HIV/AIDS – €2.65 mio
Switzerland Helvetas			Rural water supply - Budget for 2004 approx €500,000		
Japan	Annual		Construction of primary schools: budget for 2004 – approx €3.5 mio	KR2 – Provision of agricultural inputs: Budget for 2004 = approx €1.17 mio	
China		Development of industrial sites at Mohales Hoek and Buthe Buthe			National Archives and Library – approx €2.5 mio
UNDP	2002-2004	Empowering communities for development planning Strengthening E-readiness and preparation of an ICT policy and implementation strategy GEF preparatory programme	Combating transmission of HIV/AIDS amongst youth – UNFIP project Environmental management for poverty reduction	Conserving mountain biodiversity in Southern Lesotho	Parliamentary system reform process Support to the National Vision Support to PRSP preparation Institutional capacity building for poverty monitoring National capacity Self Assessment
FAO	2002-2004			Food security through water control - US\$ 336,825 Support for Special Programme for Food Security – US\$ 257,000	

Agency	Planning period	Economic development	Social development	Productivity sector	Thematic /crosscutting issues
				Promotion of local/indigenous foods – US\$184,000 Strengthening market information and marketing extension – US\$ 305,000 Project preparation for CAADP – US\$ 120,000 Provision of crop and vegetable seeds in Southern Lesotho – US\$ 291,000 Credit support to food self-sufficiency programme – US\$166,663	
UNFPA	2000-2002		Population and development strategies - US\$ 500,000 Reproductive health – US\$ 2.0 million		Advocacy for gender equality - US\$ 300,000 Programme coordination - US\$ 200,00
UNICEF	2002-2006		Health and nutrition - €5.5 million Education - €5.5 million Adolescent development - €3.3 million Social Policy and Planning - €3.9 million		
WFP	2000-2002		School Feeding Project – budget for 2004 approx €1.76 mio		Food assisted works – approx €5.2 mio (Budget for 2004 – approx €590,000)
WHO	2002-2004		Health sector reform - €24,000 Immunisation campaign - €20,000 Mother and child care - €50,000 Hygiene education - €55,000 Health promotion - €280,000		
World Bank IDA		Roads Rehabilitation and Maintenance - US\$ 44 million Utilities reform - US\$ 28.6 million LHWP phase 1B – US\$ 45 million Electrification phase II – approx €175,000 Integrated transport project (proposed)	Health Sector Reform – US\$ 6.5 million Community development - US\$ 4.7 million Education sector phase2 – US\$ 42 million Water sector reform – US\$ 17.5 million (under preparation)	Agricultural policy - €7.6 million Maluti-Drakensberg Transfrontier Project	Public Sector Improvement and Reform – US\$ 10 million (under preparation)
IMF	2001-2003	Poverty reduction and growth facility - €22 million			
IFAD				Sustainable mountain agriculture – US\$ 10.85 million	
ADB		Public Utilities Reform Road infrastructure – approx €19.4 mio	Health sector reform Education support phase II approx € 13.5 mio	Agricultural policy - €1.4 million Private sector development	Highlands Natural Resources – approx €2.5 mio

Agency	Planning period	Economic development	Social development	Productivity sector	Thematic /crosscutting issues
		Electrification Phase II – approx €240,000	(Budget for 2004 approx €2.2 mio)		
ADF		Utilities reform – approx €5.5 mio Road infrastructure – approx €7.5 mio	Rural Health Services – approx €4 mio Education sector phase III – approx €12 mio		
EIB		Industrial development - €500,000 LHWP phase 1B - €54 million (plus €45 mio via SA/TCTA) Privatisation of public utilities Possible Maseru Wastewater treatment			
EC/EDF Cotonou Agreement and Lomé IV	2001-2007 and ongoing	Transport infrastructure - approx €56 million *	Water supply - approx €52 million * Community development - €14.3 million * Health Sector reform - €1.8 million		Budgetary support - €42.3 million * Capacity building for economic planning – €17.5 million
Non-State Actors		Micro-credit	Health service provision (CHAL) Education (LEC, LCC, Skillshare) Environment (CARE, Lesotho, Skillshare) Rural Water Supply and Sanitation (Plenty, Red Cross) HIV/AIDS	Rural development Retrenched miners	Gender (Women in Law) Advocacy (CARE) Poverty assessment and monitoring Human rights, conflict resolution, democracy Capacity building for CBO (CARE) Children and HIV/AIDS orphans (SCF, Red Cross)
BADEA		Road infrastructure approx €2.35 mio	Peri-urban water supply – approx €5 mio Five towns water supply – approx €740,000		TA to civil engineering approx €270,000
India	Annual			Agriculture: Budget for 2004 - €0.1 mio Irrigation: Budget for 2004 - €0.23 mio	
Canada	Annual			Irrigation: Budget for 2004 - €23,500	
OPEC	Annual		Health Sector Reform – approx €1.4 mio		
Global Fund			TB Control: approx €2.5 mio (2004 budget - approx €820,000) HIV/AIDS programme approx € 7.2 mio (2004 budget approx €2.4 mio)		
Norwegian Agency for Development					Disabled support: 2004 budget approx €150,000

Agency	Planning period	Economic development	Social development	Productivity sector	Thematic /crosscutting issues
Kuwait		Road infrastructure – approx €1.8 mio			
GEF					Maluti Mountains Conservation and Development – approx €4.25 mio Development of National Biosafety Framework – approx €230,000

* Includes EDF 9 nominal sector allocation

Kingdom of Lesotho

Summary of Donor Disbursement recorded in Capital Budget
200/2002 - 2002/2003
(LSL)

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
CAPITAL PROJECT GRANTS								
EC (EDF)	84,261,333	26	60,267,852	32	89,083,308	22	89,939,325	29
Ireland (IrelandAid)	38,243,000	12	30,950,934	16	83,600,000	21	59,137,982	19
Germany (GTZ/KFW/DED)	15,119,000	5	8,995,045	5	10,295,000	3	4,562,985	1
Britain (DFID/ODA)	2,284,222	1	354,229	0	6,000,000	1	1,852,994	1
Denmark (DANCED)	7,051,306	2	1,748,671	1	10,673,067	3	1,151,620	0
Total EU	146,958,861	46	102,316,731	54	199,651,375	49	156,644,906	50
UNICEF	6,842,000	2	1,381,963	1	2,952,000	1	45,796,399	15
UNDP	7,739,000	2	1,173,610	1	20,014,698	5	34,974,742	11
GEF (WB)	10,689,000	3	0	0	9,800,000	2	674,728	0
WFP	6,498,000	2	8,187,376	4	22,637,500	6	481,298	0
UNFPA	449,436	0	0	0	2,004,500	0	43,499	0
WHO	2,829,000	1	0	0	4,348,000	1	36,735	0
FAO	1,634,000	1	0	0	2,043,000	1	0	0
Total "UN Family"	36,680,436	11	10,742,949	6	63,799,698	16	82,007,401	26
Japan	54,000,000	17	49,000,000	26	15,000,000	4	12,931,424	4
ADF/ADB	11,668,900	4	4,576,580	2	0	0	1,267,292	0
Kellog Foundation	210,000	0	0	0	210,000	0	36,656	0
Swiss	228,000	0	214,986	0	220,000	0	0	0
China	5,000,000	2	0	0	5,000,000	1	0	0
India	1,032,000	0	0	0	1,290,000	0	0	0
BADEA	2,340,000	1	0	0	770,000	0	0	0
USA	0	0	0	0	0	0	0	0
Total Other Donors	74,478,900	23	53,791,566	28	22,490,000	6	14,235,372	5
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

Country environmental profile

This Annex is based on the second State of the Environment Report (SoER) for Lesotho¹².

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:

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

¹² Second State of the Environment Report, Lesotho - National Environmental Secretariat, Ministry of Tourism, Environment and Culture . July 2002

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 to the Report

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).

EXECUTIVE SUMMARY

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. This is indicative of the rising poverty levels in the country ever since independence.

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*'¹³ 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 that have been identified, as driving forces are the export biased economic policies that are predicated on attracting more and more foreign direct investment particularly in the manufacturing sector. The result of this policy has been, as desired, to create needed jobs but on the contrary impacting negatively on the environment by actually transforming the economic structure from the more environmentally friendly tertiary base to a much more environmentally risky manufacturing base. Among other driving forces are the demographic and health policies, which also, due to their importance as per government policy, do get priority in terms of the fiscal budget. However, it is worth pointing out that due to their close association with the environment, both health and demographic policies seem to benefit rather than degrade the environment thus leading to a positive change in the environment.

With regard to pressures on the environment, the main economic pressures on the environment 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 a 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.

¹³ 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.

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 environment. This clearly underscores the need to encourage growth in more environmentally friendly hence more sustainable sectors such as tourism and financial sectors. 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 it is getting worse over time. 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 56, 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 for 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 rehydration 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 in 2000 as the economy recorded an annual growth rate of 3.3 %. Despite all these economic gains in recent years, Lesotho remains a desperate country with most of its people classified as being destitute.

The rate of inflation stabilised at rates below 10% percent; the so-called single digit rate, which is considered sustainable for economic progress. Over time, the rate of increase of Lesotho prices of goods and services have been declining. However, latest data indicates a sharp increase as the first quarter of 2002 recorded a double-digit inflation figure of 11%. Persistence of this trend would threaten the achievement of the government's Poverty Reduction and Growth Strategy and will also have dire consequences for environmental rehabilitation efforts.

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 Government has also initiated Small Scale Enterprises Project aimed at providing credit guarantee for accessing loans to small-scale enterprises and the industrial sector including provision of training opportunities for entrepreneurs.

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 globalization; 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 palaentologists, and the limited role of education are identified as drawbacks to locally driven development of palaentological work.

Archeology 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 archeological 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 *Pitso's* 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 the 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 'Moriija 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*.

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 bad land use practices, such as encroachment on agricultural land by residential settlements, encroachment on steep slopes and marginal lands by crop farmers, uncontrolled

mining and road construction in other environmentally sensitive areas of the country such as wetlands.

Population growth and the rapid rural-urban migration in search of opportunities increase urban and peri-urban population density in Lesotho. This has exerted pressure on natural resources by increasing demand for land for various uses and generates competition among users.

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.

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, Liqhobong, and letšeng-La-terai. Over and above this, there are individuals engaged in diamond mining on a small scale. Slurry from diamond mines impact on water and stone crushing activities create noise and air pollution. Borrow-pits utilized for road construction and

other infrastructural activities are not 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 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 DWA.

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 is being 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 DRWS's 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 Gases (GHG's) emissions with global climate change. It has also been discovered that the ozone layer, which filters the sun's harmful ultraviolet rays from reaching the world, is being depleted due to emission 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 the country show that 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 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

Country migration profile

Immigrants

Total number of residents 1,861,959 - 2.2 million

Of which: Own nationals 99.7%
Immigrants 0.3% in 2000

Status immigrants

Refugees No data available.
Labour migrants /permanent No data available.
Labour migrants/seasonal No data available
Internally displaced persons No data available.

Immigration trend No data available.

Number of arriving immigrants in 90/95:
Number of arriving immigrants in 95/2000:

Education: Skilled labour No data available.

Main countries of origin No data available.

Rate of return No data available.

Finance

Amount of outgoing migrant remittances: No data available.
Remittances as % of GDP:

Emigrants

Total number of emigrants No data available.

Status emigrants

Refugees N/A
Labour migrants /permanent
Labour migrants/seasonal 35% of male wage earners work in South Africa
32% of Basotho have worked in SA at some point in their lives
32% of Basotho have worked in South African mines.

Legal situation emigrants

Documented
Undocumented

- While there are a high number of recorded border crossings, unauthorized crossings are not too difficult;
- Moreover, it is relatively easy for Basotho to overstay their permits (126,886 recorded permit overstayers in 2000), and only relatively small numbers are repatriated to

Lesotho (5-6,000 per year, out of a total of 150,000 South African deportations of mainly Mozambicans and Zimbabweans)

Trend

- More relevant data not available. However, recorded border crossings to and from South Africa are as follows:

Border crossings into SA in 1997	6,276,939
Recorded returns	5,208,587
Border crossings into SA in 1999	5,266,265
Recorded returns	4,954,839

Lesotho contributes over 40% of the recorded movement of people from all neighbouring countries in and out of South Africa.

Education: Skilled labour No data available.

Main countries of destination South Africa

Rate of return No data available.

- Most Basotho seem to move back and forth between South Africa and Lesotho for work and personal reasons, and the vast majority does not wish to live in SA permanently (75%);
- Between 25-33% express the wish or feel that they are likely to live in SA permanently, but this doesn't necessarily represent the actual situation.

Finance

Amount of incoming migrant remittances	184 \$ million (2001)
Remittances as % of GDP:	20%

Other Comments

- Not surprising given its size and geographical location, cross-border movements in and out of Lesotho are very common. While most Basotho who work in South Africa return to Lesotho at some point Lesotho seems to be, if anything, a country of emigrants and not immigrants.
- As for all Southern African countries except South Africa, data and information about migration movements is very scarce and incomplete.
- Inter-government talks are ongoing with a view to removing cross-border restrictions for residents of both countries (South Africa and Lesotho).

Annex 8: Financial situation for 9th EDF as at end 2003 (All amounts in €)

PROJ. No.	PROJECT TITLE	PROJECT AMOUNT	SECONDARY COMMITMENTS END 2002	SECONDARY COMMITMENTS END 2003	PAYMENTS END 2002	PAYMENTS END 2003	%	Status *
<u>“A” envelope - NATIONAL INDICATIVE PROGRAMME – EDF 9 NIP</u>								
9/001	TA to Ministry of Natural Resources	750,000	0	500,000	0	9,175	<1	O
9/002	Capacity Building in economic Planning	17,500,000	0	0	0	0	0	O
9/003	Study – upgrading & strengthening primary road network	750,000		0	0	0	0	O
TOTAL “A” envelope - EDF 9 NIP (net)		19,000,000	0	500,000	0	9,175	0	0
<u>“B” envelope - NON PROGRAMMABLE AID</u>								
TOTAL “B” envelope – NON PROGRAMMABLE AID			0	0	0	0	0	
GRAND TOTAL NATIONAL PROGRAMME (A & B)		19,000,000	0	750,000	0	0	0	
	Total		Amount Primary Commitments 2002	Amount Primary Commitments 2003	Amount secondary Commitments 2002	Amount secondary Commitments 2003	Amount disbursements 2002	Amount disbursements 2003
	Allocation under 9 th EDF NIP (“A” envelope)	86,000,000	0 (0%)	19,000,000 (22%)	0 (0%)	500,000 (<1%)	0 (0%)	9,175 (<1%)
	Allocation under 9 th EDF (“B” envelope)	24,000,000	0 (0%)	0 (0%)	0 (0%)	0 (0%)	0 (0%)	0 (%)
	GRAND TOTAL	110,000,000	0 (0%)	19,000,000 (17%)	0 (0%)	500,000 (<1%)	0 (0%)	9,175 (<1%)

C = Project closed; Co = All project activities completed; O = Project ongoing;

Annex 9: Financial situation for 8th EDF as at end 2003 (All amounts in €)

PROJ. No.	PROJECT TITLE	PROJECT AMOUNT	SECONDARY COMMITMENTS END 2002	SECONDARY COMMITMENTS END 2003	PAYMENTS END 2002	PAYMENTS END 2003	%	Status *
<u>A - NATIONAL INDICATIVE PROGRAMME (LOME IV bis – EDF 8 NIP)</u>								
8/002	Road Transport Infrastructure Programme	37,700,000	28,713,733	34,508,991	18,895,669	31,329,856	83	O
8/003	Multi-annual Microprojects Programme	5,300,000	1,563,511	2,069,396	729,379	1,540,260	29	O
8/005	Information, Workshops and Cultural Initiatives	476,000	242,200	242,200	53,097	108,557	23	O
8/006	Review of past EU/Lesotho Cooperation	66,522	66,522	66,522	66,522	66,521	100	C
8/007	Support to the Department of Economic Cooperation	1,100,000	445,000	800,790	200,975	448,286	41	O
8/008	Assistance to Health Sector Reform	1,800,000	1,345,000	1,600,000	0	429,082	24	O
8/011	Lesotho Lowlands Water Supply Feasibility Study	1,750,000	13,700	1,506,700	8,776	692,170	40	O
8/012	Support to the Department of Economic Policy	750,000	555,000	555,000	124,014	334,108	45	O
8/013	Support for Lesotho Independent Electoral Commission	1,900,000	68,500	1,795,721	52,094	1,795,721	95	Co
8/014	Claim Assessment – Six Towns Water Supply	14,363	14,363	14,363	14,363	14,363	100	C
8/015	Establishment of National Elections Results Centre	48,844	47,300	43,235	43,236	43,236	89	Co
8/016	Review of current HIV/AIDS related activities	40,000	39,500	39,500	6,968	37,135	93	Co
8/017	Six Towns Water Supply – Phase 2	1,900,000	0	1,568,000	0	131,251	7	O
8/018	Maseru Wastewater Feasibility Study	750,000	0	675,812	0	134,460	18	O
8/019	Adviser, Economic Planning and Budget Support	230,000	0	230,000	0	100,915	44	O
8/020	TA to Bureau of Statistics	530,000	0	0	0	0	0	O
TOTAL A - LOME IV bis – EDF 8 NIP (net)		54,355,729	33,114,329	45,716,230	20,195,093	37,205,921	60	
<u>B - NON PROGRAMMABLE AID</u>								
STRUCTURAL ADJUSTMENT SUPPORT								
8/009	Poverty Reduction Budget Support	8,500,000	6,156,100	7,246,030	6,067,257	6,204,186	73	O
8/010	Poverty Reduction Budget Support	10,000,000	3,000,000	10,000,000	0	3,000,000	30	O
TOTAL STRUCTURAL ADJUSTMENT SUPPORT		18,500,000	9,156,100	17,236,030	6,067,257	9,204,186	50	
TOTAL B – NON PROGRAMMABLE AID		18,500,000	9,156,100	17,236,030	6,067,257	9,204,186	50	
GRAND TOTAL NATIONAL PROGRAMME IV bis (A - B)		72,855,729	42,270,429	62,781,620	26,262,350	46,410,116	58	
		Total	Amount Primary Commitments 2002	Amount Primary Commitments 2003	Amount secondary Commitments 2002	Amount secondary Commitments 2003	Amount disbursements 2002	Amount disbursements 2003
Allocation under 8 th EDF NIP		61,500,000	53,825,720 (88%)	54,355,729 (88%)	33,114,329 (54%)	45,716,230 (74%)	20,195,093 (33%)	37,205,921 (60%)
Macroeconomic (Budgetary) Support		18,500,000	18,500,000 (100%)	18,500,000 (100%)	9,156,100 (49%)	17,236,030 (93%)	6,067,257 (33%)	9,204,186 (50%)
GRAND TOTAL		80,000,000	72,325,720 (90%)	72,855,729 (91%)	42,270,429 (53%)	62,952,260 (79%)	26,262,350 (33%)	46,410,116 (58%)

C = Project closed; Co = All project activities completed; O = Project ongoing;

Annex 10: Financial situation for 7th EDF as at end 2003 (All amounts in €)

PROJ. No.	PROJECT TITLE	PROJECT AMOUNT	SECONDARY COMMITMENTS END 2002	SECONDARY COMMITMENTS END 2003	PAYMENTS END 2002	PAYMENTS END 2003	%	Status *
A - NATIONAL INDICATIVE PROGRAMME (LOME IV – EDF 7 NIP)								
7/001	Muela Hydro-electric Project	32,300,000	32,163,646	32,228,646	31,856,722	31,886,790	97	O
7/002	1 st EDF 7 Microprojects Programme	964,068	964,068	964,068	964,068	964,068	100	C
7/006	Preparation for Structural Adjustment Programme	14,283	14,283	14,283	14,283	14,283	100	C
7/014	2 nd EDF 7 Microprojects Programme	1,978,251	1,978,251	1,978,251	1,978,251	1,978,251	100	C
7/023	3 rd Structural Adjustment Programme	1,800,000	1,800,000	1,800,000	1,800,000	1,800,000	100	C
7/025	Preparation of Urban Water & Sanitation Project	140,220	140,220	140,220	140,220	140,220	100	C
7/030	4 th Structural Adjustment Support Programme	5,680,008	5,680,008	5,680,008	5,680,008	5,680,008	100	C
7/031	Feasibility Study of Roads B42, B43 and B47	452,770	550,000	452,770	452,770	452,770	100	C
7/032	Preparation of Design Standards for Roads & Bridges	231,808	231,808	231,808	231,808	231,808	100	C
7/033	3 rd EDF 7 Microprojects Programme	1,766,689	1,766,689	1,766,689	1,766,689	1,766,689	100	C
7/034	TA (Agronomist) to HVCP	70,000	70,000	70,000	70,000	70,000	100	C
7/035	HVC - TA Coordinator	110,000	90,000	90,000	78,750	78,750	72	Co
7/036	TA to Roads Branch, Ministry of Works	241,613	241,613	241,613	241,613	241,613	100	C
7/037	TA to LCU, Ministry of Works	185,643	185,643	185,643	185,643	185,643	100	C
7/039	EDF Procedures Seminar	22,954	22,954	22,954	22,954	22,954	100	C
7/040	Evaluation of EDF 7 Microprojects Programmes	14,918	14,918	14,918	14,918	14,918	100	C
7/043	Feasibility study - road safety	77,371	77,400	77,371	77,371	77,371	100	C
7/045	Assistance to Bureau of Statistics	1,101,000	799,600	799,600	512,289	634,691	58	O
7/046	TA to Ministry of Health and Social Welfare	6,169	6,169	6,169	6,169	6,169	100	C
7/047	Study into privatisation of Lesotho Bank	81,068	81,068	81,068	81,068	81,068	100	C
7/048	8 th EDF Microprojects Programme	407,000	394,315	394,315	222,978	346,797	85	O
7/049	Development of Financial Admin. Software for NAO	25,000	25,000	25,000	15,910	15,910	64	O
7/050	Assistance Ministries of Planning, Finance & Trade	23,408	23,408	23,408	23,408	23,408	100	C
7/051	TA Water Feasibility Study	45,010	50,000	45,010	40,549	45,010	90	C
7/052	Consultancy for the preparation of LDC 3	18,768	18,768	18,768	18,768	18,768	100	C
7/053	Preparation of EU/Lesotho CSS	24,600	24,600	24,600	24,600	24,600	100	C
7/054	Independent Electoral Commission – Capacity building	77,634	77,634	77,634	77,634	77,634	100	C
TOTAL A - LOME IV - NIP (net)		47,860,253	47,492,063	47,454,814	46,599,441	46,880,191	98	

PROJ. No.	PROJECT TITLE	PROJECT AMOUNT	SECONDARY COMMITMENTS END 2002	SECONDARY COMMITMENTS END 2003	PAYMENTS END 2002	PAYMENTS END 2003	%	Status *
<u>B - TRANSFER OF BALANCE LOME II - NIP (5th EDF)</u>								
7/008	Trade & Tourism Programme	28,375	28,375	28,375	28,375	28,375	100	C
7/009	Study into Lesotho Water Project Royalties	0	0	0	0	0	0	Cancelled
7/022	Asparagus Expansion Programme	530,143	530,143	530,143	530,143	530,143	100	C
7/027	TA to office of NAO	750,000	726,200	726,200	687,555	687,555	92	Co
7/028	Highlands Community Forestry	1,148,073	1,148,073	1,148,073	1,148,073	1,148,073	100	C
7/038	Axle Load Control	850,000	743,000	814,200	357,848	677,669	80	O
7/041	Six towns water supply	1,996,000	1,951,000	1,831,108	1,826,383	1,831,108	92	Co
7/042	Assistance to General Elections	1,154	1,154	1,154	1,154	1,154	100	C
TOTAL B - TRANSFER OF BALANCE LOME II - NIP (5th EDF)		5,303,745	5,127,945	5,079,253	4,579,531	4,904,077	92	
TOTAL PROGRAMMABLE AID		53,163,998	52,620,008	52,534,067	51,178,972	51,784,268	97	
<u>C - NON PROGRAMMABLE AID</u>								
STRUCTURAL ADJUSTMENT SUPPORT								
7/005	1 st Structural Adjustment Programme	8,476,988	8,476,988	8,476,988	8,476,988	8,476,988	100	C
7/015	2 nd Structural Adjustment Programme	7,909,404	7,909,404	7,909,404	7,909,404	7,909,404	100	C
7/024	3 rd Structural Adjustment Programme	2,300,000	2,300,000	2,300,000	2,300,000	2,300,000	100	C
7/029	4 th Structural Adjustment Programme	2,900,000	2,900,000	2,900,000	2,900,000	2,900,000	100	C
TOTAL STRUCTURAL ADJUSTMENT SUPPORT		21,586,392	21,586,392	21,586,392	21,586,392	21,586,392	100	
STABEX								
7/003	STABEX transfer 1991 (Wool)	385,688	385,688	385,688	385,688	385,688	100	C
7/004	STABEX transfer 1991 (Mohair)	550,816	550,816	550,816	550,816	550,816	100	C
7/011	STABEX transfer 1992 (Wool)	950,965	950,965	950,965	950,965	950,965	100	C
7/012	STABEX transfer 1992 (Mohair)	378,624	378,624	378,624	378,624	378,624	100	C
7/016	STABEX transfer 1993 (Wool)	1,009,444	1,009,444	1,009,444	1,009,444	1,009,444	100	C
7/017	STABEX transfer 1993 (Mohair)	72,664	72,664	72,664	72,664	72,664	100	C
7/021	STABEX transfer 1994 (Wool)	324,191	324,191	324,191	324,191	324,191	100	C
7/026	Redistribution STABEX transfers 1990 – 94	32,958	32,958	32,958	32,958	32,958	100	C
TOTAL STABEX TRANSFERS		3,705,350	3,705,350	3,705,350	3,705,350	3,705,350	100	
TOTAL C - NON PROGRAMMABLE AID		25,291,742	25,291,742	25,291,742	25,291,742	25,291,742	100	
GRAND TOTAL NATIONAL PROGRAMME IV (A - C)		78,455,740	77,911,750	77,825,809	76,470,714	77,076,010	98	

PROJ. No.	PROJECT TITLE	PROJECT AMOUNT	SECONDARY COMMITMENTS END 2002		SECONDARY COMMITMENTS END 2003		PAYMENTS END 2002	PAYMENTS END 2003	%	Status *									
			Amount Primary Commitments 2002	(%)	Amount Primary Commitments 2003	(%)					Amount secondary Commitments 2002	(%)	Amount secondary Commitments 2003	(%)	Amount disbursements 2002	(%)	Amount disbursements 2003	(%)	
		Total																	
			48,898,413	(98%)	47,860,253	(96%)	47,492,063	(95%)	47,454,814	(95%)	46,599,441	(93%)	46,880,191	(94%)					
	Allocation under 7 th EDF NIP	50,000,000																	
	Carry forward from 5 th EDF	6,495,500	5,303,745	(82%)	5,303,745	(82%)	5,127,945	(79%)	5,079,253	(78%)	4,579,531	(71%)	4,904,070	(75%)					
	Stabex Transfers	3,705,350	3,705,350	(100%)	3,705,350	(100%)	3,705,350	(100%)	3,705,350	(100%)	3,705,350	(100%)	3,705,350	(100%)					
	Macroeconomic (Structural adjustment) support	21,586,392	21,586,392	(100%)	21,586,392	(100%)	21,586,392	(100%)	21,586,392	(100%)	21,586,392	(100%)	21,586,392	(100%)					
	GRAND TOTAL	81,787,242	79,493,900	(97%)	78,455,740	(96%)	77,911,750	(95%)	77,825,809	(95%)	76,470,714	(93%)	77,076,010	(94%)					

C = Project closed; Co = All project activities completed ; O = Project ongoing

Annex 11: Financial situation for 6th EDF as at end 2003 (All amounts in €)

PROJ. No.	PROJECT TITLE	PROJECT AMOUNT	SECONDARY COMMITMENTS END 2002	SECONDARY COMMITMENTS END 2003	PAYMENTS END 2002	PAYMENTS END 2003	%	Status *
<u>A - NATIONAL INDICATIVE PROGRAMME (LOME III – EDF 6 NIP)</u>								
6/001	Lesotho Highlands Water Scheme (Hydropower Project)	9,475,199	9,475,199	9,475,199	9,475,199	9,475,199	100	C
6/002	Mphaki Area Development Project (Phase 2)	3,334,113	3,334,113	3,334,113	3,334,113	3,334,113	100	C
6/004	Asparagus Expansion Programme	4,701,117	4,701,117	4,701,117	4,701,117	4,701,117	100	C
6/005	TA to Lerotholi Polytechnic	139,964	139,964	139,964	139,964	139,964	100	C
6/006	Study assistance – Mekaling Road	3,840	3,840	3,840	3,840	3,840	100	C
6/007	TA to LNDC	250,700	250,700	250,700	250,700	250,700	100	C
6/009	Manpower Development Programme	7,033,659	7,033,659	7,033,659	7,033,659	7,033,659	100	C
6/010	Mekaling-Quthing Road	9,800,000	9,800,000	9,800,000	9,800,000	9,800,000	100	C
6/011	Mekaling-Quthing Road	366,802	366,802	366,802	366,802	366,802	100	C
6/012	Participation of Maseru Choir at Welsh Festival	45,375	45,375	45,375	45,375	45,375	100	C
6/014	Improvements to Queen Elizabeth II Hospital	149,081	149,081	149,081	149,081	149,081	100	C
6/015	TA to Lerotholi Polytechnic	273,716	273,716	273,716	273,716	273,716	100	C
6/016	Improvements to Queen Elizabeth II Hospital	4,427,185	4,427,185	4,427,185	4,427,185	4,427,185	100	C
6/022	Evaluation SSIVP 1 & appraisal of SSIVP 2	23,620	23,620	23,620	23,620	23,620	100	C
6/024	Drakensberg/Maloti Mountain Conservation Programme	209,586	209,586	209,586	209,586	209,586	100	C
6/032	Assistance to Bureau of Statistics	45,473	45,473	45,473	45,473	45,473	100	C
6/033	Pre-study Six Towns Water Supply – Phase II	19,431	28,300	19,431	19,431	19,431	100	C
TOTAL A - LOME IV - NIP (net)		40,298,861	40,307,730	40,298,861	40,298,861	40,298,861	100	
<u>B - TRANSFER OF BALANCE LOME I - NIP (4th EDF)</u>								
6/018	Study into Lesotho Highlands Water Project Royalties	118,717	118,717	118,717	118,717	118,717	100	C
6/019	Improvements to Queen Elizabeth II Hospital	181,591	181,591	181,591	181,591	181,591	100	C
6/025	Agricultural Policy Paper	129,228	129,228	129,228	129,228	129,228	100	C
6/026	Development of High Value Horticultural Crops	135,000	135,000	135,000	135,000	135,000	100	C
6/027	Feasibility Study – Axle Load Control & Road Safety	19,262	19,262	19,262	19,262	19,262	100	C
6/029	Privatisation Study – Plant & Vehicle Pool Services	19,507	19,507	19,507	19,507	19,507	100	C
6/030	Appraisal of SADC-HYCOS project	24,898	24,898	24,898	24,898	24,898	100	C
6/031	Drakensberg/Maloti Mountain Conservation Programme	424,944	424,944	424,944	424,944	424,944	100	C

PROJ. No.	PROJECT TITLE	PROJECT AMOUNT	SECONDARY COMMITMENTS END 2002	SECONDARY COMMITMENTS END 2003	PAYMENTS END 2002	PAYMENTS END 2003	%	Status *
TOTAL B - TRANSFER OF BALANCE LOME I - NIP (4th EDF)		1,053,147	1,053,147	1,053,147	1,053,147	1,053,147	100	
TOTAL PROGRAMMABLE AID		41,352,008	41,360,877	41,352,008	41,352,008	41,352,008	100	
<u>C - NON PROGRAMMABLE AID</u>								
STABEX								
6/013	STABEX transfer 1987 (Mohair)	3,140,313	3,140,313	3,140,313	3,140,313	3,140,313	100	C
6/023	STABEX transfer 1988 (Mohair)	1,224,000	1,224,000	1,224,000	1,224,000	1,224,000	100	C
TOTAL STABEX TRANSFERS		4,364,313	4,364,313	4,364,313	4,364,313	4,364,313	100	
TOTAL C - NON PROGRAMMABLE AID		4,364,313	4,364,313	4,364,313	4,364,313	4,364,313	100	
GRAND TOTAL NATIONAL PROGRAMME IV (A - C)		45,716,321	45,725,190	45,716,321	45,716,321	45,716,321	100	
	Total		Amount Primary Commitments 2002	Amount Primary Commitments 2003	Amount secondary Commitments 2002	Amount secondary Commitments 2003	Amount disbursements 2002	Amount disbursements 2003
Allocation under 6th EDF NIP *		41,500,000	40,308,030 (97%)	40,298,861 (97%)	40,307,730 (97%)	40,298,861 (97%)	40,298,861 (97%)	40,298,861 (97%)
Carry forward from 4th EDF		1,100,903	1,053,147 (96%)	1,053,147 (96%)	1,053,147 (96%)	1,053,147 (96%)	1,053,147 (96%)	1,053,147 (96%)
Stabex Transfers		4,364,313	4,364,313 (100%)	4,364,313 (100%)	4,364,313 (100%)	4,364,313 (100%)	4,364,313 (100%)	4,364,313 (100%)
GRAND TOTAL		46,965,216	45,725,490 (97%)	45,716,321 (97%)	45,725,190 (97%)	45,716,321 (97%)	45,716,321 (97%)	45,716,321 (97%)

C = Project closed

Annex 12: Financial situation Regional projects as at end 2003 (All amounts in €)

PROJ. No.	PROJECT TITLE	PROJECT AMOUNT	SECONDARY COMMITMENTS END 2002	SECONDARY COMMITMENTS END 2003	PAYMENTS END 2002	PAYMENTS END 2003	%	Status *
6 th EDF								
6 RPR 262	Watershed Management Pilot Project	37,200	37,200	37,200	37,200	37,200	100	C
6 RPR 559	EU-SADC Conf. On management of shared river basins	73,668	73,668	73,668	73,668	73,668	100	C
TOTAL 6 th EDF		110,868	110,868	110,868	110,868	110,868		
7 th EDF								
7 RPR 304	Muela Hydropower Project	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000	100	C
7 RPR 304	Establishment of SARTOC	97,621	97,621	97,621	97,621	97,621	100	C
7 RPR 600	SADC-HYCOS	1,964,000	1,957,107	1,783,376	1,600,086	1,759,340	90	Co
TOTAL 7 th EDF		12,061,621	12,054,728	11,880,997	11,697,707	11,856,961	98	
TOTAL REGIONAL PROJECTS		12,172,489	12,165,596	11,991,865	11,808,375	11,967,829	98	

C = Project closed; Co = All project activities completed

Annex 13 European Investment Bank - Loan portfolio financial situation as at end 2003

Loan No	Name of contract	Loan signed on	Loan amount	Loan disbursements (amounts in EUR)					Loan repayments			
				Amount disbursed	(Actual) Date of first disburse.	Amount cancelled	Amount to be disbursed	Contractual date of last disbursement	Amount of loan outstanding in EUR	First repayment date	Last repayment date	
<i>Loans on EIB's own resources</i>												
17170	LESOTHO-MUELA HYDROPOWER <i>Conditions: grace period ; interest rate: 3%</i>	15/03/94	5,000,000	5,000,000	28/03/94	0	0	n/a	3,648,784	20/08/99	20/02/09	
17455	LESOTHO HIGHLANDS WATER A (PHASE 1B) <i>Conditions: grace period ; interest rate: open</i>	25/05/98	44,000,000	26,586,302	25/05/00	0	17,413,698	31/01/04	22,099,518	31/07/04	31/01/18	
17690	LESOTHO HIGHLANDS WATER - B (PHASE 1B) <i>Conditions: grace period ; interest rate: open</i>	07/10/98	10,000,000	0	n/a	0	10,000,000	31/07/03	0	31/01/04	31/07/18	
	<i>sub-total own resources</i>		<i>59,000,000</i>	<i>31,586,302</i>		<i>0</i>	<i>27,413,698</i>		<i>25,748,302</i>			
<i>Loans on risk capital resources</i>												
70206	LESOTHO - LNDC TOURISM STUDY <i>Conditions: grace period ; interest rate: 2%</i>	13/02/81	50,000	50,000	12/03/81	0	0	n/a	0	30/08/82	30/08/86	
70207	LESOTHO-LNDC CERAMICS STUDIES <i>Conditions: grace period ; interest rate: 2%</i>	13/02/81	50,000	47,517	16/09/81	2,484	0	n/a	0	30/08/83	30/08/87	
70259	LESOTHO - LNDC PG <i>Conditions: grace period ; interest rate: 2%-8%*</i>	17/12/81	3,000,000	2,513,000	07/06/82	487,000	0	n/a	0	01/03/86	01/03/06	
70560	LESOTHO - LNDC PG II <i>Conditions: grace period ; interest rate: 2%-8%*</i>	13/08/85	3,000,000	2,815,500	20/03/86	184,500	0	n/a	37,500	01/03/89	01/03/10	
70630	LESOTHO HIGHLANDS WATER STUDY <i>Conditions: grace period ; interest rate: 2%</i>	15/12/86	3,500,000	3,500,000	04/09/87	0	0	n/a	0	10/11/97	10/11/01	
70794	LNDC INDUSTRIAL ESTATE <i>Conditions: grace period ; interest rate: 5%</i>	26/10/89	3,000,000	1,459,171	25/11/92	1,540,829	0	n/a	1,430,805	01/10/05	01/10/09	
70942	LESOTHO-MUELA HYDROPOWER <i>Conditions: grace period ; interest rate: 2%</i>	15/03/94	15,000,000	15,000,000	18/09/95	0	0	n/a	15,000,000	20/02/05	20/02/14	
70968	LNDC IV GL A <i>Conditions: grace period ; interest rate: 1%</i>	28/09/94	750,000	750,000	20/09/95	0	0	n/a	560,850	31/10/99	31/10/13	
70969	LNDC IV GL B <i>Conditions: grace period ; interest rate: 1%</i>	28/09/94	1,750,000	1,265,000	03/09/96	485,000	0	n/a	759,000	31/10/99	31/10/08	
70970	LNDC IV GL C <i>Conditions: grace period ; interest rate: 1%</i>	28/09/94	500,000	73,000	20/01/00	300,000	127,000	n/a**	73,000	31/10/05	31/10/10	
	<i>sub-total risk capital resources</i>		<i>30,600,000</i>	<i>27,473,188</i>		<i>2,999,813</i>	<i>127,000</i>		<i>17,861,155</i>			
	Grand Total		89,600,000	59,059,490		2,999,813	27,540,698		43,609,457			

Annex 14 Summary of STABEX transfers and disbursements 1993 – 2003

Financial Resources available as at 31st December 2003

Balance on Euro Account at BBL	EUR	0.00
Balance of Counterpart Funds at CBL	LSL	3,342,607.64

Account Movements by Year

Euro Account at BBL (EUR)

	<i>Transfers ex Stabex</i>	<i>Transfers to CBL</i>	<i>Other payments</i>	<i>Interest earned</i>	<i>Other income</i>	<i>Year end balance</i>
1993	2,160,504.00	0.00	0.00	77,002.53	0.00	2,237,506.53
1994	1,329,589.00	1,000,000.00	0.00	124,568.47	0.00	2,691,664.00
1995	1,039,672.00	0.00	0.00	178,112.70	0.00	3,909,448.70
1996	399,585.00	1,000,000.00	25,147.57	114,399.91	0.00	3,398,286.04
1997	0.00	0.00	30,867.02	103,248.65	0.00	3,470,667.67
1998	0.00	0.00	0.00	105,152.59	0.00	3,575,820.26
1999	0.00	0.00	1.09	61,086.72	0.00	3,636,905.89
2000	0.00	0.00	0.00	113,427.01	0.00	3,750,332.90
2001	0.00	3,000,000.00	0.00	66,290.82	0.00	816,623.72
2002	0.00	0.00	0.00	18,322.62	0.00	834,946.34
2003	0.00	841,383.75	0	6,437.41	0.00	0.00
Total	4,929,350.00	5,841,383.75	56,015.68	968,049.43	0.00	0.00

Counterpart fund account at CBL (LSL)

	<i>Transfers ex BBL</i>	<i>Payments under FMO 1</i>	<i>Payment under FMO 3</i>	<i>Interest earned</i>	<i>Other Income</i>	<i>Year end balance</i>
1993	0.00	0.00	0.00	0.00	0.00	0.00
1994	4,163,518.19	590,000.00	0.00	191,419.29	0.00	3,764,937.48
1995	0.00	2,798,229.89	0.00	280,640.39	0.00	1,247,347.98
1996	5,500,757.00	3,171,473.21	0.00	462,822.86	52,967.66	4,092,422.29
1997	0.00	2,416,783.32	0.00	457,460.22	81,147.65	2,214,246.84
1998	0.00	211,200.00	0.00	368,823.10	0.00	2,371,869.94
1999	0.00	719,173.33	0.00	257,070.09	0.00	1,909,766.70
2000	0.00	342,860.00	0.00	145,612.46	0.00	1,712,519.16
2001	21,069,637.41	197,535.00	22,001,977.92	267,967.92	0.00	850,611.57
2002	0.00	104,024.42	0.00	46,962.52	0.00	793,549.67
2003	7,155,118.68	0.00	4,606,060.71	0.00	0.00	3,342,607.64
Total	37,889,031.28	10,551,279.17	26,608,038.63	2,478,778.85	134,115.31	3,342,607.64

Utilisation through Frameworks of Mutual Obligation (FMO)

	<i>FMO 1</i>	<i>FMO 3</i>	<i>FMO 3 Rider No.1</i>	<i>Total</i>
Duration as per FMO	1994-1999	2000-2001	2003	
Budgeted amount per Cost Estimate (LSL)	17,000,000.00	25,000,000.00	7,995,370.00	49,995,370.00
Amount transferred (EUR)	2,000,000.00	3,000,000.00	841,383.75	5,841,383.75
Counterpart funds generated (LSL)	9,664,275.19	21,069,637.41	7,155,118.68	37,889,031.28
Counterpart funds disbursed (LSL)	10,551,279.17	22,001,977.92	4,606,060.71	37,159,317.80
Interest earned	752,888.67	1,725,890.18	0.00	2,478,778.85
Other income	134,115.31	0.00	0.00	134,115.31
Budgeted amount not disbursed			3,389,309.29	
Balance on hand	0.00	0.0	0.00	3,342,607.64

Project Sheets/Profiles (Ongoing projects and projects completed during 2003)

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	
Project amount	€750,000	Total disbursement to end 2003	€9,175	
Amount disbursed in 2003	€9,175	Forecast disbursement end 2004	€135,000	
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 subsequently the 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. Initiating, managing and supervising other studies and projects aimed at alleviating potable water shortages in Lesotho; 4. Strengthening the technical capacity of the Department of water affairs and the Office of the Commissioner for Water. 			
Results Achieved and/or Progress in 2003	The technical assistance, Mr. Graeme C. Monro commenced the assignment on 1 st November 2003			

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		
Project amount	€17,500,000	Total disbursement to end 2003	€0		
Amount disbursed in 2003	€0	Forecast disbursement end 2004	€1,000,000		
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 2003	Recruitment for the project was initiated in December 2003 and it is expected that project implementation will commence in the first quarter of 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	
Project amount	€37,700,000	Total disbursement to end 2001	€14,221,421	
Amount disbursed in 2001	€5,857,161	Total disbursement to end 2002	€18,895,669	
Amount disbursed in 2002	€4,674,248	Total disbursement to end 2003	€31,329,856	
Amount disbursed in 2003	€12,434,187	Forecast disbursement 2004	€3,601,600	
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 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 2003	<p>The largest component of the RTIP is the <u>upgrading to bitumen standard</u> of the following gravel roads in Mafeteng and Maseru districts:</p> <ul style="list-style-type: none"> - B 42 from Ha Ramohapi to Ha Ralintsi (39.5 km) - B 43 from Masite Nek to Makintane (32.6 km) - B 47 from Maseru By-pass to Ha Sekete (41.8 km) <p>The Roads Department in the Ministry of Public Works and Transport is responsible for overseeing the improvement of these roads. The works contract was signed with WBHO for an amount of LSL 105M (€ 20.8M) in July 2000 after competitive international tender procedures. Actual works commenced in September 2000 with a contractual time for completion of the works of 24 months. Provisional Acceptance of the works took place in July-August 2003, some 33 months after commencement with a final value of works assessed at LSL 182M (€23.7M).</p> <p>Progress of the works was affected by design discrepancies, delays in land acquisition and periods of heavy rainfall. There was also an increase of about 43% in the amount of physical works due to Administrative Orders. Extensions of time for non-availability of design (2.1 months), increases in quantity of work (7.1 months) and inclement weather (2.13 months) were awarded during the course of the contract, however, the contractor has currently lodged claim for approximately LSL 181 million (€22million). This has yet to be settled although various attempts at amicable settlements have been tried.</p> <p>The supervision of the works contract was awarded to Bergman-Ingérop, following a restricted tender. The amount of the contract has been increased to LSL 16,940,120 (compared with the price at award of LSL 8,380,191. The major part of the increase in the contract price has resulted from the additional services required for the design and supervision of the road safety measures in the Maseru South industrial and residential areas, although there has also been 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><u>Upgrading of Earth tracks to LCU gravel standard:</u> Under the RTIP the Department of Rural roads is responsible for improving a number of earth tracks to all-weather gravel status, using labour-based techniques. The roads that are to be upgraded under this element of the programme are:</p> <ul style="list-style-type: none"> ▪ BB09 from Ha Selomo to Tsime 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) 			

Title	Road Transport Infrastructure Programme		N°	8 ACP LSO 002																																																												
<p style="text-align: center;">▪ MK10 from Mokhotlong to Phahameng in Mokhotlong district (16.6 km)</p> <p>Whilst DRR force-account teams have upgraded three of these roads, the other (MF 13) was been used to train and evaluate local contractors, who will be expected to play a major role in labour-based road construction and maintenance in the future. All the contractors successfully completed their trial contracts and are now undertaking similar work through both GoL and donor financed contracts .</p> <p style="text-align: center;">Progress as at 31.12.03 (% of operations completed)</p> <table border="1" data-bbox="470 517 1412 853"> <thead> <tr> <th>Item</th> <th>BR02</th> <th>BB09</th> <th>MK10</th> <th>MF13</th> </tr> </thead> <tbody> <tr> <td>Formation</td> <td>100 %</td> <td>100 %</td> <td>100 %</td> <td>100 %</td> </tr> <tr> <td>Gravelling</td> <td>100 %</td> <td>100 %</td> <td>100 %</td> <td>100 %</td> </tr> <tr> <td>Drifts</td> <td>100 %</td> <td>100 %</td> <td>100%</td> <td>100 %</td> </tr> <tr> <td>Culverts</td> <td>100 %</td> <td>100 %</td> <td></td> <td>100</td> </tr> <tr> <td>Bridges</td> <td>100 %</td> <td>100 %</td> <td>100 %</td> <td>Contract failed</td> </tr> <tr> <td>Budgeted cost (LSL) *</td> <td>3,866,510</td> <td>4,766,780</td> <td>5,716,920</td> <td>2,197,220</td> </tr> <tr> <td>Final cost (LSL) **</td> <td>4,618,533</td> <td>5,882,105</td> <td>7,680,032</td> <td>2,114,813</td> </tr> <tr> <td>Of which paid by EDF</td> <td>3,854,778</td> <td>5,669,991</td> <td>7,366,689</td> <td>2,093,730</td> </tr> <tr> <td>Labour input (man days)</td> <td>69,015</td> <td>90,000 +</td> <td>84,295</td> <td>35,280</td> </tr> <tr> <td>Productivity (man days/km)</td> <td>4,234</td> <td>Approx 4,660</td> <td>5,078</td> <td>3,714</td> </tr> <tr> <td>Average cost (LSL) per km</td> <td>283,346</td> <td>304,772</td> <td>462,652</td> <td>227,399</td> </tr> </tbody> </table> <p>* Estimated cost net of provisions for audit and baseline studies ** Where the final costs exceed the amount approved for the revised budgets the balance is paid by GoL from its own resources</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 up 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. These contracts have been extended for a two year period 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 and distributed for comment and discussion. 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 has been presented to Cabinet, however, there has been no feedback to date and the policy document has, thus, been held in abeyance.</p> <p>In response to the hardship experienced by the rural population in those areas that suffered adverse climatic conditions , which exacerbated an already difficult situation of rising food prices caused by the rapid devaluation of the SA Rand and regional political events, the Adviser - Rural Roads prepared a programme for income support through labour intensive road maintenance and construction. Implementation commenced during 2003 and to-date 56,068 man days of labour have been generated with approximately LSL 2.1 million being injected into target communities.</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 Ha Tsolo 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.</p>					Item	BR02	BB09	MK10	MF13	Formation	100 %	100 %	100 %	100 %	Gravelling	100 %	100 %	100 %	100 %	Drifts	100 %	100 %	100%	100 %	Culverts	100 %	100 %		100	Bridges	100 %	100 %	100 %	Contract failed	Budgeted cost (LSL) *	3,866,510	4,766,780	5,716,920	2,197,220	Final cost (LSL) **	4,618,533	5,882,105	7,680,032	2,114,813	Of which paid by EDF	3,854,778	5,669,991	7,366,689	2,093,730	Labour input (man days)	69,015	90,000 +	84,295	35,280	Productivity (man days/km)	4,234	Approx 4,660	5,078	3,714	Average cost (LSL) per km	283,346	304,772	462,652	227,399
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Title	Road Transport Infrastructure Programme	N°	8 ACP LSO 002
	<p>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. 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 have been issued giving a revised completion date of 15th December 2003. The works should be completed by March 2004.</p>		

Title	8th EDF Multi-annual Microprojects Programme			N°	8 ACP LSO 003																																																																																										
Date of Financing Agreement/Primary Commitment			2 nd September 1999																																																																																												
Start Date:	31 st December 1999		End Date:	30 th June 2005																																																																																											
Project amount		€5,300,000	Total disbursement to end 2001		€416,689																																																																																										
Amount disbursed in 2001		€222,396	Total disbursement to end 2002		€729,379																																																																																										
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Amount disbursed in 2003		€810,881	Forecast disbursement 2004		€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 437 Microprojects have been successfully implemented by a locally staffed coordination unit																																																																																														
Results Achieved and/or Progress in 2003	<p>During the 2003, re-established Coordination Unit under the National Authorising Officer, the Microprojects Programme Coordination Unit has started with a greater emphasis on the coordination of decentralised implementation. A total of eleven project agreements have been established with an estimated total cost of LSL 10,854,531 of which the EDF/MPP contribution was LSL 7,395,771 or approximately 68 %. Approximately 87% of the programmes, in monetary terms, have been implemented through seven separate NSA agencies and four Government line departments, which is a new departure for the Microprojects Programme. This is seen as a starting point for greater future involvement of NSA in the CSP/NIP for Lesotho.</p> <p>In terms of target beneficiaries it is expected that the water projects would benefit approximately 4,400 households, two-classroom blocks have been constructed in each of 32 primary schools and two secondary schools and 395 VIP pit-latrines have been constructed under the sanitation components. To ensure sustainability training was given to communities in health and hygiene, the training of Village Water Committees and the training of Water Minders in simple maintenance and repair for each water scheme..</p>																																																																																														
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Title	8 th EDF Multi-annual Microprojects Programme			N°	8 ACP LSO 003	
Expenditure as of 31.12.03						
Water Schemes in Ha Toloane and Masianokeng Villages			Water	Department of Rural Water		
Supply – Maseru District	891,313	658,012	630,593.62			
Upgrading MTDT Centre	SMME	MTDT	116,724	86,498	109,855.69	
Maphotong Comm.Centre	SMME	Tutubolohang Basali	122,024	80,759	75,426.50	
Water Scheme at Ha Ntsonyana & Rasoai	Water		DRWS (Mafeteng)	125,637	86,388	
	85,801.06					
Sanitation in Makhakhe	Sanitation	Environmental Health Division		662,297	287,920	
	112,178.94					
NB. * symbolises a new figure following a Rider Between MCU and Implementing Agency						

Title	Information, Workshops, Conference and Cultural Initiatives		N°	8 ACP LSO 005
Date of Commission Approval		28 th July 2000		
Date of Financing Agreement/Primary Commitment		24 th October 2000		
Latest Start Date:	1 st January 2001	End Date:	30 th June 2004	
Project amount	€476,000	Total disbursement to end 2001	€33,316	
Amount disbursed in 2001	€33,316	Total disbursement to end 2002	€53,997	
Amount disbursed in 2002	€20,681	Total disbursement to end 2003	€108,557	
Amount disbursed in 2003	€54,560	Forecast disbursement 2004	€59,000	
Objective	To increase understanding of social and development issues in Lesotho			
Purpose	To support workshops, seminars, information dissemination and cultural activities in areas related to the NIP focal sectors, GoL reciprocal commitments under the NIP, EU/Lesotho cooperation, EU/SA trade development and cooperation, etc.			
Results expected	<ol style="list-style-type: none"> 1. Increased awareness of key social and development issues. 2. Increased understanding of Southern Africa regional issues. 3. Increased awareness and knowledge of EU/Lesotho cooperation. 			
Results Achieved and/or Progress in 2003	<p>Implementation of the project continued to fall behind expectations throughout 2003, with the result that a contract for the administration of the fund was terminated and the administration of activities was taken over by the office of the National Authorising Officer. Although the activities supported during the year have fallen below the number scheduled under the Work Plan the content of those supported has covered a wide range of issues that are pertinent to cross-cutting areas in the CSP/NIP. The activities included financial contributions to:</p> <ul style="list-style-type: none"> – The Morija Arts and Cultural Festival 2003. A grant of LSL 250,000 towards the costs of running the Festival. – The Printing of leaflets on “How to use the Male Condom” for distribution at the Morija Arts and Cultural Festival in conjunction with HIV/AIDS awareness activities and for subsequent distribution at tertiary education establishments as part of their campaigns on HIV/AIDS prevention. – Support for two public hearings on the impact and sustainability of an Economic Partnership Agreement with the European Union – Support for awareness activities carried out by the Ithuseng Vocational Rehabilitation Centre (IVRC) as part of the “2003 European Year of People with Disabilities” <p>For 2004 it is planned to use the Fund to support a number of activities targeted at NSAs with the objective of creating awareness of the role of NSAs in the context of the Cotonou Agreement and identifying appropriate measures for increasing the participation of NSAs in the 9th EDF/NIP</p>			

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																																						
Project amount	€1,100,000	Total disbursement to end 2001	€98,598																																						
Amount disbursed in 2001	€98,598	Total disbursement to end 2002	€200,975																																						
Amount disbursed in 2002	€102,377	Total disbursement to end 2003	€448,286																																						
Amount disbursed in 2003	€247,311	Forecast disbursement 2004	€165,000																																						
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 2003	<p>The major focus during the year has again been that of providing support and assistance to the function of the National Authorising Officer in the management and administration of EU-Lesotho development cooperation programmes. This aspect of the assignment has become more significant in the past twelve months largely due to staffing problems both within the Department of Economic Cooperation (4 out of 8 professional grade officers either left the department or were reassigned) and within the EC Delegation.</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th></th> <th style="text-align: center;">2001</th> <th style="text-align: center;">2002</th> <th style="text-align: center;">2003</th> </tr> </thead> <tbody> <tr> <td>No. of Payment Orders issued</td> <td></td> <td style="text-align: center;">202</td> <td style="text-align: center;">309</td> </tr> <tr> <td>Value of Payment Orders issued (LSL)</td> <td style="text-align: right;">77,361,521</td> <td style="text-align: right;">137,661,439</td> <td style="text-align: right;">140,553,443</td> </tr> <tr> <td>No contracts concluded</td> <td style="text-align: center;">13</td> <td style="text-align: center;">13</td> <td style="text-align: center;">8</td> </tr> <tr> <td>Value contracts concluded (LSL)</td> <td style="text-align: right;">11,549,119</td> <td style="text-align: right;">55,176,484</td> <td style="text-align: right;">33,394,653</td> </tr> <tr> <td>No. Primary Commitments opened</td> <td style="text-align: center;">6</td> <td style="text-align: center;">7</td> <td style="text-align: center;">4</td> </tr> <tr> <td>Value Primary Commitment opened (€)</td> <td style="text-align: right;">20,374,600</td> <td style="text-align: right;">4,885,000</td> <td style="text-align: right;">19,530,000</td> </tr> <tr> <td>No. Primary Commitments closed</td> <td style="text-align: center;">7</td> <td style="text-align: center;">5</td> <td style="text-align: center;">4</td> </tr> <tr> <td>Value Primary Commitments closed (€)</td> <td style="text-align: right;">773,996</td> <td style="text-align: right;">5,104,326</td> <td style="text-align: right;">2,246,622</td> </tr> </tbody> </table> <p>As part of the continuing programme for the development of capacity within the Department of Economic Cooperation a number of Departmental staff were given assistance for attendance on courses. review of training needs was conducted and a tentative plan drawn up for 2002/03. Two Senior Economic Planners were sent on a 3-week course on Aid Coordination, two staff members to attended courses on “Financial Programming and Policy” and “Public Expenditure Analysis and Management”, one officer attended a course on Computer-based Financial Management and the Chief Economic Planner attended a course on “Macroeconomic Programmes and National Strategies”. A total of 40 persons were given formal training in EDF Financial and Procurement Procedures and in the Management of Cost estimates and Work Programmes.</p> <p>The Adviser , Development Cooperation also provided assistance and advise to the task force established to advise the Minister on the merger of the Ministries of Finance and Development Planning into one combined Ministry.</p>						2001	2002	2003	No. of Payment Orders issued		202	309	Value of Payment Orders issued (LSL)	77,361,521	137,661,439	140,553,443	No contracts concluded	13	13	8	Value contracts concluded (LSL)	11,549,119	55,176,484	33,394,653	No. Primary Commitments opened	6	7	4	Value Primary Commitment opened (€)	20,374,600	4,885,000	19,530,000	No. Primary Commitments closed	7	5	4	Value Primary Commitments closed (€)	773,996	5,104,326	2,246,622
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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	
Project amount	€ 1,800,000	Total disbursement to end 2001	€0	
Amount disbursed in 2001	€0	Total disbursement to end 2002	€0	
Amount disbursed in 2002	€0	Total disbursement to end 2003	€429,082	
Amount disbursed 2003	€429,082	Forecast disbursement 2004	€800,000	
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 2003	<p>The contract for technical assistance to the Ministry of Health and Social Welfare was awarded to the National Research and Development Centre for Welfare and Health (STAKES), Finland on 24th January 2002 and the technical assistance (Dr. P. Kuosmanen – Adviser, Decentralisation; Dr. D. Rumisha – Adviser, Health Information Systems) arrived to take up their posts in March 2002. Dr Kuosmanen was replaced by Dr Milen in December 2003. The Inception Report presented on 28th June 2002 identified that in order to assist in the development of decentralisation and the M & E system, there was a need to :</p> <ul style="list-style-type: none"> – Produce a comprehensive Health and Social Welfare Policy as a critical element for successful Health Sector Reform; – Build up skills and revitalise institutional systems before generating relevant and reliable health sector information. <p>With the assistance of the TA advisers the MoHSW initiated the development of a Health and Social Welfare Policy, which was available for discussion in mid-2003 and is to be finalised by the MoH.</p> <p><u>Decentralisation:</u> The primary focus during the year 2003 has been the development of the District Health Package (DHP), which establishes the functions that are to be decentralised and the definition of the services (Essential Services Package = ESP) to be provided at the community, health centre, district hospital and referral levels. Additionally, and in order to prepare the actual implementation of the piloting exercise in the three selected districts, a big effort has been devoted to the development of a comprehensive health sector policy and a strategic plan for decentralisation of the social and health care system in close co-operation with the Ministry of Local Government. Piloting of the decentralisation, as one part of the overall piloting can be started in March 2004.</p> <p><u>Monitoring and Evaluation:</u> The main aim of this component is to develop a capacity for monitoring and evaluation of the health care and social welfare system through a systematic and continuous process of tracking inputs/outputs/outcomes which will provide feedback for accountability, performance management and evidence based planning. Through the technical assistance the data processing backlog (1998-2002) has been compiled to produce statistical tables for this period and an epidemiological profile produced. Further assistance has been given in building a unified health management information system. To this end, policy guidelines and strategic plans for reshaping the data management system have been developed and the data collection instruments as well as software were reviewed and improved.</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:	31 st December 2003	
Project amount	€18,500,000	Total disbursement to end 2001	€0	
Amount disbursed in 2001	€0	Total disbursement to end 2002	€6,067,257	
Amount disbursed in 2002	€ 6,067,257	Total disbursement to end 2003	€9,204,186	
Amount disbursed in 2003	€3,136,929	Forecast disbursement end 2004	€17,500,000	
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 2003	<p>Implementation of the 8th EDF PRBSP was delayed in 2001 and 2002 due to concerns about public financial management in Lesotho. The Project has been extended until 30 June 2004. Final disbursement must be completed by 31 April 2004.</p> <p>The Project disbursed the first two tranches of € 6 M and € 3 M in 2003. The third and final disbursement is expected in the second quarter of 2004. The Department of Economic Cooperation has prepared social sector and PFM indicators to determine the amount of this disbursement and, if possible, to be used to measure performance under future budget support programmes. The PFM indicators selected coincide with indicators used under the IMF-sponsored Poverty Reduction and Growth Facility (PRGF). Lesotho has so far been judged to be on-track with regard to the economic policy requirement and benchmarks in the improvement of public financial management which underlie the PRGF.</p> <p>The data available to determine performance in the social sectors is of questionable quality and data collection and treatment in the statistics units in the ministries and in the BoS require strengthening. An EDF-funded capacity building project in MoHSW is assisting the ministry's statistics unit but data is not yet sufficiently precise to ascertain progress in the sector with an acceptable degree of accuracy. The same considerations apply to education data. The exercise of establishing indicators and ascertaining needs for data refinement does therefore not represent an ambition to ensure sufficiently accurate reporting under the current PRBSP, but rather an attempt to refine and systematize data reporting for future budget support and for GoL's other information needs. This process will be aided by the statistics component under the CBEP. The present situation implies that the amount disbursed in the third instalment will to a degree be affected by statistical errors. GoL and the European Commission are currently undertaking a study to assess the quality of data for the indicators to determine if interventions are required to strengthen data production.</p> <p>It is expected that an evaluation of the 8th EDF PRBSP and a review of progress in PFM following a study conducted in 2002 will take place in the course of 2004 and that these will form the basis for discussions between GoL and the EC about continued budget support under EDF 9. The GoL has requested that € 20.5 million be allocated to direct, untargeted budget support under a three-year programme under EDF 9.</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	
Project amount		€1,750,000		Total disbursement to end 2001 €0	
Amount disbursed in 2001		€0		Total disbursement to end 2002 €8,776	
Amount disbursed in 2002		€8,776		Total disbursement to end 2003 €692,170	
Amount disbursed in 2003		€683,394		Forecast disbursement end 2004 €1,142,170	
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 2003		<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 is 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 is expected by February 2004 and a final report with Terms of Reference and Tender documents for the next phase (detailed design) is scheduled for April 2004.</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 2004	
Project amount	€750,000	Total disbursement to end 2001	€7,744	
Amount disbursed in 2001	€7,744	Total disbursement to end 2002	€124,014	
Amount disbursed in 2002	€116,270	Total disbursement to end 2003	€ 334,108	
Amount disbursed in 2003	€210,094	Forecast disbursement end 2004	€502,108	
Objective	Strengthen the Ministry of Development Planning's capacity for guiding policy makers on development priorities through sound macroeconomic analysis and forecasting			
Purpose	The full integration of the work of the Department of Economic Policy into the budgetary process and the development of macroeconomic forecasting as a tool for ensuring an efficient allocation of government resources in accordance with the overall objective 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 2003	<p>Following restricted consultations on the basis of a short-list of candidates submitted by the European Commission a direct agreement contract was awarded to Mr. G. West. Mr. West took up his assignment on 3rd December 2001.</p> <p>The technical assistant has been closely involved in all aspects of the preparation of the Poverty Reduction Strategy Paper as a member of the Technical Working Group, author of the macroeconomic chapter and as a member of the editorial team. He is a member of the Macroeconomic Working Group which is responsible for recommending a medium-term fiscal strategy as the basis for budget preparation. The MWG engages with the International Monetary Fund during reviews of the Poverty Reduction and Growth Facility loan and Article IV missions. He is a resource person to the task force responsible for the introduction of the Medium-Term Expenditure Framework approach and has prepared several papers on public expenditure management and the MTEF. During 2003, key outputs have included:</p> <ul style="list-style-type: none"> - A paper on the development planning process - Documents on project cycle management - Preparation of a draft version of the Rolling Development Plan 2003/04 – 2005/06 (as editor and author of chapters on the national development strategy, economic performance, economic forecasts, the fiscal strategy; health and transport) - Papers on the introduction of the Medium-Term Expenditure Framework approach - Input to the task team considering the merger of the Ministry of Development Planning and the Ministry of Finance - Economic Review 1998 – 2002 - Fiscal Strategy 2004/05 – 2006/07 - Training of staff in the Department of Economic Policy and the MWG on fiscal forecasting 			

Title	Support for Lesotho's Independent Electoral Commission		N°	8 ACP LSO 013
Date of Commission Approval		14 th May 2004		
Date of Financing Agreement/Primary Commitment		15 th May 2002		
Latest Start Date:	25 th May 2002	End Date:	30 th June 2003	
Project amount	€1,900,000	Total disbursement to end 2001	€0	
Amount disbursed in 2001	€0	Total disbursement to end 2002	€52,094	
Amount disbursed in 2002	€52,094	Total disbursement to end 2003	€ 1,795,721	
Amount disbursed in 2003	€1,743,627	Forecast disbursement end 2004	€1,795,721	
Objective	To promote political stability conducive to national development			
Purpose	To promote acceptance, transparency and legitimacy of the national election results			
Results expected	The successful and transparent completion of the 2002 General Election			
Results Achieved and/or Progress in 2003	<p>A Financing Proposal for a project to support the Independent Electoral Commission in the implementation of the 2002 General Election was submitted to the Delegation on 16th October 2001. Under the project it is proposed that EDF support would be used to re-finance the GoL budget contribution in the area of logistics for the distribution of election materials. With the Financing Agreement being signed on the 15th May 2002 the activities that would be considered eligible for refinancing were limited to the period immediately preceding Election Day (25th May 2002), the rollback of materials after the election and the new elections in the two constituencies (Hlotse and Mount Moorosi.</p> <p>Polling took place in 2,308 polling stations from 7 a.m. and closed at 5 p.m., though in order to ensure that no voter would be denied the opportunity to cast his or her ballot papers voting was extended to 12 p.m. the following at a number of stations where voting had begun late due to missing materials.</p> <p>In total 554,386 voters cast their ballot papers under the new two-ballot system, which represented a turnout of 68.1%, and the results were announced both at the constituency and at the National Elections Results Centre in Maseru.</p> <p>In the constituency vote the Lesotho Congress for Democracy won 77 seats and the Lesotho People's Congress 1 seat. Of the 40 party seats the Basotho National Party were allocated 21 seats and a total of 8 parties were allocated the remainder. The total number of women elected to parliament increased from 2 in the 1998 election to 14 in the 2002 election.</p> <p>255 international observers were in Lesotho for Election Day to join up with local observer teams. All observers expressed their satisfaction with the election process, concluding that "The election was peaceful, free, fair and transparent; it is thus a true reflection of the will of the people of Lesotho".</p> <p>The compilation and reconciliation of the IEC expenditures for the Election were completed in June 2003 and a transfer based on agreed logistical activities was made in July 2003. A request for the project to be closed was submitted in October 2003.</p>			

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	
Project amount	€1,900,000	Total disbursement to end 2001	€0	
Amount disbursed in 2001	€0	Total disbursement to end 2002	€0	
Amount disbursed in 2002	€0	Total disbursement to end 2003	€131,251	
Amount disbursed in 2003	€131,251	Forecast disbursement end 2004	€431,251	
Objective	The provision of medium-term ¹⁴ 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 2003	<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 and Tender Dossier will be submitted in November 2004. It is expected that implementation of the recommended Works will commence in late 2005.</p>			

¹⁴ 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	
Project amount		€750,000		Total disbursement to end 2001	
		€0		€0	
Amount disbursed in 2001		€0		Total disbursement to end 2002	
		€0		€134,460	
Amount disbursed in 2002		€0		Total disbursement to end 2003	
		€134,460		Forecast disbursement end 2004	
				€434,460	
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 2003		<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 GWK, 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 Tender Dossier for the “immediate” works will be submitted in November 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	
Project amount		€230,000		Total disbursement to end 2001 €0	
Amount disbursed in 2001		€0		Total disbursement to end 2002 €0	
Amount disbursed in 2002		€0		Total disbursement to end 2003 €100,915	
Amount disbursed in 2003		€100,915		Forecast disbursement end 2004 €220,915	
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 2003		<p>A technical assistance contract was concluded with Mr. C. Olsen on 26th November 2002 for a two year period. The Adviser commenced work in December 2002 and will end his assignment in December 2004.</p> <p>During the first year of the assignment the Adviser has assisted the Ministry in preparing a capacity building project (CBEP) for all members and functions of the Planning Cadre. The EDF Committee approved the project in November 2003 and implementation is expected to begin in March 2004.</p> <p>In cooperation with the ministries of health and education and the EC Delegation, DEC has identified indicators to determine the size of the disbursement of the third and final instalment of the 8th EDF PRBSP in the second quarter of 2004 and it is hoped that the indicators selected will continue to form the basis for the evaluation of GoL's performance in the social sectors and in public financial management (PFM) under a new budget support programme.</p> <p>In March 2003 the Ministry of Finance and Development Planning was formed and the Hon. Minister announced that the implementation of a Medium Term Expenditure Framework (MTEF) would be a priority for the Government. While the Adviser has been tasked with improving the elaboration and monitoring of the capital budget, this should not be seen in isolation from a need to improve capacity at all stages of the project cycle since improved budgeting alone does not guarantee that other steps required to ensure successful Project Cycle Management (PCM) are carried out satisfactorily. Institutional arrangements which support the various stages in PCM should be integral to an improved overall national planning framework and will be dependent on an appropriate structure in the newly formed Ministry. The DEC has achieved a measure of success in improving periodic reporting on the implementation of the capital budget from line ministries and the Adviser has participated in ministerial meetings and working groups to assist in ensuring that the organisational structure of the new ministry will be conducive to the introduction of an improved national planning and budgeting framework.</p> <p>While the Department is making progress in carrying out the tasks with which the Adviser was hired to assist, these tasks should be seen in a wider context of government and civil service reform. Even though there has been nominal political and administrative commitment to reforms since the return to basic democratic principles in Lesotho in 1993, stated intentions have rarely been followed by actual changes. There are a number of dedicated and hard-working civil servants in the country, but the civil</p>			

Title	Adviser, Economic Planning and Budget Support	N°	8 ACP LSO 019
	<p>service in general lacks capacity and receives little administrative and political guidance in its work. Consequently, it is demotivated and exhibits extremely low productivity. Government reform currently falls under the Public Sector Improvement and Reform Programme. This programme was formally launched in 1999 but as yet no specific reform objectives or implementation plan have been adopted. Responsibility for the planning and implementation of the programme has been reassigned twice and remains unclear. The ongoing capacity building projects in MoFDP and projected interventions such as the CBEP are unlikely to be sustainable unless Government begins to design and implement civil service reform in earnest.</p>		

7th EDF

Title	Muela Hydropower Project		N°	7 ACP LSO 001
Date of Financing Agreement/Primary Commitment		29 th July 1991		
Start Date:		End Date:		
Project amount	€32,300,000	Total disbursement to end 2001	€31,736,953	
Amount disbursed in 2001	€164,503	Total disbursement to end 2002	€31,856,722	
Amount disbursed in 2002	€119,769	Total disbursement to end 2003	€31,886,790	
Amount disbursed in 2003	€30,068	Forecast disbursement end 2004	€32,086,790	
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 2003	<ol style="list-style-type: none"> 1. With the commissioning of the dam and hydropower station in 1998 the project reached substantial completion. The only remaining outstanding activity is the provision of a treated water supply to nine villages in the `Muela area. 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. 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 are to be completed by March 2004. 			

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:	
Project amount	€850,000	Total disbursement to end 2000	€186,314	
Amount disbursed in 2000	€186,314	Total disbursement to end 2001	€186,314	
Amount disbursed in 2001	€0	Total disbursement to end 2002	€357,848	
Amount disbursed in 2002	€171,534	Total disbursement to end 2003	€677,669	
Amount disbursed in 2003	€319,821	Forecast disbursement end 2004	€797,669	
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. New legislation, to increase the fines for overloading, has not yet been approved by the Traffic Department and is hampering enforcement.</p>			

Title	8th EDF Multi-annual Microprojects 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	
Project amount	€407,000	Total disbursement to end 2000	€127,228	
Amount disbursed in 1999/2000	€127,228	Total disbursement to end 2001	€164,221	
Amount disbursed in 2001	€36,993	Total disbursement to end 2002	€222,978	
Amount disbursed in 2002	€58,757	Total disbursement to end 2003	€346,797	
Amount disbursed in 2003	€123,819	Forecast disbursement end 2004	€366,797	
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 Microproject Agreements successfully concluded and implemented by a locally staffed coordination unit			
Results Achieved and/or Progress in 2003	<p>This commitment has been used to finance technical assistance as an adviser to the Microprojects Programme. Under the project Mr. G. Monteforte was recruited for an initial period of 12 months, to assist in the re-orientation of the Microprojects Management Unit (MMU) and the development of a programme of microprojects for implementation. Unfortunately, shortly after the arrival of the technical assistance a number of serious financial and administrative deficiencies in MMU came to light and an agreement was reached that the Microproject Programme required radical restructuring. The restructuring was seen as requiring the dissolution of the existing administrative structure, the development of a new concept/approach, a new programme title, structure (including pertinent personnel and project procedures) and the development of the relevant AWP/CE.</p> <p>The technical assistance was required to assume the de facto role of Programme Director and was given the task of determining the new approach and structure for both the programme and the coordination function. Extensive work has been completed both in the area of outlining a framework of criteria for microproject assistance, and for the re-orientation of the programme to be more closely integrated into GoL's policies for poverty reduction. The acting Director has also been able to develop linkages with the other community based programmes (Lesotho Fund for Community Development, Rural Water Supply, Ireland Aid microprojects, etc) in Lesotho, and the development of a personnel manual for the future microprojects coordination structure.</p> <p>During the latter part of his assignment the acting Director was required to complete the arrangements for the dissolution of MMU and the retrenchment of the staff employed. This was successfully completed during 2002 and a new structure (Microprojects Programme Coordination Unit – MPCU) put in place for the restarting of the programme. An annual work programme and cost estimate for a programme of microproject over 2002/03 has been put in place and implementation is under way. A key feature of the revived programme is the use of microprojects as a core vehicle for the greater involvement of Non-State actors (NSA) in the EU/Lesotho programme of development cooperation.. The technical assistance completed his assignment in September 2003</p>			

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
Project amount		€25,000	Total disbursement to end 2001	€15,794
Amount disbursed in 2001		€4,841	Total disbursement to end 2002	€15,910
Amount disbursed in 2002		€116	Total disbursement to end 2003	€15,910
Amount disbursed in 2003		€0	Forecast disbursement end 2004	€24,910
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 2003	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. Following final payment the project can be closed.			

Lesotho – Statistical Information

Table 1: Key Indicators

	1997	1998	1999	2000	2001	2002
GDP at market prices (LSL million)	4,719.60	4,920.70	5,564.90	5,963.70	6,608.90	7,530.60
GDP annual growth rate (%)	16.40	4.26	13.09	7.17	10.82	13.95
GDP per capita (LSL)	2,348	2,389	2,650	2,787	3,018	3,423
GDP per capita (US\$)	509	432	434	402	350	329
Consumer price inflation (%)	8.64	7.78	8.64	6.13	6.92	11.65
Population (million)	2.01	2.06	2.10	2.14	2.19	2.20
Exports (LSL million)	903.98	1109.6	1054.09	1468.35	2425.97	3739.89
Imports (LSL million)	-4722.12	-4699.23	-4761.44	-5050.53	-5824.15	-7757.88
Current account balance (LSL million)	-1295.69	-1413.72	-1349.9	-1083.76	-836.4	-1251.27
Gross foreign assets (LSL million)	3133.28	3977.44	3843.98	4095.24	5826.55	4630.46
Months of import cover	7.96	10.16	9.69	9.73	12.00	7.16
Total external debt (LSL million)	2313.4	3185.1	3121.9	4319.6	6246.2	5130.5
Migrant mine-workers	95913	80445	68604	64907	61412	62158
Exchange rate (LSL:US\$)	4.671	5.483	6.105	6.943	8.619	10.416
Exchange rate (LSL:Euro)	5.276	6.124	6.504	6.398	7.718	9.846

Source: Ministry of Finance and Development Planning

Table 2: Forecasts of Key Indicators

	2002	2003	2004	2005	2006
GDP at market prices (LSL million)	7,530.6	8340.7	9212.5	10107.9	11069.1
GDP annual growth rate	13.95	10.76	10.45	9.72	9.51
GDP per capita (LSL)	3,423	3757	4113	4473	4855
GDP per capita (US\$)	329	501	521	539	558
Consumer price inflation	11.7	6.6	6.0	5.5	5.5
Population (million)	2.20	2.22	2.24	2.26	2.28
Exports (LSL million)	3,739.9	3811.1	4374.8	5107.7	5864.4
Imports (LSL million)	-7,757.9	-7987.2	-8386.6	-9141.3	-9963.9
Total external debt (LSL million)	5,130.5	4372.5	4558.2	4785.5	4748.3
Exchange rate (LSL:US\$)	10.4	7.5	7.9	8.3	8.7
Exchange rate (LSL:Euro)	9.8	8.6	9.1	9.5	10.0

Source: Ministry of Finance and Development Planning

Table 3: Summary National Accounts (LSL millions except where indicated)

Current Prices	1997	1998	1999	2000	2001	2002
GDP at factor cost	4,199.60	4,423.90	5,034.90	5,405.20	5,987.20	6,810.50
Net taxes	520.10	496.80	530.00	558.50	621.80	720.10
GDP at market prices	4,719.60	4,920.70	5,564.90	5,963.70	6,608.90	7,530.60
% annual change	16.40	4.26	13.09	7.17	10.82	13.95
Net income from abroad	1,538.90	1,384.70	1,492.50	1,522.30	1,509.00	1,700.50
GNI	6,258.50	6,305.40	7,057.40	7,486.00	8,117.90	9,231.10
% annual change	14.30	0.75	11.93	6.07	8.44	13.71
Population (millions)	2.01	2.06	2.10	2.14	2.19	2.20
GDP per capita (LSL)	2,348	2,389	2,650	2,787	3,018	3,423
GDP per capita (US\$)	509	432	434	402	350	329
GNI per capita (LSL)	3,114	3,061	3,361	3,498	3,707	4,196
GNI per capita (US\$)	675	554	550	504	431	403

Source: Ministry of Finance and Development Planning

Table 4: National Disposable Income (LSL millions)

Current Prices	1997	1998	1999	2000	2001	2002
Gross National Disposable Income	7,396.4	7,272.8	7,055.6	8,529.8	9,402.6	10,747.9
Final consumption expenditure	6,199.5	6,567.1	5,810.9	7,181.1	7,656.6	8,668.2
Households	4,974.7	5,043.4	4,176.4	5,508.8	5,883.1	6,686.5
Non-profit institutions	423.6	500.3	553.7	532.5	585.3	658.7
General government	801.2	1,023.4	1,080.8	1,139.8	1,188.2	1,323.0
Gross fixed capital formation	2,593.5	2,411.0	2,651.0	2,657.1	2,810.0	3,254.6
Changes in inventories	-47.1	-93.4	56.2	-138.1	-171.1	-135.4
Net lending (+) / Net borrowing (-)	-1,349.5	-1,611.9	-1,462.5	-1,170.3	-892.9	-1,039.5
Gross savings	1,196.9	705.7	1,244.7	1,348.7	1,746.0	2,079.7

Source: Ministry of Finance and Development Planning

Table 5: GDP by Sector (Constant 1995 prices, LSL millions)

Industry	1980	1990	1998	1999	2000	2001	2002
Agriculture	492.0	651.6	640.0	667.6	686.5	690.1	662.0
Crops	292.7	367.1	385.0	380.6	428.3	453.5	398.4
Livestock	171.8	259.8	220.1	255.9	228.6	212.0	240.5
Services	27.5	24.7	34.9	31.1	29.6	24.6	23.1
Mining & Quarrying	5.5	2.9	2.6	2.7	3.2	3.4	3.5
Primary Industries	497.5	654.5	642.6	670.3	689.7	693.5	665.5
Manufacturing	145.1	303.7	542.0	540.1	563.8	608.1	650.2
Food products & beverages	120.8	176.8	235.8	231.0	226.0	219.1	187.8
Textiles, clothing, footwear & leather	6.7	75.7	194.8	187.3	202.8	236.4	304.0
Other manufacturing	17.6	51.2	111.4	121.8	135.0	152.6	158.4
Electricity & Water	20.6	43.1	168.4	226.0	219.9	230.2	236.5
Construction	333.5	449.6	578.6	534.9	586.7	594.6	635.9
Secondary industries	499.2	796.4	1,289.0	1,301.0	1,370.4	1,432.9	1,522.6
Wholesale & retail trade, repairs	102.7	183.8	309.4	294.0	281.6	288.6	301.5
Hotels & restaurants	27.2	30.5	43.5	49.7	54.7	53.4	55.6
Transport & communications	47.3	83.0	131.0	137.9	144.2	153.2	156.2
Transport & storage	37.0	52.5	72.2	70.4	70.6	72.7	76.4
Posts & telecommunications	10.3	30.5	58.8	67.5	73.6	80.5	79.8
Financial intermediation	96.7	134.1	102.9	136.1	201.5	210.4	226.6
Real estate & business services	141.3	194.7	231.9	226.9	227.7	227.5	235.9
Owner-occupied dwellings	107.1	138.4	162.2	165.4	168.7	172.1	175.5
Other real estate & business services	34.2	56.3	69.7	61.5	59.0	55.4	60.4
Public administration	126.0	192.2	283.3	277.9	269.6	267.5	270.7
Education	175.3	216.3	307.4	313.1	316.0	330.2	344.5
Health & social work	27.2	45.1	71.5	73.3	64.5	65.0	67.0
Community, social & personal services	32.7	37.9	41.5	42.1	42.7	43.2	43.8
Financial services indirectly measured	-96.7	-122.0	-74.2	-99.9	-164.3	-169.1	-183.8
Tertiary industries	679.7	995.6	1,448.2	1,451.1	1,438.2	1,469.9	1,518.0
All industries at producers' prices	1,676.4	2,446.5	3,379.8	3,422.4	3,498.3	3,596.3	3,706.1
Net taxes	137.6	340.2	457.2	424.1	398.7	425.8	469.0
GDP at purchasers' prices	1,814.0	2,786.7	3,837.0	3,846.5	3,897.0	4,022.1	4,175.1

Source: Ministry of Finance and Development Planning

Table 6: GDP by Sector (Annual growth rates %)

Industry	Annual average	Annual average	1999	2000	2001	2002
	1980-1990	1990-2000				
Agriculture	2.85	0.52	4.31	2.83	0.52	-4.07
Crops	2.29	1.55	-1.14	12.53	5.88	-12.15
Livestock	4.22	-1.27	16.27	-10.67	-7.26	13.44
Services	-1.07	1.83	-10.89	-4.82	-16.89	-6.10
Mining & Quarrying	-6.20	0.99	3.85	18.52	6.25	2.94
Primary Industries	2.78	0.53	4.31	2.89	0.55	-4.04
Manufacturing	7.67	6.38	-0.35	4.39	7.86	6.92
Food products & beverages	3.88	2.49	-2.04	-2.16	-3.05	-14.29
Textiles, clothing, footwear & leather	27.44	10.36	-3.85	8.28	16.57	28.60
Other manufacturing	11.27	10.18	9.34	10.84	13.04	3.80
Electricity & Water	7.66	17.70	34.20	-2.70	4.68	2.74
Construction	3.03	2.70	-7.55	9.68	1.35	6.95
Secondary industries	4.78	5.58	0.93	5.33	4.56	6.26
Wholesale & retail trade, repairs	5.99	4.36	-4.98	-4.22	2.49	4.47
Hotels & restaurants	1.15	6.02	14.25	10.06	-2.38	4.12
Transport & communications	5.78	5.68	5.27	4.57	6.24	1.96
Transport & storage	3.56	3.01	-2.49	0.28	2.97	5.09
Posts & telecommunications	11.47	9.21	14.80	9.04	9.38	-0.87
Financial intermediation	3.32	4.16	32.26	48.05	4.42	7.70
Real estate & business services	3.26	1.58	-2.16	0.35	-0.09	3.69
Owner-occupied dwellings	2.60	2.00	1.97	2.00	2.02	1.98
Other real estate & business services	5.11	0.47	-11.76	-4.07	-6.10	9.03
Public administration	4.31	3.44	-1.91	-2.99	-0.78	1.20
Education	2.12	3.86	1.85	0.93	4.49	4.33
Health & social work	5.19	3.64	2.52	-12.01	0.78	3.08
Community, social & personal services	1.49	1.20	1.45	1.43	1.17	1.39
Financial services indirectly measured	2.35	3.02	34.64	64.46	2.92	8.69
Tertiary industries	3.89	3.75	0.20	-0.89	2.20	3.27
All industries at producers' prices	3.85	3.64	1.26	2.22	2.80	3.05
Net taxes	9.47	1.60	-7.24	-5.99	6.80	10.15
GDP at purchasers' prices	4.39	3.41	0.25	1.31	3.21	3.80

Source: Ministry of Finance and Development Planning

Table 7: Contribution to GDP by Sector (Annual shares %)

Industry	1980	1990	1998	1999	2000	2001	2002
Agriculture	27.12	23.38	16.68	17.36	17.62	17.16	15.86
Crops	16.14	13.17	10.03	9.89	10.99	11.28	9.54
Livestock	9.47	9.32	5.74	6.65	5.87	5.27	5.76
Services	1.52	0.89	0.91	0.81	0.76	0.61	0.55
Mining & Quarrying	0.30	0.10	0.07	0.07	0.08	0.08	0.08
Primary Industries	27.43	23.49	16.75	17.43	17.70	17.24	15.94
Manufacturing	8.00	10.90	14.13	14.04	14.47	15.12	15.57
Food products & beverages	6.66	6.34	6.15	6.01	5.80	5.45	4.50
Textiles, clothing, footwear & leather	0.37	2.72	5.08	4.87	5.20	5.88	7.28
Other manufacturing	0.97	1.84	2.90	3.17	3.46	3.79	3.79
Electricity & Water	1.14	1.55	4.39	5.88	5.64	5.72	5.66
Construction	18.38	16.13	15.08	13.91	15.06	14.78	15.23
Secondary industries	27.52	28.58	33.59	33.82	35.17	35.63	36.47
Wholesale & retail trade, repairs	5.66	6.60	8.06	7.64	7.23	7.18	7.22
Hotels & restaurants	1.50	1.09	1.13	1.29	1.40	1.33	1.33
Transport & communications	2.61	2.98	3.41	3.59	3.70	3.81	3.74
Transport & storage	2.04	1.88	1.88	1.83	1.81	1.81	1.83
Posts & telecommunications	0.57	1.09	1.53	1.75	1.89	2.00	1.91
Financial intermediation	5.33	4.81	2.68	3.54	5.17	5.23	5.43
Real estate & business services	7.79	6.99	6.04	5.90	5.84	5.66	5.65
Owner-occupied dwellings	5.90	4.97	4.23	4.30	4.33	4.28	4.20
Other real estate & business services	1.89	2.02	1.82	1.60	1.51	1.38	1.45
Public administration	6.95	6.90	7.38	7.22	6.92	6.65	6.48
Education	9.66	7.76	8.01	8.14	8.11	8.21	8.25
Health & social work	1.50	1.62	1.86	1.91	1.66	1.62	1.60
Community, social & personal services	1.80	1.36	1.08	1.09	1.10	1.07	1.05
Financial services indirectly measured	-5.33	-4.38	-1.93	-2.60	-4.22	-4.20	-4.40
Tertiary industries	37.47	35.73	37.74	37.73	36.91	36.55	36.36
All industries at producers' prices	92.41	87.79	88.08	88.97	89.77	89.41	88.77
Net taxes	7.59	12.21	11.92	11.03	10.23	10.59	11.23
GDP at purchasers' prices	100.00	100.00	100.00	100.00	100.00	100.00	100.00

Source: Ministry of Finance and Development Planning

Table 8: Exports by SITC Category

LSL millions	1997	1998	1999	2000	2001	2002
Food & livestock	46.1	44.2	49.7	54.4	81.6	122.9
Beverages & tobacco	0.1	38.5	94.0	93.9	126.2	98.2
Crude materials, inedible	29.2	19.7	17.8	37.5	60.1	65.9
Minerals & related products	0.0	0.0	0.0	0.0	0.0	0.0
Chemicals & related products	16.6	7.1	4.9	6.5	18.6	45.6
Manufactured goods	38.7	26.4	17.4	25.0	38.5	61.9
Machinery & transport equipment	139.8	167.6	111.7	173.3	254.5	373.3
Miscellaneous manufactured goods	633.2	794.8	751.0	1066.7	1773.2	3124.6
Commodities	0.3	11.3	7.6	11.1	73.2	13.6
TOTAL	904.0	1109.6	1054.1	1468.4	2425.9	3906.0
Shares (%)						
Food & livestock	5.10	3.98	4.71	3.70	3.36	3.15
Beverages & tobacco	0.01	3.47	8.92	6.39	5.20	2.51
Crude materials, inedible	3.23	1.78	1.69	2.55	2.48	1.69
Minerals & related products	0.00	0.00	0.00	0.00	0.00	0.00
Chemicals & related products	1.84	0.64	0.46	0.44	0.77	1.17
Manufactured goods	4.28	2.38	1.65	1.70	1.59	1.58
Machinery & transport equipment	15.46	15.10	10.60	11.80	10.49	9.56
Miscellaneous manufactured goods	70.04	71.63	71.25	72.64	73.09	79.99
Commodities	0.03	1.02	0.72	0.76	3.02	0.35
TOTAL	100.00	100.00	100.00	100.00	100.00	100.00

Source: Ministry of Finance and Development Planning

Table 9: Government Budget (LSL millions)

Item	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03
Revenue & grants	2424.8	2290.1	2440.6	2721.3	2976.9	3331
Domestic revenue	2246.1	2170.1	2310.6	2625.1	2788.1	3034.7
Customs	1172.7	1033.4	1183.1	1126.1	1438.5	1470
Company tax	69.7	65.7	58.5	134.4	159.2	142.9
Personal income tax	221.7	278	306.5	303.5	371.8	404.1
Other income taxes	48.6	44	54.5	30.6	48.5	116.3
Sales tax / VAT	221.9	233.8	236.6	280.5	302	343.7
Other taxes	58.6	40.1	48.2	67	58.3	98.9
Non-tax revenue	452.9	475.1	423.2	683	409.8	458.8
Water royalties	83.3	120	138.3	157.9	176.1	212.5
Grants	178.7	120	130	96.2	188.8	296.3
Expenditure & net lending	2342.1	2438.4	3373.4	2899.2	3024.5	3656.1
Recurrent expenditure	1473.8	1942.7	2318.7	2469.2	2398.9	2876.2
Wages & salaries	721.3	837.6	835.9	925.1	992.4	1082.1
Other goods & services	323.6	504.1	959.9	940	806.9	1065
Subsidies & current transfers	338.9	472.5	339.5	333.3	396.3	509.4
Interest	90	128.5	183.4	270.8	203.3	219.7
Capital expenditure	868.3	495.7	479.2	473	745.6	812.6
GoL acquisition of assets	209.4	98.2	204.1	177.7	277	152.3
Loan funded	442.2	142.5	99.9	149.1	205.7	273.1
Grant funded	178.7	120	130	96.2	166.8	235.9
Capital transfers	38	135	45.2	50	96.1	151.3
Net lending	0	0	575.5	-43	-120	-32.7
Balance excluding grants	-96	-268.3	-1062.8	-274.1	-236.4	-621.4
Balance including grants	82.7	-148.3	-932.8	-177.9	-47.6	-325.1
Financing	-82.7	148.3	932.8	177.9	47.5	325.3
Foreign financing	107.2	18.1	-70.9	-238.3	31.9	53.4
Loan drawings	189	142.5	99.9	149.1	291.9	273.1
Amortisation	-81.8	-124.4	-170.8	-387.4	-260	-219.7
Domestic financing	-189.9	130.2	1003.7	416.2	15.6	271.9
Bank	-174.9	115.7	975.5	372.6	67.3	320.8
Non-bank	-15	14.5	28.2	43.6	-51.7	-48.9

Source: Ministry of Finance and Development Planning

Table 10: Government Budget (percentage shares to GDP)

Item	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03
Revenue & grants	51.38	46.54	43.86	45.63	45.04	44.23
Domestic revenue	47.59	44.10	41.52	44.02	42.19	40.30
Customs	24.85	21.00	21.26	18.88	21.77	19.52
Company tax	1.48	1.34	1.05	2.25	2.41	1.90
Personal income tax	4.70	5.65	5.51	5.09	5.63	5.37
Other income taxes	1.03	0.89	0.98	0.51	0.73	1.54
Sales tax / VAT	4.70	4.75	4.25	4.70	4.57	4.56
Other taxes	1.24	0.81	0.87	1.12	0.88	1.31
Non-tax revenue	9.60	9.66	7.60	11.45	6.20	6.09
Water royalties	1.76	2.44	2.49	2.65	2.66	2.82
Grants	3.79	2.44	2.34	1.61	2.86	3.93
Expenditure & net lending	49.62	49.55	60.62	48.61	45.76	48.55
Recurrent expenditure	31.23	39.48	41.67	41.40	36.30	38.19
Wages & salaries	15.28	17.02	15.02	15.51	15.02	14.37
Other goods & services	6.86	10.24	17.25	15.76	12.21	14.14
Subsidies & current transfers	7.18	9.60	6.10	5.59	6.00	6.76
Interest	1.91	2.61	3.30	4.54	3.08	2.92
Capital expenditure	18.40	10.07	8.61	7.93	11.28	10.79
GoL acquisition of assets	4.44	2.00	3.67	2.98	4.19	2.02
Loan funded	9.37	2.90	1.80	2.50	3.11	3.63
Grant funded	3.79	2.44	2.34	1.61	2.52	3.13
Capital transfers	0.81	2.74	0.81	0.84	1.45	2.01
Net lending	0.00	0.00	10.34	-0.72	-1.82	-0.43
Balance excluding grants	-2.03	-5.45	-19.10	-4.60	-3.58	-8.25
Balance including grants	1.75	-3.01	-16.76	-2.98	-0.72	-4.32
Financing	-1.75	3.01	16.76	2.98	0.72	4.32
Foreign financing	2.27	0.37	-1.27	-4.00	0.48	0.71
Loan drawings	4.00	2.90	1.80	2.50	4.42	3.63
Amortisation	-1.73	-2.53	-3.07	-6.50	-3.93	-2.92
Domestic financing	-4.02	2.65	18.04	6.98	0.24	3.61
Bank	-3.71	2.35	17.53	6.25	1.02	4.26
Non-bank	-0.32	0.29	0.51	0.73	-0.78	-0.65
GDP at market prices	4,719.60	4,920.70	5,564.90	5,963.70	6,608.90	7,530.60

Source: Ministry of Finance and Development Planning

Table 11: Selected Social Indicators

Indicator	1990	1990/91	1995	1998	2000	2000/01	2001
Net primary school enrolment rate		73				78	
Youth literacy rate	87.2						90.8
Adult literacy rate	78						83.9
Life expectancy at birth							38.6
Under-5 mortality rate	148						132
Infant mortality rate	102						91
Immunisation of 1 year olds against measles	80						77
Maternal mortality rate			530				
Rural access to improved water source					74		
Urban access to improved water source					88		
Telephone mainline and cellular subscribers	0.7						3.7
Human Development Index	0.565		0.558				0.51
Overall rank				127	132		137
Life expectancy index							0.23
Education index							0.77
GDP index							0.53
Contraceptive prevalence rate (%)						30	
Adults (15-49) living with HIV/AIDS (%)							31
ODA received per capita (US\$)							30.1

Source: Ministry of Finance and Development Planning, Human Development Report 2003

LESOTHO MID-TERM REVIEW CONCLUSIONS

1. Executive Summary

On 23 September 2002, the EC and the Government of Lesotho signed the Country Strategy Paper (CSP) and the National Indicative Programme (NIP) of Community aid for the period 2001-2007. As a Least Developed Country, Lesotho benefits from a total indicative allocation of € 110 million of which € 86 million under envelope A for long-term development needs and € 24 million under envelope B to cover unforeseen events. The CSP focuses on the transport and water sectors and macro-economic support.

Lesotho is a landlocked country, surrounded by the region's largest economy- South Africa on which its economy heavily depends. Labour migration into South Africa is widespread and remittances represent a high proportion of the GDP (20%). The biggest challenge Lesotho faces is the high rate of HIV/AIDS prevalence, which is one of the highest in Africa, and the rapid expansion of the pandemic.

Overall, the political situation in Lesotho remained stable during the period 2001-2003, following the coup attempt in 1998. Elections were successfully held in May 2002 and Lesotho's democratic process is now consolidating but needs continuous attention and support.

Regarding the implementation of EC aid, 85% of all funds under the A envelope will be committed by the end of 2005 and the remaining funds are expected to be committed by the end of 2006. Overall, the country's **financial performance is insufficient**. The performances of the criteria for **macro-economic support** are also **insufficient**. However, macro-economic stability has been rated as sufficient. As regards water and sanitation, the policy commitments are roughly on schedule but sector performance achievements are insufficient. Policy commitments in the transport sectors are delayed but sector performance achievements are rated as sufficient. Overall, the performance in the **transport sector is insufficient**.

In view of the acute socio-economic needs of Lesotho, and the assessment of results in the focal sectors, the Commission proposes to link the maintenance of the financial allocation under the A envelope to a **change in the country strategy**, which will lead to a revision of the CSP and **refocus on priority measures to address HIV/AIDS in the framework of a strengthened poverty reduction strategy (PRS) targeting social and gender equity and good governance, and in particular public finance management (PFM)**. It is further proposed that macro-economic budget support be abandoned under the 9th EDF as the conditions for continuing this support are not met. Resources thus freed will be reallocated to the water and sanitation and road transport sectors, to capacity building in both of these sectors and to PFM, on the one hand, and to support measures to combat HIV/AIDS on the other. The resources reallocated to the water and sanitation sector shall be conditional on the adoption (at highest level) of a long-term strategy for potable water supply to the lowlands. The resources reallocated to the transport sector shall be conditional on the adoption (at cabinet level) of a transport policy document. Furthermore, the maintenance of the A envelope allocation would also be subject to clear commitments from the GoL to reforms in the areas of governance, and social and gender equity, within a strengthened PRSP framework. The proposed change in the country strategy ties in well with the conclusions of the country evaluation carried out by the Commission in 2004.

2. The Policy Agenda of the Partner Country

The Lesotho Government's commitments to poverty reduction and improved governance are contained in the draft Vision 20/20 document, which sets out long-term national aspirations, and the draft Poverty Reduction Strategy Paper (PRSP), which should provide a medium-term framework for Government policies and interventions. Both the Vision 20/20 and PRSP documents are to be submitted for approval to the Cabinet at the end of 2004 and should provide a platform for coherent national development planning. This has been lacking for the past decade, as evidenced by the lack of annual plans and ad hoc sector development. The GoL has incorporated the principle of the Millennium Development Goals (MDGs) within the framework of Vision 20/20 and the PRSP, where the targets and indicators are to provide a focus for policies that can lead to real poverty reduction.

In determining MDG targets, the GoL has been constrained by the fact that the availability and accuracy of statistical data, particularly for social indicators, is of a low level. In some instances data has not been collected and analysed for years. The uncertain statistical information and the lack of accurate baseline measurements have led to delays in the adoption of the MDG targets. The MDG Report for Lesotho should nevertheless be adopted during 2004. For the formulation of a coherent sectoral policy it is of crucial importance for Lesotho to adopt the Vision 20/20 and PRSP and to agree on MDG targets.

There is a Poverty Reduction and Growth Facility (PRGF) under agreement with the IMF. The PRGF is based on the need for structural reforms and the attainment of macro-economic, fiscal and monetary policy objectives. The latter aim to strengthen fiscal management, accelerate economic growth, improve social services and reduce poverty. The structural reforms focus on tax administration, tax policy, public expenditure management, civil service reform and privatisation. The macro-economic policy objectives are designed to: reach and maintain economic growth of at least 3.9% a year in the medium-term; keep gross international reserves at the equivalent of at least six months' imports of goods and services; and maintain the external current account deficit at a sustainable level. In terms of fiscal policy, the objective is to strike a balance between medium-term growth, poverty reduction targets and short-term balance of payments constraints.

3. Main Political, Economic and Social Developments in the Country

Political situation and good governance: Lesotho continues to enjoy a stable political situation. General elections were held in May 2002. The new and enlarged parliament met periodically but no major legislation was passed during 2003. Following its victory in the May 2002 elections, the ruling Lesotho Congress for Democracy (LCD) party prevailed over the two main opposition parties -Basotho National Party (BNP) and Lesotho's People Congress (LPC)- in two by-elections held in August 2003. No particular **human rights** issues are presently of concern in Lesotho. The country has ratified all the major international conventions. The death penalty remains on the statute book although there has been a de facto moratorium for a number of years. Lesotho has still to ratify the Second Optional Protocol to the International Covenant on Civil and Political Rights (ICCPR). In 2003 an initiative to strengthen the administration of justice was launched with UK support. A Labour Appeal Court and an Industrial Peace and Advisory Promotion Unit were set up during in 2003.

Although **good governance** is at the centre of Lesotho's strategy for poverty reduction, it does not currently receive much attention. In particular, the long-acknowledged shortcomings in PFM continue to compromise effective government and to discourage foreign investment and donor

support. The Public Sector Improvement and Reform Programme (PSIRP) has been under discussion for several years, with encouragement from the World Bank and several aid donors but it has not yet materialised as an operational project. It appears that there is a lack of an effective decision-making process and thus a lack of commitment by the GoL to engage in reforms. Policy discussion should be enhanced to facilitate a comprehensive institutional performance assessment (key institutions' constraints, analysis and impact assessment of government's policy responses) and to identify institutional issues.

In the fight against corruption Lesotho has come to prominence in recent years with the conviction of the former Chief Executive of the Lesotho Highlands Development Authority for bribery and the conviction or pending prosecution of a number of European, North American and South African consultancy firms and construction companies. The Government has also established a Directorate against Corruption and Economic Crime and a Police Complaints Commission.

Economic situation: Lesotho's economy performed well in 2002/2003 despite a number of adverse conditions. Supported by strong activity in construction and manufacturing economic **growth** increased slightly to 3³/₄ % in 2002/03 (3¹/₄ % in 2001/02). Consumer price **inflation** has been declining although VAT with a rate of 14% was introduced on 1 July 2003. Average inflation dropped from 9.1% in 2002/03 to 6.5% in October 2003. **Unemployment** is estimated to be in the range of 40-45%. The fiscal situation deteriorated in 2002/03 with the worsening of the overall deficit (before grants) to 8.1% of GDP, which reflected an upward shift in public expenditure combined with slow growth in customs revenues. The value of **external debt** amounts to US \$ 592.5 million. The value outstanding reduced considerably in 2003, principally due to a sharp appreciation of the Loti against the US Dollar. Expressed as a share of GDP, foreign debt fell from 73% in March 2003 to approximately 50% in January 2004.

Despite the increase in exports of manufactures goods, the deficit in the **trade balance** increased from US\$ 367 million in 2001 to US\$ 441 million in 2002. The main destinations for exports in 2002 were North America (76.4%), mostly textile exports under the AGOA, and the SACU (22.9%) while the main origins of imports are the SACU (73.5%) and Asia (23.7%). Exports to the EU represent 0.2% of total exports. In 2001, the **trade balance with the EU** amounted to €5 million. Lesotho's trading relationships are likely to be transformed as a consequence of, *inter alia*: the SADC Free Trade Protocol; the scheduled termination of the Multi-Fibre Agreement (MFA) in 2005; the AGOA; the Cotonou Agreement; the EU EBA initiative; and the ongoing negotiations at the WTO. The challenge of taking advantage of Lesotho's status as a *Least Developed Country* within the context of opportunities offered under these arrangements is a major issue for policy-makers. Lesotho as an LDC has benefited from the Integrated Framework for LDCs. A Diagnostic Trade Integration Study has been undertaken and the authorities are committed to implement the IF Action Matrix and mainstream trade in their development strategy. DFID is acting as donor facilitator.

Social sectors and food security: Despite positive macroeconomic developments, Lesotho remains a poor country, with a GDP per capita of US \$ 340 in 2002. Most citizens are subsistence farmers with only limited access to the formal economy. Available data indicates that 58% of the population are poor (1995 data), a reduction of only 0.6% from 1987. However, the conditions of the population below the poverty line have worsened.

With approximately 31% of the population between 15 and 49 years believed to be HIV positive it can be expected that the impact of AIDS at all levels of society will be significant. The most critical challenge in Lesotho is the goal of reversing the incidence of **HIV/AIDS**, which is vital if poverty is to be eradicated. Lesotho is one of the countries in the world most seriously affected by HIV/AIDS. In particular, the trend of marked gender differences in HIV/AIDS prevalence is

alarmingly high, with a significantly worsening trend for women. The HIV/AIDS prevalence for women is 50%, and for men 30% (UNAIDS Statistics, 2002). There is the need to address gender imbalances and social inequality in relation to the HIV/AIDS situation. Furthermore, there is a need for the GoL to give greater attention to the wider and more insidious implications of the disease. In the face of this catastrophe the response of the GoL and its civil society has been less than adequate. The national coordination agency LAPCA has made little progress, and there have been few real initiatives from the business sector, voluntary agencies or the churches. This situation will need marked improvement if the contribution from the Global Fund of US \$30 million, is to be put to good use. In 2003, the Government decided to establish an autonomous National AIDS Commission to replace LAPCA in due course.

In 1979, the GoL adopted primary health care as the focal strategy for the **health sector**. However, a lack of clear policies, a changing health environment brought on by the HIV/AIDS pandemic, the loss of medical staff to South Africa and a lack of co-ordination between the GoL and its non-state partners undermined previous accomplishments. For the past six years the GoL has attempted to reform the health sector, with the aim of attaining affordable, universal coverage and equity in services delivery. However, due to the low levels of institutional capacity the first phase of the reform programme has focused on capacity building. Progress continues to be modest and the seriousness of the underlying problems may have been underestimated.

In 2000, the GoL introduced a policy of free primary **education** which has led to a significant increase in the number of children in primary school, reversing the decline in the 1990s. The net enrolment ratio in primary education increased from 69.2% in 2002 to 73% in 2003. The provision of vocational and technical post-secondary education has increased in recent years, but it is still insufficient. Furthermore, there is a very high pupil/teacher ratio, of around 70:1. Resources provided by the GoL and financial support from the UN Children's Fund (UNICEF) and the World Food Programme have not so far been equal to the demand. The GoL is committed to increasing spending on education by at least 5% per year in real terms.

As regards **food security**, the overall low level of agricultural potential stemming from the limited area of arable soils, low levels of soil fertility and generally unfavourable climatic conditions have combined to produce a situation where Lesotho must rely on imports to meet its food requirements. In the 2001/02 and 2002/03 crop seasons, Lesotho experienced food shortages. To counter the problem the GoL, with assistance from donors and the private sector, undertook a number of activities aimed at relieving immediate problems (school feeding programmes, subsidies for maize flour, food distribution, etc.) and at assisting in the rehabilitation of crop production (subsidised ploughing, crop inputs, etc.). Although the former had some limited success in relieving what was essentially a long-term problem of endemic poverty, the "agricultural solution" was less successful, and planting was considerably lower than expected. It is estimated that the 2003/04 crop season will be one of the poorest on record. The GoL declared a food emergency on 11 February. For the longer term the GoL will need to give greater emphasis to those policies creating greater job opportunities. Basically, short-term emergency/relief measures need to be linked to long-term development strategies. There is a need to examine with the GoL the national food security strategy with a view to defining specific needs and ways in which the EC could contribute.

Gender: Women are legal minors. Despite their weak legal status many women participate in business life or work in the public sector. However, women's equal rights have to be legally endorsed. Lesotho ratified the CEDAW 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 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. There has nevertheless been progress in that the Sexual Offences Act 2002 has been enacted. Moreover, the GoL has adopted a comprehensive National Gender Policy, which will be the basis for mainstreaming gender concerns into the design, implementation and monitoring of Government policies.

Environment: The Lesotho Environmental Act of 2001, which provides a legislative framework for environmental protection, has still to be properly enabled by the promulgation of detailed regulations. This creates uncertainty in the planning and implementation of infrastructure and commercial development and lessens the effectiveness of environmental impact assessments (EIA). The Act provides for the establishment of an independent Lesotho Environmental Authority, to replace the National Environment Secretariat presently responsible for dealing with environmental issues. Although the existing Secretariat is supposed to have coordinating, advisory, regulatory and enforcement duties, it is weak institutionally. Lesotho is a signatory to the major multilateral environmental agreements. The lack of a comprehensive legal basis, administrative capacity and budget does not allow the implementation of an effective environmental policy. There is a need to upgrade the existing environmental profile (annexed to the JAR) by including a more in-depth analysis of various environmental problems with a view to identifying trends and priorities for actions. There is a need to examine with the GoL the environmental strategy, including the introduction of SEA, so as to address some of the most pressing environmental concerns in the country.

Regional and international developments: Lesotho is a member of SACU, CMA, and SADC and in April 2001 established a Joint Bilateral Commission on Cooperation (JBCC) with the Government of South Africa as a vehicle for closer integration with its sole neighbour. In August 2003, Lesotho was elected to chair the SADC organ on defence and security.

4. State of play in implementation of the EC co-operation programme

Results achieved in main focal sectors: As regards the **water sector**, Lesotho is faced with the fact that the Lesotho Highlands Water Project (LHWP) has dominated Lesotho's capital investment programme in recent years and that the emphasis given to the LHWP and water for export to South Africa from the highlands has led to underdevelopment of water resources and supplies for Lesotho as a whole and the populous western lowlands in particular. In this context, the primary objective for the 8th EDF-NIP in the water sector was to give adequate access to safe water supply and sanitation facilities. However, it has since been recognised that attaining this objective will require both a major re-organisation of the sector's institutional structures, and considerable investment, particularly in the supply of bulk water, water storage and delivery. It was for this reason that prominence is given to a broader sector approach in the 9th EDF-NIP, focusing on two key aspects: institutional constraints and the problem of longer-term security of supply. In terms of specific activities financed from the NIP, substantial progress has been made during 2003, with the commencement of three major studies: the Six Towns Water Supply Study, the Lesotho Lowlands Water Supply Feasibility Study and the Maseru Wastewater Project Consultancy for a Feasibility Study, which are to lead to the submission of financing proposals in late 2004 to early 2005. In addition, under the 9th EDF a technical assistant to the Ministry of Natural Resources was recruited at the end of 2003.

With regard to the **road transport** sector, EC support forms part of a multi-donor programme. The 8th EDF allocated €37.7 million to the road transport sector of which €25 million for the upgrading of 114 km of gravel roads to bitumen standard (works completed in 2003), €4 million

for the upgrading of earth tracks (completed in 2002) and €5.4 million for road safety measures and technical assistance (ongoing up to 2005). Also completed in 2003 was the construction of two weighbridges, which are fully operational in Maseru and Maputsoe. Thanks to technical assistance financed by the Community, the Road and Bridge Infrastructure and Management System in the Ministry of Public Works and Transport is fully operational and used as the main planning tool for the allocation of maintenance funds. A new project to be undertaken under the 9th EDF will continue with similar objectives, to include rehabilitation and strengthening of the main arterial road in the west of the country, as well as the provision of feeder roads using labour intensive techniques. Improvement and expansion of the container terminal at Maseru is also planned.

With regard to **macro-economic support**, economic growth in 2003 is estimated to be in the 3½ to 4% range. However, several factors have led to the failure to pursue the necessary structural reforms and the non-observance of performance criteria agreed for the PRGF and the 8th EDF Poverty Reduction Budgetary Support Programme (PRBSP). Of continuing concern is the GoL's problem in bringing public expenditure under control, as illustrated by the Auditor-General's report rejecting the 2001/02 accounts. The report noted that there are frequent instances of non-compliance with government financial regulations and that the same regulations were in urgent need of updating. These findings concurred with those of the report carried out by an EC-funded audit report under the 8th EDF PRBSP. Under these circumstances, the release of the third tranche of the PRSBP has been made conditional on Lesotho's performance with regard to indicators in the social sectors and in public finance management. To date, the GoL has failed to meet the indicators set. However, a serious constraint is that the data available to determine performance in the social sectors is of questionable quality. Data collection and treatment in the statistics units in the ministries and in the Bureau of Statistics needs improving. An EDF-funded capacity-building project is assisting the MoHSW statistics unit.

The **Capacity Building in Economic Planning (CBEP)** project, approved in November 2003, provides for technical assistance, targeted training for members of the planning cadre and the development of operational manuals in support of the planning processes. The project also provides assistance in macroeconomic modelling, sectoral programming, in monitoring and evaluation, and assistance to the National Authorising Officer.

Projects and programmes outside the focal sectors: The major programmes supported outside the focal sector under the 8th EDF address the **health sector and decentralised cooperation (micro-projects)**. Results achieved in the health sector are the development of a capacity for monitoring and evaluation of the health care system, plus the development of a comprehensive health policy, and the formulation of a strategic plan for decentralising health care as part of the overall decentralisation of the GoL. However, delays in the implementation of the project occurred because no decision on decentralisation has been taken. As regards the micro-projects programme, the implementation of community-based projects continued in the areas of water supplies, sanitation, education and small, medium and micro-enterprises. The overall result of the micro-projects programme is positive. Projects of the 9th EDF outside the focal sector are expected to start in 2005/2006.

Cross-cutting issues (gender, environment, capacity building and institutional development) have been integrated in all ongoing programmes. Under the 9th EDF a Capacity Building in Economic Planning Project is expected to be implemented in the second half of 2004. Its objective is the strengthening of the planning cadre and the development of tools in support of the planning process. As regards the environment, no SEA has been performed. Mainstreaming the environment in the focal sectors remains an important requirement to be implemented.

Utilisation of resources for non-state actors (NSAs): NSAs have been involved in the drafting of the CSP/NIP and at present their involvement is limited to the Micro-Projects avenue, where NSAs are partner implementing agencies. Approximately **86% of the Micro-Projects resources for 2002/03 have been allocated to projects implemented by NSAs.** The low level of technical and managerial skills amongst the NSAs, particularly in community mobilisation, project design, monitoring and reporting, and insufficient accounting and financial control systems are a serious concern. There is a need to consider with the GoL, an assistance programme in capacity building for NSAs and the need to perform a mapping of NSAs in the country. It is essential for a strategy for regular dialogue with NSAs to be established and agreed.

Utilisation of the B envelope: So far Lesotho has not used funds from the B envelope.

Community budget lines: Lesotho benefits from an amount of € 0.744 million from the Community budget line on co-financing projects with the German Red Cross on integrated community based care for people living with HIV/AIDS or terminal illnesses and orphans.

ECHO provided food aid for an amount of €490.000 and supported seed purchases amounting to €250.000.

5. Programming perspective for the future

The revised programming of the 9th EDF (pipeline of projects) shows that, by the end of 2005, 85% of the A envelope plus transfers from previous EDF funds will be committed. Because macro-economic support in Lesotho can no longer be justified, it is proposed that the country strategy be revised and refocused towards priority measures to address HIV/AIDS while the two focal sectors of water and sanitation and transport will be further supported and capacity building in PFM will be reinforced. Outside the focal sector, the EC will contribute to community development and support for NSAs through the continuation of the micro-projects programme and provide a technical cooperation facility (see Annex 2). Finally, the European Commission will assess if assistance could be provided to ensure follow-up and implementation of the Integrated Framework Action Plan.

A revision of the country strategy is proposed, as the rationale and considerations which led to the choice of macro-economic support as agreed in the CSP are no longer relevant.

In the coming years, consideration should be given as to whether Lesotho should become beneficiary country in the programming of the Food Aid/Security budget lines.

Lesotho could become a beneficiary of the new **EU water initiative**, particularly as regards the integrated management of the Orange/Senqu river basin, which would tie in with the choice of the focal sector water and sanitation. **Migration** is an important issue in Lesotho. A migration profile has been provided in the annex to the JAR. In **the fight against communicable diseases**, Lesotho benefits from the Global Fund to the tune of about US \$ 30 million. As regards **EPA negotiations**, Lesotho has decided to negotiate within the SADC framework, this comprises four SACU members (Botswana, Lesotho, Namibia and Swaziland) plus Angola, Mozambique and Tanzania.

6. Performance appraisal

Criteria I: Country's financial performance

I. EDF

1. Calculated number of years to complete EDF commitments **4.35 years > 4 years**

((Total EDF country allocations-current commitments)/average of commitments for the last 5 years)

2. Calculated number of years to complete EDF assigned funds **8.36 years > 7 years**

((Total EDF country allocations-current assigned funds)/average of assigned funds for the last 5 years)

3. Calculated number of years to EDF payments **12.57 years > 9 years**
 ((Total EDF country allocations-current payments/average for payments for the last 5 years)

CRITERA	Possibility to increase country allocation	Maintain country allocation	Possibility to reduce country allocation
Financial performance 1. Commitments 2. Assignments 3. Payments			4.35 years 8.36 years 12.57 years

II. Level of utilisation of the 9th EDF A and B envelopes

- **A+B: Commitments: 15.83% Contracted: 0.42% Paid: 0,01%**
- **A: Commitments: 19.44% Contracted: 0.51% Paid: 0,01%**
- **B: Commitments: 0.00% Contracted: 0.00% Paid: 0,00%**

III. Forecast for commitments and disbursement for the year 2004-2006

Applying financial criteria only would indicate that Lesotho's financial performance is insufficient given the number of years for commitment, assignment and payment. However, this assessment must be put in the context of recent positive trends. There are clear indications of an **improved absorption capacity** and that 85.5% of the funds from the 9th EDF, plus transfers from previous EDFs, will be fully committed by the end of 2005. The remaining funds are expected to be committed by the end of 2006. Three projects are expected to be approved in 2004 for an amount of €2.8 million, i.e. the *Technical Cooperation Facility Project*, the *Transport Study* and the *Technical Assistance to the Water and Sanitation Sector*. As regards the absorption capacity in the water and transport sector, the situation is as follows: in the water sector the following three studies, i.e. the *Six Towns Water Supply Study*, the *Lesotho Lowlands Water Supply Feasibility Study* and the *Maseru Wastewater Project Consultancy Study*, are expected to lead to financial proposals in late 2004 or 2005. In the transport sector, a study on upgrading and strengthening of the primary network, a project on road safety and technical assistance for upgrading rural roads will lead to financial proposals in 2005. In 2005, five projects are envisaged for a global amount of €69.1 million. These projects are: *Micro-projects and Decentralised Cooperation*, *Water and Sanitation Projects* and *Transport Projects*.

Individual commitments are expected to amount to €3.8 million in 2004. **Payments are expected to amount to €8.2 million in 2004, and to €15.3 million in 2005.**

IV. Community budget lines: Lesotho did not receive allocations from budget lines.

Criteria II: Country's sectoral (and macro-economic) performance

1. Water supply and sanitation

Assessment of sector policy commitments		On schedule	Roughly on schedule	Delayed
Adoption of sectoral policy				X
Financial commitment:	Investment plans for the sector		X	
Institutional commitment	Strengthening of administrative capacity		X	
Assessment of sector performance achievements		Good	Sufficient	Insufficient
Access to water services for domestic use				X
Access to water services for industrial use				X

The water sector in Lesotho is undergoing considerable reform. Driving the reforms are national policies for economic growth, which include a focus on attracting wet industries to drive the industrialisation programme and a dramatic increase in urbanisation, with the consequent rise in the demand for water supply and sewerage collection. The policy framework for water supply is the Water Resources Management Policy of 1999, which emphasises the development of secure long-term sources of supply, institutional reform, cost recovery, involvement of the private sector, regional cooperation and the treatment of wastewater. To consolidate the water sector organisations and provide a focus for the reforms and related investment, a Commissioner of Water was appointed to the Ministry of Natural Resources in early 2003. To tackle the challenges ahead, it is important for the Government to **develop a sector-wide strategic plan for the sector** (in particular there is a need to develop baseline information and to perform an analysis of data and management on national water resources and needs), which focuses on administrative capacity building and improves central co-ordination. **Overall, policy commitments are roughly on schedule but sector performance achievements are insufficient due to the lack of baseline data.**

2. Transport sector-Roads

Assessment of sector policy commitments		On schedule	Roughly on schedule	Delayed
Adoption of sectoral policy, donor agreement to RSDP				X
Financial commitment:	Creation of road fund	X		
Institutional commitment	Creation of Road agency			X
Assessment of sector performance achievements		Good	Sufficient	Insufficient
Infrastructure expenditures			X	
Maintenance expenditures			X	
Kms Maintained	Routine maintenance			X
	Periodic maintenance			X
	Rehabilitation			X

In December 2002, the Ministry of Public Works and Transport (MoPWT) released the first draft of a **transport sector policy document**, and recommendations were made on institutional reform in March 2003. There are delays in the adoption of this policy document. In the area of institutional reform a Roads Authority (RA) for planning and monitoring has not yet been established. Collections of transport-sourced revenues by the Road Fund (RF) 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. However, not all maintainable roads are actually being maintained while some new roads are being constructed. Capacity in Government administration of the transport sector- planning, legislation, implementation is limited due to the lack of adequately trained and experienced personnel. Recommendations, strongly supported by donors, have been tabled to channel all funding for roads maintenance through the RF established in the Ministry of Finance. This Fund shall be responsible for annual financial and technical audits of the utilisation of allocations. To ensure sustainable development of the transport sector it is important for the GoL to adopt a comprehensive policy for the sector, to improve the management of the sector with the setting up of the RA, to reform the financing mechanisms, and to strengthen the existing RF. In addition, there needs to be adequate environmental capacity in the RA. Some improvement has been achieved in the area of road safety. As regards legislation, the Road Traffic Act has been revised but not yet adopted. Overall, policy commitments are delayed but certain parts of sector performance achievements are considered as sufficient. Although routine and periodic

maintenance are a priority in the GoL's policy, the construction of new roads is often given priority. **Overall the performance in the transport sector is insufficient.**

3. Macro-economic support

Criteria for macro-economic support			
<i>Results Indicators:</i>	Good	Sufficient	Insufficient
(a) macro-economic stability		X	
(b1) public financial management quality			X
(b2) social sector budget allocations			X
(c) poverty outcomes (e.g. health, education, gender)			X

As regards macro-economic stability, since the Lesotho CSP was approved in 2001, Lesotho's PRGF has been on track and the latest (fifth) PRGF review which took place in September 2003, noted an improvement in the macro-economic situation, marked by a moderate increase in real GDP and falling inflation. On balance, with moderate growth and constrained inflation, macro-economic stabilisation can be considered sufficient. As regards PFM, according to an external and independent study on public finance and the Auditor's general reports, PFM can be considered to be in a highly critical state since management is characterised by many major weaknesses affecting all the steps of the programming and budgeting cycle. Overall, progress with PFM has been **insufficient. Therefore, the conditions for providing budget support under the 9th EDF are considered not to be met.** As regards social indicators, a serious constraint is that the data available to determine performance in the social sectors is of questionable quality, poverty outcomes are therefore qualified as insufficient. Overall, the country's performances as regards the **criteria for macro-economic support are insufficient.** Policy commitments are delayed and sector performance achievements are insufficient due to the delay in the adoption of the Vision 20/20 and the PRSP, the shortcomings in the PFM and the lack of data on social indicators.

“Special considerations”

The Commission acknowledges Lesotho's status as a LDC (58% of its population lives on less than US \$1 per day), Lesotho's HDI ranking, dropping from 127 in 2000 to 137 in 2003, due to the rapid expansion of HIV/AIDS, the persisting drought situation, the decrease of remittances from Lesotho workers in South Africa, its dramatic poverty situation and the persistent weak food security situation.

Of importance to Lesotho will be the adoption of the Vision 20/20 and the PRSP, and there is increasing concern about the **lack of prioritisation of development plans.** There are severe shortcomings in the data presently available for Lesotho, and the capacity to gather and analyse the required statistics does not yet exist. Therefore it is difficult to evaluate the 10 MDG indicators. An assessment of the socio-economic background of Lesotho shows that poverty and HIV/AIDS are jointly the two current key cross-cutting challenges. Poverty is spreading throughout the country as the development gains of the past are unravelled by the impact of HIV/AIDS. It is therefore important for the GoL to develop a comprehensive strategy to fight HIV/AIDS, to provide for adequate administrative capacity and to continue to support poverty reduction. The regular dialogue with donors is of crucial importance to enhance good governance and for an effective development of a poverty reduction strategy.

Lesotho's political situation is stable and its continued efforts towards democratic consolidation require full attention and support.

The devolution process has not been completed and the **EC Delegation** is still **understaffed.**

- **Commission position on a possible revision of the country financial allocation**

The Commission concludes that, due to **the lack of progress in PFM and the lack of commitment by the GoL to engage in reforms**, the conditions for providing budget support are not met and therefore proposes **an amendment to the EC country strategy in Lesotho, with macro-economic support under the 9th EDF abandoned, which will lead to a revision of the CSP.**

In the light of this situation and the special considerations, the Commission proposes that, on the basis of the assessment of performance and needs, **the indicative allocation of the A-envelope should be maintained subject to a revised country strategy** with a view to meeting current socio-economic needs, **by refocusing on priority measures to address HIV/AIDS within a strengthened PRSP framework.** It is further proposed that **support be increased for the focal sectors of water and sanitation and transport to enable** the policy dialogue to continue and the institutional capacity to be developed. Finally the revised strategy should **reinforce the support for capacity building in PFM.** This proposal is in line with the conclusions of the Country Evaluation carried out by the Commission in 2004. **The use of the financial resources reallocated to the water and sanitation sector shall be conditional on the adoption (at the highest level) of a long-term strategy for potable water supply to the lowlands. The resources reallocated to the transport sector shall be conditional on the adoption (at cabinet level) of a transport policy document. The maintenance of the A envelope allocation would be subject to clear commitments from the GoL to reforms in the area of governance, social and gender equity.** The new strategy should also be built on a political and policy dialogue. Furthermore, the Commission proposes to **reduce the B envelope to 50% of the initial allocation.** Of the remaining €12 million, €1.7 million has been deducted for the Africa Peace Facility and €1.68 million would be reserved for possible humanitarian assistance operations managed by ECHO.

In the light of the above analysis and taking into account the special considerations, it is proposed that:

- **the country strategy for Lesotho be modified, i.e. that budget support be abandoned and HIV/AIDS be addressed within an improved PRSP framework;**
- **the funds available under the envelope A be maintained and that funds resulting from abandoning budget support be reallocated as follows: increase the allocation for the focal sector water and sanitation by €19.5 million and transport by €10.50 million, and allocate an amount of up to €5 million for a capacity building project in PFM plus an amount of up to €8 million for measures to address HIV/AIDS;**
- **the funds available under the envelope B be decreased by €12 million.**

List of acronyms

AGOA	US African Growth Opportunity Act
CEDAW	Convention on Elimination of All Forms of Discrimination Against Women
CMA	Common Monetary Area
COMESA	Common Market of Eastern and Southern Africa
CSP	Country Strategy Paper
DFID	Department for International Development
EBA	Everything But Arms
EC	European Community
EPA	Economic Partnership Agreement
ETR	End of Term Review
EU	European Union
EDF	European Development Fund
GDP	Gross Domestic Product
GoL	Government of Lesotho
JAR	Joint Annual Report
LAPCA	Lesotho AIDS Programme Coordinating Authority
LDC	Least Developed Country
MDG	Millennium Development Goals
MoHSW	Ministry of Health and Social Welfare
NSAs	Non-State Actors
NIP	National Indicative Programme
PRBSP	Poverty Reduction Budgetary Support Programme
PRGF	Poverty Reduction and Growth Facility
PRS	Poverty Reduction Strategy
PRSP	Poverty Reduction Strategy Paper
PFM	Public Finance Management
SACU	Southern African Customs Union
SADC	Southern African Development Community
SEA	Strategic Environmental Assessment
VAT	Value Added Tax
WTO	World Trade Organisation

Lesotho- Project Pipeline

A Envelop:	€86.000 million
Transfers from previous EDFs :	€11.700 million
Identified potential decommitment from ongoing projects:	€8.628 million
Total:	€106.300 million

(€million)

Water:

2003: Capacity building (TA to Com Water) 9.LSO.01	0.750
2004: Capacity building (TA to WASA)	0.750
2005: Lowlands Water Supply (design + prep of tender docs)	10.000
2005: 6 Towns Water Supply (works)	15.000
2005: Maseru Wastewater (works + M&E)	10.000
Total:	36.500

Transport:

2003: FS Upgrading 110 km of paved primary road network 9.LSO.03	0.750
2004: Increase 8.ACP.LSO.02	3.300
2005: Upgrading of 110 km of paved primary road network	14.500
2005: Road Transport Infrastructure Programme Phase II	7.850
Total:	26.400

HIV/AIDS

2005/06: Measures against HIV/AIDS	8.000
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Others:

2003: Capacity building for eco. Planning 9.LSO.02	17.500
2004: TCF 9.LSO.04	1.985
2005: Micro-projects, NSAs	8.600
2005/06: Capacity building in PFM	5.000
Total:	33.085

Total:	103.985
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Lesotho - Donor Matrix ANNEX 3

Agency	Planning period	Economic development	Social development	Productivity sector	Thematic /crosscutting issues
Development Co-operation Ireland	3 year (2002-2004)	Public Sector Reform - €1.62 million	Health - €6.65 million Education - €5.7 million Rural Water Supply - €6.3 million Rural Access - €5.2 million	Enterprise Development €1.9 million	Governance, democracy - €2.08 million HIV/AIDS - €2.5 million
UK DfID	2004-2005 Allocation €7.1 m	Lesotho Revenue Authority - €5.7 million Public Finance Management (under preparation)	IOM/PSCAAL - €1.1 million	Livelihoods recovery through Agriculture – €2.1 million LHWC technical Assistance - €0.77 million	Lesotho Justice sector development - €7.8 million Support to PRSP preparation €1.million Support to IEC/Elections €1.5 million
Germany GTZ	Biannual			Small and Medium Enterprises - €0.5 mio	Decentralisation and District Planning - €2 mio Capacity building in land management - €2 mio Decentralised Rural Development - €1.5 mio Vocational Training - €1.88 mio
Germany KfW	Biannual	Labour intensive road construction - €2.7 mio			Infrastructure for local government - €2.56 mio Family planning, HIV/AIDS – €2.65 mio
Switzerland Helvetas			Rural water supply - Budget for 2004 approx €500,000		
Japan	Annual		Construction of primary schools: budget for 2004 – approx €3.5 mio	KR2 – Provision of agricultural inputs: Budget for 2004 = approx €1.17 mio	
China		Development of industrial sites at Mohales Hoek and Buthe Buthe			National Archives and Library – approx €2.5 mio
UNDP	2002-2004	Empowering communities for development planning Strengthening E-readiness and preparation of an ICT policy and implementation strategy GEF preparatory programme	Combating transmission of HIV/AIDS amongst youth – UNFIP project Environmental management for poverty reduction	Conserving mountain biodiversity in Southern Lesotho	Parliamentary system reform process Support to the National Vision Support to PRSP preparation Institutional capacity building for poverty monitoring National capacity Self Assessment
FAO	2002-2004			Food security through water control - US\$ 336,825 Support for Special Programme for Food Security – US\$ 257,000 Promotion of local/indigenous foods –	

Agency	Planning period	Economic development	Social development	Productivity sector	Thematic /crosscutting issues
				US\$184,000 Strengthening market information and marketing extension – US\$ 305,000 Project preparation for CAADP – US\$ 120,000 Provision of crop and vegetable seeds in Southern Lesotho – US\$ 291,000 Credit support to food self-sufficiency programme – US\$166,663	
UNFPA	2000-2002		Population and development strategies - US\$ 500,000 Reproductive health – US\$ 2.0 million		Advocacy for gender equality - US\$ 300,000 Programme coordination - US\$ 200,00
UNICEF	2002-2006		Health and nutrition - €5.5 million Education - €5.5 million Adolescent development - €3.3 million Social Policy and Planning - €3.9 million		
WFP	2000-2002		School Feeding Project – budget for 2004 approx €1.76 mio		Food assisted works – approx €5.2 mio (Budget for 2004 – approx €590,000)
WHO	2002-2004		Health sector reform - €24,000 Immunisation campaign - €20,000 Mother and child care - €50,000 Hygiene education - €55,000 Health promotion - €280,000		
World Bank IDA		Roads Rehabilitation and Maintenance - US\$ 44 million Utilities reform - US\$ 28.6 million LHWP phase 1B – US\$ 45 million Electrification phase II – approx €175,000 Integrated transport project (proposed)	Health Sector Reform – US\$ 6.5 million Community development - US\$ 4.7 million Education sector phase2 – US\$ 42 million Water sector reform – US\$ 17.5 million (under preparation)	Agricultural policy - €7.6 million Maluti-Drakensberg Transfrontier Project	Public Sector Improvement and Reform – US\$ 10 million (under preparation)
IMF	2001-2003	Poverty reduction and growth facility - €22 million			
IFAD				Sustainable mountain agriculture – US\$ 10.85 million	
ADB		Public Utilities Reform Road infrastructure – approx €19.4 mio Electrification Phase II – approx €240,000	Health sector reform Education support phase II approx € 13.5 mio (Budget for 2004 approx €2.2 mio)	Agricultural policy - €1.4 million Private sector development	Highlands Natural Resources – approx €2.5 mio

Agency	Planning period	Economic development	Social development	Productivity sector	Thematic /crosscutting issues
ADF		Utilities reform – approx €5.5 mio Road infrastructure – approx €7.5 mio	Rural Health Services – approx €4 mio Education sector phase III – approx €12 mio		
EIB		Industrial development - €500,000 LHWP phase 1B - €54 million (plus €45 mio via SA/TCTA) Privatisation of public utilities Possible Maseru Wastewater treatment			
EC/EDF Cotonou Agreement and Lomé IV	2001-2007 and ongoing	Transport infrastructure - approx €56 million *	Water supply - approx €52 million * Community development - €14.3 million * Health Sector reform - €1.8 million		Budgetary support - €42.3 million * Capacity building for economic planning – €17.5 million
Non-State Actors		Micro-credit	Health service provision (CHAL) Education (LEC, LCC, Skillshare) Environment (CARE, Lesotho, Skillshare) Rural Water Supply and Sanitation (Plenty, Red Cross) HIV/AIDS	Rural development Retrenched miners	Gender (Women in Law) Advocacy (CARE) Poverty assessment and monitoring Human rights, conflict resolution, democracy Capacity building for CBO (CARE) Children and HIV/AIDS orphans (SCF, Red Cross)
BADEA		Road infrastructure approx €2.35 mio	Peri-urban water supply – approx €5 mio Five towns water supply – approx €740,000		TA to civil engineering approx €270,000
India	Annual			Agriculture: Budget for 2004 - €0.1 mio Irrigation: Budget for 2004 - €0.23 mio	
Canada	Annual			Irrigation: Budget for 2004 - €23,500	
OPEC	Annual		Health Sector Reform – approx €1.4 mio		
Global Fund			TB Control: approx €2.5 mio (2004 budget - approx €820,000) HIV/AIDS programme approx € 7.2 mio (2004 budget approx €2.4 mio)		
Norwegian Agency for Development					Disabled support: 2004 budget approx €150,000

Agency	Planning period	Economic development	Social development	Productivity sector	Thematic /crosscutting issues
Kuwait		Road infrastructure – approx €1.8 mio			
GEF					Maluti Mountains Conservation and Development – approx €4.25 mio Development of National Biosafety Framework – approx €230,000

* Includes EDF 9 nominal sector allocation

LESOTHO GOVERNMENT**RESPONSE TO THE DRAFT CONCLUSIONS OF THE MID-TERM REVIEW OF
THE 9TH EDF COUNTRY STRATEGY PAPER AND NATIONAL INDICATIVE
PROGRAMME (CSP/NIP)
(3 NOVEMBER 2005)****1. Introduction**

On the 27th October 2004 the Government of Lesotho (GoL) was provided with the "Draft Midterm Review Conclusions", which was prepared by the Commission services following the submission in March 2004 of the 2003 Joint Annual Report on Cooperation between the European Union and the Kingdom of Lesotho. Subsequently discussions on the draft conclusions of the Mid-term Review (MTR) took place on 28 and 29 October 2004, in Maseru, Lesotho, between representatives from the European Commission and representatives of the Government of Lesotho. These discussions were wide ranging and frank and GoL, despite the short time available to fully digest the conclusion paper, wishes to place on record its appreciation for the conduct of the in-country part of the MTR process. The Government of Lesotho avails itself of the opportunity to provide a response to the "draft Conclusions", as set out in the following paragraphs.

2. Macroeconomic Support and Public Financial Management

Lesotho has for many years conducted fiscal and monetary policies which have ensured macroeconomic stability in the form of limited public deficits and debt and moderate inflation. Since 2001, GoL, with assistance from the EDF, has gradually refined the analytical and statistical framework for macroeconomic planning. As a result, today Cabinet is presented in with a much richer policy work than was the case only a few years ago. The analytical capacity will be further strengthened with the introduction of macroeconomic modelling within the Ministry of Finance and Development Planning.

GoL is confident that the capacity is sufficient to carry out the analysis needed in support of the difficult macroeconomic policy decisions that may be required in response to the principal threats to macroeconomic stability in Lesotho, namely a decline in customs revenue and the burden of HIV and AIDS.

GoL takes note of the Commission's intention to cancel the budget support foreseen under the 9th EDF and acknowledges that institutional weaknesses with regard to public financial management (PFM) and the collection of statistics may compromise the attainment of the objectives of a budget support programme.

Nevertheless, we believe that budget support, where implementable, is the most desirable form of development assistance. We thus welcome the Commission's proposal to use some of the funds previously reserved for a budget support programme to strengthen PFM with a view to a resumption of budget support under the successor to the 9th EDF.

While we agree that we should provisionally set aside € 5 million for a PFM capacity building programme, the exact nature and extent of such an intervention can only be defined

upon the availability of the final details of a three-year DfID funded PFM project, scheduled to begin in January 2005.

The other main constraint on the successful implementation of the 8th EDF PRBSP was the poor quality of social sector statistics. The weaknesses will be addressed by the 9th EDF project Capacity Building in Economic Planning (CBEP), which foresees interventions in all units in the Bureau of Statistics (BOS). The on-going 8th EDF Support to Health Sector Reform also provides significant capacity building in the planning and statistics unit in the Ministry of Health and Social Welfare.

We have noted the Commission's conclusions... However, we feel that the MTR conclusions do not pay sufficient attention to GoL's initiatives to strengthen the development strategy, the budgeting and planning framework, and PFM, launched in the past five years.

There are several reforms in public financial management taking place presently that were obviously not taken full cognisance of when the draft MTR report was prepared. Indeed, while it is instructive to take a historical view, the report is not sufficiently forward-looking to account for many reforms taking place in the area for PFM. Since 2002, the following reforms have been undertaken:

- The 2001/2002 and 2002/2003 annual public accounts have been prepared and presented to Parliament. This change alone has resuscitated the Public Accounts Committee (PAC) and began a process of PAC hearings by Chief Accounting Officers (CAOs). The 2003/2004 accounts are under preparation and will be submitted to the Office of the Auditor General by the end of the 2004. Government is firmly back to producing annual accounts and is working on improving the quality of the accounts.
 - The Ministry of Finance and Development has moved swiftly to enforce compliance with financial legislation and regulations by all Government departments and is facilitating this process by providing CAOs and financial staff with the necessary training.
 - The Management of Treasury has been strengthened with the appointment of the Accountant General and 2 Deputy Accountants General. A reform programme based on the EU-supported PricewaterhouseCoopers report has been prepared and is under consideration by the Ministry.
- Clearly, Government cannot agree with the MTR's conclusion that the PFM situation has been worsening in the last 5 years. PFM has in fact been improving in this period!

The preparation of the Poverty Reduction Strategy Paper (PRSP) began in 2000, and even if this process has been protracted, GoL is now on the verge of adopting the final document. Government has also embarked on implementing a Medium-Term Expenditure Framework (MTEF) to ensure that the PRSP objectives are supported by an appropriate output-oriented budgeting and planning framework. Implementation of the MTEF will follow public expenditure reviews in all sectors. The MoFDP is currently in the process of reviewing the formats for budget submissions from the line ministries and expects two pilot ministries to adopt the MTEF approach in 2005/06.

We accept the conclusion that the preparation of the Public Sector Improvement and Reform Programme has been protracted. However, it should be noted that implementation of the PFM component has actually begun with support from the DCI, DfID, and EU.

As mentioned above, GoL has over the past three years developed a framework for macroeconomic analysis, which supports Government's fiscal strategy and has allowed the GoL to rely on internal resources for economic analysis in addition to the regular economic assessments performed by the IMF. We expect this capacity to be augmented by the introduction of econometric modelling in 2006, supported by the EDF under the CBEP.

Given the above, we disagree with the MTR conclusion that "there is lack of commitment by the GoL to engage in reforms". Cabinet has in fact set up several working committees, including one on the budget to drive different reforms. The prioritisation of policies in the context of the budget is in fact now to be done by Cabinet itself.

The MTR takes a surprisingly pessimistic view of our performance on the IMF-supported PRGF programme, which is at variance with the IMF's view of our performance under their programme.

While for the moment we take notice of the intended decision to discontinue budget support, we would welcome a review of the decision following the completion of the End-of-Term Review, scheduled for 2006.

3. Water Supply and Sanitation

The Commission's assessment, whilst acknowledging that policy development is 'roughly on schedule', considers sector performance achievements insufficient.

Government agrees that the 1999 Water Resources Management Policy is in need of revision. However, it should be acknowledged that GoL has made serious efforts during the past two years to develop the baseline information required for policy and strategy development and to support the strengthening of the management of the sector.

Major studies for lowlands water supply and Maseru wastewater have just been completed and the data emanating from these study reports will enable the Government, with possible assistance from EDF, to develop a medium-term sector-wide strategy and have this approved by May 2005.

The baseline information availed by the studies will also assist in refining the Millennium Development Goals (MDG's), as relevant to the sector.

To date most of the emphasis in the sector has been focussed on urban water supply and sanitation. The gap is the rural water situation: Achieving MDG's will require increased attention to rural water supply. Lesotho has a 'relative abundance' of water, and projected bulk water production will also be available for contiguous rural areas, but access to potable water in rural areas is constrained by inadequate delivery systems.

Institutional reform in the sector is being consolidated. Sector management is being transformed with the recent establishment and manning of the Office of the Commissioner of Water in the Ministry of Natural Resources. It should also be noted that the sector is just overcoming the serious capacity constraints as a result of the human resources drain caused by the implementation of the very large Lesotho Highland Development Programme, for the supply of water to South Africa, which was implemented during the '90s. The sector's absorption capacity has been strengthened and that it is well positioned to implement the investments foreseen for the coming years.

4. Transport sector – Roads

Finalisation of the transport sector policy document, incorporating elaboration of the institutional arrangements is high on the priority list of GoL. Delays have indeed occurred in obtaining approval at the political level, not least due to the long illness and the recent death of the Minister responsible for the sector. Also, in the context of the Sub-Saharan Africa Transport Policy Forum, stakeholder consultations have been held and alignment of sector policy with the PRSP has taken place, with the view to ensure their pro poor content. Crucial policy discussion, in particular as regards the responsibility for the rural roads network will soon be concluded in the context of the GoL policy and programme for decentralisation and the establishment of an elected local government system in Lesotho.

The establishment of a Roads Authority or Agency has indeed not yet been completed, but it should be pointed out that the primary function of the Agency would be the maintenance of the road network. Policy and monitoring would remain the responsibility of the Ministry. Likewise it should be pointed out that it has always been the intention that the Road Fund (RF) would need to generate the revenue to ensure the adequate funding of routine and periodic maintenance only of the roads. It is Government's intention to channel all road maintenance funds through the Road Fund.

All the elements for the policy are available and it is now considered realistic that, with some external assistance, an approved policy document could be available by July 2005. At the same time it is expected that the revised Road Traffic Act will be adopted in the first half of 2005.

The MTR conclusions imply that GoL gives priority to construction of new roads, at the expense of an adequate maintenance programme for the existing maintainable road network. It should be pointed out that the only major 'new' roadwork undertaken in the past few years concerns the upgrading to paved standard of existing gravel roads. This includes the road upgrading under the 8th EDF indicative programme. GoL is fully committed to prioritising the maintenance of existing roads. In this context it would appear appropriate to point out that, aside from South Africa, Lesotho's road network is better maintained than any other network in the sub-region and beyond.

In conclusion, GoL considers that with the impending finalisation of the transport sector policy the right conditions are being created for the successful implementation of the investments foreseen for the sector in the coming years. Projects will focus on upgrading of critical sections of the major road network, rural roads and road safety, with specific attention for institutional strengthening and capacity building.

5. HIV/AIDS

GoL takes the HIV/AIDS pandemic seriously. The proposed legislation for the establishment of the National AIDS Commission (NAC) is expected to be in place by end November 2004. Enabling legislation for NAC is with Cabinet for approval and is expected to be approved by Parliament before March 2005. Political responsibility for NAC will be located at the highest level, with the Deputy Prime Minister being placed in charge.

The Ministry of Health and Social Welfare has focused on the establishment of HIV/AIDS clinics in the districts. Two have recently been opened and a further two are to follow in

November 2004. A clinic in the highlands region will be opened early 2005. The aim is to ensure the effective treatment of some 28,000 patients. A strategic plan for the distribution of ARV's has been elaborated.

The development of counselling and testing capacity has been funded from the Global Fund, and Government's own resources, and those of other cooperation partners. This has funded the training and employment of Basic Counsellors (three per district) and the establishment of professional HIV testing and counselling capacity at each of the ten District Hospitals. At the same time, monitoring and data collection has been stepped up. A Demographic Analytical Study is about to be launched. This should provide more accurate information on the incidence of the disease, than currently available from the testing of pregnant women. The government is presently strengthening its Policy Framework, particularly the institutions for managing HIV and AIDS. Many actors are undertaking interventions in this area, but effective coordination has so far not been established. It is anticipated that NAC will change this situation.

AIDS orphans are of particular concern and if the recently quoted number of 181,000 is correct, there may be a strong case for focussing attention on this group.

6. Conclusion

Whilst expressing a strong preference for the instrument of budget support, the Government notes the proposed decision to discontinue budget support, and accepts that the Country Support Strategy as agreed in September 2002 no longer is appropriate and requires revision. GoL welcomes and fully support the EC proposal to maintain the allocation under the A-envelope.

The Government agrees with the redirection of the financial resources because of the discontinuation of budget support. GoL is of the opinion that the water and sanitation sector and the road transport sector are well placed to absorb the additional resources thus becoming available. It is agreed that the development of a medium term sector-wide strategy for the water sector and of a sector policy document for the transport sector is to receive priority and should be completed by May 2005 and July 2005, respectively.

In addition, GoL would welcome resources for the building of capacity for public finance management (PFM) and for the fight against HIV and AIDS. For the latter, a programme of intervention should be agreed based on existing strategic plan and developments to date.

Upon approval of the reallocation of funding within the 9th EDF A-Envelope, GoL together with the EC would engage in the elaboration of a revised 9th EDF Strategy and NIP document, placing it firmly in the context of the approved PRSP for Lesotho.

The National Authorising Officer's letter authorising the inclusion of the comments made by the Government of Lesotho on the MTR Conclusions into the final version of the Joint Annual Report 2003

12 January 2005

The Head of Delegation
Delegation of the European Commission
In the Kingdom of Lesotho
P.O. Box 518
Maseru 100

Dear Mr Christiansen

Re: Joint Annual Report 2003

We refer to your letter D(04) 0001DA of 10 January 2005

We note your request to use the text of the Mid-Term Review (MTR) Conclusions and of our subsequent comments, as contained in our letter dated 3 November 2004, as attachments to the final version of the Joint Annual Report 2003. We are pleased to hereby authorize you to do so.

In addition we would like to take this opportunity to comment positively on the new EU/EC initiative, in particular the EU/EC Water Initiative. The Water and Sanitation sector is already a focal sector in the 9th EDF Country Support Strategy and Initiative Programme and the possibility to access additional resources from the EU/EC for this vital sector is warmly welcomed.

Yours sincerely,

Khosi Letsie
DEPUTY NATIONAL AUTHORISING OFFICER EDF