



Kingdom of Lesotho

European Community

Country Strategy Paper
and
Indicative Programme

for the period 2001 – 2007

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GENERAL PROVISIONS

- (1) The Government of the Kingdom of Lesotho (“Lesotho”), represented by *<name and title>*, and the European Commission (“the Commission”), represented by *<name and title>*, hereinafter referred to as the Parties, held discussions in Maseru from *<date>* to *<date>* with a view to determining the general orientations of cooperation for the period 2001 - 2007. The European Investment Bank (“the EIB”) was represented at these discussions by *<name and title>*.

During these discussions, the Country Strategy Paper and the Indicative Programme of European Community (“EC”) assistance to Lesotho were drawn up in accordance with the provisions of Articles 2 and 4 of Annex IV to the ACP-EU Partnership Agreement, signed in Cotonou on 23 June 2000 (“the Agreement”). These discussions complete the programming process in Lesotho.

The Country Strategy Paper and the Indicative Programme are annexed to the present document.

- (2) As regards the indicative programmable financial resources which the EC envisages to make available to Lesotho for the period 2001-2007, an amount of €86 million is foreseen for the allocation referred to in Article 3.2 (a) of Annex IV of the Agreement (“A-allocation”) and of €24 million for the allocation referred to in Article 3.2 (b) (“B-allocation”). These allocations are not entitlements and may be revised by the EC, following the completion of mid-term and end-of-term reviews, in accordance with Article 5.7 of Annex IV of the Agreement.
- (3) The A-allocation is to cover macro-economic support, sectoral policies, programmes and projects in support of the focal or non-focal areas of EC assistance. The Indicative Programme under Chapter VI concerns the resources of the A-allocation as well as uncommitted resources of former European Development Funds (“EDF”), for which no projects and programmes have been identified under the respective Indicative Programmes. It also takes into consideration financing from which Lesotho benefits or could benefit under other EC resources. It does not pre-empt financing decisions by the Commission.
- (4) The B-allocation is destined to cover unforeseen needs such as emergency assistance where such support cannot be financed from the EU budget, contributions to internationally agreed debt relief initiatives and support to mitigate adverse effects of instability in export earnings. The B-allocation shall be triggered according to specific mechanisms and procedures and does not therefore yet constitute part of the Indicative Programme.
- (5) Pending the entry into force of the Financial Protocol of the Agreement and within the framework of the present Country Strategy Paper and Indicative Programme, financing decisions for projects and programmes can be taken by the Commission at the request of Lesotho, within the limits of the A- and B-allocations referred to in this document and under the condition that sufficient resources are available in the general reserve of the eighth EDF. The respective projects and programmes shall be implemented according to the rules and procedures of the eighth EDF until entry into force of the Financial Protocol for the ninth EDF.
- (6) The European Investment Bank may contribute to the implementation of the present Country Strategy Paper by operations financed from the Investment Facility and/or from its own resources, in accordance with Articles 3 (a) and 4 of the Financial Protocol of the ACP-EC Partnership Agreement.

- (7) In accordance with Article 5 of Annex IV to the Agreement, the National Authorising Officer and the Head of Delegation shall undertake an annual operational review of the Indicative Programme. They shall also undertake a mid-term review and end-of-term review of the Country Strategy Paper and the Indicative Programme in the light of current needs and performance. The mid-term review shall be undertaken within two years and the end-of-term review shall be undertaken within four years from the date of signature of the Country Strategy Paper and National Indicative Programme. Following the completion of the mid- and end-of-term reviews, the EC may revise the resource allocation in light of current needs and performance.
- (8) The agreement of the Parties on the Country Strategy Paper and National Indicative Programme, subject to the ratification and entry into force of the Agreement, will be regarded as definitive within eight weeks of the date of the signature, unless either Party communicate the contrary to the other before the end of this period.

Signatures

For the Government of
The Kingdom of Lesotho

For the Commission

PART A

Cooperation Strategy

EXECUTIVE SUMMARY

Within Sub-Saharan Africa (SSA), Lesotho's situation is unique. Small in size, mountainous, landlocked, surrounded by the region's largest economy, Lesotho has few exploitable natural resources, strictly limited agricultural potential and a people that have developed a strong culture of wage employment. From the late nineteenth century Lesotho has been regarded as a labour pool for the mines in South Africa, and the resulting employment provided sustainable livelihoods and general household security. However, the importance of this form of employment has declined as the number of migrant miners employed in South Africa has almost halved between 1994 and 2001.

The level of poverty in Lesotho is assumed to be highest in the mountainous areas, although steady migration in search of employment towards (peri-) urban areas is resulting in increasingly high levels of poverty in the lowlands. Access to and provision of basic social services, in particular water and sanitation, health and education, is acknowledged by the government as critical for economic and industrial growth. However, the incidence of HIV/AIDS is a growing concern as it will erode household resource security and certainly lead to sharply increased poverty.

The Government of Lesotho (GoL) is thus faced with the challenge of striking a balance between creating an enabling environment for sustained economic growth and lasting employment opportunities, delivering adequate levels of social services and mitigating the effects of HIV/AIDS. Hence, whilst good governance, political stability, improved communications, privatisation and financial sector reform are critical for the creation of the enabling environment, sufficient public resources will need to be directed to improvements in health, education, sanitation and water supplies.

Against this background and after extensive consultations it has been agreed that the new focus of European Community (EC) assistance will be *poverty reduction* through more equitable distribution of economic growth and better provision of basic services. EC assistance under the 9th European Development Fund (EDF) will therefore focus on the two areas: Provision of water and sanitation and Improvement of the transport sector. Macro-economic support and capacity building will accompany this assistance, with EC funding being linked to GoL service delivery in education and health, and in the achievement of targets specific to improved public expenditure management and public sector reform. The indicative allocation for the 9th EDF is €110 million (A-envelope: €86 million).

Snap-shot indicators of Lesotho (World Development Indicators)

Selected indicators	1994	1999
Population (million)	1.95	2.11
Population growth rate (%)	2.1	2.1
Life expectancy at birth (years)	57.9	55
Adult literacy rate (%)	70.5	83
Human Development Index (ranking)	137	127
GNP per capita (US \$)	670	550
GNP constant market prices (LSL millions)	737	750
External and domestic debt / GNP (%)	45	62
External debt / GNP (%)	2	4

1. EC'S DEVELOPMENT COOPERATION OBJECTIVES

In accordance with Article 177 of the Treaty establishing the European Community, EC policy in the sphere of development cooperation shall foster:

- The sustainable economic and social development of the developing countries, and more particularly the most disadvantaged among them;
- The smooth and gradual integration of the developing countries into the world economy;
- The campaign against poverty in the developing countries.

These objectives have been confirmed and reinforced in Article 1 of the ACP-EU Partnership Agreement, signed in Cotonou on 23 June 2000, which put main emphasis on the objective of reducing and eventually eradicating poverty. Cooperation between the EC and Lesotho shall pursue these objectives, taking into account the fundamental principles laid down in Article 2 of the Agreement,- especially the encouragement of ownership of the development strategies by the countries and populations concerned - and the essential elements defined in Article 9.

In their Statement on the European Community's Development Policy of 10 November 2000, the Council of the European Union and the European Commission determined a limited number of areas selected on the basis of their contribution towards reducing poverty and for which Community action provides added value: link between trade and development; support for regional integration and cooperation; support for macro-economic policies; transport; food security and sustainable rural development; institutional capacity-building, particularly in the area of good governance and the rule of law. The Statement also specifies that in line with the macro-economic framework, the EC must also continue its support in the social sectors (health and education), particularly with a view to ensuring equitable access to social services.

The Treaty establishing the European Community foresees that the EC and the Member States shall co-ordinate their policies on development cooperation and shall consult each other on their aid programmes, including in international organisations and during international conferences. Efforts must be made to ensure that EC development policy objectives are taken into account in the formulation and implementation of other policies affecting the developing countries.

Furthermore, as laid down in Article 20 of the Agreement systematic account shall be taken in mainstreaming into all areas of cooperation the following thematic or cross-cutting themes: gender issues, environmental issues and institutional development and capacity building.

Cooperation between the EC and Lesotho aims at contributing to the achievement of the international development targets in accordance with the principle of national ownership of development strategies and in the context of the above objectives, with particular attention being given to the reduction of poverty, justice for all, recognition of the right of access to clean water and basic social services, job-creating economic growth and strengthening the institutions necessary for the consolidation of democracy and good governance.

2. LESOTHO'S POLICY AGENDA

2.1 Planning framework

From independence the economic and social objectives of the Government of Lesotho (GoL), together with policies and strategies for achieving them, were set out in a series of five-year plans. In 1996 a system of a three-year rolling annual development plan was adopted, the first covering the period 1996/97 – 1998/99. To provide a longer-term dimension to the planning framework GoL has recently embarked on two initiatives:

Long-term Policy: Vision 20/20: Initiated as a process for the articulation of long-term national aspirations, the objective of Vision 20/20 is to create *a democratic, peaceful, prosperous, secure and self-reliant nation by the year 2020*. Employment creation, a well-developed human resource base,

sustainable economic growth, public sector reform and democratisation have been identified as priorities. The short, medium and long-term strategies needed to pursue these priorities will be developed through national consultations with all sectors of society, a process which Vision20/20's Steering Committee recently announced as almost ready for implementation.

Medium-term Policy: Poverty Reduction Strategy Paper (PRSP): An Interim-PRSP (I-PRSP) was approved by Cabinet in December 2000 and accepted by World Bank (WB) and International Monetary Fund (IMF) in January 2001. A full and detailed PRSP based on widespread consultation with civil society and the executive and legislative arms of the state is to be completed by January 2003. The I-PRSP emphasised political and macro-economic stability as a precondition for poverty reduction and identified prudent fiscal and expenditure policy, civil service reform, employment creation by public works programmes as well as the private sector, export-led labour-absorbing economic growth, and increased efficiency of and accessibility to essential social services as the key policy elements for developing relevant strategies. It is expected that the consultative phase of the PRSP, carried out in conjunction with Vision 20/20, will be completed by June 2002 and that the detailed identification of poverty reduction strategies will take place over the second half of 2002.

2.2 National policies

In 2000 GoL successfully completed a Staff Monitored Programme in preparation for a three-year support programme under the IMF Poverty Reduction and Growth Facility (PRGF). Under the PRGF a number of structural reforms and macro-economic, fiscal and monetary policy objectives have been set, the purpose of which is to promote accelerated growth, improve social services and reduce poverty. The structural reforms will focus on a limited number of key areas, including tax administration, tax policy, public expenditure control, civil service reform and privatisation.

The primary 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 will focus on recurrent expenditures, with the target of lowering the government wage bill to 13.5% of GDP and reducing the budget deficit; for 2001/2002 the target is a budget deficit after grants of 0.6% of GDP. As regards monetary policy, the Central Bank is to strengthen its capacity to influence domestic liquidity conditions and ease balance of payment pressures.

In recognition of Lesotho's extremely limited natural resource base, the 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 the highest priority to economic policies aimed at creating job-opportunities. In this context GoL strategies are divided into two approaches: the first being to continue labour-intensive technologies for public works programmes as a short-term measure and the second being to foster an environment conducive to the expansion of the manufacturing and service industries. Simultaneously, GoL is to encourage and take advantage of regional and international trading initiatives, and to abolish trade and investment restrictions.

To counter possible future decreases in SACU revenues and lower its dependence on the same as the primary source of government resources GoL is undertaking a number of measures which include: strengthening tax administration, including the establishment of the National Revenue Authority (NRA); introducing value-added tax (VAT); and adopting more prudent public expenditure management.

2.3 Sectoral policies

2.3.1 Health

The adoption in 1979 of primary health care as the focal strategy for attaining *health for all by the year 2000* led to early progress in health service provision. However, a lack of clear policies, a changing health environment, inappropriate management and planning practices, loss of medical staff

to South Africa and lack of co-ordination between GoL and its non-state partner (CHAL) have undermined previous accomplishments. Accordingly, GoL has embarked upon comprehensive health sector reform with the aim of attaining affordable, universal coverage and equity in health services delivery. The reform programme initially involves the strengthening of institutional capacities, to be followed by the progressive introduction of suitable reforms on a national basis.

In response to the alarmingly high incidence of HIV/AIDS, GoL launched in September 2000 the *National AIDS Strategic Plan 2000/2001 – 2003/2004*. The ultimate vision of this programme is an HIV/AIDS free society, while the short-term objective is to control the spread of HIV/AIDS and to mitigate its impact on society. In 2001 the Lesotho Aids Programme Co-ordinating Authority (LAPCA) was established within the Office of the Prime Minister.

2.3.2 Education

Since the mid-1970s the principal policies for the education sector have been to provide every Mosotho with access to primary education; to offer non-formal programmes in literacy and numeracy, to facilitate the acquisition of occupational, technical and managerial skills and to ensure the quality, efficiency and relevance of the education system. Current interventions to realise the policy 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.

2.3.3 Agriculture and rural development

The realisation that a policy of national food self sufficiency is unattainable has led GoL to consider the development of policies more focussed on household resource security and the sustainable utilisation of Lesotho's limited natural resource base. Within the ambit of a reform programme¹, present policies are focussed on rationalising the respective roles of government, farmers and commercial operators, to create a market driven, sustainable and dynamic agri-products sector. Measures being implemented to attain these objectives include: the restructuring of the Ministry of Agriculture, Cooperatives and Land Reclamation; the privatisation of agricultural parastatals; the deregulation of agricultural input supply; the reform of land tenure; and soil and water conservation.

2.3.4 Water and Sanitation:

The policy framework for water supply is provided by the Water Resources Management Policy (WRMP) of 1999, which, in addition to the development of secure long-term sources of supply, emphasises the need for: cost recovery through an appropriate tariff structure; institutional reform; greater involvement of private firms in water distribution; regional cooperation; and the systematic treatment of wastewater. Furthermore, to consolidate the disaggregated water sector organisations, it is proposed to establish a Directorate of Water in the Ministry of Natural Resources (MoNR). Related GoL initiatives include the proposed formation of a Regulator (draft Water and Electricity Sectors Legal and Regulatory Framework, 1999), the imminent passage of the Environmental Bill and the introduction of the Wastewater and Industrial Effluent Discharge Standards.

2.3.5 Transport:

GoL's overall policy for the transport sector is to develop a network capable of supporting national economic development and providing access to all communities, in particular those in isolated rural areas. Specific intra-sector objectives are to: facilitate and optimise traffic circulation; lower vehicle running costs; reduce the incidence of road accidents; provide employment through labour-based road construction and maintenance; and enable the establishment of rural social infrastructures such as schools, clinics, markets and water supply schemes. Institutional policies include the setting up of a national Road Authority, the review of all transport legislation and the continued strengthening of Road Fund operations. These national objectives are reflected in the ongoing Roads Rehabilitation and Maintenance Project (RRMP) and have been the basis for donor support and co-ordination. In implementing national policy, the aim of the RRMP has been to introduce policies and measures that

¹ Agricultural Policy and Capacity Building Project

will address those problems related to the financing and management of the road sector, including road safety and axle load control.

3. ANALYSIS OF POLITICAL, ECONOMIC AND SOCIAL SITUATION

3.1 Political situation

Lesotho is a constitutional monarchy, with the King as Head of State and with the executive power in the hands of the government led by the Prime Minister. There is a dual legal system with traditional Customary Law and General Law based on the Roman-Dutch system and a constitution that provides for a clear separation of powers among the executive, legislative and judiciary.

Fundamental human rights and the freedom of all persons are guaranteed under the constitution, a guarantee that is reinforced through Lesotho being a signatory to most of the UN Human Rights Treaties. However, although Lesotho is a signatory to the Convention on Elimination of all Forms of Discrimination against Women, under Customary Law women are treated as minors and a number of gender-discriminatory laws remain. A Married Persons Equality Bill is presently under national consultation and will be presented to Parliament in the near future. An Ombudsman's Office is in place to protect the rights of individuals against unjust acts on the part of the administration, although its existence and purpose are not yet well known to the general public.

The main political parties in Lesotho are the Lesotho Congress for Democracy (LCD), the Lesotho Peoples Congress (LPC)², the Basutoland Congress Party (BCP) and the Basotho National Party (BNP). A further sixteen parties exist, of which seven were established in 2001/02. In the 1998 general election the LCD won 79 of the 80 parliamentary seats with slightly more than 60% under the first-past-the-post electoral system. Violent civil unrest broke out following the "non-acceptance" of the election results by opposition parties. The consequence was the intervention of SADC (Southern African Development Community - South Africa and Botswana) forces in September 1998. These events led to the establishment in October 1998 of an Interim Political Authority (IPA), which was composed of members of the 12 political parties that had contested the elections and was given a mandate "*to facilitate ... in conjunction with the Legislative and Executive structures in Lesotho, the preparation for the holding of general elections...*". In accomplishing this, the IPA was required to review the electoral system with a view to making it more democratic and representative of the people of Lesotho. Agreement was finally reached on a reformed electoral system (Mixed Member Proportional), which would ensure some proportional representation of parties in Parliament (40 proportional seats and 80 first past the post seats).

Legislative elections took place on 25 May 2002 and were pronounced free and fair by international and regional monitors - a tribute to the hard work of the Lesotho Independent Electoral Commission and various donors over the past two years. The ruling party LCD took 79 out of 80 constituency seats and the new Prime Minister, Mr. Mosisili was sworn in on 4th June 2002. The main opposition party, BNP gained 21 out of 40 proportional representation seats.

Amongst non-state actors, the trade union movement is weak and fragmented, the business community is divided upon different economic approaches and institutional linkages, with many businesses being foreign-owned and having no political affiliation. Although the churches still play an important role, their influence is diminishing. Several weekly newspapers, many of them critical of government, and a number of independent radio stations represent the free press.

There are a significant number of non-governmental organisations (NGOs) within Lesotho and a nominal co-ordinating body, the Lesotho Council of NGOs (LCN). However LCN's effectiveness is questionable and a number of NGO's do not recognise it. This situation is aggravated by the lack of a clear framework for cooperation and communication between the GoL and NGOs. Further, despite the recent increase in the number of NGOs engaged in development activities and human rights

² The Lesotho Peoples Congress was effectively formed on the 12th October 2001, following the then Deputy Prime Minister's resignation from the LCD, taking 26 other MPs with him.

advocacy, the involvement of non-state actors (NSAs) in the formulation and implementation of social and economic policies is still in its infancy

3.2 Economic situation

3.2.1 Background

Within Sub-Saharan Africa (SSA), Lesotho's situation, with the attendant development problems, is unique. Small in size (30,335 km²), mountainous, landlocked and surrounded by the region's largest economy, Lesotho has few exploitable natural resources, strictly limited agricultural potential and a people that have developed a strong culture of wage employment. From the late nineteenth century onwards Lesotho was regarded as a major labour pool for the mines in South Africa, and the resulting employment provided sustainable livelihoods and general household security. However the number of migrant miners has been much reduced through post-apartheid retrenchment, and the household security provided to an increasing population has been seriously eroded. The combination of an unsuitable terrain for agriculture, continuing environmental degradation, paucity of natural resources, recent political instability, Lesotho's diminishing role as a source of labour for South Africa and the burgeoning HIV/AIDS problem provides a set of circumstances that confronts GoL with immense challenges. Against this background, poverty reduction measures can only be successful if GoL achieves a high level of sustainable economic growth, with the concurrent creation of sufficient opportunities for employment.

3.2.2 Recent developments

In recent years the domestic economy has undergone profound structural changes, with a shift away from agriculture towards manufacturing, in particular to textiles, clothing, footwear and construction. The share in GDP of the secondary sector increased from 25% in the early 1980s to 41% in 1999, whilst the importance of the tertiary sector declined from 49% to 41% over the same period. The second change has been the steady fall in remittances from abroad, largely from Basotho miners in South Africa, which declined from 39% of GNP in the late 1980s to 21% in 1999.

For the period 1990-1997 economic growth, mainly driven by the Lesotho Highlands Water Project (LHWP), was good, with average annual GDP growth of about 6%, but in 1998/1999, as a result of the completion of phase 1A of the LHWP and of the civil unrest in 1998, GDP declined by 3.6%. Since then, a recovery of 2.1% was registered in 1999/2000 and a further increase of 2.4% was estimated in 2000/2001³. Despite this relatively positive outcome other economic indicators have shown a negative trend: Lesotho's total external and domestic debt rose from 45% of GNP in 1995 to 62% in 1999, while foreign debt service as a percentage of GNP rose from 2% to 4%.

The completion of the construction of the LHWP and the fall in remittances has had profound effects on Lesotho's external accounts. The inflows of capital enabled Lesotho to maintain a current account deficit averaging 28% of GDP in the 1990's. When the inflows declined the country spent foreign reserves to finance the current account deficit. Foreign reserves fell by 25% between 1998 and 2000. Current indications are that foreign reserves are stable at a level equal to about five months of imports due to increased capital inflows as a result of heavy foreign investment in textile factories. In turn, the current account deficit has narrowed to about 13% of GDP, largely because textiles exports have been increasing rapidly. Imports have been declining. Since 1997, the ratio of imports to exports has fallen from seven to less than three.

The gradual normalisation of Lesotho's external accounts and the maintenance of reserves at stable levels are part of the Memorandum of Understanding that underlies the Poverty Reduction Growth Facility (PRGF), agreed with the IMF in 2001.

The Memorandum also covers performance benchmarks in fiscal and monetary policy as well as tax policy and revenue administration. In the past decade Lesotho has maintained low fiscal deficits

³ IMF, December 2000.

averaging 0,6% of GDP. In 2001/2002 a fiscal surplus of 2,2% was realised. GoL projects a deficit of 0,4% of GDP in 2002/2003. Monetary policy has achieved its objectives of keeping inflation in line with inflation in South Africa and maintaining parity with the Rand. Inflation was 6,0% in 2001. GoL and the IMF have agreed that an independent Lesotho Revenue Authority should be established and that VAT should be introduced before the end of 2002. Lesotho is on-track with respect to the PRGF, reflected in the IMF's favourable second review of country's performance under the arrangement, resulting in the approval of a \$4 million disbursement

3.2.3 Unemployment

The principal structural imbalance in Lesotho's economy is the high level of unemployment. Although data are insufficient to calculate the extent by any standard measure, a reasonable estimate would be that unemployment is approximately 40%. Recent sluggish growth and the retrenchment of Basotho miners in South Africa both aggravate the problem. At professional and managerial level, the increasing "brain drain", mainly to South Africa, underlines the lack of opportunities in Lesotho. Public employment schemes have long been the preferred policy vehicle for job creation, strengthening the common perception that government is the only large-scale provider of jobs even if the benefits and sustainability of such schemes are questionable and their use can only be considered a short-term expediency. Further, it is unlikely that the absorption capacity of the formal and informal sectors is sufficient to meet the combined effects of a reduced demand for migrant labour abroad and a rapidly growing labour force at home. For unemployment to be significantly reduced a GDP growth rate of 5-6% will be required. There is however reason to believe that sufficient investment in the manufacturing and service sectors and the removal of legal and institutional barriers to trade would result in the economic expansion necessary for an increase in employment and other income opportunities, as indicated by present high rate of growth in manufacturing. This expansion could pick up further under the Everything But Arms initiative (EBA) of the EU and the African Growth and Opportunity Act (AGOA) of the USA. Continued growth will however depend, among the other factors, on the availability of sufficient infrastructure such as serviced industrial sites and easy access. Given all the above factors, as well as Lesotho's low level of domestic savings, new policies to attract foreign direct investment and enhance export competitiveness are vital to the success of the drive to achieve economic growth, create employment and reverse the recent increases in poverty. However, Government will need to be aware of the possible adverse environmental and labour related effects that could arise from the current rapid growth in the textile industry, in response to the various concessional trade opportunities.

3.2.4 Government revenues

Another serious concern is the steady decline in government revenues, of which about 45% still come from the pooled receipts of the Southern African Customs Union (SACU). Revenues fell throughout the second half of the 1990s and are expected to fall further. This decline, taken together with rising government expenditures, and worsened by the costs associated with debt service obligations related to the LHWP, could lead to serious fiscal imbalance. The extent to which such a scenario can be avoided will depend on GoL's broad commitment towards public sector reform and the capacity of the public sector to adequately implemented the reforms.

3.2.5 Macro-economic situation and public sector reform

Since Lesotho is committed to continuing its membership of the Common Monetary Area (CMA) and to maintaining parity with the South African Rand, it has little opportunity for influencing monetary policy. Accordingly, fiscal prudence and sound macro-economic and financial management policies are essential, but there is a real danger that the present low levels of technical and institutional capacity throughout the civil service could threaten the successful implementation of such measures. Through a programme of public sector improvement and reform GoL is attempting to redress some of the deficiencies in public budgeting and financial management; the development of a management capacity in the public service; and in enhancing of the rule of law, including better access to justice and strengthening of the court system. The pace at which the reforms are being implemented is

varied, as the level of commitment differs between ministries and because the introduction of reforms itself requires adequate levels of institutional capacity. The issue of institutional capacity is of particular concern and it is likely that substantial technical assistance and programmed capacity building will be required from Lesotho's cooperating partners if the initial inertia caused by low levels of current capacity are to be overcome in the short-term, followed by structured longer-term assistance that will lead to sustainable and lasting improvement.

Whilst initially it appeared that GoL regarded the PRSP mechanism as being a donor-driven initiative the emphasis has shifted and GoL has fully adopted the formulation, and implementation, of a poverty reduction strategy as an essential component in sound and equitable government. However, although GoL's commitment to poverty reduction is reflected in the resources allocated to the formulation of a full PRSP, there is a danger that the value of the work undertaken could be undermined by the lack of a medium-term macroeconomic framework, within which to establish priorities and formulate relevant strategies.

In contrast to the slow pace of improvement in civil service performance and service delivery, a relatively open economy has led to considerable success regarding GoL's extensive efforts in privatisation and attracting investments. Over fifty state-owned enterprises and parastatals have been identified for divestiture or closure, with actions being completed in telecommunication, banking, insurance, milling, air transport, pharmaceuticals and the government plant and vehicle hire pool. The process is ongoing, with current priority being given to public utilities.

3.3. Social situation and poverty profile

While Lesotho leads many of sub-Saharan African countries in terms of social indicators, the country ranks only 127th out of 174 countries on UNDP's Human Development Index (HDI) and much remains to be done in improving the quality of life of the Basotho. Illustrative of the problem are the under-five mortality rate (133 per 1000 live births), life expectancy (55 years⁴), maternal mortality (598 per 100,000 live births) and under nutrition in children (the rate of stunting in under-fives has risen to 49% from 33% in the early 1990s). Such matters are of particular concern as they impact on the physical and intellectual state of future adults, and must be addressed together with the issues of economic, social and gender equality if GoL's strategies for poverty reduction are to be successful.

Poverty assessment studies conducted during 1999/2000 have indicated that more than half of the population lives below the national poverty line. Further, there are significant internal disparities in poverty levels: the remote mountain areas are perceived to be the poorest in the country but there is a growing evidence of increasing social and economic destitution in the peri-urban and urban areas of lowland Lesotho, a trend that is exacerbated by a growing movement of people from the mountains to the foothills and lowlands, and into peri-urban and urban settlements. In 1995 it was estimated that 34% of the population⁵ could be designated as urban and that this proportion would rise to approximately 60% by 2025, with a majority of people being located in the western lowlands. Current opinion suggests that this could be an underestimate and the impact of HIV/AIDS could accelerate this migration, leading to severe strain on the local economy and the social services.

3.4. Analysis of sectors and sectoral policies

3.4.1. Health

There is concern that GoL's declared priority for primary health care is not reflected in the allocation of its capital and recurrent resources, and that a disproportionate provision is directed towards secondary and tertiary health care. The proposed public expenditure and budget management review is expected to give greater clarity to the effective allocation and use of resources within the sector,

⁴ At the level of HIV/AIDS infection presently projected by UNAIDS it is likely that average life expectancy could be closer to 44 years.

⁵ "Water resources management: policy and strategies. Annex K – Demography" TAMS/Department of Water Affairs, GoL

which will be of value in the sector reform process and in planning for the effects of HIV/AIDS on health sector finances.

3.4.2. HIV/AIDS

Latest estimates indicate that 23.6%⁶ of those aged 15-49 years are HIV positive, but it is likely that the real figure may be higher, as statistical surveillance has been incomplete. The ramifications of the HIV/AIDS epidemic can be expected to have an acutely negative influence on many aspects of Basotho society, a result that can only be worsened by the widespread and deep-seated cultural sense of denial regarding HIV/AIDS⁷. People living with AIDS are still stigmatised in Lesotho, which causes additional suffering and creates a reluctance towards voluntary testing, delays in seeking medical care and late adoption of prevention measures. Since HIV/AIDS primarily affects young adults the productivity of the labour force is under threat, public services are at risk and the investment costs for training of human resources will certainly rise. Simultaneously, the incidence of opportunistic infections such as tuberculosis, pneumonia and diarrhoea is increasing, a trend which, when taken together with HIV/AIDS, has grave demographic, social and economic implications. It is also certain that the effects of HIV/AIDS will place a severe strain on the government budget, with implications for public expenditure in other sectors. HIV/AIDS in Lesotho is thus not only a health problem, but also a critical challenge across all sectors with most serious social, economic and cultural implications.

3.4.3. Education

During 36 years of independence, Lesotho's achievements in raising education and literacy standards have been remarkable. Literacy rates are relatively high compared to sub-Saharan Africa in general, especially among women (93.3% of female population in 1999 against 71.1% of male population)⁸. However in the past decade there has been a decline in both qualitative and quantitative levels of education. Efforts are currently under way to address the problem and include the introduction of free primary education in January 2000 and the expansion and improvement of vocational and technical training. The success of GoL's efforts will depend on its ability to maintain and where necessary increase the allocation for the sector in total recurrent spending, which in turn will depend on government's ability to maintain tight fiscal discipline over aggregate recurrent expenditure and achieve adequate levels of economic growth. Current projections of the financing gap associated with free primary education suggest that a 4.7% annual increase in real GDP growth would be necessary to cover the financing gap in capital expenditure within three years. The gap in terms of recurrent costs would remain substantial but could be expected to decline within three years if the aforementioned conditions could be met and if national priorities are maintained.

3.4.4. Agriculture and rural development:

The topography and climate of Lesotho are not conducive to commercial agriculture. Less than nine per cent of the land area can be considered suitable for arable production. Few families are able to rely solely on agricultural production for secure livelihoods. Reports since the 1920s suggest that rural families have increasingly turned to off-farm incomes in order to survive, build up capital assets and provide household security. This tendency has been reinforced by the fact that migrant labour has been a viable option for Basotho since the late nineteenth century. Despite this, GoL has consistently given agriculture a high priority and injected substantial resources into promoting crop and livestock production. Most of these efforts have foundered on an underestimation of the importance of off-farm labour, and on the misleading assumption that all rural dwellers are inherently capable farmers.

Lesotho's main environmental problems are associated with land degradation, caused by increasing urbanisation, poor and fragile soils, inadequate farming systems and overgrazing. As a result, ground

⁶ UNAIDS, 1999

⁷ As an example of such 'denial', the I-PRSP document indicates a 4.4% occurrence of HIV/AIDS

⁸ Source: World Bank

water recharge is lessened, runoff accelerated and water quality worsened by the silting of rivers. Although some progress has been made in environmental legislation (e.g. wastewater and effluent discharge standards), the institutional framework is complex, with multiple and disjointed authorities responsible for natural resources, and with tensions between traditional, local and central government over jurisdiction and roles. Numerous studies have been made related to soil and water conservation in the highlands but have not resulted in slowing the degradation of Lesotho's vulnerable ecology.

The success of future agricultural policies in Lesotho depends on whether GoL gives recognition to the limitations agriculture has for household resource security and develops policies that give priority to examining the role and cost of public services. Given the relationship between the environment, sustainable ecologies and water resources, greater attention will need to be given to soil and water conservation and the promotion of environmentally sustainable farming systems.

3.4.5. Water and sanitation (see Appendix IV for more detailed analysis)

Studies have indicated that rapid urbanisation and industrial development will worsen the already precarious provision of water and sanitation in the western lowlands. Urban growth in Lesotho is about 5.5% per annum and the population living in urban centres in the lowlands can be expected to increase to over 60% of the total by 2025. This, together with the expansion in manufacturing, will create a demand for water and wastewater treatment well in excess of present capacity. In its poverty reduction strategies, GoL acknowledges the importance of providing access to clean water and sanitation, both for economic growth and for reducing disease and improving public health.

The imminent passage of a proposed 25% increase in water tariffs for urban areas, while maintaining a low tariff for low-income consumers, is a tangible sign that GoL supports the principle that water should be an affordable and sustainable asset. The decision to delay the privatisation of the urban water sector until this sector is made sustainable is considered correct. The introduction of an adapted tariff structure together with measures aiming at institutional capacity building, while embarking on a - long overdue - physical investment programme, would render the future involvement of the private sector more meaningful and attainable.

3.4.6. Transport (see Appendix IV for more detailed analysis):

In contrast with many SSA countries, the role of government in the transport sector in Lesotho is limited. South African companies provide rail and air access to Lesotho, while road transport is fully operated by the private sector. GoL's role is limited to regulation and to construction and maintenance of the physical assets of road and air transport. The main road system in the country is, in general, well developed and maintained, while those in the rapidly expanding urban areas are underdeveloped and lack maintenance. Access to social services (schools, clinics) and markets in the rural areas is provided by a network of unclassified feeder roads and footbridges, though in comparison to the classified roads, the state of unclassified roads is in general poor and allows for limited motorised use.

The five-year Road Rehabilitation and Maintenance Project (RRMP), launched in 1996 with participation of WB, ADB and EDF, has resulted in the initiation of structural reforms in the road transport sector. The government vehicle fleet has been privatised, a Road Fund and a Road Board to administer the Fund have been established and the possible creation of a Road Authority is being studied. These newly introduced changes offer a promising basis for undertaking further urgent improvements in the sector. Current concerns with significant institutional and financial implications are:

- The road systems in the rapidly expanding urban areas are underdeveloped and lack maintenance. Motorised access to and within poorer parts of these areas is worsened by the fact that there is little formal urban planning.
- The network of minor gravel feeder roads serving isolated rural centres of population or centres of social services (primarily rural hospitals and clinics, schools) needs to be expanded.

- A deterioration of public sector institutional capacity, particularly at the local government level, due to an outflow of qualified and trained cadres, is resulting in poor planning and an inefficient use of limited resources.

The administration of the maintenance programme is complex and the local agencies responsible find it difficult to manage. The institutional and financial implications of establishing a Road Authority in a small country such as Lesotho will require careful consideration, particularly given the present manpower limitations in the sector and the fact that responsibility for the major part of the national road network falls under the Ministry of Public Works and Transport. Further, GoL will need to ensure that the expansion/upgrading of the network is balanced against and the resources that can be made available to maintenance from within GoL's aggregate fiscal ceilings.

3.5. External environment and regional cooperation agreements

As a result of its unique geographical situation, Lesotho's economic future is intimately linked to that of South Africa. Shared resources, joint facilities, free movement of goods, services and people, together with common membership of SADC, SACU and the CMA, are important factors both for present development activities and for closer future integration. Recent initiatives for greater cooperation between South Africa and Lesotho give reason to expect that not only political, but also water management, trade, development and economic relations will broaden to mutual benefit.

Lesotho's trading relationships (65% of exports go to the SACU countries and 34% to USA) 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 US Africa Growth and Opportunities Act (AGOA); the Cotonou Agreement (particularly the concessions to least developed ACP states); the EU EBA initiative and the ongoing negotiations at the World Trade Organisation (WTO). The challenge of taking advantage of Lesotho's status as a Least Developed Country (LDC) within the context of opportunities offered under these arrangements is a major issue for policy makers. The country will not only be affected by the liberalisation of agreements of which it is part, but through its membership of SACU it will also feel the impact of the Trade, Development and Cooperation Agreement (TDCA) between the EU and South Africa. The primary concern in this area is the possible impact that the TDCA will have on the customs revenues received through SACU. In this regard, the proposed EC support for the development of institutions with a medium and long-term policy planning capacity and the strengthening of Lesotho's analysis and negotiating capacity in trade-related issues, particularly for the envisaged Regional Economic Partnership Agreements (REPA) with the EU, will be important.

3.6. Medium-term challenges

3.6.1. General

The medium-term challenge facing Lesotho is that of attaining sustained economic growth and of ensuring that the benefits include lasting employment opportunities and are equitably distributed throughout Basotho society. To meet the challenge, GoL has to achieve a balance between the delivery of essential services and the creation of an enabling environment for economic growth. Hence, whilst improvements in the provision of health, education and potable water supplies are priorities in the social aspects of poverty reduction, good governance, political stability, improved communications, privatisation and financial sector reform, are critical for the creation of the enabling environment. On a broader basis, closer regional integration and the exploitation of relevant trade agreements must be significant elements in Lesotho's future economic policies.

3.6.2. Governance challenges

The ongoing public sector improvement and reform process, which includes the short-term targets mentioned in section 3.2 above, is a long-term proposition (10-15 years), the success of which will depend on GoL's commitment to public sector reform, and in particular to stricter discipline in public

expenditure management and the ability to reverse the outflow of competent professional and technical cadres.

3.6.3. The challenge of HIV/AIDS

Outside of the issues of social and economic policy, the greatest single medium-term challenge facing Lesotho is the impact of HIV/AIDS. Given the present level of sero-positivity, it is likely that many traditional social safeguards will be eroded, investments in human resource development will be undermined, demands made on health services will strain the budget and government services themselves could be put under threat. In order to develop policies that could mitigate the effects of the disease, it will be necessary for GoL, in addition to addressing epidemiological and health care issues, to give immediate attention to the development of capacity for understanding, forecasting and anticipating the social and economic effects of HIV/AIDS. Further, to gain access to the necessary resources, it is essential that the fight against HIV/AIDS be conducted in close cooperation with South Africa and within the framework of a comprehensive SADC regional programme.

3.6.4. Population movement and increase of poverty

Present demographic patterns show an increasing portion of the population moving to the peri-urban and urban areas of the northern and western areas of lowland Lesotho. Concurrently there is indication of an increasing incidence of extreme poverty within these areas. This is exacerbated by poor access to essential services, especially health, education and markets and increasing demands being placed on access to clean water by the settling population. Furthermore due to industrial development this is a problem that, without urgent sectoral reform and the development of secure sources of supply, will worsen.

3.6.5. Gender and inequity challenges

Women are still treated as minors under the law and although the Law Reform Commission (LRC) was established in 1997, to address, *inter alia*, the problem of gender discrimination, a pre-occupation with electoral reform has meant that the preparation of an inventory of gender discriminatory laws and their subsequent revision has been delayed. Implementation of the necessary reform is further hampered by weaknesses in the administration of justice.

3.7. Sustainability of current policies

The fact that there have been no further iterations of the development plan since 1996/97 and no audit/publication of Government's accounts since 1995/96 is indicative of the low level of planning, budgeting and financial management capacity within Lesotho's public service. There is no macroeconomic framework within which to set the implementation of GoL's economic and social policies and despite a fiscal strategy that over the past ten years has demonstrated aggregate fiscal discipline, there is a danger that in a situation of falling SACU revenues and increasing recurrent expenditures (largely driven by emphasis on social services - HIV/AIDS, Free Primary Education, etc), Government's current policies could become unsustainable. Counter measures will need to include greater emphasis on implementing the basic principles of good governance, particularly in the areas of planning, budgeting and accounting and by creating an environment suitable for strengthening private sector performance.

All the major donors to Lesotho have prompted and supported initiatives to address GoL's lack of financial management capabilities. The IMF is considering assistance to Government in clearing the backlog of unaudited public accounts. It can be expected that the New Government, following the smooth running of the May 25th 2002 elections, will take on board all the above important challenges and in particular the building up of financial management capabilities as stressed by the donor community.

4. OVERVIEW OF PAST AND ONGOING COOPERATION

4.1 Significance of external assistance to Lesotho

Following the end of apartheid in South Africa aid flows to Lesotho have steadily decreased. The exceptions have been Ireland Aid and the EC, both of whom have increased their assistance in real terms.

4.2 Cooperation administered by the European Commission

Between 1975 and 2000, EC financial assistance to Lesotho amounted to €286 million, of which 99% was committed by end-2001 to project/programme activities and approximately 71% was disbursed. Within the First and Second Lomé Conventions (4th and 5th EDF) the National Indicative Programmes (NIP) included a wide range of small/medium projects. Non-programmable assistance included STABEX transfers and emergency aid. Under the 6th EDF the project approach dominated the pattern of interventions for programmable assistance, with the main areas of concentration being agriculture and rural development, road infrastructure, and natural resources. Particular emphasis was given to hydro-power and water supply under the Lesotho Highlands Water Project. Non-programmable assistance was limited to STABEX transfers in respect of Mohair.

For the Fourth Lomé Convention (7th EDF), Lesotho became eligible for structural adjustment support and an allocation of €21.6 million was added to the €50 million of programmable funds for the NIP. The focal sectors of the 7th EDF confirmed the strategy of the 6th EDF, so that the greater part of the resources was concentrated in hydropower and water supply, a sector that also benefited from substantial assistance in the form of EIB concessional lending. Eight transfers were made under STABEX for losses arising out of reduced exports of Wool and Mohair between 1991 and 1994. The allocation for the 8th EDF was €61.5 million, with an addition of €18.5 million for Structural Adjustment. The agreed focal areas were limited to road transport infrastructure and social sectors (water supply, community development and health). 80% of the allocated funds have been committed and the transport sector programme is progressing satisfactorily. Other support included assistance for the management and administration of EDF programmes and for strengthening macro-economic and development policy analysis.

4.3 Cooperation administered by the European Investment Bank

Under the two Financial Protocols of the Lomé IV Convention the EIB signed commitments for a total of €77 million (€59 million of the Bank's own resources and €18 million of risk capital), an amount that exceeded the indicative amounts envisaged at the time. The majority of these resources were made available for the financing of the Lesotho Highlands Water Project, first for the hydro-power component at Muela, followed by funding for Phase 1B of the water component for the transfer of additional water to South Africa. Furthermore EIB has supported the development of the industrial sector through four successive lines-of-credit to the Lesotho National Development Corporation. The funds were essentially made available through long-term loans at fixed interest rates for on-lending to small and medium sized enterprises and for the construction of factory shells.

4.4 Cooperation with European Union member states

Assistance from the EU (member states together with EC) provides approximately 75% of the grant aid received by Lesotho. The focus of the assistance of the EU member states is similar to that of the EC: poverty reduction, institutional capacity building and the fight against HIV/AIDS and tuberculosis. Of the member states, Ireland (rural water, rural roads and health), UK (institutional support, justice), Germany (decentralised cooperation) and Denmark (support to NGOs, environment) are the most significant partners.

4.5 Multilateral and other cooperating partners

WB/IDA, IMF and ADB/ADF are the major multilateral institutions supporting Lesotho. Increasingly the programmes supported by these institutions are following a sector approach, with multiple donor participation and a more co-ordinated financing of agreed interventions. Currently the sectors in which this process is followed are: Road transport (IDA, EDF, Ireland Aid, KfW), health (IDA, EDF, ADB), water and the reform of public utilities (IDA, EDF, ADB) and agricultural restructuring and reform (IDA, DfID, IFAD, ADB).

4.6 Donor co-ordination

In addition to the above sectoral activities, the responsibility for overall aid policy and co-ordination lies with the Ministry of Development Planning. Nevertheless, although there have been a number of forums (round tables, sectoral consultations, etc) to discuss cooperation between Lesotho and its development partners, the management and administration of external assistance remains weak and co-ordination is largely ad hoc.

4.7 Assessment of EC cooperation and its impact

With a high level of commitment and implementation rates, the overall performance of EC-Lesotho cooperation can be considered, at least in quantitative terms, to have been satisfactory. A review of past development cooperation programmes was conducted in November 2000, with the particular objective of identifying the lessons to be learned. The more significant findings of the review were:

- The lack of an adequate capacity within GoL, for effective policy analysis and for the identification, preparation and implementation of development plans and interventions frequently led to inappropriate definition of priorities, sub-optimal use of scarce resources and a non-coherence of support by donors, including EC;
- Past EC assistance tended to focus on narrowly defined EC financed projects. On occasion such interventions were identified, prepared and implemented in isolation from or separate to GoL's sector objectives and public sector investment plans. An exception was the recent support to the transport sector, where EC assistance was a major element of a sector investment programme (SIP) developed under the RRMP;
- Insufficient attention was paid to a realistic assessment of institutional, policy and capacity weaknesses in those areas that received EC/EDF financial support. Examples of this were:

Transport sector: where the impact of EC (and other donor) assistance was made less effective by: (a) lack of coherent medium-term sector-wide programming; (b) worsening of the technical capacity in the relevant ministries; (c) inadequacy of road maintenance and investment in urban and peri-urban areas;

Water & sanitation sector: where efforts to provide support in this crucial aspect of poverty alleviation were hampered by: (a) lack of understanding of immediate, medium- and long-term demands in the sector, particularly those resulting from demographic changes. This was aggravated by continued under-investment in the sector, in spite of increased demand, particularly in the urban and peri-urban areas, resulting in serious deficits in water and wastewater infrastructure; (b) weak institutional capacity at all levels in the planning and operating of water and wastewater systems;

- Insufficient attention to pre-project preparation frequently led to an overestimation of the absorptive capacity in certain sectors, notably agriculture and rural development, and institutional strengthening. Experience has shown that EC financial assistance has been most effectively disbursed where it has been applied wholly to investment in infrastructure within GoL's public sector investment programme.

In devising the EC response strategies for the 9th EDF the lessons learned have been taken into account particularly in the areas of water supply and transport. The identification and application of measures

that build on the lessons learned may be considered as conferring a degree of comparative advantage on possible EDF-supported activities.

5. RESPONSE STRATEGY

5.1 Priorities for cooperation

The priorities for cooperation have been jointly defined on the basis of the following criteria:

- Response to the medium-term challenges;
- Relevance to good governance and poverty reduction;
- Existence of an ongoing, structured sector policy dialogue and capacity within the relevant government agencies;
- Lessons from past experience;

Taking into account these criteria, as well as considering complementarity with other external funding agencies, the capacity of NAO and EC Delegation to manage and monitor interventions, and that of non-state actors (NSAs) to participate in the areas of cooperation, it has been jointly agreed that EC assistance should be concentrated on three focal sectors: *Provision and access to water and sanitation, up-grading institutional capacity and accessibility in the Road Transport sector and macro-economic support / capacity building*. Within these focal areas of support, HIV/AIDS, 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.

5.2 Response Strategy: Provision of and access to Water and Sanitation

In the context of an increasing awareness that its institutional weakness in water and sanitation planning is directly impacting on its ability to engage successfully in poverty reduction, and in response to increasing population movement into the lowlands and the consequent pressures on social services, the GoL considers improved planning capabilities in this area and better access to water and sanitation a top priority, as laid out in both the I-PRSP and Vision 20/20. Access to water and sanitation has one of the strongest impacts on poverty reduction, and is thus 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, aid in the identification, design and development of a long-term solution for the provision of water throughout the populous lowland areas, for both domestic (primarily benefiting the poorest part of the population) and industrial use (contributing to growth in employment and reduction of poverty). Although the prime objective of EC assistance will be the provision of water supplies, the related needs for reticulation and wastewater treatment will also be addressed, as will private sector participation. To initiate the process a feasibility study is under preparation using resources from the 8th EDF. The proposed 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. EC support will be subject to GoL implementing the reciprocal measures outlined in section 6.3 of the Indicative Programme.

5.3 Response Strategy: Road Transport sector strategy: focussing on improving accessibility and institutional capacity building

The I-PRSP identified the need to develop transport networks in order both to allow increased access to essential social services and to provide short-term employment creation through public work programmes. In this context, in response to the population movement to the lowlands and the need to

provide basic services to rural communities in the highlands (in particular education (schools) and primary healthcare (outreach services and clinics), as well as engender employment creation, the strategy for the transport sector will be to continue the multi-donor, sector-wide approach adopted under EDF8

Building on the lessons learned from previous involvement in the sector, the primary focus of the programme will be to continue support for institutional reform, as insufficient attention paid here in the past, has hampered the effectiveness of EC assistance. Key targets will be:

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

In addition to the institutional support, resources will 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 year-round access in the lowlands to planned centres of production (e.g. industrial estates) thus encouraging the development of SMEs;
- Providing isolated rural highland communities and urban areas with year-round access to the road network and hence, to basic social services such as schools, clinics and hospitals, and agricultural/commercial markets.

EC support will be subject to GoL implementing the reciprocal measures outlined in section 6.4 of the Indicative Programme.

5.4 Response Strategy: Macro-economic support and capacity building response strategy

By providing budgetary support linked to: conditionalities on public expenditure management; performance indicators in those sectors most directly associated with the social aspects of poverty (primary healthcare and primary education); as well as satisfactory performance under the 8th EDF Poverty Reduction Budgetary Support Programme, the EC response strategy will be able to directly support GoL poverty reduction measures. In addition, budgetary support will contribute to raising overall levels of institutional capacity where it is connected with assistance in strengthening the planning, budgeting and financial administration, expenditure management, and the concurrent monitoring of indicators relevant to good governance. In this context the capacity building actions initiated under previous NIP (macro-economic and fiscal policy analysis, strengthening of the Bureau of Statistics, health sector reform) will be continued and broadened. The continuation of such assistance will particularly emphasise coherence with the ongoing public sector improvement and reform process.

Lesotho faces considerable difficulties in meeting both its direct challenges and the prospect of globalisation. In particular, capacity gaps throughout government, the complexities of Lesotho's regional integration arrangements and the underdeveloped links between the public and private sectors are matters to be addressed. Therefore, complementary to macro-economic support and capacity building and to the two focal sectors, the EC will provide limited support to trade and regional integration. This support will be crucial in preparation for the forthcoming Regional Economic Partnership Agreements (REPA). The assistance could include the strengthening of GoL trade policy analysis and negotiating capacity, assistance to the private sector, trade unions and government

agencies for REPA planning and preparation, and studies on impact analysis and other aspects that accompany a changing trade environment.

5.5 Response strategy: Non focal areas

5.5.1 Fight against HIV/AIDS

EC support to the fight against HIV/AIDS will focus mainly on strengthening GoL's planning and response capacity, awareness creation and the development of home-based care. Given the uncertainty of current knowledge on HIV/AIDS in Lesotho, EC assistance will need 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 and that extensive use will be made of decentralised cooperation. Co-ordination and collaboration mechanisms have been established and LAPCA, assisted by Ireland Aid and the UN theme group, is preparing an implementation plan for a National AIDS Strategy. The measures proposed, under the National AIDS Strategic Plan, will form the basis for EC support. A contribution to a multi-donors fund for HIV/AIDS could also be envisaged. Given the seriousness of HIV/AIDS within the Southern African region as a whole it is necessary that any measures undertaken in Lesotho should take the regional context into consideration and should be integrated both with the existing SADC regional programme for combating the pandemic and with initiatives undertaken in South Africa.

5.5.2 Participation of Non-State Actors (NSA)

Where they have a comparative advantage, such as in HIV/AIDS, rural water and microprojects, NSAs will be involved in the implementation of EDF-financed activities. To this end NSA in Lesotho will, where appropriate, be: informed and consulted on the policies and strategies of cooperation between Lesotho and EC; provided with access to EDF financial resources; involved in the implementation of projects and programmes; and assisted with capacity building support. A separate envelope (up to €500,000) will be provided to reinforce their capabilities with regard to organisation and representation, and to establish consultation mechanisms both amongst NSA and with GoL. The eligibility criteria for NSA to benefit from 9th EDF resources are mentioned in Article 6 of the Cotonou Agreement and a study, with workshops, will refine the specific criteria to be applied in Lesotho.

5.6 Complementarity and coherence in the response strategy

5.6.1 Complementarity with institutional capacity building

A central element in the macro-economic support will be institutional capacity building in line with GoL's programme for public sector improvement and reform. Indicative areas for specific support are: macro-economic, fiscal, trade and transport policy analysis, public expenditure management, national statistics, administration of justice, donor co-ordination and management of aid. The response is targeted at improving governance, which should increase the efficiency and impact of EC support, in line with the EC's development policy. Any EC support will be put in place following close consultation with other cooperating partners concerned (e.g. WB, DfID and Ireland Aid).

The capabilities of NSA will be enhanced by access to a separate envelope set aside for this purpose (see 5.5.2 above), whilst support for the strengthening of community-based organisations, local government services and participatory networks will continue to be provided through microprojects and decentralised cooperation.

5.6.2 Complementarity with Non-State Actors (NSA)

The ACP states and the European Union recognise the complementary role and potential for contributions by NSA to the development process. NSAs were consulted in the elaboration of EC support under the CSP, and are presently involved in the formulation of both Vision 20/20 and the PRSP.

5.6.3 Complementarity with other EC development instruments

Lesotho could benefit from the following EC budget lines:

- B7-7 Democracy and human rights: A new electoral process is to be introduced and it is important that every effort is made to ensure that it is widely understood and accepted.
- B7-6200 Environment: To support sound environmental and conservation practices, particularly in the fragile afro-alpine belt of the Maloti/Drakensberg Mountains.
- B7-6002 NGO co-financing: Synergies with EDF programmes will be sought wherever possible and due consideration will be given to the value added of NGO initiatives.
- B7-6340 Decentralised cooperation: To strengthen capacity and to promote channels of communications, networking and strategic alliances will be promoted between NSA at different levels both nationally and regionally.
- B7-6212 HIV/AIDS and population related operations: Considering the very high incidence of HIV/AIDS in Lesotho, it is of importance that Lesotho benefit from the budget line to enhance public-private partnerships.

5.6.4 Coherence with other EC policies

The response strategies identified support the development objectives expressed by the Government of Lesotho and endorsed by civil society, as well as the priorities chosen by EU Member States for their cooperation with Lesotho. In particular the response strategies complement the involvement of Ireland (Ireland Aid) in the areas of rural access and rural water supplies, and the participation of Britain (DFID) and Ireland in measures aimed at public sector improvement and reform. As regards the EC policy mix, the impact of the TDCA with South Africa and of the new trading arrangements Cotonou Agreement are of relevance as there could be negative implications for Lesotho, particularly as regards future SACU pool receipts and the issue of accumulation in garment manufacture. No other particular issues of coherence with EU policies outside the developmental field have been identified.

5.6.5 Coherence with other donors

Through active involvement in the multi-donor sector-wide approach to addressing development issues in the Water and Road Transport sectors, and through ongoing involvement in Health sector reform, the response strategies and the interventions to be implemented will ensure that the impact derived from EC assistance will make a positive contribution to poverty reduction.

5.6.6 Coherence with cross-cutting themes

The cross-cutting issues of gender, environment, institution building and conflict prevention will be prime considerations in the design and implementation of all interventions within the response strategies for both focal and non-focal areas. In particular, gender issues will be a priority in HIV/AIDS, microprojects, decentralised cooperation and the administration of justice (elimination of gender discriminatory laws, etc). In the focal areas of Water Supply and Road Transport environmental concerns will be conditional for assistance. Further, in the context of concerns over possible industrial pollution arising from the expansion of the textile industry EIB involvement is foreseen in the area of wastewater treatment.

5.7 Support through the European Investment Bank

The contribution of the EIB to development cooperation with Lesotho will take the form of the provision of long-term financial resources other than grants, to assist in promoting growth in the private sector and in helping to mobilise domestic and foreign capital for this purpose. The support will be in the form of risk capital from the Investment Facility or as loans from EIB's own resources. The Investment Facility is the principal instrument of the Cotonou Agreement for medium-term finance, structured as a revolving fund aiming at financial self-sustainability. The Investment Facility will have at its disposal an array of instruments, including loans, quasi-equity, equity participation and provision of guarantees. Operations will be financed, as a rule, on market related terms and interventions by the Investment Facility will essentially be responding to market opportunities.

Considering the specificities of Lesotho's economic situation as well as EIB's past experience in the country, EIB will continue to focus on three main areas of intervention. First, financing of infrastructure projects in the power, water and sewerage, transport and telecommunications sectors. 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. Second, close cooperation with local financial intermediaries to support small and medium scale enterprises through global loans or equity funds. The aim will be to widen the range of intermediaries and to increase the number of financial instruments on offer. Third, direct funding of large individual projects, where the Bank can contribute value added in the technical and/or financial structuring of the investment. These projects will be carefully selected in areas where Lesotho has a comparative advantage.

PART B

Indicative Programme

6. PRESENTATION OF THE INDICATIVE PROGRAMME

6.1 Introduction

Based on the cooperation strategy presented in Part A and in accordance with the provisions of Article 4 of Annex IV of the Cotonou Agreement, the Indicative Programme has been drawn up in a series of tables and comments presenting the intervention framework for the focal sector, for macro-economic support and capacity building, the indicative commitments and expenditure schedules and a detailed activity schedule (chronogram) for all identified programmes or projects during a three year rolling period. The global objective for EC assistance under the present Indicative Programme will be: poverty reduction through more equitable distribution of economic growth and better provision of basic services, in particular *through strengthening basic economic infrastructure in the sectors of water and sanitation, and of transport, while simultaneously supporting improved macro-economic management*

6.2. Financial instruments

Several financial instruments will be used to finance the implementation of the EC-Lesotho cooperation strategy. The following is an indication of their mobilisation as presently envisaged.

6.2.1. EDF 9, A-envelope : €86 million

This envelope is to cover the long-term development operations within the Country Strategy. The indicative allocation of this envelope to the elements of the strategy is proposed as follows:

- Water and sanitation - up to 20%
- Transport - up to 20%
- Macro-economic support and capacity building - up to 50%
- Other programmes (HIV/AIDS, microprojects, decentralised cooperation, support for NSA, contributions to trade and regional integration) - up to 10%

6.2.2. EDF 9, B-envelope: €24 million

This envelope will be used to cover unforeseen needs as indicated in the Cotonou Agreement, Annex IV, Article 3, 2(b).

6.2.3. Investment Facility

Apart from the above-mentioned financial instruments of which the A-envelope is the main programmable basis for the Indicative Programme, the 9th EDF includes also the Investment Facility as a financing instrument managed by the European Investment Bank. The Investment Facility does not as such form part of the Indicative Programme

6.2.4. EC budget lines

EC budget lines could be used to finance specific operations, in particular for HIV/AIDS related operations, environmental and natural resources conservation and support to democracy and human rights initiatives. Financing from this instrument will be decided in accordance with the procedures for the budget line concerned and will depend on the availability of funds.

6.3. Focal sector I: Provision of and access to Water and Sanitation.

The framework objective for this sector is to improve the standard of living of both the rural and rapidly urbanising populations, through the provision of domestic and industrial water. The major interventions foreseen will lead to the provision of secure water supplies in the medium- and long-term. Specific interventions will include:

- Capacity building and education activities in public (DWA and WASA) and private sectors in respect of water supply and waste water treatment;
- Augmentation of water supply and sanitation facilities in six towns in Lesotho lowlands
- Securing medium-term water availability and supply to the (peri-) urban centres in the lowlands taking into account water demands in neighbouring RSA.

- Support to rural water supply through microprojects, decentralised cooperation activities and with the extensive involvement of NSA.

EC support will be subject to GoL, in close consultation with the cooperating partners in the water and sanitation sector (WB and EC), setting tariffs for water and sanitation services in urban and peri-urban areas, aiming at full cost recovery based on adequate operations and maintenance within three years. Such tariffs will be inflation indexed. All subsidies to consumers will be eliminated within the same period, except possibly for the poorest customers (consuming the WHO minimum daily quantities of water). For indicative purposes, up to 20% of the available resources will be reserved for this focal sector.

6.4. Focal sector II: Road Transport sector strategy: focusing on improving accessibility and institutional capacity building

The framework objective for EC support in the transport sector will be the development of a transport system capable of providing access to essential social services for isolated communities, assisting in the decentralisation process by providing all-weather links between district administrative centres and in supporting the sustainable development of national economic activities. The major interventions foreseen will focus on:

- Institutional capacity building and development of a medium term strategy for the transport sector;
- Establishment of a sector-wide road maintenance and capital investment programmes for the medium-term and create employment through the utilisation, whenever possible, of labour-based methods of road construction and maintenance.

On the basis of the above maintenance and capital investment programme, and where proven relevant and feasible, support will be given to:

- Upgrading and improvement of the road network both outside and within (peri-) urban areas;
- Upgrading to all-weather gravel standard of selected rural roads providing isolated communities with access to essential social services, decentralised administration and economic centres;
- Road safety initiatives.

EC support will be subject to GoL, in close consultation with cooperating partners in the transport sector (particularly WB), launching an agreed integrated road maintenance strategy and operations programme. The said GoL strategy and programmes shall deal with the complete road network outside and within (peri-) urban areas and shall establish and adopt multi-annual budgets for maintenance of the whole road network, to be administered by the Road Fund in close cooperation with the local authorities. For indicative purposes, up to 20% of the available resources will be reserved for this sector.

6.5. Macro-economic support and capacity building

The EC will support the macro-economic reform programme of GoL, with special attention being given to the objectives of poverty reduction and of equitable access to social services. Support to institutional capacity building actions connected with assistance in macro-economic and sector policy analysis and implementation and in strengthening public expenditure management will continue with the concurrent monitoring of indicators relevant to good governance. The disbursement of funds will be conditional on satisfactory performance of the 8th EDF Poverty Reduction Budgetary Support Programme. Macro-economic support will be delivered under three-year programmes. Funds will be disbursed on an annual basis, though if an annual disbursement is not realised within the time limits foreseen, the corresponding amount can be transferred to one of the other sectors of cooperation in the Indicative Programme. Such a decision would be taken in the context of the annual review.

For indicative purposes, up to 50% of the resources available will be reserved for this support.

6.6. Other programmes

Within the main objective of poverty reduction, the aims of the non-focal sector programmes are for the strengthening of GoL's planning and response capacity in awareness creation and development of home-based care, in regional integration and trade expansion. In this context and with the National Authorising officer's global agreement, the **non-state actors** will be well placed to play a significant role in the planning and implementation of relevant interventions and that extensive use will be made of decentralised cooperation. For indicative purposes, up to 10% of the resources available has been reserved for the following purposes:

1. Fight against HIV/AIDS: Fullest support will be given to Southern African regional initiatives in the combat of HIV/AIDS, in close cooperation with local and regional authorities and NSA;
2. Support for trade expansion, and particularly for the development of negotiating and analytical capacities;
3. Continuation of the successful microprojects programme with a sharper poverty reduction focus and greater emphasis on decentralised cooperation;
4. Institutional support for NSA and civil society in general, including capacity building initiatives for the benefit of professional, trade and consumer organisations, and NGO's active in the fields of human rights, legal assistance, women's and children's rights;
5. Contributions to regional projects and programmes, principally those of the SADC and including complementary actions for trade and regional integration; and
6. Reserve for insurance against possible claims and to cover cost increases and contingencie

6.7. Summary intervention framework performance indicators and implementation schedule

	Performance indicators	Assumptions
<p>Focal Area I – Water Supply and Sanitation</p> <p>Intervention objective: To provide water and sanitation services for domestic and industrial use to the Lesotho Lowlands in the medium- and long-term.</p> <p>Results: Water system developed/constructed in Six Towns plus long-term strategy developed for potable water supply to the Lesotho Lowlands</p>	<p>Capacity (in m³/d) of abstraction, treatment and supply facilities increased by the end of the period ; Long-term (30 years) development plan for water supply and sanitation in Lesotho Lowlands published and adopted by GoL</p>	<p>GoL agrees with neighbouring countries on abstraction and sources for Lowlands population.</p> <p>GoL and WASA agree on tariff structure that guarantees full cost recovery for operations and maintenance whilst assuring affordable tariffs are applied for low-income groups.</p> <p>GoL develops in parallel water distribution networks, wastewater treatment and secures finance.</p>
<p>Focal Area II – Transport</p> <p>Intervention objective: To improve access to isolated rural areas, markets and to basic services within urban and peri-urban areas.</p> <p>Results: Sector-wide Medium-term Transport Policy adopted by the GoL by 2003; Traffic accidents reduced by 20%; Up to 300 kms road network improved in peri-urban and rural areas; Road Fund execution process transparent and accountable; Enhanced capacity in Departments of Rural Roads and Roads Branch</p>	<p>Proportion of people having access to basic social services and markets using motorised and non-motorised roads; Number of SMEs served by bitumen access; All year road condition and degree of accessibility; Number of additional staff; number of additional office and maintenance related equipment</p>	<p>GoL implements its investment policy in the sector and encourages economic development.</p> <p>GoL sustains the medium- and long-term sectoral policy for the transport sector</p> <p>Funds for regular maintenance will be made available through the Road Fund</p>
<p>Macro-economic support and capacity building</p> <p>Intervention objective: To improve the effectiveness and efficacy of GoL's service delivery in the context of economic growth and poverty reduction.</p> <p>Results: Job opportunities increased throughout Lesotho; Equitable access to quality education and training increased, with priority given to primary education; Equitable access to primary healthcare, particularly for disadvantaged groups and persons living in isolated rural communities; Governance and management of the economy improved</p>	<p>Development and approval of a full Poverty Reduction Strategy Paper by January 2003; GoL's annual recurrent budgetary allocations for education and health maintained at a minimum of 25% and 10% respectively</p>	<p>GoL able to maintain political stability and committed to sound economic and fiscal management and public sector reform and to implementation of the approved Poverty Reduction Strategy</p>
<p>Cross-cutting issue – Fight against HIV/AIDS</p> <p>Intervention objective: To assist GoL in adequately respond to the HIV/AIDS pandemic by enhancing its planning capacity, alleviating the socio-economic burden of households affected and reducing the rate of transmission.</p> <p>Results: Programme for combating HIV/AIDS established and operational Home-based care system established; Awareness of HIV/AIDS increased;</p>	<p>Increase of orphans, due to AIDS, cared for by the local communities; HIV/AIDS impact integrated in macro-economic modelling and planning; Strategic plan for a regional approach to combating HIV/AIDS adopted and implemented; Policy on home-based care adopted and implemented; Condom use increases per year; Population model developed and incorporated into national planning process</p>	<p>GoL adheres to the National AIDS Strategic Plan</p> <p>Good cooperation between GoL and non-state actors within Lesotho</p> <p>Southern Africa regional partners able to agree on and implement common SADC strategy</p>

Lesotho – Indicative Programme – EDF 9 “A” allocation € 86 million – Over-programming €11 mio	2002				2003				2004			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
1. Indicative Activities schedule (Chronogramme) by focal sector												
1) Water supply and sanitation												
Six Towns Water Supply		PF	PF	FP		FD						
Lesotho Lowlands Water Supply		FS	FS	FS	FS	FS	PF	PF	FP			FD
2) Transport			PF	PF	FP		FD					
Macro-economic support and capacity building												
Poverty Reduction Budgetary Support			PF	FP		FD						
Capacity building			PI	PF	FP		FD					
Other Programmes												
Fight against HIV/AIDS			PI	PF	FP		FD					
Microprojects and decentralised cooperation							PE	PF	FP		FD	
2. Indicative commitments (mEURO)												
Focal Sectors												
Water supply and sanitation	13.5	13.5	13.5	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	
Transport	0.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	
Macro-economic support and capacity building	20.0	25.0	25.0	25.0	25.0	25.0	50.0	50.0	50.0	50.0	50.0	
Other programmes												
Fight against HIV/AIDS	0.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	
Microprojects and decentralised cooperation	0.0	0.0	0.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	
TOTAL	33.5	60.5	60.5	72.0	72.0	72.0	97.0	97.0	97.0	97.0	97.0	

Abbreviations:

FS	Feasibility Study	PI	Project Identification
PF	Project Formulation		
FP	Financing Proposal	FD	Financing Decision

Appendices

Appendix 1 Intervention framework and performance indicators
Indicative commitments schedule
Indicative disbursements schedule
Indicative activities schedule (Chronogramme)

Appendix 2 Parameters for the review process

Appendix 3 Donor matrix

Appendix 4 Main ongoing projects financed by the EC

Appendix 5 Analysis of national policy in the focal sectors

Appendix 6 Key statistics and indicators

Appendix 7 Abbreviations and acronyms

6.2 Intervention framework and performance indicators

1 Focal Area I – Water Supply and Sanitation	Performance indicators	Source of verification	6.2.1.1.1 Assumptions
<p>Long-term national sector targets To improve the standard of living of the rapidly urbanising population of Lesotho through the provision of domestic and industrial water in the urban and peri-urban areas of the country.</p>	<ol style="list-style-type: none"> 1. Incidence of water-borne diseases reduced 2. Employment created through the creation and development of SMEs 	<p>MoNR reports Bureau of Statistics reports MoHSW reports</p>	
<p>Intervention objective To provide water and sanitation services for domestic and industrial use to the Lesotho Lowlands in the medium- and long-term . Capacity building and education activities in public (DWA and WASA) and private sectors in respect of water supply and waste water treatment</p>	<ol style="list-style-type: none"> 1. Increase access to water and sanitation facilities to population in the urban and peri-urban areas served by the programme. 2. Increased to water and sanitation facilities to SMEs by the end of the period. 3. DWA & WASA restructured and trained; private sector participation. 	<p>Regular reports of DWA, implementing agencies (WASA, DRWS), and Technical Assistance (TA).</p>	<p>GoL continues to implement NRMP. GoL in conformity with SADC policy for shared water resources, agrees with neighbouring countries on abstraction and sources for Lowlands population. DWA & WASA active participation in the programme.</p>
<p>Results:</p> <ol style="list-style-type: none"> 1. Water system developed/constructed in Six Towns 2. Long-term strategy for potable water supply to the Lesotho Lowlands 3. Public (DWA, WASA) and private sector capacity for water supply and waste water treatment enhanced 	<ol style="list-style-type: none"> 1. Capacity (in m³/d) of abstraction, treatment and supply facilities increased by the end of the period 2. No. of new public taps, new house, government, industrial and commercial connections increased by 10% per year 3. Long-term (30 years) development plan for water supply and sanitation in Lesotho Lowlands published and adopted by GoL 	<p>Regular reports of DWA, WASA, DRWS, and TA. Water distribution records. Programme completion report.</p>	<p>GoL and WASA agree on tariff structure that guaranties full cost recovery for operations and maintenance whilst assuring that affordable tariffs are applied for low-income groups. GoL develops in parallel water distribution networks, wastewater treatment and secures finance.</p>

2. Focal Area II – Transport	Performance indicators	Source of verification	Assumptions
<p>Long-term national sector targets: To develop a transport sector capable of supporting national economic activities.</p>	<ol style="list-style-type: none"> 1. Economic growth 2. Employment 3. Balance of payment 	<p>Reports from Ministry of Finance and Development planning – State statistics</p>	
<p>Intervention objective: To improve access to isolated areas, markets and basic services within urban and peri-urban areas.</p>	<ol style="list-style-type: none"> 1. Proportion of people having access to basic services and markets using motorised and non-motorised roads. 2. Number of SMEs served by bitumen access 	<p>Baseline study – Households surveys Traffic surveys Project Evaluation Reports.</p>	<p>GoL implements its investment policy in the sector and encourages economic development.</p>
<p>Results:</p> <ol style="list-style-type: none"> 1. Road maintenance strategy launched and agreed within the GoL and the EC. 2. Medium-term Transport Policy adopted by the GoL by 2003; <p>3. Physical</p> <ul style="list-style-type: none"> • Road safety improved - Traffic accidents reduced by 20% • Road network improved in peri-urban and rural areas (300 kms of road upgraded/improved). <p>4. Institutional</p> <ul style="list-style-type: none"> • Road Fund technical and financial decision making and execution process transparent and accountable. • Departments of Rural Roads and Roads Branch capacity enhanced • Temporary employment generated by labour intensive road maintenance and construction approach 	<ol style="list-style-type: none"> 1. Publication in the government’s gazette 2. Number of Traffic accidents. 3. All year road condition and degree of accessibility 4. Publication in the government’s gazette 5. Key staff appointed by 2004 and Road Fund operational procedures approved by government by 2004 6. Number of additional staff; number of additional office and maintenance related equipment 7. Around 200.000 man-days of employment 	<ol style="list-style-type: none"> 1. Publication in the government’s gazette; 2. Regular reports of MPW&T & implementing agencies: DRR, RB, Road Safety Department & TA. 3. Project interim and completion reports; traffic statistical data 4. MPW&T road use surveys 	<p>GoL sustains the medium-and long-term sectoral policy for the transport sector</p> <p>Funds for regular maintenance will be made available through the Road Fund.</p>

3 Macro-economic support and capacity building	Performance indicators	Source of verification	Assumptions
<p>6.2.1.1.2 Overall objective To reduce poverty and unequal income distribution to the people of Lesotho</p>	<ol style="list-style-type: none"> Economic growth at 4% per annum Proportion of population living below the poverty datum reduced by 10% between 2002 and 2006 	<p>National accounts Household budget and expenditure survey</p>	<p>GoL able to maintain political stability and committed to sound economic and fiscal management</p>
<p>6.2.1.1.3 Intervention objective To improve the effectiveness and efficacy of GoL's service delivery in the context of economic growth and poverty reduction</p>	<ol style="list-style-type: none"> Development and approval of a full Poverty Reduction Strategy Paper by October 2002 GoL's annual recurrent budgetary allocations for education and health maintained at a minimum of 25% and 10% respectively 	<p>Publication of PRSP Annual estimates and financial report</p>	<p>GoL fully committed to public sector reform and to implementation of the approved Poverty Reduction Strategy</p>
<p>Results:</p> <ol style="list-style-type: none"> Job opportunities increased Equitable access to quality education and training increased, with priority given to primary education Equitable access to primary healthcare increased, particularly for disadvantaged groups and persons living in isolated rural communities Governance and management of the economy improved Relevant poverty indicators established and regularly monitored 	<ol style="list-style-type: none"> Unemployment rate reduced below 30% by 2006 Net overall completion of Std 7 primary school increased by 2006 Annual proportion of under 5 yrs vaccinated against the 7 major communicable illnesses increased by 2006 Fiscal deficit maintained at less than 1% of GDP GoL wage bill reduced to 13.5% of GDP Performance and Poverty monitoring indicators for all sectors of EDF support agreed by end 2002 	<p>Household budget and expenditure survey National employment survey GoL economic and budgetary statistics Annual EC/GoL review and programming meeting</p>	<p>Impact of external events (implementation of EU/SA TDCA, cessation of Multifibre Agreement, SADC Free Trade Agreement) do not reduce government's SACU revenues excessively or to have significantly adverse impact on Lesotho's ability to attract FDI.</p>

4 Cross-cutting issue – Fight against HIV/AIDS	Performance indicators	Source of verification	Assumptions
<p>Long-term national sector targets: HIV/AIDS free society with high levels of awareness, behavioural change, safe blood supply, safe sex practices; equitable access to quality care; and support for both the infected and the affected.</p>	<ol style="list-style-type: none"> 1. Agreement on realistic estimate of HIV/AIDS sero-prevalence 2. Use of condoms increased per year 	<p>Reports from Lesotho AIDS Programme Co-ordination Authority (LAPCA)</p>	
<p>Intervention objective: To assist GoL in adequately respond to the HIV/AIDS pandemic by enhancing its planning capacity, alleviating the socio-economic burden of households affected and reducing the rate of transmission.</p>	<ol style="list-style-type: none"> 1. Incidence of HIV/AIDS among 15-49 years of age 2. Increase of orphans, due to AIDS, cared for by the local communities; 3. HIV/AIDS impact integrated in macro-economic modelling and planning 	<p>Reports from community based care structures/institutions</p> <p>Programme completion reports. National Development Plan</p>	<p>Commitment of all national stakeholders</p> <p>Effective communication among all sectors</p> <p>Non-discriminatory attitude</p> <p>GoL adheres to the National AIDS Strategic Plan</p>
<p>Results:</p> <ol style="list-style-type: none"> 1. Programme for combating HIV/AIDS established and operational 2. Home-based care system to assist persons living with HIV/AIDS set up 3. Awareness of HIV/AIDS in the community at large increased 4. Population modelling capacity in Department of Population and Manpower Development enhanced 	<ol style="list-style-type: none"> 1. Strategic plan for a regional approach to combatting HIV/AIDS adopted and implemented 2. Policy on home-based care adopted and implemented 3. Condom use increases per year 4. Population model developed and incorporated into national planning process 	<p>Reports of LAPCA</p> <p>Programme completion reports</p> <p>National Development Plan</p> <p>GoL budget</p>	<p>Good cooperation between GoL and non-state actors within Lesotho</p> <p>Southern Africa regional partners able to agree on and implement common SADC strategy</p>

6.3 Indicative commitments schedule

Lesotho NIP EDF 9	"A" allocation € 86 million – Overprogramming €11 mio	Cumulative commitments (€ million)										
		2003		2004		2005		2006		2007		2008+
Focal Sectors												
Water supply and sanitation												
Transport												
Macro-economic support and capacity building												
Other programmes												
Fight against HIV/AIDS												
Microprojects and decentralised cooperation												
TOTAL												

6.4 Indicative disbursements schedule

Lesotho NIP EDF 9	"A" allocation €86 million Overprogramming €11 million	Cumulative disbursements (€ million)										
		2003		2004		2005		2006		2007		2008+
Focal Sectors												
Water supply and sanitation												
Transport												
Macro-economic support and capacity building												
Other programmes												
Fight against HIV/AIDS												
Microprojects and decentralised cooperation												

Lesotho NIP EDF 9	"A" allocation €86 million Overprogramming €11 million	Cumulative disbursements (€ million)										
		2003		2004		2005		2006		2007		2008+
TOTAL		0.0	0.0	10.25	21.5	31.75	43.0	50.25	62.5	70.0	78.75	97.0

6.5 Indicative activities schedule (Chronogramme)

Lesotho – Indicative Programme – EDF 9	2002				2003				2004			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Focal Sectors												
1) Water supply and sanitation												
Six Towns Water Supply		PF	PF	FP		FD						
Lesotho Lowlands Water Supply		FS	FS	FS	FS	FS	PF	PF	FP			FD
2) Transport			PF	PF	FP		FD					
Macro-economic support and capacity building												
Poverty Reduction Budgetary Support			PF	FP		FD						
Capacity building			PI	PF	FP		FD					
Other Programmes												
Fight against HIV/AIDS			PI	PF	FP		FD					
Microprojects and decentralised cooperation							PE	PF	FP		FD	

Abbreviations:

FS	Feasibility Study
PI	Project Identification
PF	Project Formulation
FP	Financing Proposal
FD	Financing Decision

Parameters for the review process

DEVELOPMENT PRINCIPLES	DEVELOPMENT TARGETS
Law, gender and governance	
Rule of law and gender discrimination	Statutes of Lesotho consolidated, indexed and published List of gender-biased laws compiled by LRC Married Persons Equality Bill passed Gender policy approved and adopted
Governance and institutional capacity	National Revenue Authority staffed and operating VAT introduced Public sector reform programme on schedule
Macro-economic management	
Coherent monetary and economic policies	GDP growth of 3.9% per year achieved Deficit before grants held at 3% of GDP
Private sector development	Commercial Courts functioning Privatisation of LEC finalised
Public sector	GoL wage bill reduced to 13.5% of GDP Public Expenditures Review conducted
Fight against poverty	
Poverty strategies	PRSP completed by June 2002 and approved by WB/IMF PRSP strategies incorporated in 3-year rolling development plan
Social development	GoL recurrent budget allocations of 25% for health and 10% for education maintained Shift from tertiary to primary education being implemented
HIV/AIDS	Lesotho's component of strategic plan for regional approach to combating HIV/AIDS prepared
Civil society	Framework agreement for cooperation between GoL and NSAs/NGOs approved and adopted
Management of aid programmes	
Policy and implementation	Aid policy approved and adopted Timetables listed in indicative programme achieved Activities for following two years prepared and programmed Previous EDF balances utilised

Appendix 3

Lesotho - Donor Matrix

Agency	Planning period	Economic development	Social development	Productivity sector	Thematic /crosscutting issues
Ireland Ireland Aid	Annual (2001)	1. Public sector reform - €440,000 2. Roads - €1.6 million	3. Health - €1.9 million 4. Primary Education - €2.1 million 5. Rural Water Supply - €1.7 million 6. HIV/AIDS - €380,000	7. Support to SMEs - €760,000 8. Rural development - €950,000	9. Governance, democracy - €760,000 10. Environmental protection - €63,000
UK DfID	1999/2001	1. Police and administration of justice	2. Support to civil society in PRSP process 3. WASA and potential rural water supply - €2.7 million 4. HIV/AIDS	5. Agriculture policy - €1.2 million 6. SMEs - €2.9 million	7. Support to Elections - ± €8 million (total allocation for 1999-2001 programme)
Germany GTZ	Biannual			1. Agriculture - €2 million	2. Decentralised rural development
Denmark DANCED	1998/2002				1. Environmental training, energy management, capacity building, waste management - €6.4 million
Switzerland Helvetas			1. Rural water supply - €1.55 million		
UNDP	1997-2001	1. Governance - €2.9 million		2. Human resources development and employment - €2.3 million	3. Rural development and environmental management - €8.3 million
FAO	2001-2002		1. Food security through water control - €326,700	2. Agricultural census - €208,000	3. Possible future intervention: natural resources (soil erosion) 4. Assistance in agricultural policy definition
UNFPA	2000-2002		1. Population and development strategies - €550,000 2. Reproductive health - €670,000		3. Advocacy for gender equality - €330,000
UNICEF	2002-2006		1. Health and nutrition - €5.5 million 2. Education - €5.5 million 3. Adolescent development - €3.3 million 4. Social Policy and Planning - €3.9 million		
WFP	2000-2002		1. Food assistance to Primary schools - € 5.5 million 2. Food for capacity building - €167,000 3. Food assistance to ECCDs - €510,000		4. Disaster preparedness and mitigation - €310,000

WHO	2000-2001		<ol style="list-style-type: none"> 1. Health sector reform - €324,000 2. Immunisation campaign - €220,000 3. Mother and child care - €550,000 4. Hygiene education - €155,000 5. Health promotion - €280,000 		
WB		<ol style="list-style-type: none"> 1. Roads Rehabilitation and Maintenance - €44 million 2. Public sector improvement and reform (in pipeline) - €11 million 3. Utilities reform - €31.8 million 	<ol style="list-style-type: none"> 4. Health Sector Reform - €7.2 million 5. Community development - €5.2 million 6. Education - €23.3 million 7. Water Supply and sanitation 	8. Agricultural policy - €7.6 million	
IMF	2001-2003	1. Poverty reduction and growth facility - €22 million			
IFAD				1. Sustainable mountain agriculture	
ADB		1. Public Utilities Reform	<ol style="list-style-type: none"> 2. Health sector reform 3. Education reform 	<ol style="list-style-type: none"> 4. Agricultural policy - €1.4 million 5. Private sector development 	
EIB		<ol style="list-style-type: none"> 1. Industrial development - €500,000 2. LHWP phase 1B - €10 million 3. Privatisation of public utilities 4. Possible Maseru Sewerage improvement 			
EC	Ongoing	<ol style="list-style-type: none"> 1. Transport infrastructure - €39 million 2. Governance and capacity building - €4.2 million 	<ol style="list-style-type: none"> 3. Health Sector reform - €1.8 million 4. Water supply - €2 million 5. Community development - €5.7 million 6. Budgetary support - €18.5 million 		
Non-State Actors		1. Micro-credit	<ol style="list-style-type: none"> 2. Health service provision (CHAL) 3. Environment (CARE, Lesotho) 4. Rural Water Supply 5. HIV/AIDS 	<ol style="list-style-type: none"> 6. Rural development 7. Retrenched miners 	<ol style="list-style-type: none"> 8. Gender 9. Advocacy 10. Poverty assessment and monitoring 11. Human rights, conflict resolution, democracy

Appendix 4

Table of main ongoing projects and programmes financed by the European Community

(€ million)

EDF	Project N°	Project Title	Amount	Amount committed	Amount disbursed	Completion date
7	7 ACP LSO 001	Muela Hydropower Project	33.00	32.15	31.7	30.06.02
	7 ACP LSO 038	Axle Load Control Project	0.85	0.30	0.3	31.12.02
	7 ACP LSO 041	Six Towns Water Supply Phase I	1.99	1.91	1.49	31.12.02
	7 ACP LSO 045	Assistance to Bureau of Statistics	1.10	0.69	0.2	31.12.02
	7 ACP LSO 048	8 th EDF Microprojects Programme	0.41	0.15	0.14	30.06.04
	8	8 ACP LSO 002	Road Transport Infrastructure Programme	37.7	27.86	10.6
8 ACP LSO 003		8 th EDF Microprojects Programme	5.30	0.52	0.29	31.12.04
8 ACP LSO 005		Information, Workshops & Cultural Initiatives	0.48	0.1	0.04	30.06.04
8 ACP LSO 007		Support to Department of Economic Cooperation	1.10	0.33	0.05	31.12.04
8 ACP LSO 008		Support to Health Sector Reform	1.80	0.0	0.0	30.06.04
8 ACP LSO 009		Poverty Reduction Budget Support 2001/02	8.5	0.0	0.0	31.12.03
8 ACP LSO 010		Poverty Reduction Budget Support 2001/02	10.0	0.0	0.0	31.12.03
8 ACP LSO 011		Lowlands Water Supply Feasibility Study	1.75	0.0	0.0	31.12.04
8 ACP LSO 012		Support to Department of Economic Policy	0.75	0.0	0.0	31.12.05

Analysis of national policy in focal and related sectors

1. WATER AND SANITATION

1.1 Water resources

Lesotho is a least-developed, mountainous and landlocked country, surrounded by South Africa. The country has a land area of about 30,500 km², and a population estimated to be 2.2 million. There are three main river basins in Lesotho, the Senqu, Mohokare/Caledon and Makhaleng basins. All are shared with South Africa, and form sub-basins of the Orange basin. While Lesotho is small in relation to the total size of the Orange basin of about 1.0 million km², it is very significant in terms of the water resources, since it lies in the wetter uppermost part of the basin and contributes roughly half the flow that reaches the outlet in the Atlantic Ocean.

Besides the whole of Lesotho and a substantial part of South Africa, the Orange basin also drains parts of Botswana and Namibia. The areas within Lesotho of the three basins are:

Basin	Area (km ²)
Senqu	20,847
Mohokare/Caledon	6,890
Makhaleng	2,911

The Senqu and Makhaleng rivers originate in Lesotho and drain into South Africa. In contrast the Mohokare/Caledon forms the international border on the north-west side of Lesotho, with about 52% of the basin area upstream of the point where the river leaves Lesotho falling within the national boundaries.

The Mohokare/Caledon basin is the most important water source for the lowlands, supplying most of the rapidly growing population, as well as industry and agriculture. Assessment and monitoring of water resources are the responsibility of the Department of Water Affairs (DWA) within the Ministry of Natural Resources (MoNR). There is a relatively high density of monitoring stations, and those which were judged by a 1996 study¹ to provide recent, useful records were: 28 climate, 67 rainfall and 29 river flow. There is a database of 5,104 located borehole records with variable amounts of associated data. Water quality monitoring is limited to: samples of groundwater when wells are drilled; monitoring in the highlands as part of the LHWP; monitoring of surface water at three points near Maseru and of raw and treated sewage effluent, as well as *ad hoc* monitoring of drinking water.

There is a limited amount of information on sediment loads at 17 locations and on sediment accumulation in reservoirs.

Total water resources in Lesotho are abundant in relation to the demand, even when that is projected forward for 25 years or more. 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 lead to seasonal shortages. Groundwater sources are generally smaller, and a lack of sufficient capacity means that the boreholes that are available are often over-used, leading to local depletion and a shortfall in supply.

In addition, problems due to inadequate development of the distribution network, pollution and institutional and management constraints are very significant.

¹ TAMS Consultants Inc., 1996. Water Resources Management: Policy and Strategies.

1.2 Sector characteristics

The water sector plays a very important role in Lesotho's economy, with the Lesotho Highlands Water Project (LHWP) contributing 5% of the country's GDP. The LHWP consists of an interlinked system of dams and tunnels that divert water from the Senqu basin northwards to the Gauteng region of South Africa. The project also generates hydro-power at Muela dam in Lesotho. At present the LHWP is supplying a firm yield of 18 m³/s to South Africa under Phase 1A, with increases to 30 m³/s ongoing, and further phases that may eventually increase the transfer up to 70 m³/s. The project is defined and governed by the 1987 LHWP Treaty between the Governments of Lesotho and South Africa, which includes complex agreements on how the costs and benefits of the project are to be shared.

The emphasis on water for export from the highlands is in contrast to the lack of action on the development of water resources and supplies for the lowlands. The lowlands region covers a little less than half of the country's total area but holds more than two-thirds of the population. The critical situation of the water resources in the lowlands and its expected effects on the well-being of the people have been well documented, notably in the comprehensive study undertaken for the Ministry of Natural Resources (MoNR) in 1996. The developments predicted in the study, for rapid urbanisation of the lowlands and increased industrial development, are now apparent. They have resulted in 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 rural areas as well as urban;
- Increased industrial water demand due to export growth from light industries;
- Increased environmental problems, including declining dry season flows in the Mohokare/Caledon river, high sediment loads and inadequate wastewater treatment;
- Institutional constraints and inappropriate tariff structures (however, a review of tariffs has recently been completed);
- The inability of the formal institutions to supply sufficient water to the whole population, leading to dependence of many on water vendors at much greater cost and with a disproportionate impact on the poor.

1.3 Urban water supply and sanitation

The main provider of water and sewerage services in the urban areas is the Water and Sewerage Authority (WASA), a parastatal organisation under MoNR. Only a limited number of households are served by WASA: 10% of the total population and 40% of the urban population. In 2000 WASA had about 28,700 water connections in 15 towns, including Maseru. These towns are served by separate stand-alone systems, which are supplied by a mixture of river abstraction, small reservoirs, boreholes and springs. None are able to meet the demand year round.

WASA serves a small number of large consumers (industries, government, and businesses), while small domestic consumers make up 60% of connections but consume only 17% of the water supplied. In total WASA supplies 8.9 M.m³/year of which 3.7 M.m³/year to 25,800 domestic consumers (average 12 m³/month/connection) and 5.2 M.m³/year to 2,900 non-domestic consumers (average 150 m³/month/connection). The price per cubic meter of water consumed is on average 3.68 LSL/m³ (0.51 €/m³) with prices ranging from 3 LSL/m³ in the lowest band to 4.6 LSL/m³ in the highest band. On average WASA 'losses' are estimated at 5% or 0.17 LSL/m³. Recent 2001 proposals will result in tariffs being increased by 25% and annually adjusted for inflation.

In comparison with most SSA countries, urban coverage of non-seweraged sanitation (conservancy tanks, VIP and other forms of pit latrines) is quite high at 70%. Most households finance the capital costs of these facilities, which function reasonably well except for the conservancy tanks system, which requires frequent emptying and thus carries high maintenance costs (LSL 20-40 per month).

Some 17% of customers are connected to the two water-borne sewerage systems operated by WASA. The systems are:

- Maseru sewerage system serving the central part of Maseru. This system is inadequate and is not adapted to increased industrial wastewater production. Recently introduced concessional tariffs for 'wet' industries are likely to increase greatly the volume of industrial wastewater, which WASA has to treat at unsustainable rates;
- Teyateyaneng sewerage system, which was enlarged in 1990/2000 (KfW financing).

WASA is only authorised to serve the 15 gazetted urban areas (recently increased to 17). Its activities do not cover all of the population in these towns or any of the peri-urban population. The 1996 report identifies 31 urban centres in need of reticulated water supply. Conservative estimates indicate that there is currently a shortage of urban supplies of 2,000 m³/day that will rise steadily. Actions that are expected to alleviate some of the problems for the short-term (up to 2010) are the Six Towns Water Supply Project for the lowland towns of Maputsoe, Mapoteng, Teyateyaneng, Roma, Morija and Quthing (proposed for funding by EDF) and an augmentation of Maseru's water supply (proposed for funding by WB). EIB has expressed its interest in financing the expansion of Maseru sewerage system. Institutional strengthening and capacity building within WASA and DWA are an essential component of this short-term programme. The overall investment is estimated at €40 million.

GoL has approved terms of reference for a medium/long-term study with the objective of securing affordable potable water supplies for domestic and commercial use in the rapidly urbanising lowlands of Lesotho, in support of socio-economic development and in particular to contribute towards health improvements and the reduction of poverty. The primary purpose of this study is to determine an optimal programme of investment in the water sector, taking into account social and environmental considerations together with technical and financial issues. It will also take into account water demands and impacts in neighbouring areas of South Africa, which share the same water resources. The EC has been requested to finance this study under the 8th EDF. Implementation of the study recommendations is programmed to be completed by 2010, when the results of presently programmed investments are estimated to fall well short of projected demand in the lowlands.

1.4 Rural water supply and sanitation

The main agency in the rural water supply and sanitation sector is the Department of Rural Water Supply (DRWS), which is also part of MoNR. 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. The Lesotho Highlands Development Authority (LHDA) and some NGOs have also been active in the sector. The DRWS system consists of some 9,300 standpipes, 3,900 boreholes and over 1,500 collection points, with some 20-30% of collection points believed to be out of order. The overall coverage of rural sanitation, of all types, is around 50%. 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 fact DRWS has not constructed a single handpump-based project in the last 4 years. Because of the restrictions on WASA's activities, DRWS has also played a substantial part in water provision in the expanding peri-urban areas.

The major donors supporting rural water supply are Switzerland and Ireland. In particular Switzerland has contributed substantially to DRWS operational capacity over the last 20 years. The EC is also active in the sector, providing assistance through the microproject programme;

1.5 Sector organisation and policy framework

The main players in the Lesotho water sector are:

Agency	Main activities and responsibilities
<i>Government departments</i> Department of Water Affairs (DWA)	Overall planning, management and monitoring of water resources
Department of Rural Water Supply (DRWS)	Provision of water supply and sanitation in rural and some peri-urban areas
<i>Parastatals</i> Water and Sewerage Authority (WASA)	Water supply and sanitation in gazetted urban areas
Lesotho Highland Development Authority (LHDA)	Water transfers to RSA from the LHWP and hydro-electric power generation for Lesotho.
<i>Regional organisation</i> Southern African Development Community (SADC) Water Sector Coordinating Unit	Regional water issues and co-ordination

All these organisations come under MoNR. Also involved in the sector are a small number of national consultancies, contractors and NGOs. In May 1999 the GoL established a Water Resources Development Task Force Team which includes representative from the organisations listed above (except SADC Water Sector Coordinating Unit), plus the Ministry of Agriculture and the Ministry of Environment. A Lesotho Water Partnership, along the lines of the Global Water Partnership, has also recently been set up. Because of the fragmentation and lack of co-ordination in the sector, it has been proposed to establish a Directorate of Water, which would provide the strong, cohesive organisation that the sector needs. Consideration of this idea is still ongoing.

At the international level, the relevant institutions are the Lesotho Highlands Water Commission (LHWC) which is the joint body of Lesotho and South Africa controlling the LWHP, and the Orange/Senqu River Commission which has recently being created in order to enhance co-operation in water resources across the entire basin under the SADC protocols (see below).

GoL adopted a new Water Resources Management Policy in May 1999. It sets out the framework for a sector-wide reform, including the need for the economic pricing of water resources, the rationale for introducing private sector participation, the necessity of institutional restructuring, and the requirement for a strong regulatory framework. The policy recognises the seriousness of the water situation in the lowlands, and the Lesotho Lowlands Water Supply Scheme is specifically included within it. With regard to rural water supply and sanitation, DRWS produced a Strategy for the Future in 1997 which proposed demand-driven expansion, full recurrent cost recovery, private sector delivery of services, increased community participation, and a shift from construction towards maintenance.

The water sector (together with the electricity and telecommunications sectors) was scheduled by GoL for privatisation in 2000/2001. In the opinion of the main donors, GoL correctly postponed the privatisation of WASA as presently it is non-sustainable, with low tariffs, low coverage, limited institutional capacity and under investment. On completion by 2005 of the programmes

presently under consideration and after the fundamental problems have been addressed, the privatisation of the sector is to be reviewed.

1.6 Health and HIV/AIDS aspects

Although health indicators for Lesotho do not point to water-borne diseases as the most serious health issue, studies have shown that good affordable supply of clean water is the most needed single input for care givers to HIV/AIDS patients (WB, November 2000). The joint donor programme of investments in urban water supply and sanitation is thus complementary to provisions in the Lesotho Health Sector Reform Project for outreach to other sectors, with regard to both HIV/AIDS and to the health sector as a whole.

1.7 International aspects

As discussed above, all the basins in Lesotho are international, being shared with South Africa. There are significant water demands from the shared basins in the neighbouring areas of South Africa, especially for urban and irrigation use. Major transfers of water from Lesotho to South Africa take place already under the LHWP. Increased water use in Lesotho could also have implications for the other downstream countries of the Orange basin (Botswana and Namibia).

The international treaties and agreements relevant to water resources in Lesotho are:

- Lesotho Highlands Water Project Treaty (1987), between the governments of Lesotho and South Africa, which defines and controls the LHWP and includes complex agreements on how the costs and benefits of the project are to be shared.
- Protocol on Shared Watercourse Systems in the SADC Region (1995);
- Revised Protocol on Shared Watercourses in the SADC Region (2000).

The first two protocols are in force, but the latest has yet to be ratified by the required number of governments. The SADC protocols set out objectives for the sustainable, equitable and reasonable utilisation of shared river basins in the southern African region, promoting regional integration, poverty alleviation and environmentally sound development and management. They specify provisions for the utilisation of shared watercourses in accordance with generally accepted international practice, and make provision for notification, consultation and negotiations in respect of planned measures in shared river basins.

The SADC water sector has up till now been the responsibility of Lesotho, with a sector coordinating unit located in Maseru. However following the reorganisation of SADC decided in March 2001, the responsibility is to be transferred to the secretariat in Gaborone. In the past the sector has been supported by some EDF regional projects, notably the ongoing SADC-HYCOS phase I project to be completed in 2001. The project aims at real-time monitoring of the main river flows in Southern Africa and at making the information on these flows available to all water departments in the region. Future support to the water sector at SADC level is being considered in the context of the preparation of the EDF9 regional indicative programme

2. TRANSPORT

2.1 Transport sector characteristics

2.1.1 Key relevant country aspects

Lesotho is a small country of about 30,500 km², landlocked and completely surrounded by South Africa. The population is estimated at 2.2 million with an annual growth rate of 2.4%. Present figures show 75% of the population living in the six lowland districts¹ and 34% of the population living in urban or peri-urban centres (of which 50% in the capital Maseru and its suburbs).

2.1.2 Road transport

The current road network is approximately 6,302 km in length of which some 1,176 km are paved. The remainder is made up of 2,662 km of gravel roads and 2,464 km of earth tracks. The Road Classification is as follows:

Road Classification	Km	% of total network	Comments
A	1,376	22	Primary roads linking major towns and district centres and main border posts
B	1424	23	Secondary roads providing additional connections with districts and linking local centres to the primary network
C	370	6	Tertiary roads providing additional connections with districts, accessing or linking secondary or primary roads
D	1,810	29	Access roads to one or more villages
Classified Network	4,980	79	Total km that are in the current MoPW&T classification
Unclassified	1040	16	Roads that have been constructed after the classification (feeder roads)
Urban	282	5	Paved and unpaved roads in urban areas. (Maseru 182km)
Total	11,282	100	Density is 0.206 km/km ²

The overall value of the road network assets of Lesotho is estimated at LSL 4,100 million (€575 million) based on actualised construction costs (of which LSL 630 million incurred since 1990, mainly related to LWHP).

Road freight and passenger services are virtually all supplied by the private sector. The best available data for size of the vehicle fleet emanate from the 1995 National Transport Study which estimated that there were 11,100 passenger cars and 22,200 lorries, vans and buses. Of these 86% were privately owned, 6% Government owned and 9% registered in South Africa but owned by Lesotho citizens.

¹ The six lowland districts of Lesotho are Maseru, Butha Buthe, Leribe, Berea, Mafeteng and Mohale's Hoek all of which lie in the western lowlands

The Ministry of Public Works and Transport (MoPW&T) is charged with construction and maintenance of all roads outside the urban centres and the interconnecting roads through them, and with overall transport policies and transport regulation². Ministry of Local Government (MoLG) and Maseru City Council (MCC) are responsible for the urban roads. The establishment of an independent Road Authority is under consideration and study.

2.1.3 Rail transport

There is only a short 2 km section of rail network in Lesotho, which is connected to the adjacent South African network at Maseru Bridge. The network is wholly owned, maintained and operated by Spoornet of South Africa. There are normally only two freight trains every day.

2.1.4 Air transport

The country's international airport, Moshoeshoe I International Airport (MIA), is located at Mazenod some 22 km south east of the capital, Maseru. The main runway is 3,200 metres long with a specification that restricts operations by large aircraft. There is a secondary runway, 1,010 metres long, which is used for general aviation and light aircraft in case of crosswinds.

The Lesotho Defence Force (LDF) operates Maseru's former international airport about 3km from the centre of town. It is also still used by a small number of private operators, the most notable of which is the Flying Doctor service. There are two regional airports at Mokhotlong and Qacha's Nek both of which have asphalt runways. There are some 29 airstrips of which three have asphalt runways.

MoPW&T is responsible for the upkeep of airports' runways and buildings. The Department of Civil Aviation (DCA) within MoPW&T has a dual function as aerodrome operator and aerodrome standards regulator. In general there are clear arguments for separation of these roles, however, the aviation industry has a history of self-regulation and there would appear to be no practical need to establish a separate airport authority given the scale of operations in Lesotho. The DCA is organised on functional lines and has direct responsibility for MIA and the regional and rural aerodromes.

The only scheduled flights to MIA are by South African Airways (SAA), who run a passenger service, consisting of three flights every day. There is no national airline operational since the recent demise of the Lesotho Airways Corporation (LAC).

International airfreight to Lesotho is unloaded at Johannesburg International Airport, South Africa from where it is freighted by road to Maseru.

2.1.5 River transport

Lesotho has no navigable rivers and water transport is negligible, although the use of small ferries, particularly across the Senqu River, provides valuable links in the road network.

2.2 Sector policy and strategy

GoL's overall policy for the road transport sector, as stated in the Sixth National Development Plan (1996 -1999), is to develop a road network capable of supporting national economic development and providing access to communities, in particular those living in isolated rural areas.

Specific objectives of the sector policy are to:

- facilitate and optimise traffic circulation, with lower vehicle operating costs and a reduced incidence of road accidents;
- create employment through the utilisation, wherever possible, of labour-based methods of road construction and maintenance;

² The Lesotho Highlands Development Authority has also built roads in Lesotho, mainly as access to dam sites; these will revert to the MoPW&T when the dams are completed.

- enable the establishment in rural areas of social infrastructures such as roads, for access to schools, clinics, markets and water supply schemes.

The sector strategy is to:

- ensure continued maintenance and rehabilitation of existing paved and unpaved roads in urban, peri-urban and rural areas, using labour based methods where possible, thus lowering vehicle operating costs;
- reform the institutional environment so as to encourage increased participation of the private sector and the establishment of an effective Road Authority and Road Fund;
- develop manpower capacity within the existing Ministries, to enhance planning and operation of systems for management;
- invest in upgrading of rural unpaved roads to bitumen standard, so as to complete the intra-regional network, and in construction of peri-urban paved and unpaved roads;
- establish a sustainable road safety system within MoPW&T;
- carry out effective control of overloading.

A more detailed policy was outlined in a *Letter of Roads Sector Policy* in December 1995, which was adopted as part of the Road Rehabilitation and Maintenance Project (RRMP)³. There is a distinct need to update the policies for the transport sector in a new National Development Plan or in a Letter of Transport Sector Policy.

2.2.1. Capital investment policy

GoL has at present the following policy in respect of investment in the road infrastructure falling within the jurisdiction of MoPW&T:

- Main roads outside urban centres:
 - to complete interconnecting (bitumen and gravel) roads between administrative centres in the country and to border crossings with RSA;
 - to upgrade such roads and other main feeder roads to bitumen standards, where traffic figures and corresponding maintenance costs so warrant;
- Rural access roads:
 - to expand the minor gravel roads to serve isolated rural centres of population or centres of social services (primarily rural hospitals and clinics).

For Maseru, major new roads have been constructed during the past five years (i) to serve the old industrial area located at the rail head, (ii) to facilitate (inter-) national through transport to by-pass the city centre and (iii) to relieve the city centre's congestion. However very few efforts have been initiated to construct a reasonable road infrastructure for new urban expansion and to facilitate transport to and within newly established industrial areas (particularly in Maseru South) and to serve expanding (although partly un-planned) housing development.

2.3 Response of transport policy and strategy to development objectives

2.3.1. Response to poverty reduction objective

2.1.5.1 Transport policy and PRSP

The level of poverty is assumed to be highest in the mountainous parts of Lesotho, although steady migration in search of employment towards (peri-) urban areas has resulted in increasingly high levels of poverty in the lowlands. The population now being classified as urban dwellers is estimated at 34% of the overall population.

The transport policy in response to the PRSP objectives aims at providing:

- improved access to social services and markets and

³ Road Rehabilitation and Maintenance Project, Staff Appraisal Report, Report No. 149885-LSO, April 10, 1996.

- transport infrastructure in support of private enterprise and hence employment.

2.1.5.2 Access in poor rural areas and mobility of the poor

Transport in the rural areas is predominately by foot, with occasional use of horses and donkeys. In these areas improved access to social services (schools, clinics) and markets is provided by rural access roads and footbridges constructed under the responsibility of DRR. Approximately 43% (2010 km) of the classified roads and all (1040 km) of the unclassified roads serve rural areas. It should be noted that in comparison to the classified roads, the state of unclassified roads is in general poor and allows for limited motorised use.

Motorised access to and within poorer parts of the expanding (peri-) urban areas is limited due to lack of a formal road infrastructure in those areas.

A relative high percentage of the government budget (38% of the recurrent budget for road maintenance and 42% of the capital investment budget) is allocated to and spent on rural roads.

2.1.5.3 Transport services affordability by the rural and urban poor

The vast majority of transport services for both the urban and rural populations is provided by the private sector in the form of minibuses (commonly known as taxis). The fares and routes are regulated by the Department of Traffic and Transport (DTT) and are under continual review to ensure the service remains cheap and effective.

In the rural mountainous areas, where steep gradients are common and the tracks are narrow, the majority of public transport is undertaken by four wheel drive taxis.

There is no real national strategy for the provision of transport services, although the Lesotho design standards have now incorporated footpaths into the urban road cross-section to cater for the ever-increasing number of pedestrians. Bicycles are little used in either the urban or rural areas, probably because of the steep gradients, even in the lowlands, and their limited load carrying capacity. A more recent development has been the use of All Terrain Vehicles (ATVs), which can carry loads as well as passengers while managing steep gradients and narrow tracks.

2.3.2. Response to sustainable economic and social development objectives

2.1.5.4 Road transport

The Lesotho Road Management System (LRMS) is used to optimise the use of resources on sustainable economic maintenance and rehabilitation in both the Roads Branch (RB) and the Department of Rural Roads (DRR). The LRMS uses the *Deighton Total Infrastructure Maintenance System (DTIMS)* as the planning tool which provides assistance in making funding decisions by finding the optimal set of strategies to apply to a network under a given set of constraints such as costs. DTIMS also provides a mechanism for analysing a variety of maintenance and rehabilitation treatments over a period of time and can select the most cost effective treatments for a range of budget scenarios.

A Road Classification was carried out in 1996 for the MoPW&T and the criteria for identifying the network were established at that time. The network has grown substantially since the classification in 1996 and it is estimated that there may be approximately 1000km of access roads unclassified.

The RB runs a *Total Transport Cost* analysis on its paved roads, with Average Daily Traffic (ADT) greater than 900 vehicles and an *area-under-the-curve* analysis using a condition index performance value for the calculation of benefit. The latter method is essentially an analysis of the benefits resulting from an improvement in condition ensuring that the asset is maintained.

2.1.5.5 Rail transport

The track from Bloemfontein (South Africa) to the Maseru railhead was recently strengthened for the increased demand of materials for the construction of Mohale Dam in central Lesotho, although there are no immediate plans to expand the rail network in Lesotho. There has, however, been a long-term aspiration that the rail line be extended to Maseru International Airport to facilitate movement of perishable agricultural goods to Europe.

2.1.5.6 Air transport

The LAC did hold a legal monopoly, under the Aviation Act 1975, of scheduled air services to and in Lesotho, although since it was bought out by Rossair this monopoly has fallen away. There would appear to be open competition for the only real viable route of Johannesburg – Maseru, which at the present time is held by SAA. The air transport sector is on the point of establishing a central task team with eight focus groups which will have delegated powers from GoL to manage the *Development, Upgrade and Re-vitalisation of Moshoeshoe I International Airport*. Focus Group 2 will be responsible for privatisation and the policy emanating from the terms of reference is one of commercialisation of the airport services and any associated projects.

2.1.5.7 Intermodal transport

The road sector is the dominant mode of transport in Lesotho as the rail network is minimal and the air transport sector has diminished in recent years as a direct result of the growth of the road network. There is open competition between the road and rail sectors, although this is really only effected through a limited amount of cross border goods as the Lesotho rail network is only a railhead for Spoornet of South Africa.

The railhead is well situated, adjacent to one of the main industrial areas and beside a recently rehabilitated arterial road providing good access to the north and south of Lesotho. The airport is also well served by good road links to Maseru and the border crossing at Maseru Bridge. It has been difficult to develop any real policy on inter-modal transport because of the relative limitations of the air and rail sectors, however, with the MIA Programme there may be opportunities to develop policy guidelines and subsequent optimisation.

2.3.3. Response to regional integration objective

2.1.5.8 Regional transport guidelines

Lesotho is a member of SACU and SADC, as well as being a signatory to the SADC Protocol on Transport, Communications and Meteorology. It has made good progress in the implementation of the Protocol particularly in the road sector where it has: adopted the SATCC Signs System. In particular Lesotho has:

- developed national design guidelines to complement those of SATCC;
- established a comprehensive road management system along SATCC guidelines

Lesotho is also about to embark on an Axle Load Control programme with provision of weighbridges. It is expected that the revised legislation will conform to the requirements of the model legislation in the Protocol and that the SATCC axle load limits will be adopted.

A Road Authority Setup Study is about to proceed, the implementation of which will conform to the guidelines in the Protocol.

2.1.5.9 Regional trunk communications

Lesotho is land locked by South Africa and does not, at this time, have any inter regional transit corridors. It is part of the SADC *Regional Trunk Road Network* with defined corridors and numbers; however, a recent feasibility study on a *Trans Maluti Highway* running from Maseru through to the port of Durban showed that upgrading the eastern sections of the road to a paved standard was not economically feasible. The mountainous topography throughout Lesotho and particularly in the east makes for a low speed road with many long, steep grades, meaning that South African road freight avails itself of well-established alternative routes in South Africa.

2.1.5.10 Regional trade policy

Trade policy in the region is governed largely by the SACU agreement, resulting in free trade between the five member states : South Africa, Botswana, Lesotho, Namibia and Swaziland. Air, rail and road transport policies are integrated with this agreement.

2.3.4. Response to safety, environment, gender and HIV/AIDS integration objectives

2.1.5.11 Road safety

Lesotho has a serious road safety problem. Compared with the number of vehicles on the road no other country in Southern Africa has so many fatalities as Lesotho. More than 40% of those who die on the roads are pedestrians. Taxi vehicles are very often involved in accidents. With the upgrading of roads vehicle speed has increased and accidents have become more severe. Road signs and road markings are often missing or not consistent. The newly established Road Safety Department (RSD) is still weak, with little power to influence and direct other institutions. IN particular, there is little co-ordination between different stakeholders.

EC is providing support to the RSD, including assistance in institutional building and co-ordination of different agencies. An action programme has been developed and has established road safety goals and targets, in particular:

- Traffic Police must focus their work on speed enforcement and drunk driving;
- RB, DRR and municipalities must co-operate and include road safety in their daily work with road design and road maintenance.

Safety campaigns are at present organized by the department through the media and there is a weekly broadcast programme designed to raise public awareness.

2.1.5.12 Environment

The Lesotho Environmental Authority (LEA), as authorised and required under Lesotho's Environment Act 1997 (EA 1997), has issued *Lesotho EIA Guidelines*. They are designed to implement the environmental impact assessment (EIA) provisions of EA 1997 and to reflect the objectives, principles and strategies set forth in Lesotho's National Environmental Policy (NEP), adopted in 1996. The Guidelines are designed as a tool for *Integrated Environment and Development Management*, which recognises that environment and development must be integrated at all stages of a project including planning, construction and operation. This concept was developed in the *Lesotho Design Standards for Roads and Bridges* where comprehensive *Guidelines for Environmental Control* for road and bridge projects are defined.

2.1.5.13 Gender

Improved road and footbridge access to markets and social services in rural areas benefit primarily women and children, as labour demands in RSA and in urban centres have resulted in men having deserted the villages. GoL's stated policy of using *labour based methods* for the

maintenance and rehabilitation of rural roads has thus given women, probably for the first time, an opportunity to earn cash in an environment where they would otherwise have little access to disposable income. Women so employed temporarily by DRR remain in charge of household duties, however, and in effect their daily workload is increased substantially with little transfer of responsibilities to other household members. This work in any case does tend to be of a limited duration as the road maintenance moves on to the next village.

2.1.5.14 HIV/AIDS

The spread of HIV/AIDS along road transport corridors has been well documented and Lesotho is somewhat fortunate in that it does not have long road transit corridors seen in other regions of Africa. It does however have a serious HIV/AIDS problem, with an estimated sero-positivity of 24% among the sexually active population⁴. GoL launched a *Policy Framework on HIV/AIDS Prevention, Control and Management* and a *National AIDS Strategic Plan 2000/2001 – 2003/2004* in September 2000.

The DRR is particularly active in informing its workforce about HIV/AIDS:

- senior staff are obliged to attend lectures given by the Ministry of Health;
- road camps are supplied with free contraceptives and first aid kits containing specialist equipment for avoiding contact with blood;
- road camps are provided with facilities to help the workforce avoid boredom by engaging in sporting activities after work;
- supervisory staff are trained to lecture the locally employed workforce, who hopefully educate a wider section of the community in the prevention of HIV/AIDS.

2.4. Problems and issues in implementation of transport strategy.

2.4.1. Stakeholder involvement

There is little in the way of formal consultation between the GoL and the private sector apart from the Road Fund Board. This is comprised of six ex-officio members representing GoL and five members from the private sector, including the Lesotho Bus and Minibus Association and the Lesotho Transport Association. There are regular monthly meetings, with the complement of the Board consisting of six government officers and a chairman from different Ministries. There are many informal meetings with key stakeholders, including workshops, but usually only on an ad-hoc basis when a particular project is under preparation.

The RRMP has coordinated the donor effort in the last five years by providing a planning framework for civil works, institutional reform and capacity building programmes. The donors involved in the project have been WB (lead donor), EDF, KfW and Ireland Aid. Again, the coordination was largely at the formation of the project, after which there were informal progress meetings on the various elements through the life of the project. EDF had a pivotal role in the project and funded feasibility studies, design studies and construction of road rehabilitation and upgrading, technical assistance, production of Design Standards, an Axle Load Control Programme and a Road Safety Programme. Not all donors were included in the RRMP, the most notable absentee being ADB although it is currently active within the sector. The RRMP will end by December 2001 and for the coordinated sectoral approach to continue it will be necessary for a lead donor to emerge. A mid-term review is taking place by the World Bank at present and early 2002 expect its results

One of the main shortcomings of donor coordination is a lack of regular contact, as many of the larger donors do not have a presence in Lesotho and the only contacts are informal and project based. A further problem is that there are certain donors still outside the coordination effort and

⁴ UNAIDS, 1999.

not really following a sectoral approach. The Ministry of Development Planning, whose role is to coordinate the donor efforts for GoL, is thus often ill-informed of donor activities in Lesotho.

2.4.2. Economic sustainability

Traffic data forecasts and analysis

The Lesotho Road Management System (LRMS) has a comprehensive traffic information system (TIS) which stores the biannual manual traffic counts undertaken by RB. The databases also store counts on the DRR network when they have been carried out. The TIS has an analysis package that gives predictions of Average Daily Traffic, Average Annual Daily Traffic and growth rates. The TIS also used counts from six automatic counters strategically placed around Lesotho, however, the counters have fallen into disuse as a result of damage due to lightening, vandalism and flooding. The counters were an essential part of the system for prediction of daily, weekly and seasonal trends.

Predictions of traffic levels is a fundamental part of maintenance, rehabilitation and upgrading of the transport network and it is vital that the LRMS and TIS are fully functional.

There are various methods within the LRMS to establish benefits and it has been found in Lesotho that to apply a full economic analysis on the complete network will mean that the higher trafficked roads receive the bulk of the maintenance. The programme can even predict that no maintenance should be carried out on the low trafficked roads letting them fall into disuse, which is politically and practically unacceptable.

The DRR has a set of social criteria, including for example passability, on which its maintenance predictions are based, whilst RB uses the concept of minimizing *Total Transport Cost* (basically the sum of agency costs and vehicle operating costs) on the higher trafficked paved roads (ADT>900) and an *area under the curve* method for the lesser trafficked paved roads and gravel roads. The *area under the curve* method uses an *improvement in condition* to prioritise the maintenance effort.

Demographic changes, in particular the migration of population to the lowlands and to urban and peri-urban areas, require a review of the medium-term traffic forecasts. Such reviews are not possible without (i) a centralization of planning of the road transport sector, possibly in a Road Authority and (ii) strengthening of the centralized authority.

Government expenditure in the transport sector

The trend in GoL expenditure in the transport sector has been to concentrate on road transport, with rail and air being seen as secondary modes.

The trend in the road transport sector financing is positive, with a gradual increase in maintenance funding through the *Maintenance of Public Assets* Vote from Treasury. The recently established *Road Fund* has also started to contribute to road sector maintenance funding to MoPW&T (RB and DRR), Ministry of Local Government (MoLG) for urban roads outside Maseru and Maseru City Council (MCC) for those within the capital.

Recurrent expenditure:

Total recurrent GoL 2001/02 budget allocation for maintenance to MoPW&T is LSL 58.9 million (€8.2 million), made up as follows:

- paved roads periodic maintenance:	5.5 million
- gravel and unpaved roads p.m.:	20.2 million
- routine maintenance:	19.5 million
- rehabilitation and upgrading:	12.8 million
- airport maintenance:	0.9 million

This expenditure is funded by MoPW&T *Maintenance of Public Assets* Vote as to LSL 35.5 million and by *Road Fund* as to LSL 23.4 million. To this should be added an approximate GoL allocation of LSL 5 million for road maintenance to MoLG and MCC⁵.

Capital expenditure:

For 2000/01 overall capital investment roads projects under execution by MoPW&T is LSL 455 million (€65 million). This can be divided into:

- | | |
|------------------------|-----------------|
| - main roads (RB): | 230 million (1) |
| - rural roads (DRR): | 189 million (2) |
| - TA and roads safety: | 37 million (3) |

and is financed by:

- | | |
|---------------|---------------------|
| - EDF | 71 million (1+2+3) |
| - WB/IDA | 198 million (1+2+3) |
| - ADB | 6 million (1) |
| - Ireland | 18 million (2) |
| - Germany/KfW | 11 million (2) |

No actual figures related to capital expenditure by MoLG nor by MCC are available, but for Maseru roads these are estimated at LSL 35 million (100% financed by GoL).

Imbalances between budget allocations

The annual allocations for maintenance and for capital investment are more balanced than in many SSA countries, with maintenance being approximately 50% of the investment budget. There is, however, an imbalance between the allocation to non-urban and urban roads.

There are no real criteria for the allocation of funds to the different ministries and authorities. The method used is simply a comparison of the previous year's allocation and the requested budget for the current year. Within MoPW&T, RB would have the bulk of the budget with 90% of the travelled network (vehicle-km); however Maseru City Council is under-represented considering that most traffic movements take place within city limits. There have been some attempts to rationalise this process but there is now a need to establish a mechanism for the allocation of funds, even if it is only based on a pre-defined percentage to each part of the road network.

LRMS should take into account all roads, including those of local government and of MCC, so as to produce construction programmes for maintenance and rehabilitation based on optimisation techniques. This will select the best strategy for each section of road and assist the centralised authority in determining budgets and budget allocations. LRMS can hence produce predictions of items such as:

- future network condition for a given budget level
- budget required to maintain a constant network condition.

The concept of completing the maintenance backlog and carrying out routine and periodic maintenance on the complete network before rehabilitation was very much a guiding principle of the RRMP.

Equitability and subsidies

GoL does not provide any subsidies to operators in the road, rail or air sectors. Real competition between the road, air and rail modes is very restricted, as there is only limited (international)

⁵ SACU transfers constitute a very substantial part (>40%) of GoL recurrent budget. As this source of revenues is likely to fall over the forthcoming years, GoL budget for road maintenance may be affected.

freight service on a short length of rail network operated by Spoornet and limited passenger transport by air operated by SAA.

2.4.3. Financial sustainability

Road Fund

A Road Fund with a Road Fund Board and Secretariat was established in 1996 by GoL Gazette but only became operational in January 1998. Much progress has been made since, but it now requires consolidation and development to ensure a sustained level of income for financing road maintenance. At present, the Road Fund can only partially fund the requirement for the total road maintenance budget although it is understood that ultimately all funding for road maintenance and rehabilitation should be channelled through the Road Fund.

In general the Road Fund disburses about 50% of the requirement for periodic maintenance with funding for routine maintenance and the remainder of periodic maintenance still coming from the Maintenance of Public Asset Vote. Road maintenance programming and administration have now become more difficult with the agencies having to deal with two separate sources of funding. All periodic maintenance works funded by the Road Fund are carried out by contract and the release of payments to the contractor has been very timely.

It is still unclear as to whether the Road Fund will ever be in a position to collect enough revenue from fuel levies, border tolls or other road related charges to sustain adequate funding for the sector because of the low levels of road use. It may well have to rely on annual government support. The fuel levy, which is one of the main charging mechanisms, is a poor proxy for road damage. Heavy goods vehicles (HGVs) cause considerably more damage to roads than cars which are, with the fuel levy as a charging system, subsidising the contribution from the HGVs.

A further problem, already highlighted, is the lack of a system or formula for allocation of funds to different parts of the network. The problem has been described as follows: "At present it seems that the members of the board of the Road Fund assume that they can decide for what and where the funds will be spend. However it is clearly written in the Gazette for what purposes the funds will be used. The actual duty of the members of the board of the Road Fund should be to check and monitor if the different road agencies receiving funds from the Road Fund are spending these funds in accordance with the programmes they have submitted to the Road Fund to receive these funds in the first place."

A detailed list of recommendations in respect of the Road Fund Board has been included Mid Term Review of RRMP.

Accountability

Disbursements from the Road Fund to the road agency have the advantage of more financial discipline, in that work is only allowed on agreed programmes with technical and financial audits. There are still, however, substantial funds disbursed directly to the road agencies from Treasury. The agencies only have to account for the way in which they spend the funds under the normal government accounting procedures, which gives certain latitude for diversion of funds for different operations. The accounting systems within the MoPW&T are weak and the work carried out by direct labour organisations is not completed efficiently.

2.4.4. Institutional sustainability

Role of private sector

The agencies in MoPW&T have a long history of contracting out maintenance works, with RB having been engaging contractors to carry out paved and unpaved periodic maintenance since 1995. Force account units still operate in RB for routine maintenance and small upgrading works, although it is expected that these units will be phased out in the near future. Local

consultants are recruited for design of short sections of paved and unpaved rehabilitation works, but international contractors and consultants are responsible for major rehabilitation and upgrading.

DRR is also in the process of phasing out its force account units and has contracted out routine and periodic maintenance as well as construction of new gravel roads. It has still some operational force account units, some of which are carrying out rural road construction financed by EDF. DRR now engages consultants for the design of rehabilitation and upgrading of earth tracks. The use of consultants for design and supervision has eased the problems considerably, although there still remains a lack of manpower in the agencies to manage these projects.

In line with the privatisation policy the Plant and Vehicle Pool Services (PVPS) has been sold off and is now run by Imperial Fleet Services.

Institutional capacity

One of the main problems in the agencies is a lack of competent administration and engineering staff, a situation that is now becoming critical. The upcoming *Road Authority Set-up Study* should address some of these issues, in that it will probably suggest a specific structure for the new authority and the degree of autonomy it should have. It is a distinct possibility that the existing agencies will have a role in the new structure and that the human resource issue will remain a problem.

The DRR, in particular, has gone a long way in increasing the efficiency of its supervisory staff by employing them on a contract basis and reducing costs of salaries. The DRR has an excellent training facility just north of Maseru. It is now well established and is used to train local contractors in labour-based construction methods for maintenance, rehabilitation and construction of rural roads. Once successful in the completion of trial contracts, contractors are invited to tender on a commercial basis for other DRR works.

The RRMP has provided funding for annual training programmes since its inception. These programmes generally consisted of training courses, which were focused on the skills required for managing the commercialisation of the sector. The RRMP will also fund a *Manpower Development Study* once the *Road Authority Set-up Study* has been completed. These studies are inextricably linked as the availability of manpower to fill positions in the new Authority, in whatever guise, and the existing agencies will have to be determined. The human resource problem has to be solved to ensure that the agencies within the Ministry can operate effectively.

The GoL has not increased the salaries in the civil service in the last three years and the flow of government employees to the private sector in Lesotho and South Africa has continued. Salary levels are still one of the major stumbling blocks to the recruitment of competent staff to MoPW&T. It is thought that staff could be attracted to MoPW&T and any new agency with salary levels matching, or even bettering, those in the private sector. Allied to the increased salaries, the agencies will have to be seen to be promoting progressive attitudes to their human resource management.

2.4.5. Social issues

Road safety enforcement

There is not yet an Act that foresees a regular vehicle inspection. Only in certain cases does vehicle inspection take place. These are the following:

- Every person wanting to register a second hand vehicle older than two years (calculated from the date of the first registration of such vehicle) in his name is obliged to have the vehicle tested for roadworthiness. (Road Traffic Act 1981, no 8, art 19 (2));
- With driving schools a roadworthy certificate of less than six months old should be kept in the car at all times (art 14 c, Road Traffic Regulations 1981)

- Public vehicles require a certificate of fitness, which should be renewed every 12 months for vehicles used solely for the conveyance of goods and in all other cases every six months (Road Traffic Act No 8 1981 art 41 (3) (a & b)).

Unfortunately a person who owns a vehicle for a number of years is not obliged to have it tested for roadworthiness, which can lead to a situation that the car becomes dangerous for the public as well as for the owner.

Drunk-driving is an offence according to the Road Traffic Act 1981 no 8 art 92, and is sporadically checked by the police using breathalysers.

Within a built-up area the general speed limit is 50 km/hour, and every public road or section thereof outside built-up areas is subject to a general speed limit of 80km/hour (Road Traffic Act 1981 no 8 art 57 (1)). To enforce these speed limits the police frequently set up speed traps and will issue spot fines to offenders, payable to them or within 7 days to a Sub-Accountant.

Third party vehicle insurance is provided for every car under Lesotho registration by a levy taxed on fuel. In case of an accident the victim will request payment of damages from the Lesotho National Insurance Company, who will request reimbursement from GoL for the paid expenses.

The major road safety initiative that has been embarked upon by MoPW&T, with EDF assistance, has been described in para 2.3.4 above.

Gender aspects

Due to the departure of migrant male labour the majority of the population in rural areas are women and children. Hence women are the main beneficiaries of rural access roads and foot bridges (spanning rivers) constructed and maintained by DRR in the rural areas, which provide all weather access to market places and social services.

As a result of rapid urban expansion, main through roads without sidewalks cut through densely populated areas with high pedestrian traffic. Likewise newly established industrial estates in the capital lack adequate access for pedestrian factory workers, the majority of which are women. Consequently pedestrian traffic is over exposed to speeding vehicles. In some urban areas limited provisions have been made recently to accommodate pedestrian traffic by means of sidewalks and footbridges spanning main roads at the location of schools and markets.

HIV/AIDS

Within DRR, HIV/AIDS awareness campaigns are incorporated in all construction and maintenance operations. To a lesser extent the same applies for major road construction works undertaken by RB (see para 1.3.4). Continuation and deepening of these campaigns are essential.

3. MACRO-ECONOMIC SUPPORT

3.1 Agreed economic and financial policies

An agreement was concluded in February 2001 between GoL and IMF on a three-year economic programme for Lesotho supported by a loan under the Poverty Reduction and Growth Facility. As part of the agreement, an understanding regarding the economic policies of Lesotho was elaborated in the form of a Memorandum on Economic and Financial Policies. Excerpts from the Memorandum serve to outline GoL's macro-economic policies for the short- and medium-term: *The government will target an economic growth rate of at least 4 percent a year in the medium-term, sufficient to increase real per capita GDP by at least one percent a year, and gross international reserves at the equivalent of at least 6 months of imports of goods and services. Inflation, which is largely imported from South Africa, is projected to fall to about 5 percent a year on an end-period basis by the end of 2002/03, in line with trends projected for South Africa.*

Foreign investment will be boosted in both traditional industries (agriculture, garments, and electronics) and non-traditional ones (other manufacturing and tourism) through macro-economic and political stability, enhancements in the efficiency of public utilities, maintenance of competitive tax rates, flexible labour market policies, removal of legal and administrative barriers to investment, improvement of the system of economic justice, and expansion of the infrastructure. All areas of the economy will be opened to foreign investment.

The expansion of exports will be the primary means of boosting economic growth and strengthening the balance of payments. To this end, the government will continue to encourage and take advantage of regional trading initiatives, and will help firms maximise their access to the SADC and other foreign markets by gathering and disseminating information about potential market opportunities. It will also keep the trading system free of quantitative restrictions on imports.

Lesotho will continue its membership in the Common Monetary Area (CMA), and will maintain the fixed, one-to-one parity between the Loti and the Rand. While CMA membership, the fixed exchange rate, and the joint circulation of the Loti and the Rand within the country have limited Lesotho's capacity to conduct independent monetary policy, these arrangements have contributed to monetary stability and helped keep inflation relatively low.

Given the limitations on the use of monetary policy, fiscal prudence is crucial. The government's medium-term objective will be to limit the budget deficit to levels that will serve to contain aggregate demand, and that can be financed by external grants and concessional loans. This will require efforts to mobilise revenue and contain expenditure. Tax administration is being strengthened through the establishment of a National Revenue Authority (NRA), and a value added tax (VAT) is being introduced to increase tax efficiency and equity and widen the tax base. The government will adjust specific taxes and fees regularly in line with inflation to prevent an erosion of the real revenue base.

Right-sizing of the civil service is also an important objective. The intention is to lower the central government wage bill to about 13.5 percent of GDP over the medium-term through natural attrition and elimination of ghost workers. Civil service reform will also include the revision of the compensation system, decompression of wages and salaries, and introduction of incentives and a performance appraisal system.

In recent years the government has increased its borrowing on non-concessional terms, which has contributed to the recent fiscal problems. To contain the fiscal burden and keep the

external debt within manageable limits, the government will hereafter restrict its external financing to grants and concessional loans.

The Central Bank of Lesotho will try to strengthen its capacity to influence domestic liquidity conditions and thereby ease balance of payments pressures. To this end it is moving to develop a treasury bill market and introduce other indirect instruments of liquidity management. The central bank will also continue its efforts to enforce prudential regulations, modernize the payments system, encourage competition in the banking system, revise legislation regulating insurance companies, and improve the production of the monetary statistics. Interest rates will continue to be market-determined.

Currently, except for very limited controls on commercial banks, there are no exchange controls on capital movements within the CMA. The central bank is considering the possibility of abolishing all capital controls applying to commercial banks within the CMA and to all countries outside the CMA, thereby completely liberalizing the capital account. Discussions have already started with South Africa on this issue. By promoting free movement of capital, the GoL hopes to make Lesotho more attractive to private investors.

The incorporation of the Memorandum into Lesotho's policy agenda demonstrates GoL's commitment to ensure a stable macro-economic environment as a prerequisite for poverty reduction through high and sustained economic growth.

In the eighties and up to the mid-nineties, high economic growth was fuelled by capital inflows for the LHDP. With the completion of the first and largest phase of the project, this source of economic activity has dried up and growth in the past four years has been sluggish. In order to revive the economy, GoL intends to attract foreign investments in a range of sectors by removing remaining barriers to trade and providing a stable macro-economic environment.

The targeted rate of growth of at least four percent will be sufficient to raise per-capita incomes, albeit very slowly. If per-capita incomes are raised by one percent per year, it will take about 53 years to raise average income to the threshold above which the country will no longer be classified as a Least Developed Country (LDC). Clearly, a growth rate considerably higher than four percent will be necessary in the long term in order to reduce unemployment and alleviate poverty at a reasonably high pace. With a rate of growth of six percent, Lesotho would reach the LDC threshold in just nine years. A rate of growth at this level is attainable: while the growth trend in Lesotho's small, open economy will likely follow that of South Africa, the catching-up effect whereby innovations already proved to be successful in South Africa can be easily adopted in Lesotho should allow growth in Lesotho to exceed South African growth by at least two percentage points in the long-term.

3.2 Fiscal policy and institutional reform

In steering the economy onto a path of high growth, GoL will be faced with two major challenges: Remaining legal and institutional barriers to trade and foreign investment must be eased, and the share of government expenditure in the economy must be reduced in order to avoid severe macro-economic imbalances when customs revenues from the SACU pool begin to fall as a result of the free trade provisions of the South Africa – EU TDCA.

Lesotho is to a remarkable extent already integrated in the South African economy, because of the SACU agreement and the virtual absence of legal barriers to trade in goods,. Although trade in services is also brisk, there is a need for GoL to relax restrictions on work permits to non-nationals in order that foreign investment can be accompanied by the necessary expertise. Similarly, GoL should be able to encourage South Africa to reciprocate by allowing Basotho their traditional free access to the South African labour market.

It is likely that one of the most important deterrents to foreign investment in Lesotho is the near-absence of a legal system capable of forcing businesses to comply with contracts. Only when a

performing and fast-working corporate legal framework is in place will the perceived risk of investing in Lesotho be low enough for foreign investment to take place on a large scale.

Government expenditure as a percentage of GDP currently stands at above 50 percent, an exceptionally large share for a country at Lesotho's level of development. At present, slightly less than half of GoL revenue is derived from SACU customs receipts, and in the short-term this revenue will probably be sufficient to finance the relatively high government spending. The projected deficit for the fiscal year 2001/2002 is in fact a mere 0.6 percent. However, as import tariffs into the region are progressively lowered, notably as the reductions under the South Africa – EU agreement come into effect from 2006 onwards, the fall in government revenue could be dramatic. It is true that the effects of the EU agreement on tariff revenue are by no means certain, because the net effect of the reduction in the tariff applied per item and the increase in the number of items imported as a result of the lower tariffs are unknown. It is probable nevertheless that there will be a reduction in revenue, and it might come immediately upon the application of lower tariff rates. As even a 20 percent reduction in Lesotho's public revenue would contribute to the deficit by some 11 percent of GDP, the revenue shortfall is a worry that GoL needs to address. An EDF regional project is already in place to provide expertise and assistance to the four SACU countries affected by the new trade regime between South Africa and the EU.

Although steps are being taken to increase tax revenues, including the establishment of a National Revenue Authority (NRA) and the introduction of Value Added Tax (VAT) in 2002, it is unlikely that it will be feasible to increase indirect and direct taxes significantly. Experience shows that it is difficult to raise tax revenue as a share in GDP above 15 percent in low-income economies. The figure for Lesotho is already about 16 percent and an attempt to increase it further might only result in more tax evasion or the loss of business to South Africa. The proposed measures remain justified in that, even if tax revenue may not increase, the incidence of the taxes currently levied is unfortunate and widely perceived as unfair.

Since it may not be possible to increase tax revenue significantly, it will be necessary for GoL to reduce expenditure in anticipation of the reduction in customs revenue in the medium-term. The envisaged right-sizing of the civil service is a step in this direction. This exercise is intended not only to alleviate fiscal pressures but also to contain a government whose expenditures have risen by 30 percent in the last decade without any noticeable improvement in the quality of public services. It has to be said however that bringing the size of government into line with the revenue it can raise may be the biggest economic challenge facing Lesotho in the coming decade.

3.3 Monetary policy

Monetary policy is administered by the Central Bank of Lesotho, whose overriding objective is price stability. To this end, the Lesotho Loti (LSL) is tied to the South African Rand at parity, and is fully convertible. The Rand serves as legal tender alongside the Loti and the Central Bank estimates that the Rand represents 60% of the fiat in circulation. There is however no agreement on the payment of seignorage by South Africa to Lesotho to compensate for the amount of South African currency in circulation.

In order to maintain the parity between the Loti and the Rand, the policy of the Central Bank is to ensure that the money supply expands by a rate roughly equivalent to the growth of GDP, adjusted for inflation in South Africa.

Monetary policy in Lesotho is widely considered to be prudent and there seems to be little present danger of the Loti coming under pressure against the Rand. However, if government deficits widen considerably as discussed above, the only instrument available to the Central Bank to maintain the parity will be to increase interest rates. The development of a treasury bill market is underway and should provide the Central Bank with the opportunity to engage in open-market operations as an additional means of controlling the money supply and, in turn, inflation and the exchange rate.

Lesotho – Key Statistics and Indicators

Table 1: Annual indicators 1996-2000

	1996	1997	1998	1999	2000 ^a
GDP at market prices ^b (LSL m)	4,053	4,720	4,921	5,636	6,098
Real GDP growth ^b (%)	9.7	4.1	- 4.6	2.0 ^c	1.2
Consumer price inflation (av %)	9.3	8.5	7.8	8.7	6.1 ^d
Population (m; mid-year)	1.97	2.02	2.06	2.11	2.16
Exports fob (US\$ m)	187	196	193	172	201
Imports fob (US\$ m)	999	1,024	866	780	700
Current-account balance (US\$ in.)	- 303	- 269	- 280	- 230	- 154
Reserves excl gold (year-end; US\$ m)	461	572	575	500	430
Total external debt (US\$ m)	670	660	692	705 ^a	720
External debt-service ratio, paid (%)	6.4	6.2	8.4	7.5 ^a	
Migrant miners (year-end; '000)	101.7	95.9	80.4	68.8	60.0
Exchange rate (av; LSL : US\$)	4.30	4.61	5.53	6.11	6.94 ^d
Exchange rate (LSL : €)	5.42	5.26	6.13	6.53	6.36

January 9th 2001 LSL 7.73 : US\$1

^a Estimates made by EIU ^b Based on fiscal years beginning 1st April^c GoL estimates ^d Actual

Table 2: Forecast changes (% unless otherwise indicated)

	1999	2000	2001	2002
Real GDP growth	2.0	1.2	2.0	2.5
Consumer price inflation:				
Average	8.7	6.1	6.3	5.7
Year-end	6.8	6.5	6.0	5.3
Short-term interbank rate	19.1	17.0	16.5	16.0
Government balance (% of GDP)	- 15.7	- 4.1	1.0	1.7
Exports of goods fob (US \$ m)	172	201	220	250
Imports of goods fob (US \$ m)	780	700	750	775
Current-account balance (US \$ m)	- 230	- 154	- 175	- 150
% of GDP	- 29.0	- 21.6	- 24.3	- 21.0
Total foreign debt (year-end; US \$ bn)	0.7	0.7	0.7	0.7
Exchange rates (av)				
LSL : US\$	6.11	6.94	7.95	8.30
LSL : ¥100	5.38	6.44	7.33	7.94
LSL : €	6.50	6.65	7.73	8.87

Source: Central Bank

Table 3: Recent fiscal trends

	1994/95	1995/96	1996/97	1997/98	1998/99
Total receipts (LSL m)	1,582.1	1,844.8	2,238.0	2,427.0	2,279.0
of which SACU receipts (% of total)	53.00	49.00	45.00	48.33	45.35
Total expenditure (LSL m)	1,432.8	1,736.5	2,052.7	2,050.7	2,467.5
of which capital expenditure (% of total)	31.0	36.0	43.0	42.3	20.1
Balance (% of GDP)	4.7	2.9	3.9	8.0	-3.9

Source: Central Bank of Lesotho, *Quarterly Review*.

Table 4: GDP by main sector (% GDP at factor cost, annual averages)

	1980-89	1990-94	1995-97	1998	1999
<i>Primary sector</i>	25.7	19.3	17.7	17.9	17.4
Agriculture	24.0	19.1	17.6	17.8	17.3
- Crops	13.5	10.6	11.1	11.1	10.2
- Livestock	9.0	7.4	5.4	5.6	6.1
- Services	1.5	1.1	1.1	1.1	1.0
Mining & quarrying	1.7	0.2	0.1	0.1	0.1
<i>Secondary sector</i>	25.2	37.5	40.3	38.7	41.3
Manufacturing	12.2	15.3	16.2	17.5	16.9
- Food products & beverages	8.1	7.5	7.6	7.3	6.7
- Textiles, clothing, footwear & leather	2.1	5.5	5.5	7.1	6.9
- Other manufacturing	2.1	2.4	3.2	3.1	3.2
Electricity & water	0.7	2.3	4.6	5.1	6.0
Construction	12.3	20.0	19.5	16.1	18.4
<i>Tertiary sector</i>	49.1	43.2	42.0	43.4	41.3
Wholesale & retail trade, repairs	7.5	8.5	9.3	9.2	8.4
Hotels & restaurants	1.5	1.2	1.4	1.3	1.2
Transport & communication	4.4	4.2	3.9	3.6	3.4
- Transport and storage	3.5	2.5	2.5	2.4	2.1
- Post and communications	0.9	1.7	1.4	1.3	1.3
Finance intermediation	4.7	5.5	3.5	3.0	3.5
Real estate & business services	15.9	10.1	6.7	6.2	5.4
- Owner-occupied dwellings	13.2	7.6	4.7	4.2	3.8
- Other real estate and business services	2.7	2.6	2.0	2.0	1.6
Public administration	9.1	7.2	7.8	9.2	9.4
Education	6.9	7.9	9.0	9.6	9.2
Health and social work	2.0	1.9	1.9	2.2	2.2
Community, social and personal services	1.8	1.5	1.3	1.2	1.1
Less Imputed bank service charges	-4.6	-4.8	-2.7	-2.2	-2.7
<i>GDP at factor costs</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>

Source: Bureau of Statistics

Table 5: Selected Social Indicators

	Lesotho		SSA
	1994	1998	1998
Adult illiteracy rate (% aged 15 and above)	30		
Male	19	28	32
Female	31	7	49
Access to safe water (% with access)			
Total population	56	52	51
Immunisation (% children < 12 months, 1995-98)			
Measles (in % of all)		53	58
DPT		57	53
Life expectancy at birth (years)			
Total	58	55	50
Male	57	54	49
Female	59	57	52
Mortality			
Infants	79	93	92
Under 5 (per thousand live births)	154	144	
Adults			
Male (per 1000 male adults)		320	432
Female (per 1000 female adults)		286	383
Human Development Index			
Overall HDI		0.569	0.464
Rank	137	127	
Life expectancy index	0.55	0.50	0.40
Education index	0.66	0.74	0.53
GDP index	0.17	0.47	0.46
Gender related HDI	0.446	0.556	0.459
Human poverty index		23.3	40.6

Source: Human Development Report 1997, 2000 and World Development Indicators 2000

Abbreviations and Acronyms

ACP	African, Caribbean and Pacific countries (Cotonou Agreement)
ADB	African Development Bank
ADF	African Development Fund
ADT	Average Daily Traffic
AGOA	African Growth and Opportunity Act (USA)
AIDS	Acquired Immuno-Deficiency Syndrome
ATV	All Terrain Vehicle
BCP	Basutoland Congress Party
BNP	Basotho National Party
BOS	Bureau of Statistics
CHAL	Christian Health Association of Lesotho
CMA	Common Monetary Area (Rand zone)
CSP	Country Strategy Paper (EC term equivalent to CSS)
CSS	Country Support Strategy (Cotonou Agreement term)
DCA	Department of Civil Aviation
DfID	Department for International Development (UK)
DPT	Diphtheria-Pertussis-Tetanus
DRR	Department of Rural Roads
DRWS	Department of Rural Water Supply
DTIMS	Deighton Total Infrastructure Maintenance System
DTT	Department of Traffic & Transport
DWA	Department of Water Affairs
EA97	Environment Act 1997
EC	European Community
ECCD	Early Child Care Development
EDF	European Development Fund
EIA	Environmental Impact Assessment
EIB	European Investment Bank
EIU	Economist Intelligence Unit
EU	European Union
FAO	Food and Agriculture Organization (UN)
FFW	Food For Work
GDP	Gross Domestic Product
GNP	Gross National Product
GoL	Government of Lesotho
GTZ	Gesellschaft für Technische Zusammenarbeit (Germany)
HDI	Human Development Index
HGV	Heavy Goods Vehicle
HIV	Human Immuno-deficiency Virus
HYCOS	Hydrological Cycle Observation System (SADC project)
IBRD	International Bank for Reconstruction and Development (UN)
IDA	International Development Agency (UN)
IFAD	International Fund for Agricultural Development (UN)
IPA	Interim Political Authority
I-PRSP	Interim Poverty Reduction Strategy Paper
KfW	Kreditanstalt für Wiederaufbau (Germany)
LAC	Lesotho Airways Corporation (defunct)
LAPCA	Lesotho AIDS Programme Coordination Authority
LCD	Lesotho Congress for Democracy
LCN	Lesotho Council of NGOs

LCU	Labour Construction Unit (now part of DRR)
LDC	Least Developed Country (formerly LLDC)
LDF	Lesotho Defence Force
LEC	Lesotho Electricity Corporation
LHDA	Lesotho Highlands Development Authority
LHWC	Lesotho Highlands Water Commission (Lesotho-RSA)
LHWP	Lesotho Highlands Water Project
LNDC	Lesotho National Development Corporation
LPC	Lesotho Peoples Congress
LRMS	Lesotho Road Management System
LSL	LeSotho maLoti (national currency)
MCC	Maseru City Council
MFA	Multi-Fibre Agreement
MIA	Moshoeshoe I International Airport (Maseru)
MoHSW	Ministry of Health & Social Welfare
MoLG	Ministry of Local Government
MoNR	Ministry of Natural Resources
MoPW&T	Ministry of Public Works and Transport
NAO	National Authorising Officer (EDF)
NEP	National Environmental Policy
NES	National Environmental Secretariat
NGO	Non-Governmental Organisation
NIP	National Indicative Programme (EDF)
NRA	National Revenue Authority
NSA	Non-State Actor(s)
PRSP	Poverty Reduction Strategy Paper
PVPS	Plant and Vehicle Pool Services
RB	Roads Branch
REPA	Regional Economic Partnership Agreement (Cotonou provision)
RRMP	Roads Rehabilitation and Maintenance Project
RSA	Republic of South Africa
RSD	Road Safety Department
RTIP	Road Transport Infrastructure Programme
SAA	South African Airways
SACU	Southern African Customs Union
SADC	Southern African Development Community
SAP	Structural Adjustment Programme
SATCC	Southern African Transport and Communications Commission
SME	Small and/or Medium sized Enterprise(s)
SSA	Sub-Saharan Africa
STABEX	Stabilisation of Exports scheme (Lomé Convention)
TA	Technical Assistance
TDCA	Trade, Development & Cooperation Agreement (RSA-EU)
TIS	Traffic Information System
UNDP	United Nations Development Programme
UNFPA	United Nations Fund for Population Activities
UNICEF	United Nations Childrens (Emergency) Fund
VAT	Value Added Tax
WASA	Water And Sewerage Authority
WB	World Bank (UN)
WFP	World Food Programme (UN)
WHO	World Health Organisation (UN)
WRMP	Water Resources Management Policy
WTO	World Trade Organisation (UN)