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

**2005**

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to the Kingdom of Lesotho

National Authorising Officer  
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## LIST OF ACRONYMS

ACP	African Caribbean and Pacific Countries
AGOA	African Growth and Opportunity Act
APRM	African Peer Review Mechanism
AU	African Union
BLNS	Botswana, Lesotho, Namibia and Swaziland
BoS	Bureau of Statistics
CBEP	Capacity Building in Economic Planning
CEDAW	Convention on the Elimination of All Forms of Discrimination Against Women
CEO	Chief Executive Officer
CHAL	Christian Health Association of Lesotho
CMA	Common Monetary Area
CoW	Commissioner of Water
CSP	Country Strategy Paper
DCI	Development Cooperation Ireland
DfID	Department for International Development
DHMT	District Health Management Teams
DHS	Demographic Health Survey
DRR	Department of Rural Roads
EC	European Commission
ECHO	European Commission Humanitarian Aid Office
EDAL	European Development Agencies in Lesotho
EDF	European Development Fund
EIA	Environmental Impact Assessment
EIB	European Investment Bank
EPA	Economic Partnership Agreement
EU	European Union
FAO	Food and Agriculture Organisation
FPE	Free Primary Education
FWC	Framework Contract
FY	Fiscal Year of GoL (1 <sup>st</sup> April- 31 <sup>st</sup> March)
GDP	Gross Domestic Product
GFATM	Global Fund to fight Aids, Tuberculosis and Malaria
GoL	Government of Lesotho
GTZ	Gesellschaft für Technische Zusammenarbeit – German Technical Cooperation
HBC	Home-Based Care
IF	Integrated Framework
IMF	International Monetary Fund
IPPF	International Planned Parenthood Foundation
JBCC	Joint Bilateral Commission on Cooperation
LAPCA	Lesotho AIDS Programme Coordination Authority
LCN	Lesotho Congress of NGOs
LDC	Least Developed Country
LFCD	Lesotho Fund for Community Development
LHDP	Lesotho Highlands Development Project
LHWP	Lesotho Highlands Water Project
LPPA	Lesotho Planned Parenthood Association
LRA	Lesotho Revenue Authority
LRMS	Lesotho Road Management System
LSL	Lesotho Maloti (currency)
LSO	Lesotho
M	Million
MCU	Micro-projects Coordination Unit
MDG	Millennium Development Goals

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

**Exchange Rates** Lesotho Loti (LSL)

	2005	High	Low	Average
LSL/EUR	7.6361	8.1941	7.9225	
LSL/US\$	5.6648	6.7250	6.3318	

**March 2006** LSL/EUR 7.2971 LSL/US\$ 6.15685

## 1 EXECUTIVE SUMMARY

The year 2005 saw the continuation of peace, stability and tranquillity in Lesotho.

Lesotho held its first post-independence local government (community and district council) elections on April 30, 2005. Although turnout was only around 30%, the elections were considered free and fair and more than half of the elected councillors are women. The general elections are scheduled to take place in 2007.

After serious delays, important human rights legislation (Married Persons Equality and Child Protection and Welfare bills) is now before cabinet and soon ready to go to parliament.

Having achieved real annual average GDP growth rate of 3.7% between 1980 and 2004, available data indicate that economic performance weakened significantly in 2005 and real GDP at market prices is forecast to grow by only 1.2%, largely related to contraction of the garment industry. Fiscal management has been sound; a budget surplus of some 7.0% of GDP in 2004/05 was the result of growth in revenue (22.6%), mainly from the Southern Africa Customs Union (SACU), and a modest increase in expenditure. Inflation rate for 2005 is estimated at only 3.4%.

During 2005 reform of the public sector largely focussed on decentralisation and public financial management. Future support from EDF resources in these areas is currently being identified, possibly in concert with ongoing support from other EU member states.

In the external sector Lesotho, being a member of SACU, is participating in ongoing negotiations with third countries for creation of Free Trade Agreements (FTA) and Preferential Trade Agreements (PTA). SACU membership also confers de-facto membership of the South Africa-EU Trade Development Cooperation Agreement (TDCA). Lesotho is faced with a challenge of coordinating and aligning the TDCA review and the EPA negotiations.

The devastating effects of HIV/AIDS form a major obstacle to achieving the MDGs as well as to the development of Lesotho. The most recent estimate for prevalence rate is 27 percent. With an estimated 330,000 HIV-infected persons, Lesotho now has the world's third highest HIV rate amongst adults. The impact of the pandemic is seen to cancel out any progress made in the improvement of social and economic indicators. HIV and AIDS particularly affects children and there is a self-evident rise in the number of orphans and child-headed households. A proposal is under preparation for an EDF funded project to support this vulnerable group.

The policy of free primary education was introduced as a staged approach in 2000 and it reached the final cohort of students at the beginning of the 2006 school-year. Phase I of the three-phase Lesotho Health Sector Reform Program 2000 to 2009 was successfully completed.

Overall 2005 was a good year for EC support for the Lesotho water and sanitation sector, culminating in the signing of the financing agreement in December of the 35.75 M € programme for the sector. In the Transport Sector, the much heralded sector policy was approved by Government in April 2006. It includes institutional reform and the establishment of a Roads Directorate, aimed at improving efficiency and effectiveness in the delivery of services for the main road network. Government also adopted a strategy for ensuring that in the medium term road maintenance will be fully funded from road user charges.

The micro-projects planned for the first half of 2005 were successfully completed. The implementation of projects planned for the remainder of the programme, which ends in December 2006, suffered considerable delays as a result of procedural difficulties.

The implementation of the Capacity Building in Economic Planning CBEP gathered pace in 2005; economic planning, especially at macroeconomic level, is increasingly guided by coherent and consistent analysis of data and trends; at the same time the institutional framework for economic analysis and policy has been strengthened with the creation of the new Department of Economic Policy. The development of a macroeconomic model, as well as administrative and technical support to the Bureau of Statistics, both of which will begin in 2006, is expected to help consolidate the practise of evidence-based planning. The Census 2006, ten years after the previous one, is scheduled for April.

After a slow start in 2003 and 2004, the year 2005 witnessed a significant increase in commitments under the 9<sup>th</sup> EDF. Against this background, and on the basis of the current project pipeline and work in progress on project preparation, the programming outlook for the remaining years of the 9<sup>th</sup> EDF is good. It is now foreseen that by the end of 2006 total 9<sup>th</sup> EDF commitment will reach M € 71 or 66.3% of the total available resources. It is further forecasted that all the available resources will be fully committed by April 2007.

As regards programming for the 10<sup>th</sup> EDF, discussions between the Commission and GoL regarding the possible options of support for infrastructure development (water / transport), HIV/AIDS and general budget support have emerged. A final decision on the focal areas to be adopted for the 10<sup>th</sup> EDF indicative programme will be taken in the course of the preparation of the Country Strategy Paper (CSP), which will take place in the second quarter of 2006.

## **2 UPDATE ON THE POLITICAL, ECONOMIC, ENVIRONMENTAL AND SOCIAL SITUATION**

### **2.1 Update of the political situation**

#### **2.1.1 Democratic institutions**

The year 2005 saw the continuation of peace, stability and tranquillity in Lesotho.

Following the 1998 political crises in the country, the Interim Political Authority (IPA) was established; it included the Government and opposition parties. The 2002 general elections resulted in the establishment of a parliament based on a mixed member parliamentary model, which combines the elements of constituency-based (first past the post) and proportional representation. This all-inclusive model lies at the base of the return of peace and tranquillity to the country.

History was made when Lesotho held its first post-independence local government elections on April 30, 2005. This is the first big step forward in the challenging decentralisation process. Local Government comprises a two-tier system of community level and district councils. Turnout was low (around 30%), but the elections were considered free and fair. An important feature of the elections was the use of a quota system that reserved one-third of electoral divisions for women candidates. In these elections, 53% of the victorious candidates were women. Councillors are now being trained, while regulations under Local Government Act (1996), particularly those related to fiscal decentralisation are being drawn up and infrastructure is created. During 2005 staff from line ministries operating at district level were largely transferred to come under the operational control of the newly appointed District Administrators, who fall under the Ministry of local Government. Nevertheless, a great deal of work is still required in many aspects (including fiscal decentralisation) in order to complete and operationalise the decentralisation process.

2007 is expected to mark yet another milestone in consolidating the culture of democracy in Lesotho, when the general elections are scheduled to take place. Without equating democracy to elections, it is now an established norm in Lesotho that all are free to engage in political activities. For electioneering purposes access to state radio and television, whilst funding from state coffers is made available to all political parties.

The Parliamentary Reform Commission, established in 2004, commenced its work in 2005. The reform process is designed to enhance parliamentary democracy. The process is intended to address, *inter alia* the following strategic issues:

- Strengthening the legislative process;
- Enhancement of civic participation;
- Support services for members of parliament;
- Enhancement of the oversight function, which indeed is core to parliamentary work.

In transforming the institution and in pursuit of excellence, due cognisance will be given to best practices in the African continent and elsewhere.

Since August 2004 Lesotho belongs to the African Peer Review Mechanism (APRM). The APRM is a mutually agreed instrument voluntarily acceded to by Member States of the African Union (AU) as an African self-monitoring mechanism.

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

### **2.1.2 Human rights**

The Human Rights Unit in the Ministry of Justice, established in 1995 by Cabinet decision, with a mandate of promoting, protecting and monitoring human rights in Lesotho. The country has ratified all the major international and regional conventions. The death penalty remains on the statute book although the *de facto* moratorium effective since the 1990s was again observed during 2005; hence, there are no prisoners on “death row” in Lesotho albeit, in theory, a judge is still at liberty to use the death penalty as a sentence.

An Advocacy Programme has been launched recently on human rights issues, through conducting countrywide community meetings (lipitso). Further campaigns will take place in the next financial year.

Legislation has been drafted with the assistance of UN agencies and non-governmental organisations to make the existing legislative framework comply with human rights obligations of the state:

- The Child Protection and Welfare Bill, soon to be tabled before Cabinet;
- Married Persons Equality Bill. Stakeholders’ comments have been incorporated into the draft white paper for forwarding to Cabinet (a much delayed, but very essential piece of legislation, which addresses the current legal status of women as minors);
- Prevention of Corruption and Economic Offences Bill
- Vital Registration Act (revision) to address the issue of compulsory vital registration;
- Education Act on compulsory free primary education;
- Sexual Offences Act (revision)

A number of Non-Governmental Organisations are involved in promotion of human rights issues, under the umbrella of the Lesotho Council of Non-Governmental Organisations (LCN). The Coalition on the Rights of the Child focuses on advocacy on child rights.

At the same time a National Policy on the Rights of People Living with Disabilities has been drafted, but is yet to be submitted to cabinet for approval. A draft proposal for establishment

of a National Human Rights Commission has been circulated to stakeholders for comments. The (first) Lesotho's Network of People Living (openly) With HIV/AIDS LENEPWA was launched in May 2005. Proposals are also in an advanced stage for the establishment of an Investigatory Office for Unlawful and Fraudulent Execution of Judgements

### **2.13 Good governance**

Government recognises that the major limitation for the country to achieve its goals is poor service delivery. The evidence of this is seen in the inefficiencies in the provision of services, mismanagement of limited resources, unethical behaviour of public servants, weak control measures leading to corruption. In 2002 GoL launched the Public Sector Improvement Reform Programme (PSIRP). The programme has three key components: Public Financial Management (PFM), Public Service Reform, and Decentralisation. It focuses on systemic problems of Government delivery of public services, including accountability, transparency and poor capacity. PSIRP is being supported by a number of development partners.

While the PSIRP is seen as an on-going process and some reforms of the public service have been completed, work during 2005 was largely limited the reform in the areas of Decentralisation and Public Financial Management Refer (Section 2.2.2). PSIRP lacks at present clear stewardship in government and needs to gather back momentum.

#### **2.1.4 Corruption**

The fight against corruption for the year 2005 focused mainly on Public Education and Corruption Prevention. With a view to educating and sensitising the public about corruption, several public rallies were held. The Directorate on Corruption and Economic Offences (DCEO) is the body specifically charged with the responsibility of fighting corruption, through its Public Education Division participated in various national events such as the Morija Arts and Cultural Festival. At these national events, lessons on corruption were administered to various social groups and individuals. With the aim of preventing corruption, the Directorate conducted several workshops in various government departments and ministries.

The Directorate also joined forces with other sectors of the society and established an Anti-Corruption Steering Committee in 2005. This Committee is composed of Civil Servants private sector and NGOs. The mandate of this body is to assist the Directorate with expertise and guidance in the effort against corruption. On the other hand, the members are expected to serve as ambassadors for zero tolerance to corruption in their various fields of life.

With the same spirit of fighting corruption in the civil service, some culprits have been placed before the Courts of Law. Some ten cases of corruption have been recorded by the Courts and are to be prosecuted; this by itself serves as powerful tool for deterrence. It is worth noting that legal proceedings taken against international companies involved in the Lesotho Highlands Water Project (LHWP) were brought to a successful completion and resulted in convictions and blacklisting (See JAR 204 for background). Cases against individuals in Lesotho who used to work for the project were partly completed and partly are still ongoing. Bribes and kickbacks formed the basis for that internationally acclaimed action by the Government of Lesotho.

The prevention of corruption and economic offences bill has passed cabinet approval and is to be tabled before parliament.

## **2.2 Update of the economic situation**

### **2.2.1 Macroeconomic Situation**

Although Lesotho is a least developed country with limited natural resource endowments, it has achieved a real annual average GDP growth rate of 3.7% between 1980 and 2004 and the national economy (GDP) reached LSL 8.8 billion in 2004 (approximately US\$ 1.5 billion). In addition to goods and services produced within the country, Lesotho receives very important net transfers from the SACU revenue pool (20% of GDP in 2004 and circa 50% of the State Budget). As highlighted in previous JARs, Lesotho is therefore very vulnerable to modifications in trade tariffs.

Over the period 1999 – 2004, GDP measured in current market prices has grown by an annual average of 9.7% (2.9% in real terms), whereas GNI has increased by 9.0%. Net transfers have grown by an annual average of 12.5% over this period, despite a decline of 3.1% in 2003. Consumption (private plus public) has grown by 6.9% per annum. In aggregate, consumption accounts for approximately 80% of GNDI (equal to 114% of GDP at market prices) while savings absorb the remaining 20% (equal to 28.5% of GDP). Gross fixed capital formation has grown by 6.4% per annum in nominal terms but, as a share of GDP, investment has fallen from 47.6% in 1999 to 41.0% in 2004.

Provisional output indicators and export data indicates that economic performance weakened significantly in 2005. Real GDP at market prices is forecast to grow by only 1.2%. The Secondary Sector has declined by 2.3%, driven by a decline in manufacturing of 8.3%. This resulted from a more competitive operating environment, caused by the strong exchange rate and the end of quotas under the international Agreement on Textiles and Clothing with effect from 31<sup>st</sup> December 2004. Thanks to the US Government African Growth and Opportunity Act (AGOA) and most especially to its third-country fabric provision (that allows worldwide raw materials outsourcing), the textile sector boomed in Lesotho and became its biggest employer. Due to the reasons previously mentioned, more than 10,000 jobs have been lost through factory closures and reductions in production lines. Although the worst of the shake-out appeared to be over by the middle of 2005, the impact of closures means that there will be a further decline (projected at 3.0%) in 2006. The Government of Lesotho is gradually attempting to penetrate new markets (most of the textile production was geared towards the US market), mainly the EU, in order to maintain its industry. Together with this, a package of measures devised to attract Foreign Direct Investment (FDI) such as corporate tax reduction is being implemented. All these measures are in line with the Poverty Reduction Strategy (PRS) first priority, namely job creation.

GNI has grown rapidly in 2003 and 2004. This has occurred because: (i) there has been an increase in net income from abroad of 6.9% in 2003 and 5.6% in 2004, and (ii) the appreciation of the Rand/Loti against major currencies (especially the dollar) has changed the terms of trade so that a given level of foreign exchange earnings makes a larger contribution to national purchasing power. The terms of trade effect has improved from negative LSL 453.6 M in 2002 to only negative LSL 255.5 M in 2004.

Lesotho is a member of the Common Monetary Area (with Namibia, Swaziland and South Africa) and the local currency is pegged at par to the Rand. These institutional arrangements limit the scope for an independent monetary policy but confer significant advantages in facilitating trade, investment and other cross-border activities (such as tourism).

After a rapid depreciation of approximately 40% between 1999 and 2002, the annual average exchange rate has appreciated since the last quarter of 2002. This has been the result of the weakness of the US dollar, the higher gold price and relatively high interest rates set by the

Reserve Bank of South Africa. Over 2003 and 2004, the appreciation has been substantial against most currencies (e.g. 34% against UK pound and 65% against the US dollar. The strength of the Rand has been sustained in 2005. The annual average exchange rates of LSL against the US\$ and the Euro for 2005 were 6.33 and 7.92 respectively.

### Key Macro economic indicators

Indicator	2000	2001	2002	2003	2004	2005	2006	2007
1. Population de jure (million)	2.14	2.19	2.23	2.28	2.33	2.38	2.43	2.48
2. Population Growth (%)	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.1
3. GDP at Market Prices (Maloti million)	5,963.7	6,564.8	7,370.1	8,053.7	8,832.9	9,242.8	9,822.9	10,561.6
45. GDP per capita (US\$)	401	348	317	467	599	614	608	628
6. GDP per capita (% change)	-7.7	-13.1	-9.0	47.3	28.4	2.5	-0.9	3.3
7. Gross Fixed Capital Formation (% of GDP)	44.6	42.8	44.2	44.2	41.0	40.5	40.8	40.6
8. External Debt (% of GDP)	72.4	95.2	69.6	55.0	46.6	43.8	42.8	42.5
9. External Debt Service (% of GDP)	5.4	4.8	1.7	2.6	6.0	6.7	4.8	3.1
10. Arrears on Domestic Debt	0	0	0	0	0	0	0	0
11. Exports (% of GDP)	24.6	37.0	50.7	44.2	51.3	44.0	42.2	43.2
12. Trade Balance (% of GDP)	-60.1	-51.8	-57.7	-48.6	-43.3	-41.4	-46.1	-45.7
13. Government Domestic Revenue excl. Grants (% of GDP)	44.0	42.5	41.2	42.4	47.2	47.8	53.5	52.3
14. Government Expenditure (% of GDP)	48.6	46.1	49.6	43.9	42.9	45.2	53.6	51.8
14. Budget Balance incl. Grants (% of GDP)	-3.0	-0.8	-4.5	0.8	7.0	4.2	2.8	3.3
16. Inflation (% change)	6.1	6.9	12.6	7.2	5.0	3.4	4.5	5.0
17. Exchange Rate (LSL = US\$1)	6.943	8.619	10.416	7.562	6.326	6.330	6.650	6.780

Figures for 200-2004 are actuals. Figures for 2005-2007 are estimates and forecasts. Source Department of Economic Policy MFDPP.

Between 1999 and 2004, exports have grown at a nominal rate of 33.9% per annum while imports have only grown by 11.9% per annum. However, because imports started from a higher base value, these trends have not resulted in a reduction in the deficit on trade in Goods, which was LSL 3.8 billion in 2004. The value of exports is provisionally recorded as declining by 10.3% in 2005 as a result of the downturn in the textile industry.

Although the average number of Basotho employed in the South African mines has declined from 68,604 in 1999 to 58,014 in 2004, net Income from abroad (principally from migrant workers) has been sustained by an increase of 52.3% in average earnings over the period. A tightening of labour legislation (which restricts the recruitment of non-South African novice mineworkers) has contributed to the decline in the number of mineworkers, which has remained under 55,000 throughout 2005.

Current Transfers are mainly provided from the revenue pool established under the Southern African Customs Union. The new revenue-sharing formula came into operation with effect from 1<sup>st</sup> April 2005. Lesotho received some adjustment payments due under the previous formula in 2005/06 and will receive all outstanding amounts in 2006/07.

The consumption boom in South Africa has meant rapid growth in Customs collections so receipts are higher than the original estimates. Thus, for 2006/07 the budgeted receipts under the new formula are LSL 2.8 billion (approx. 388.9 M €) against earlier forecast of only LSL 2.0 billion (approx. 277.8 M €).

Strong export growth has ensured that the deficit on the overall current account declined to LSL 471.7 M in 2004 (5.3% of GDP). It is projected to fall to only LSL 112.7 M in 2005 (the net outcome of weaker export performance, partially offset by reduced imports of intermediate inputs and stronger performance of transfers).

The net inflow of resources on the Capital and Financial Account declined from LSL 929.5 M in 2003 to LSL 611.7 M in 2004. There was a further decline in 2005 as a result of the economic downturn and the repayment of the Postal Services Loan. There has been a continued decline in financing for the Lesotho Highlands Water Project, which has fallen from LSL 1.3 billion in 1998 to only LSL 457 M in 2004.

Lesotho's policy objective is to maintain a strong reserve position with average gross foreign assets well in excess of the internationally accepted thresholds of 3-6 months cover of merchandise imports. Despite the negative Valuation Adjustments resulting from the appreciation of the currency from 2002 to 2004, the target has been achieved, with cover of 6.6 months recorded in 2004.

Fiscal management has been sound, with a surplus of LSL 621.1 M (7.0% of GDP) in 2004/05. This resulted from revenue growth of 22.6% (mainly from the Customs Union) while total expenditure grew by 7.2% (recurrent spending up by 8.3% while capital expenditure recorded a small decline). A further surplus of LSL 398.5 M (4.2% of GDP) is expected for 2005/06. This is a substantial improvement over the forecast deficit of LSWL 247.4 M. It occurred as a result of higher revenue collection (+ LSL 240 M) and under spending on wages (LSL 60 M), goods and services (LSL 93 M) and capital (LSL 220 M).

Government has utilised the surpluses achieved in 2004/05 and 2005/06 to retire external and domestic debt and to rebuild balances, which had been reduced below prudent levels by a series of deficits. The retirement of LSL 173.0 M of long-term bonds and a reduction in short-term borrowing reduced domestic debt outstanding by 44.2% to LSL 647.1 M by the end of 2004. Government balances increased to LSL 958.1 M by 31<sup>st</sup> March 2005. The appreciation of the currency has reduced the value of external debt from the peak of LSL 6.2 billion at the end of 2001 to LSL 4.1 billion by the end of 2004.

It is important to stress that, as an independent EC-funded study recently confirmed, Lesotho displays an impressive record in terms of debt repayment. The Government feels strongly that the sacrifices that this entails should be compensated and hence that debt cancellation should also be extended to Lesotho as an LDC with acute developmental needs and low resources.

Interest rates have remained in line with those prevailing in South Africa. There have been rate reductions from 2003 onwards and the current rate of 6.9% for the Lesotho 91-day Treasury Bill rate is the lowest since the auction system was introduced in September 2001.

Inflation is driven primarily by prices in South Africa, which remains the source of almost 90% of the country's imports for final consumption (even though the textile industry has imported an increasing volume of intermediate inputs from Asia in recent years). The rate is estimated at only 3.4% for 2005. This reflects favourable price developments in South Africa linked to the achievement of an inflation target of 3-6% by the Reserve Bank and the continued appreciation of the currency, which has made imports relatively cheaper.

### ***2.2.2 Public Financial Management***

Recent years have seen increasing focus on the need to improve Public Financial Management (PFM) from both GoL and donors. Policy objectives and development targets are of limited value unless effective budget execution systems and a transparent PFM accountability framework are in place. These are lacking in Lesotho, with the weaknesses identified in several recent reviews all reflecting a dysfunctional budget execution system in need of substantial reform. We cannot forget, though, the very important loss of documentation during the 1998 crisis and its negative repercussions even today.

The key weaknesses relate to an under-performing and obsolete financial management information system and insufficient capacity within GoL to develop, maintain and manage functional PFM application systems. This has led to serious omissions in the accounting records, numerous transaction recording and posting errors and an almost complete absence of reconciliation of subsidiary records to the general ledger, increasing the susceptibility to fraud and corruption. There is also inadequate cash management and a weak internal control environment that is compounded by the absence of an effective internal audit function. Consequently there is a cultural norm of fiscal in-discipline.

The non-performance of the current Government of Lesotho Financial Information System (GOLFIS), has led to a fragmented PFM system between the Treasury, Sub-Accountancies and Ministry Accounting Units, with varying degrees of duplication, inefficient manual systems that are prone to error and do not facilitate easy analysis and consolidation, and intermittent use of small-scale accounting packages. There is limited numbers of suitable qualified and skilled public finance personnel at all levels and a concomitant inability to produce regular and comprehensive periodic financial reports for budget management and control. Thus, while there are backlogs in the production of the Public Accounts, for the years 1996-97 to 2000-01 (mainly due to the loss of documents), Government has been in a position to produce regular accounts since. Weaknesses are symptoms of a prolonged decline in the PFM system arising from the lack of demand for sound public financial management practices and the self-reinforcing nature of many of the above weaknesses, such that the system has gradually atrophied into its current state.

In the context of the PSIRP strengthening of the PFM is being addressed with technical assistance being provided by DfID since January 2005. EDF support for the strengthening of PFM, in concert with the DfID intervention, is currently being prepared.

### ***2.2.3 Integration into the world economy and trade arrangements***

The significant issue facing Lesotho, in terms of regional integration, remains how to encourage closer economic integration with South Africa while protecting its cultural, economic and political independence. Lesotho is member of the Southern Africa Customs Union (SACU)<sup>1</sup>, the Common Monetary Area (CMA)<sup>2</sup>, the Southern Africa Development Community (SADC)<sup>3</sup> and the African Union (AU). It has established a Joint Bilateral Commission on Cooperation (JBCC), with the Government of South Africa as a vehicle for closer integration with its sole neighbour

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

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<sup>1</sup> Along with South Africa SACU comprises the BLNS countries (Botswana, Lesotho, Namibia, and Swaziland)

<sup>2</sup> Membership as SACU, but excluding Botswana.

<sup>3</sup> SADC membership in addition to BLNS and South Africa, also includes Angola, DR Congo, Malawi, Mauritius, Mozambique, Seychelles, Tanzania, Zambia and Zimbabwe.

**African Growth and Opportunity Act.** AGOA III was signed in 2004, extending the overall programme to 2015. The use of third country raw materials in the textile industry was extended to 2007. As previously mentioned, thanks to the AGOA, the textile sector in Lesotho had overtaken the public sector as the biggest employer in the country (some 50 companies and over 50,000 workers, mainly women) and accounting for more than 90% of merchandise exports. However, the expiry of the Agreement on Textiles and Clothing (Multi-Fibre Agreement) at the end of 2004, that opened the US and EU markets to Asian exporters, combined with the strength of the Rand, has resulted in the closure of at least nine garment firms in the country since June 2004, with a subsequent estimated 13,000 workers losing their jobs.

#### *2.2.4 EPA Negotiations*

Lesotho is one of the seven SADC member states<sup>4</sup> that agreed to negotiate an Economic Partnership Agreement (EPA) with the European Union. The SADC - EC EPA negotiation process was launched on 8 July 2004 in Windhoek Namibia. Substantive negotiations started in January 2005 and are expected to run to June 2007.

A national EPA Negotiations Committee which comprises both the public and private sector, as well as civil society acts as a forum for open stakeholder dialogue to come up with Lesotho' negotiating position. Lack of capacity within this Committee is obviously having adverse effects on Lesotho capabilities to negotiate meaningfully. The challenge is therefore to build the capacity in terms of negotiating and analytical skills and negotiate within the agreed time frame. A more relaxed set of EU Rules of Origin is one of the possible approaches that the Government of Lesotho would favour in terms of trade with the European Union.

Being a member of the Southern Africa Customs Union (SACU), Lesotho is participating in on going negotiations between SACU and third countries for creation of Free Trade Agreements (FTA) and Preferential Trade Agreements (PTA).

SACU membership also confers de-facto membership of the South Africa-EU Trade Development Cooperation Agreement (TDCA). Lesotho, as other SACU countries, is faced with a challenge of coordinating and aligning the TDCA review and the EPA negotiations.

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<sup>4</sup> BLNS plus Angola; Mozambique and Tanzania. South Africa is participating in the SADC EPA configuration as an observer.

## 2.3 Update on the social situation<sup>5</sup>

### 2.3.1 *Eradication of Poverty and Food Security*

Lesotho's economy needs to grow by 7% per year to meet the target of halving the proportion of people below the poverty line (from 58% in 2000 to 29% by 2015). Whereas in the 90's annual growth rates of around 6% were recorded, the trend over the past five years has been around 3%, with the estimate for 2005 showing a decline to around 1%. This economic growth gap does not augur well for the achievement of the MDG's. An important feature of the Lesotho poverty situation is the very unequal income distribution (the richest 10% command 50% of the total income, whilst the poorest 10% command less than one percent of total income). There is also a distinct rural-urban divide: Poverty incidence in the rural mountainous area of Mokhotlong is almost double that in the capital district of Maseru.

Unemployment, estimated at 43% in 2000, had been reducing until the recent downturn in the garment industry. The industry had shown the ability to create up to 10,000 jobs in a single year (2001), and the sector had overtaken the public sector as the largest employer. However, the expiry in December 2004 of the Multi-Fibre Agreement (MFA), combined with the strengthening of the Loti/Rand (pegged) vis-à-vis the US\$, has resulted in factory closures during the past year, with job losses estimated at 13,000 or 24%.

Efforts to improve economic growth and create more employment opportunities are facing challenges of their own. Food insecurity is a key dimension in the poverty situation. The WFP estimated that 500,000 to 600,000 people in Lesotho required some kind of food aid during 2005. The underlying causes are the reduced – structural – agricultural outputs, HIV/AIDS, the weakening economy and the general increases in the prices for staple food. In 2000, 22.8% of children under five were underweight; the 2015 target is 11%. The HIV/AIDS morbidity and mortality threaten to make the situation worse.

The PRS emphasis on attaining food security through employment and income generation, as distinct from the earlier emphasis on food production, is facing challenges in the light of recent developments, but it is considered that there is potential in improving agriculture – in particular at subsistence level and mainly through Conservation Agriculture techniques that reduce the amount of tillage required, boost yield and prevent soil erosion – whilst diversification of the markets for the garment sector (i.e. EU, Japan, Canada) is considered to have potential.

Although the MDG Status Report 2004 conveys a general message that based on the statistics available, Lesotho has the 'potential' to meet the MDG targets, overall the trend towards the achievement of the MDGs cannot be considered promising. The devastating effects of HIV/AIDS form a major obstacle to achieving the MDGs as well as to the development of Lesotho.

The impact of the pandemic is seen to cancel out any progress made in the improvement of social and economic indicators. The high level of HIV infection, together with deep-rooted poverty and food insecurity is instrumental in the creation of vulnerability, which affects virtually every household in the country. This results in a gradual disintegration of the social and economic fabric of Basotho society. The pandemic in particular affects children: coping mechanisms are failing and there is a self-evident rise in the number of orphans and child-headed households.

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<sup>5</sup> This section relies heavily on information and analysis from Lesotho Millennium Development Goals Status Reports 2004 and 2005

There is also a clear correlation between food insecurity and the degrading environment. The net effect of the crisis caused by the 'HIV/AIDS- poverty-food insecurity complex' becomes evident in the doubts about achievement of human development in general and the MDGs in particular.

Monitoring and evaluation mechanisms (including statistical capacities) are variable and statistical gaps and delays in information dissemination are proving difficult the task of providing a consistent continuous process of monitoring the achievement of the goals.

### Key Social Indicators

Type	Indicator <sup>1</sup>	2000	2005	2007	2015
Impact	i. Proportion of population below US\$1 per day (%)	58 <sup>2</sup>	40		29
	ii. Prevalence of underweight children (<5 yrs) (%)	22.8 <sup>3</sup>	19		8
	iii. Under five years mortality rate (per 1000 live births)	113			37
Outcome	iv. Net enrolment ratio in primary education (%)	69%	85% <sup>4</sup>		100%
	v. Primary education completion rate (%)	74%		85%	100%
	vi. Number of girls per 100 boys in:				
	▪ Primary education	102	100 <sup>5</sup>		100
	▪ Secondary education	131	127 <sup>5</sup>		100
	▪ Tertiary education	122			100
	vii. Proportion of births attended by skilled health personnel (%)	60 <sup>6</sup>			80
	viii. Proportion of 1 year-old children immunised against measles (%)	77	73 <sup>4</sup>		100
	ix. HIV prevalence amongst pregnant women attending Antenatal clinics (%)	21	29 <sup>7</sup>		15
	x. Proportion of population with sustainable access to an improved water source (%)	79 <sup>3</sup>			81
xi. Child Mortality rate (per 1000 survivors to age 1 yr)	38 <sup>8</sup>	24 <sup>4</sup>		24	
xii. Proportion of people with access to basic sanitation	45 <sup>8</sup>			67	

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

#### Notes

<sup>1</sup> MDG targets/indicators numbered in bold

<sup>2</sup> 1994/95

<sup>3</sup> 2002

<sup>4</sup> 2004

<sup>5</sup> 2003

<sup>6</sup> Includes trained traditional birth attendants

<sup>7</sup> 2003 – absolute data from set sample of pregnant women attending 6 sentinel sites in 2003 over a 12 week period

<sup>8</sup> 2001

### 2.3.1 Education

The policy of free primary education was introduced in 2000 and has been gradually extended since then – achieving coverage of all seven grades of Primary Education in the 2005/06 school year. The policy has led to a significant increase in the number of children attending primary school – with the subsequent increase in the demand for additional schools, class-rooms and teachers – which should produce in time a more educated and competent labour-force.

The achievement of the target of **Universal Primary Education** is considered 'probable', the only Lesotho MDG in this category. Net enrolment that had declined during the last decade of the 20<sup>th</sup> century (76% in 1990) is now expected to increase from 69% in 2000 to 85% by 2007 and 100% in 2015. Of particular note is that Lesotho continues to have higher level of primary enrolment for girls than for boys: a unique situation in the developing world; boys

from an early age are charged with tending livestock herds. Recent indications are that the gap is narrowing. Pupil to teacher ratios are targeted to move from 50 (2000) to 40 in 2007. But it is likely that as a result of the improved enrolment ratios, and the impact of HIV/AIDS on the teacher population, the rate required and actual pupil to teacher ratios would thus have worsened.

However, there are still concerns as to how to meet the post-primary demand for education. Additionally, the future employment prospects for this “improved labour force” – and the solution to Lesotho’s brain-drain problem mainly in favour of South Africa – will be dependent on Lesotho’s ability to generate domestic and foreign investment.

The supportive environment is considered strong as witnessed by the phased introduction of Free Primary Education Programme in 2000 and the financial resource allocation to the sector<sup>6</sup>. Monitoring and evaluation mechanisms are judged to be fair, whilst the capacity for statistical analysis is considered to be strong.

### **2.3.2 Health<sup>7</sup>**

The Lesotho Health Sector Reform Program (2000 to 2009) is a three phased process, whose main goal is to improve access to quality promotive, preventive, curative and rehabilitative services. Phase I (preparatory stage – 2000/01- 2004/05), of which the main objective was to build sufficient sector capacity to effectively implement the reforms, was successfully completed in financial year. Its main achievements were:

- i) development of Financial Information and a budgeting system based on the Medium Term Expenditure Framework (MTEF);
- ii) development of decentralisation strategy and an essential service package;
- iii) human resource development and management strategy;
- iv) strategy for improving pharmaceuticals supply and management;
- v) infrastructure development and maintenance strategy;
- vi) improvement of delivery of social welfare services; and
- vii) development of a strategy for strengthening of partnership and donor coordination.

The sector reform program entered its second phase in 2005/06 financial year. The main objectives of the second phase are to i) increase access to quality health and social welfare services and ii) increase allocative efficiency in managing the health resource. The main approach is to implement strategies and tools developed in phase one, while tracking progress on the extent to which they improve access to quality services on the basis of equity and social justice. Priority interventions in the 2005/06 FY included the implementation of: i) a decentralised service delivery of the essential service packages; ii) an MTEF based budgeting; and iii) strengthening partnership and donor coordination. GoL and development partners allocated a total of 373 M LSL (LSL 162 per capita) for the 2005/06 financial year (8% of the total budget).

#### Child Mortality

Meeting the MDG target of cutting both infant mortality and under-five mortality by two-thirds is considered ‘potentially’ achievable, with the operating environment (although weak) judged to be improving. The Health Sector Reform Programme and the enhancing of capacity at the district level in the context of the ongoing decentralisation process are seen as key planks in the improving operating environment.

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<sup>6</sup> In the 2006/07 national budget the Ministry of Education received the largest individual share: 20.5% of the recurrent budget and 17.6% of capital and recurrent.

<sup>7</sup> HIV/AIDS not included.

Whilst *under-five mortality* increased from 93 per 1000 in 1996 to 113 in 1000 in 2004, *infant mortality* rose from 74 per 1000 to 91 per 1000 in the same period. The latter is mainly due to the transmission of HIV and AIDS from infected mothers during pregnancy, birth and breast-feeding. The rural-urban and mountain-lowlands disparity referred to under the eradication of poverty is also in evidence here. Monitoring and evaluation mechanisms are improving in this sector<sup>8</sup>.

#### Maternal Health

Maternal death in Lesotho is a tragedy in social, economic and public health terms: it increased from 282 (1993) to 419 per 100,000 live births in 2002. It is estimated that 85 percent of women attend antenatal care, whilst contraceptive prevalence is estimated at 41 percent in general terms and at 27.2% for married women. About 85% of health facilities clients are within one hour travel time.

The proportion of births attended by skilled health personnel is estimated at 60%, with a 2015 target of 80%. The high maternal death rate can be attributed mainly to unsafe abortions and lack of clinical skills in handling obstetric and abortion emergencies. The advent of HIV/AIDS undoubtedly plays a major role in the increase in maternal mortality. Whilst the 2015 target is to reduce maternal mortality by three quarters, the projections to meeting this challenge indicate that it will be unlikely to meet the goal. Monitoring and evaluation mechanisms and the capacity for statistical analysis are considered to be strong.

#### **2.3.3 HIV/AIDS**

The most recent estimate for prevalence rate is 27 percent<sup>9</sup>. With an estimated 330,000 HIV-infected persons, Lesotho now has the world's third highest HIV rate amongst adults. Data clearly point to a feminisation of HIV/AIDS: 57 percent of adult infections occur in women. Data from the DHS<sup>10</sup> raise alarm bells: based on voluntary testing of 3,951 women (15 to 49 years old), 40 percent of women 24 - 39 years were found to be HIV positive. Key factors in the high infection rates are cultural beliefs and practices with negative implications such as multiple concurrent sexual partners, abuse of gender power relations by men, and low condom use. Although there is new evidence that awareness on the measures to curb the spread of HIV/AIDS has increased, low adoption rates of preventive measures and changes in behaviour are instrumental in failure to turn the corner to reduce the rate of new infections.

The most recent report on the MDG's indicates that Lesotho has the potential to meet the 2008 intermediate target of 25% prevalence (2015 target – 17%). The targets for death rates associated with TB are a reduction from 14% (2000) to 10% in 2008 and 6 % (2015).

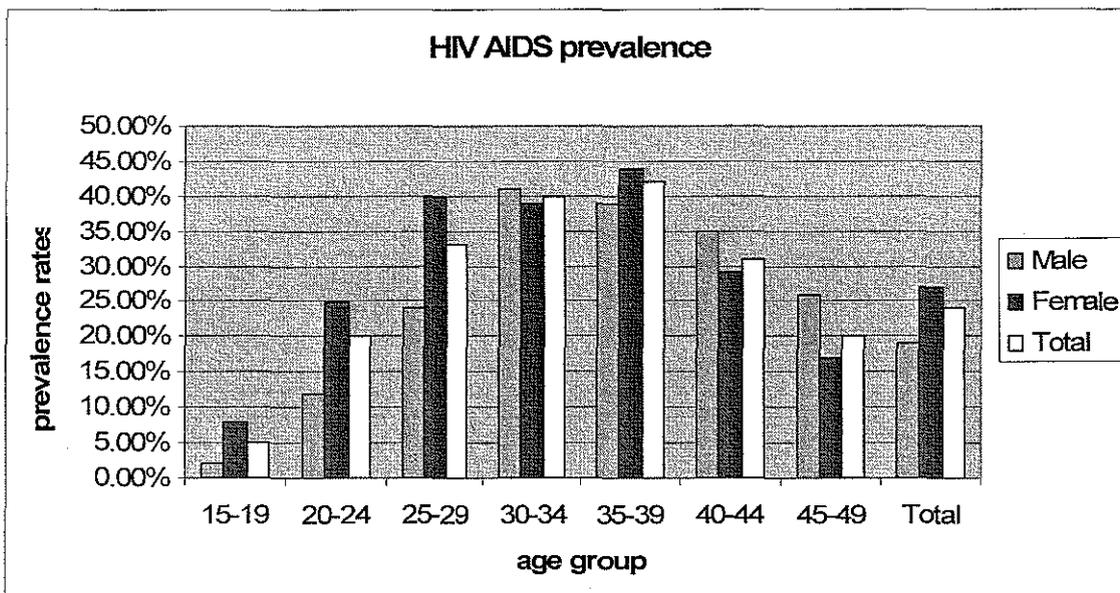
Recent positive developments include the establishment of the National AIDS Secretariat (NAS) in late 2004; the appointment of the NAS Chief Executive in March 2005 and the gazetting of the enabling legislation to establish the National Aids Commission (NAC) in September 2005. The national HIV/AIDS response is currently under review and its outcome will serve as input for formulating the National HIV/AIDS Strategy 2006-2010. Monitoring and evaluation mechanisms, however, remain weak, as is the capacity for statistical analysis.

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<sup>8</sup> The Project Support for Health Sector Reform (8ACP LSO 008) provided support for strengthening M&E

<sup>9</sup> MoH&SW, 2005 estimate of HIV/AIDS prevalence in population 15 – 49 years

<sup>10</sup> Lesotho Demographic and Health Survey 2005



Source: Lesotho Demographic and Health Survey 2005

In December 2005 the Know Your Status (KYS) Campaign was launched; an initiative that attempts to provide universal access to HIV/AIDS Testing and Counselling in Lesotho by (ideally) end 2007. Breaking the stigma attached to the virus and convincing people to test - in order to reinforce adequate behaviour for those that test negative and treatment and care for those that are positive - are the challenges to be overcome.

### 2.3.4 Gender

Women play a very visible role in Lesotho society. Lesotho women enjoy higher levels of educational attainment and literacy, and dominate in subsistence agricultural production and in small enterprises. Women account for some 62% of professional, technical and related positions in the formal sector. Employment in the (shrinking) garment sector is almost entirely focussed on female workers.

However, Basotho society is still patrilineal and patriarchal: the man is the head of the family and the sole decision-maker. Customary and common law, enshrined in the Constitution, considers women as perpetual minors under the guardianship of their male spouse or relative and results in discrimination against women (i.e. difficulties in accessing credit, loss of assets to the husband's family in the case of widows etc.). As shown above the advantage in education appears to be narrowing and the impact of HIV/AIDS disproportionately affects women. Sexual abuse and aggression and violence against women are widespread.

Political representation is improving and in 2002 women held 17 % of the 80 parliamentary seats. The 2007 target is 30%. It is noteworthy that in the 2005 local government elections 53% of the elected councillors were women. Women hold six of the 21 cabinet posts.

The MDG report indicates that Lesotho has the potential to meet the twin targets of equal access to education for boys and girls and the increase in female participation in development issues by 2015. The supportive environment is considered to be fair. The country has ratified the Convention on the Elimination of All Forms of Discrimination Against Women (CEDAW) and the SADC Addendum on the Prevention and Eradication of Violence Against Women. Since 2000 the Sexual Offences Bill has been enacted, but its implementation remains a serious challenge. The Married Persons Equality Bill still remains to be completed and enacted.

### **2.3.7 Environment**

The most tangible feature of Lesotho's environmental degradation is the extensive soil erosion with gullies ("Dongas") and sheet erosion being in evidence everywhere. The topography and soil textures play an important role, but over-stocking, overgrazing and poor agricultural practices are thought to be major contributors to the problem. It is estimated that annually some 36 M tons of topsoil are lost through erosion. The target is to reduce this to 20 M tons by 2015. Although the operating environment is weak, there are encouraging signs that awareness of the need for environmentally sound farming practices is increasing. The Ministry of Agriculture and food Security is now actively embracing conservation farming and a number of local initiatives in that respect are getting increased attention.

Pollution of the environment is of increasing concern. Pollution of surface and ground water, by industrial activity, agricultural chemicals, pit-latrines, uncontrolled urban drainage and landfills are not insignificant. Air pollution is large confined to urban areas: industry, solid waste burning, coal fires for cooking and heating and vehicle emissions are the major contributors. Development of the National Environmental Action Plan and enactment of the Lesotho Environmental Act, combined with increasing attention for environmental education combine to create a fair operating environment, however enforcement remains weak.

In the water sector, a paradoxical situation exists of large-scale export of water to South Africa from the Lesotho Highlands Water Project (LHWP) and the seasonal shortage of water in the lowlands. This is compounded in the Maseru area and other industrial zones by the water-intensive textile industry that boomed after the LHWP was devised and developed. The inadequate development of water storage and distribution networks, combined with institutional and management constraints, meant that in 1996 over one third (36%) of the population did not have access to safe drinking water. The emphasis on rural water supply systems appears to have resulted in the reduction of the proportion of the population without safe access to 23% by 2000. With the major investments planned for both bulk water supply and urban water distribution, it would appear that the target of 19 % without access to safe water by 2015 requires adjusting downward. Efforts to strengthen the institutional and management environment are underway and this should further assist in target achievement.

Availability of water also affects the ability to achieve the MDG targets for sanitation, particularly in the urban areas. Maseru is an important example in this regard; expansion of wastewater treatment and disposal requires the increased availability of domestic water. Increased attention is also required if the target for the rural areas is to be achieved: currently two third of rural household remain unserved.

## **3 OVERVIEW OF PAST AND ONGOING CO-OPERATION**

### **3.1 Focal sectors and macroeconomic support**

The revised Country Strategy Paper (CSP) and National Indicative Programme (NIP) signed in March 2005, based on the mid-term review (MTR), completed in November 2004 modified the strategy without altering the total amount under the A Envelope. Under macro-economic support and capacity building, direct budget support has been replaced by project-type interventions since the conditions for providing this support were not met. The funds thus freed have been reallocated to the Water and Sanitation and the Road Transport sectors, whilst new areas of support under the focal sectors include the fight against HIV/AIDS and the strengthening of Public Financial Management (PFM). Resources for the programmes outside the focal sector have also been increased and the CSP/NIP objectives of the existing non-focal sector programmes remain valid.

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

€ M

	Sectors	Initial allocation		Rev. allocation	
1	Water and Sanitation	17.20	20.0%	36.50	35.1%
2	Road Transport	17.20	20.0%	26.40	25.4%
3	Macroeconomic support & capacity building	43.00	50.0%	22.50	21.6%
4	HIV/AIDS*	0	0	8.00	7.7%
5	Programmes outside focal sectors	8.60	10.0%	10.60	10.2%
	Totals	86.00	100.0%	104.00	100.0%

\* New Focal Sector

The levels of global and individual commitment and disbursement for the 7<sup>th</sup>, 8<sup>th</sup> and 9<sup>th</sup> EDF as at 31 December 2005 are set out below:

#### Commitment and disbursements 7<sup>th</sup>, 8<sup>th</sup> and 9<sup>th</sup> EDF as at 31 December 2005

NIP		EDF Allocation <sup>1)</sup>	Total Global Commitments	Uncommitted Balance	Total Individual Commitments	Total Disbursements
<b>7th EDF</b>	€	102,270,645	102,270,645	0	99,988,731	99,716,331
	% <sup>2)</sup>		100.0%		97.8%	97.5%
<b>8th EDF</b>	€	73,842,171	73,842,171	0	66,300,113	60,302,547
	%		100.0%		89.8%	81.7%
<b>9th EDF</b>	€	108,387,665	56,735,100	51,652,565	4,392,196	1,199,592
	%		52.3%		4.1%	1.1%
<b>TOTAL</b>		<b>284,500,481</b>	<b>232,847,916</b>	<b>51,652,565</b>	<b>170,681,040</b>	<b>161,218,470</b>

Notes 1) 7th and 8th EDF: all resources (NIP, Non-NIP, SAP plus transferred balances); 9th EDF total of A and B envelopes.

2) Percentage of Allocations

#### 3.1.1 Water and Sanitation Sector

The economic importance of the sector is illustrated by the annual contribution of some 250 M LSL to GoL revenues from the sale to South Africa of water from the Lesotho Highlands Water Project (LHWP). However, the past emphasis on water for export from the highlands had been not matched by development of water resources and supplies for Lesotho as a whole and the populous western lowlands in particular.

Supply factors (increased environmental problems, including declining winter flows in the main river system during the dry season, high sediment loads and inadequate wastewater

treatment), demand factors (highlands to the lowlands migration<sup>11</sup>, urbanisation, industrialisation and accompanying demand for higher service levels and increasing expectation of reticulated water systems and sewage disposal), combined with the limited institutional capacity in the sector all contribute to a situation of increasingly unreliable supplies to existing consumers and an inability to meet the increasing demand of new consumers, especially in Maseru. The situation has a disproportionate impact on the poor.

In line with the GoL's priority for improved access to water and sanitation, given its potentially strong impact on poverty reduction, and the premise that the lowlands is rapidly approaching critical water shortages, the sector was selected as the major focus for EC-Lesotho co-operation. The strategy takes a two-pronged approach. Firstly, it aims to consolidate current EC assistance for improving the water supply and sanitation facilities in six urban centres in the Lesotho lowlands. Secondly, it will develop a medium to long-term solution for the provision of bulk water throughout the lowland areas, for both domestic and industrial use.

The 9<sup>th</sup> EDF support is complementary to a comprehensive, integrated sector-wide approach involving GoL, EC and a number of Lesotho's co-operating partners. The lessons learned from past involvement will be addressed and included in the interventions and measures proposed. Special attention will be given to Irish Aid's efforts regarding the (mini) SWAp in the rural water sector, until recently supported by the Swiss Development Corporation. Possibilities are being explored for the inclusion of a full SWAp for water and sanitation under the 10<sup>th</sup> EDF. Due to the international dimension of a shared watercourse, co-operation with South Africa will be important.

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

#### *a) Results*

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

The re-organisation of the institutional structure started in early 2003 with the appointment of a Commissioner of Water (CoW) and his supplementary staff. The CoW is responsible for coordination of all water and sanitation affairs in Lesotho. Charged with the responsibility of ensuring that the sector's Millennium Development Goals are achieved, he is supported by the 9<sup>th</sup> EDF funded TA to the Ministry of Natural Resources (9 ACP LSO 001); also attached to the Office of the CoW is the Policy Planning and Strategy Unit, which now has a complete complement of staff.

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

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<sup>11</sup> The Lowlands cover almost half of the country's total area and holds more than two-thirds of the population and all industrial development.

feasibility studies and the third the issuing of a draft Industrial Wastewater Management Policy.

*b) Progress in activities*

Overall 2005 was a good year with respect to input from the European Commission into the Lesotho Water and Sanitation Sector, culminating in the signing on 9<sup>th</sup> December 2005 of the EURO 35.75 M Financing Agreement under the 9<sup>th</sup> EDF for the **Lesotho Water and Sanitation Sector Programme**. This programme comprises four components, developed on the basis studies carried out with support from the 8<sup>th</sup> EDF during 2003 and 2004, which had originally been submitted as three separate financing proposals:

- Six Towns Water Supply Project
- Maseru Wastewater Project
- Technical Assistance to WASA
- Design of Lesotho Lowlands Bulk Water Supply Scheme

**Six Towns Water Supply Project**

This project<sup>12</sup> concerns the medium-term (2015) upgrading of water supply and sanitation in six urban centres of Lesotho (Maputsoe, Mapoteng, Teyateyaneng, Roma, Morija and Quthing), which have a combined population of over 130,000 inhabitants and are important economic and social centres in Lesotho with a high potential for development. The water supply works consist mainly of upgrading/replacement and expansion of groundwater wells, river intake works, pumping stations, treatment plants, pipelines, storage tanks and yard connections. The sanitation works include mainly the rehabilitation and expansion of the sewer networks, pumping stations and wastewater treatment facilities.

Site supervision during construction and the defect liability period are already covered by the ongoing contract with Consulting Engineers Salzgitter GmbH (CES). The implementing agency is WASA, the Water and Sewerage Authority, which is responsible for water supply and sanitation in 16 urban areas including the Six Towns (Maputsoe, Morija, Quthing, Roma, Teya-Teyaneng, Mapoteng).

**Maseru Wastewater Project**

Sanitation is included in the Six Towns Project, but this does not include the city of Maseru. The Maseru Wastewater component is an emergency intervention to rehabilitate the present sewerage system of Maseru. The physical sewerage infrastructure suffers from lack of investment in maintenance, and from capacity constraints of WASA (Water and Sewerage Authority), particularly in the area of management and operation maintenance. The Project<sup>13</sup> covers the execution of immediate works and the supply of equipment and materials only. The institutional arrangements for the Project are identical to the one for the Six Towns Project, with WASA in charge of implementing the programme.

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<sup>12</sup> The feasibility and design study for this project was undertaken under the Six Towns Water Supply Phase II (8 ACP LSO 017). Study contract was awarded in September 2003; the final reports was submitted in and approved by GoL in November 2004; a Draft Financing Proposal was prepared by in mid-December 2004, to become part of the consolidated Financing Proposal for the LWSSP in July 2005.

<sup>13</sup> The contract for the Maseru Wastewater Feasibility Study (8 ACP LSO 018) was awarded in September 2003; the Final Report and Draft Tender Dossiers were submitted in September 2004. Draft Financing Proposal was prepared by in mid-December 2004, to become part of the consolidated Financing Proposal for the LWSSP in July 2005.

In this context it is worth noting that EIB has positively responded to GoL's request to support an expanded Maseru Wastewater Project in the framework of the Second Call for Proposals of the EU Water Facility, scheduled for March 2006 (Refer to Section 3.4.7 below).

#### **Technical Assistance Support to WASA**

Under this Project<sup>14</sup> a long-term TA Adviser is to provide technical support and advice to WASA. Specifically the TA Adviser will ensure the effective supervision of immediate measures Maseru Wastewater Project (Works and supplies), whilst providing technical support for the development of the capabilities of the O&M department, and to assist the Chief Executive of WASA in planning and reporting. The TA inputs will also include advice on operations and maintenance of the Six Towns projects and other urban water supply and sanitation schemes for which WASA is responsible.

#### **Design of Lesotho Lowlands Bulk Water Supply Scheme**

The Government has placed the highest priority on developing an investment programme for securing affordable potable water supplies for domestic and commercial use. The feasibility study<sup>15</sup> for the scheme, which ultimately envisages supplying bulk water to all major settlements in the Lowlands, proposes the implementation of works in three Phases: Phase 1A (2007), 1B (2012) and 2 (2018). The project included in 9<sup>th</sup> EDF LWSWSP Financing Agreement concerns the Detailed Designs for the works of Phase 1A (Medium Term). The project will prepare detailed design and tender documents for all these schemes and their components for the works of Phase 1A only. In addition, a National Water Sector Information Management System will be developed from all available sector data held by the water sector institutions and studies. This project is directly related to the "Six Towns Water Supply Project", as all these towns except Morija (groundwater and/or Metolong dam will supply water) and Mapoteng (water provided by mountain springs) will ultimately depend on water supplied by the Lowlands project.

#### **3.1.2 Road Transport Sector**

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

- To develop a medium-term strategy, formulated on the basis of an approved transport sector policy. 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).

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<sup>14</sup> The project was prepared as part of the Maseru Wastewater study (8 ACP LSO 018).

<sup>15</sup> The feasibility study for this project was undertaken under the Lesotho Lowlands Water Supply study (8 ACP LSO 011), awarded in December 2002; the final reports and tender dossiers were in September 2004. Approval of the report and acceptance of Phase 1 of the Works ("no-dams" option, namely more water should be released from the existing ones in case of need, no further dam construction required) by the GoL was made in May 2005; a Draft Financing Proposal was prepared by in mid-December 2004, to become part of the consolidated Financing Proposal for the LWSSP in July 2005.

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

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

a) *Results*

### **Policy and Strategy**

Transport Policy: After a lengthy preparation period, the Cabinet formally approved the comprehensive Transport Sector Policy on 4<sup>th</sup> April 2006. GoL's overall objective for the sector is to develop a network capable of supporting national economic development and providing access to all communities, including those in isolated rural areas. Specific intra-sector objectives are to: facilitate and optimise traffic circulation; lower vehicle running costs; reduce the incidence of road accidents; provide employment through labour-based road construction and maintenance; and enable the establishment of rural infrastructures such as schools, clinics, markets and water supply schemes. The Policy incorporates inputs from the Poverty Reduction Transport Strategy Review (PRTSR) supported by the Sub Saharan Africa Transport Policy and includes references to the proposed Road Directorate.

Road Maintenance Strategy: The Lesotho Road Management System (LRMS) is used to determine the optimal strategy for maintenance of the road network: a ten-year rolling programme produces an indicative budget and strategy; annually the LRMS is run taking into account visual assessments, to determine an annual road maintenance programme. For Roads Branch a pure economic analysis is used, whilst for Rural Roads the system includes also the assessment of social benefits. The World Bank is proposing to finance a consultancy in the upcoming ITP to maintain the system and provide training, given the real lack of capacity within the Ministry. A recent study<sup>16</sup> determined that the annual routine and periodic maintenance need of the Lesotho road network was in the order of 88.5 M LSL (at the time approx. 10 M €), whilst total financing including maintenance, rehabilitation and upgrading was approximately 272.9 M LSL (approx. 30.8 M€). In keeping with the principles espoused in the Road Fund Review, Cabinet in March 2006 approved increases in the level of the fuel levy and other road user charges. The effect of this is that the Road Fund will cover 60% of the routine and periodic maintenance requirements. Levies will be increased annually to reach 100% coverage by FY 20010/11. Until such times as there is full coverage from the Road Fund the Government will endeavour to cover the shortfall through the budget.

### **Institutional Reform and Capacity Building**

Institutional Reform: A new Road Directorate, to improve efficiency and effectiveness in the delivery of services for the main road network, was approved by Cabinet in September 2005. It is envisaged that tertiary and feeder roads will eventually be the responsibility of the proposed local authorities to be formed under the Government's decentralisation policy. The proposed World Bank/EC co-funded Integrated Transport Project (ITP) will use the first six months to map out the new institutional set-up and to carry out the planning for future assistance. Commercialisation of the transport sector is the main reason for establishment of the Road Directorate, however, it will still function as a government department and it remains to be seen whether it can operate effectively and efficiently in this environment. It is expected that certain measures will have to be put in place to ensure a degree of autonomy and these would include, legislation defining political input, degree of operational/financial independence, remuneration levels and staffing. It is clear that a considerable amount of detailed planning is still required for both the formation of the Road Directorate and the

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<sup>16</sup> 2003 Review of the Projected Road Maintenance Needs and the Generation of Road Fund Revenue

transfer of the rural roads to local authorities and further reviews of the planned reform are essential to ensure effective management structures are put in place.

Capacity in Department of Rural Roads (DRR) and Roads Branch (RB): Technical and administrative capacity in the Ministry of Public Works and Transport (MoPWT) is still seen as weak, despite the continued assistance provided by donors (which will still be required in the future). Greater coordination efforts are required to ensure coherence between the different levels with road network responsibilities, viz. Roads Directorate, Local Government Authorities and Maseru city Council.

Road Fund Management: In the approved Transport Policy the Road Fund will be responsible for collection of all monies associated with road maintenance, rehabilitation and upgrading. In the future this would include the government subvention for the shortfall in the maintenance requirement. It has been seen that administrative costs are high at present and reform of the Road Fund, in line with the 2005 Road Fund Regulation, will be carried out under the upcoming RTIP II (2007).

### Evaluations

An End of Term Evaluation of the Road Transport Infrastructure Programme (RTIP) took place in the second half of 2005. The purpose of the RTIP has been to provide substantive support the Government's programme of sectoral reform in the road transport sector. Specific activities financed under the RTIP are:

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

The conclusions of the evaluation are summarized as follows: For the **Bitumen Roads** the quality of the works was judged to be good, despite initial problems with the design. Evaluation noted the relatively high unit cost and that traffic volumes were below forecast; thus, two out four sections may not economically be justified. As regards **Gravel Roads** the quality of work is acceptable. Evaluation raised questions on the selection methodology and noted that traffic volumes had fallen on three of four roads. It noted the disappointing economic and social indicators, in particular declining incomes in the project areas – probably due to external factors. On **Institutional Strengthening** the evaluation concluded that Technical Assistants have effectively helped to implement RTIP and have assisted in day to day work of Ministry; but that little institutional strengthening took place. It noted that the ToRs for the TAs were not designed for institutional strengthening and that no overall plan was in place for that purpose. It noted that the Ministry's rapid staff turnover makes technical transfer difficult. On the **Road Safety Improvement Programme** the evaluation concluded that the component had been generally effective in its planning and implementation: minor works implemented satisfactorily and skills were transferred; road deaths are down. On **Sustainability** the conclusion was that for the physical works this was very much dependent on GoL commitment to maintenance (see above); the transfer of rural roads to local authorities gave serious cause for concern in this regard. In respect of Institutional strengthening, it was concluded that the TA components were not designed to be sustainable. The safety improvements are possibly sustainable in long-run, but will need further support. The **Lessons Learned** focuses on the importance of project formulation and design; rural road selection procedures need to be reviewed. Finally, it was concluded that technical assistance in itself will not strengthen institutions, unless project design includes specific actions for that purpose.

## Donor Co-ordination

The main donors operating in the sector are the EC, the World Bank, Irish Aid, the African Development Bank (AfDB), the Kuwait Fund and Arab Bank for Development in Africa (BADEA). Whereas all donors clearly would like to see improvements in efficiency and effectiveness in the Transport Sector, and have expressed their concern about the need for effective institutions and an 'enabling policy environment, more intensive co-ordination has been taking place between the first four. With the EC and the World Bank having taken an active role in supporting Government in the development of the transport sector policy and the implementation of the institutional reform, the four donors have also jointly addressed the reform agenda for the sector. At the end of 2005 the EC and World Bank expressed to Government their willingness to enter in a co-funding arrangement for the Integrated Transport Project (ITP), which would incorporate an institutional development component, which had been initially been developed as a stand alone project for 9<sup>th</sup> EDF funding.

### b) *Progress in activities*

#### 9<sup>th</sup> EDF

The 9<sup>th</sup> EDF Pipeline includes the Upgrading and Strengthening of 110km paved primary network at a value of € 22.8 M (incl. supervision) and the RTIP Phase II (€ 7.85 M), which will include provision for rehabilitation of rural roads, road safety and technical assistance.

The BKS Group of South Africa, in association with Louis Berger SA (France) and SM Consulting Engineers (Lesotho) were engaged on the 1<sup>st</sup> November 2005 to provide technical assistance to carry out the Feasibility and Technical Design study for the Upgrading and Strengthening of 110km of the paved primary network (Contract Value € 548,441.00). Work is progressing satisfactorily and the consultant expects to complete the services on time.

#### 8<sup>th</sup> EDF

Under the 8<sup>th</sup> EDF external assistance to the road transport sector has been channelled through a multi-donor funded sector-wide programme. Within this programme, EDF-financed project support has focussed on **Road Transport Infrastructure Project - 8 ACP LSO 002** (refer to evaluation above). The Financing Agreement in the amount of € 37.7 M was signed in August 1999 and by the end of 2005 approximately 96% (€ 36 M) of the resources approved for the programme had been committed and 90% (€ 34 M) had been disbursed. Legal assistance is being provided in a pending arbitration case (see below). Balances will be applied to complete road safety works and additional rural roads that were included in the RTIP.

The Final Statement of Account has been issued for the upgrading of 114km of **bitumen roads**, however, the Contractor, WBHO, has not signed it and would appear to be waiting on the outcome of his LSL161 M claim, which is currently under arbitration.

Under the RTIP, financial and technical assistance has been given for a programme of **Road Safety**, which aims at strengthening the institutional capacity in this field as well as prevention of serious accidents. Institutional strengthening has included the establishment of a new Department for Road Safety and the provision of Technical Assistance and operational support has provided capacity building in the new Department. Remedial works, including the construction of pedestrian walkways and service roads in the vicinity of the industrial estates in Maseru South, have been undertaken. The contract for the construction of the road safety works, awarded in December 2002 was substantially completed after considerable delays in September 2004, at a cost of almost € 2.6 M. Final Acceptance took place in November 2005 and the Final Statement of Account was issued at year's end. The contractor's performance had been less than satisfactory: the eight months' contract took 22 months to implement, causing the need for extension of supervision services.

The new Programme Estimate for **rural roads** was signed on 17<sup>th</sup> December 2004. However, the advance was only deposited in the Imprest account on 23<sup>rd</sup> May 2005, causing a delay in the commencement of the Programme. The mini-bridge to be constructed under this PE by

direct labour has been completed. Work on the adjacent vented ford has been suspended, pending the launch of a supply tender, for which the tender dossier, submitted for approval in December 2005, had not been approved at the time of writing this report. It is foreseen that a new PE has to be prepared to complete all the works by direct labour. The tender for the upgrading of 10.6 km of earth tracks to all-weather standard has been evaluated and award has also been pending approval since end December 2005.

### **7<sup>th</sup> EDF**

The Axle Load Control Project (7 ACP LSO 038), financed from the residual reserves of the 7<sup>th</sup> EDF was successfully completed and the final payment has been made following the issue of the final statement of account. Whilst data from the weigh-bridges has highlighted the overloading problem, the proposed overloading legislation is still under preparation by the Law Office.

#### **3.1.3 HIV/AIDS**

The revised CSP/NIP for Lesotho signed on 9 February 2005 provides for increased support to the GoL HIV/AIDS response.

An HIV/AIDS review and identification mission in the second half of 2005 concluded that in the actions of the current fight against HIV/AIDS the area of specific support to Orphans and Vulnerable Children (OVCs) is, by far, the least understood and supported. In Lesotho, the family and the community have traditionally provided care of orphans. However, currently those actors are either non-existent or seriously overstretched.

A specific OVC Framework<sup>17</sup> has been developed at the international level (UNICEF, July 2004). The European Commission has recommended its use (refer to the Communication 27/04/2005 concerning the action programme for the fight against HIV/AIDS, malaria and tuberculosis 2007-2011).

A proposal is being developed for an OVC support project, for funding under the 9<sup>th</sup> EDF. This programme aims to contribute towards improving the current poor situation, particularly in regards to the psychosocial and material wellbeing of the children. It would entail a child-centred, community-based initiative and the main thrust is to take place at local level, gradually building on the institutions that are being developed as a consequence of the Local Elections of April 2005. HIV/AIDS is among the issues that are to be dealt with at local level following GoL's initial phase of decentralisation of responsibilities.

Finally, it is envisaged that the implementation will be entrusted to UNICEF on the basis of a Contribution Agreement signed in the framework of the Financial and Administrative Framework Agreement FAFA.

#### **3.1.4 Macroeconomic support and Capacity Building**

##### **Macroeconomic Support**

Lesotho did not in 2005 receive direct budget support or similar forms of assistance from donors or other external financing agencies. Disbursements from two macroeconomic support programmes, namely the 8<sup>th</sup> EDF Poverty Reduction Budgetary Support Programme and the IMF-sponsored Poverty Reduction Growth Facility, ended in 2004. There were no preparations

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<sup>17</sup> The Framework for the Protection, Care and Support of Orphans and Vulnerable Children living in a World with HIV and AIDS. UNICEF, July 2004

for new budget support programmes in 2005. The EC cited continuing problems in public financial management. Instead, GoL and the principal donors intensified efforts to enhance capacity in PFM with a view to resuming co-operation in the form of budget support. GoL and the donors will begin discussions on a resumption of budget support in 2006.

## **Capacity Building in Economic Planning**

### *a) Results*

The expected results of CBEP will only materialise in the long term and are difficult to quantify. However, as the implementation of CBEP gathered pace in 2005, economic planning, especially at macroeconomic level, is increasingly guided by coherent and consistent analysis of data and trends thanks among other reasons to the technical support provided by the project; at the same time the institutional framework for economic analysis and policy has been strengthened with the creation of the new Department of Economic Policy. The development of a Macroeconomic Model (started end 2005), as well as administrative and technical support to the Bureau of Statistics (programmed for 2006) will help to consolidate the practise of evidence-based planning.

At sector level the efforts to implement the Medium-Term Expenditure Framework (MTEF) gathered pace in 2005 with a set of six line ministries involved in the exercise. The budgeting horizon has been increased from one to three years and the budget forms have been revised to include more information and place more emphasis on activities and outputs. In the coming years the challenge will be to increase capacity in MFDP and in Line Ministries to generate budget and consumption data of a sufficient quality to support a truly output-oriented planning and budgeting system.

CBEP activities will continue for another approximately four years but at this stage it is already possible with a reasonable degree of certainty to give a complete overview of the activities that will be implemented as well as the likely project outcomes.

Generally speaking, the project has been successful in providing the advisory services foreseen in the Financing Agreement, through long-term TA and short-term consultants. For a number of reasons the project has not been successful in providing the extensive training foreseen and although the structure of MFDP seems now sufficiently clear to form the basis for a targeted training programme, there will not be time to procure training for the Planning Cadre before the "sunset clause", which imposes a deadline for the completion of procurement of December 2006, sets in. However, it is envisaged that a Training Needs Assessment for the cadres involved in the MTEF process will be carried out under CBEP as well as a general mid-term review of the whole project that will help shape its continuation. Thus, the actual training and other, to be defined, actions will have to be funded under the proposed future project for capacity building in the Ministry of Finance and Development Planning that will emerge after decommitment and recommitment of the funds still available under CBEP<sup>18</sup>.

### *b) Progress in activities*

CBEP consists of 7 different components: 1) Support to the Bureau of Statistics (BoS); 2) Macroeconomic Modelling; 3) Institutional Capacity Building – Planning Cadre; 4) Sectoral Programming, Monitoring and Evaluation; 5) Training and Institutional Strengthening; 6) Population and Manpower Modelling; 7) Assistance to the NAO. The total amount for the programme is € 17.5 M. Out of this figure, € 10.6 M were allocated to Technical Assistance and € 6.0 M to Training.

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<sup>18</sup> In 2006 GoL introduced a request to decommit approx. € 11.7 M from CBEP as it will not be possible to procure the extensive training foreseen before the N+3 rule sets in December 2006. The training will likely be included in a future capacity building project in MFDP.

Implementation of CBEP gathered pace in 2005 after disappointing progress in 2004. The main areas of progress were:

#### Component 1 – BoS

A TA to the Census 2006 was recruited through a Framework contract (FWC) at the end of 2005 and is currently supporting Government in such endeavour. Also, a long term TA to the Director BoS will be hired in the first half of 2006, the tendering process having started already in 2005.

#### Component 2 – Macroeconomic Modelling

A consultancy to develop and implement a macroeconomic model for Lesotho began in November 2005. The implementing company is Hulla & Co. Human Dynamics, an Austrian-German-South African consortium. The duration is 48 months. The consultants work in the Department of Economic Policy.

The contract of the Macroeconomic Adviser since 2001, Mr. Geoffrey West, has been extended for 24 months effective from 1 January 2006 and has been completed at the beginning of 2006. A consultancy to assist the Public Debt Office in MFDP in establishing a public debt strategy began in September 2005.

A Rider to the Financing Agreement was prepared in 2005 at GoL's request to allow for the purchase and operationalisation of the ASYCUDA customs package, in the amount of 1.0 M€. The ASYCUDA system was developed and is supported by UNCTAD. The request, though, was withdrawn by GoL after the Republic of South Africa offered Lesotho to share its own system.

#### Component 7 – Assistance to the NAO

The Individual Experts contract of the TA Adviser to the National Authorising Officer will expire in December 2006. Government has indicated that it wishes to extend the current arrangement in line with the provisions of the Financing Agreement. A Project Coordination Adviser was recruited in March 2005. His contract ends in February 2007. It is not expected that a PCA will be required subsequent to February 2007 as it will not be possible to make preparations for procurement for new initiatives under CBEP. However, an adviser with a similar assignment may be required for preparations and implementation of a successor project.

A Programme Estimate (PE) for the operational expenditures of the Office of the NAO (CE 01/05) was signed in February 2005 and covers the period until October 2006. The Office of the NAO will submit a proposal for a PE to cover the subsequent 18 months in July 2006.

### **Public Financial Management**

The weaknesses in the Public Financial Management signalled in section 2.2.2 above, played a major role in the decision taken during the Mid-Term Review of November 2004, not to proceed with General Budget Support under the A-envelope of the 9<sup>th</sup> EDF NIP. The subsequent revision of the 9<sup>th</sup> EDF Lesotho Country Strategy Paper however, *inter alia* provides funding for an intervention to strengthen Public Financial Management.

It has tentatively been agreed that these funds should be used to implement an Integrated Financial Management Information System (IFMIS) in the Treasury. IFMIS would replace the currently obsolete Government of Lesotho Finance Information System (GOLFIS).

The IFMIS project would provide the hardware, software together with consultancy and training support and would be part of a joint GoL-DfID-DCI-EC effort to comprehensively improve PFM in Lesotho.

### **3.1.5 Health Sector**

#### *a) Results*

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

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

### **3.1.6 Management of EC/LSO Cooperation**

Support to the Office of the National Authorising Officer (NAO), is provided under the eponymous component of the **Capacity Building for Economic Planning (9 ACP LSO002)**, (Refer section 3.2.4 above), which became operational with the arrival of the TA Adviser in May 2004.

The EC deconcentration process and the revision of the Cotonou Agreement are resulting in increased responsibilities and workload of the Office of the NAO. It had been agreed that the building of permanent capacity for the management of EC-Lesotho programme of co-operation in the then Department of Economic Cooperation (DEC) was to receive the highest priority. During 2005 attempts to deploy a full-time accountant to the Office did not prove successful, but a full-time economic planner was attached to the Office during the latter part of the year.

With the ministry's reorganisation following the merger of the former Ministry of Finance with the Ministry of Development Planning, an Aid Coordination function has been established within the Department of Development Planning. The Office of the NAO is now formally established within this function and planning and accounting positions have been identified and have been submitted for approval by the Public Service Commission. Thus the nucleus is being formed for the required permanent capacity for the management of EC-Lesotho co-operation. Once the full staff complement is in place, the TA adviser should be able to focus on capacity building, rather than providing the operational support, which is the major part of the current role. In this respect the continued availability of TA support to the Office of the NAO needs to be given full attention.

## **3.2 Utilisation of resources for non-State actors (NSAs)**

### **3.2.1 Micro-project Programme**

The Third Multi-Annual Micro-project Programme (8 ACP LSO 003), which was subjected to a mid-term review (MTR) in late 2004, in close collaboration and engagement with the line departments, NGO's, as well as the community-based organisations (CBOs), effectively cleared a considerable backlog of community applications during 2005. The Micro-projects Programme Coordination Unit (MCU) also successfully completed the implementation of activities under the Annual Work Programme and Cost Estimate (AWPCE 05/03, which had commenced in November 2004, during the first quarter of 2005.

Four Water Supply Systems were completed in the Leribe and Quthing districts at a cost of LSL 515,600 (approx. € 68,000) and seven two-classroom blocks were constructed in Leribe, Mokhotlong, Berea, Botha-Bothe and Quthing districts at a cost of LSL 1,483,000 (€ 198,000).

A new Programme Estimate, based on the new Practical Guide (PG)<sup>19</sup> was approved late June 2005, covering the construction of some 30 two-classroom blocks and 93 small village water supply projects. The implementation of some 90 water and sanitation projects in collaboration with the Department of Rural Water Supply was to be the subject of a separate Programme Estimate.

It is to be underlined that the new PG is ill-suited to the implementation of Micro-projects. It is too stringent and ill-adapted to the very limited capacity of local organisations, thus considerably delaying implementation. The most noticeable impact of the new rules was on procurement, whereby procurement on the basis of an individual micro-project was considered no longer in line with revised procedures, as it was deemed to constitute "splitting". Given the fact that micro-projects are small (in most cases below € 50,000) though significant in numbers, the new arrangement compelled the MCU to lump projects together for tendering purposes. In the case of village water and sanitation projects this resulted in reaching limits requiring open international tendering for supplies. On 30<sup>th</sup> November 2005, the MPP Steering Committee, convened in its first meeting since the establishment of the MCU in 2002, raised concerns on the relevance and applicability of the new set of rules on the MPP. A proposal to implement the projects on a district by district basis, to allow engaging smaller contractors under the supervision of the district water engineer, was approved in early March 2006. The tender for works contracts for the construction of classroom blocks, previously undertaken by local tradesmen on small local service contracts, had to be cancelled because the tenderers (medium-small contractors) had not been able to effectively deal with the beneficiary's contribution to the projects. Permission has now been obtained to proceed with direct negotiations.

The development of future micro-projects programmes will have to seek more appropriate implementation modalities, if the delays experienced during 2005 are to be avoided. A study to be fielded in early 2006 will look into the options available (see Non-State Actors below).

### **3.2.2 Non-State Actors**

Support to and dialogue with NSAs is defined in Article 4 (General Approach) of the Cotonou Agreement. To date engagement with Non-State Actors in the context of the EDF programmes continues to be at a very low level. However, a Civil Society Support Programme (CSSP) a 3-year multi-donor programme (DfID, DCI, Open Society Initiative of Southern Africa and Kellogg Foundation) with a total budget of approximately \$1.25 M was started in late 2004. It is managed by Lesotho Council of NGOs (LCN)<sup>20</sup> and aims "to meet the capacity needs of the

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<sup>19</sup> The new "Practical Guide (PG) for Direct Labour Operations" came into effect March 2005.

<sup>20</sup> LCN is currently the main umbrella organisation for civil society organisations in Lesotho with approximately a hundred members including NGOs, CBOs and trade unions.

Lesotho Civil Society as a whole in addressing poverty through the new national Poverty Reduction Strategy (PRS)”.

In the Micro-project Programme, NGOs have been acting as intermediaries in the majority of construction projects. Following a number of meetings with NGOs and other NSAs in 2004, the Delegation launched a consultation among other donors and UN agencies. This resulted in the establishment, together with the NAO, of ToRs for an identification mission. These ToRs were later expanded to include Micro-projects and Decentralisation and the invitation to submit offers through a FWC procedure was finally issued in January 2006. The identification mission *inter alia* is already mapping the NSA landscape in the country as of mid-March 2006 and, on the basis of the outcome, will suggest courses of action for an adequate engagement.

### **3.3 Utilisation of B Envelope**

The B Envelope for Lesotho stands currently at € 10.3 M. Following discussions during the past year with the NAO, World Food Programme (WFP), Food and Agricultural Organisation (FAO) and the textile industry triggered by the 2004 official appeals for aid related to the food situation in the country and the closure of textile firms during the same period, a two-pronged proposal for use of the B Envelope was sent to Brussels. This request was however rejected in early 2005, due to its being considered a longer-term structural rather than an emergency problem and a different strategy to address this issue is being developed.

Government is currently formulating a request for accessing the “B” envelope funding to support the implementation of the Avian Flu contingency plan<sup>21</sup> and part of the financial requirements for the “Know you Status” campaign, which seeks to offer voluntary HIV testing and counselling to all citizens on a door-to-door basis in order to overcome stigma and fear.

### **3.4 Other instruments**

#### **3.4.1 STABEX**

During 2005 support in the area of labour- intensive public works schemes, which was focussed on road construction and maintenance using residual STABEX funds, was completed. This activity has been carried out as an income support initiative for livestock owners and other rural families in designated drought affected areas. Over 161,000 man days of labour have been generated with 5,598,404 LSL being injected into target communities. Work was completed in April 2005.

#### **3.4.2 SYSMIN**

Not applicable

#### **3.4.3 Regional Co-operation**

Regional Cooperation in Lesotho in 2005 has remained the under-exposed component of Lesotho-EC Cooperation. Communication and coordination between GoL and the different regional initiatives continued to be substandard and actual level of implementation seemingly very low. The programmes and actions the Delegation is aware of are as follows (refer to Annex XIII):

- 7 ACP RPR 600 - SADC-HYCOS (Hydrological Observation System): project completed; the commitment is to be closed;
- 8 ACP TPS 154 – EISP (Economic Integration Support Programme to the BLNS): the programme was designed to support the BLNS states coping with the negative effects of the Trade, Development and Cooperation Agreement (TDCA) signed between the EU and

<sup>21</sup> National Preparedness and Response Plan for Avian Influenza Pandemic, MoHSW and MoAFS, November 2005

RSA. No activity foreseen under the project was implemented; a review mission travelled to Lesotho as part of a BLNS tour in mid-2004 to gauge whether GoL would agree on a time extension of the programme; a Contribution Agreement seems to have finally been signed in March 2006 with SACU; no activities in Lesotho so far;

- 8 ACP RAU 014 – Regional Support for an Expanded Multi-Sectoral Response to HIV/AIDS in the SADC Region: a set of different initiatives were scheduled to take place in Lesotho in 2004 under this programme (i.e. strengthen support to migrants and mobile populations; reduce the effects of HIV infection among nurses and midwives); no information is available regarding such initiative;
- 8 ACP TPS 097 - EUMETSAT – Meteorological Transition in Africa Project (MTAP/PUMA): the project aims at positively impacting the countries' economies by providing meteorological information via satellite. During 2004 GoL technicians were trained and the installation of the ground equipment was completed in April 2005;
- 9 ACP RPR 025 - African Trans-boundary River Basin Support Programme: The Programme consists of five discrete projects providing support to trans-boundary river basin organisations in West, East and Southern Africa. The project component relevant to Lesotho is the Orange-Senqu Basin Commission (ORASECOM), engaging Lesotho, South Africa, Botswana and Namibia. The overall objective of the Programme is to promote economic growth and improved quality of life for the people living in the five trans-boundary river basins. The feasibility study for the ORASECOM project was completed in 2005 and the Financing Proposal for the project execution is to be finalised by the consultant to incorporate SADC and other stakeholders' comments;
- 9 ACP SAD 004 – Support to SADC Regional Integration and the Multilateral Trading System: the overall objective is to liberalize trade in services in the SADC region according to WTO commitments and integration of the Region's economy into the world economy. The FA, worth 1.3 MEURO, was signed in July 2004; the Delegation is unaware of any actions taking place in Lesotho;
- 9 ACP SAD 006 – Facility to Support EC-SADC Negotiations for an Economic Partnership Agreement (EPA): the overall objective is the integration of SADC Member States into the world economy and poverty reduction through sustainable economic growth. The FA, worth 7.5 MEURO, was signed in September 2005; the Delegation is unaware of any actions taking place in Lesotho;
- 9 ACP SAD 007 – Support to SADC Member States in Standardisation, Quality Assurance, Accreditation and Metrology (SQAM): the overall objective is to support trade and investment, enhance the protection of consumers and improve the competitiveness of suppliers of products and services in SADC Member States. The FA, worth 14.67 MEURO, was signed in December 2005; the Delegation is unaware of any action taking place in Lesotho;
- 9 ACP SAD 005 – Technical Cooperation Facility (TCF): the overall objective is the successful implementation of SADC's RIP/RSP through the support of sound development programmes financed from the EDF and fostering a more coherent and informed approach to development and trade issues in the SADC region. The FA, worth 1.95 MEURO, was signed in April 2005; the Delegation is unaware of any action taking place in Lesotho.

#### **3.4.4 Intra-ACP Co-operation**

GoL's proposals submitted under the First Call for Proposals of the EU Water Facility (EUWF) were not successful. Preparations are underway for submissions under the Second Call for Proposals of the EU Water Facility.

Lesotho is one of the recipients of the Global Fund to fight TB, AIDS and Malaria (GFTAM). The Country Coordination Mechanism of the Fund (CCM) remains weak albeit improving.

Lesotho has recently overcome the possibility of a No-Go decision by GFTAM Headquarters and is currently receiving funds from Round 2/Phase 1. (Phase 2 funds approved but not yet in; US \$ 18,755,000 for HIV/AIDS and US \$ 3,000,000 for TB.) The total amount for the grant is US \$ 34 million (US \$ 29 million for HIV/AIDS and US \$5 for TB) over a 5 year period.

### **3.4.5 Community budget lines**

The Community Budget Line on co-financing activities from NGOs continues financing the joint German and Lesotho Red Cross Home-Based Care Programme in Lesotho worth circa 1 MEURO (started in July 2004 and devised to run for five years). This project provides training for community-based carers that cater for the needs of chronically ill persons, mainly HIV+ patients. The German Red Cross will leave the project – as per Contract – in mid-2006, after building capacity in the local counterpart.

A contract under the same budget line with Skillshare UK was signed in December 2005. The project will also run for five years and it seeks to uplift the situation of physically and mentally handicapped people in Lesotho.

### **3.4.6 ECHO**

German Red Cross ECHO-funded food-aid programme in Berea and Leribe District was again extended in 2005 but will be over in mid-2006. The original food hand-out approach has gradually been replaced by a focus on food security via Conservation Agriculture techniques.

### **3.4.7 European Investment Bank (EIB)**

As at the end of 2005, EIB's loan portfolio in Lesotho stood at € 89.6 million (see Annex XIV). Under the two Financial Protocols of the Lomé IV Convention, the Bank has signed commitments for a total of € 77 million (comprising € 59 million on the Bank's own resources and € 18 million on risk capital resources). These resources were made available for the co-financing of the following projects:

*Muela Hydropower Project:* The Muela Hydropower Project is part of Phase 1A of the Lesotho Highlands Water Project (LHWP) and EIB contributed to the funding of the project in the form of a € 15 million loan from risk capital resources and a € 5 million loan from own resources. After a difficult implementation period, electricity generation at Muela started in early 1999. However, major issues regarding the necessary reform of the power sector, such as the privatisation of the Lesotho Electricity Corporation (LEC), the commercialisation of Muela and the finalisation of a revised Power Sales Agreement between Muela and LEC, based on tariffs which over time would generate acceptable returns on Muela's assets, were still outstanding at the end of 2005.

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

*Lesotho National Development Corporation (LNDC):* Following three previous global loans of € 3 million each, a fourth global loan facility of € 3 million from risk capital was provided to LNDC under Lomé IV in 1994 with the following components: Loan "A" (€ 0.75 million) for Government of Lesotho equity in LNDC, Loan "B" (€ 1.75 million) for the financing of small

and medium-sized enterprises and factory shells and Loan "C" (0.5 million) for LNDC equity participations in SMEs. Whilst the "A" loan was fully and the "B" loan largely allocated and disbursed, no equity allocations were made under the "C" envelope, and part of the funds were therefore reassigned to meet the costs of carrying out a Feasibility Study of Effluent Treatment & Recycling for a Sustainable Textile Industry in Maseru; the final report of this study was submitted in June 2005.

#### Outlook for EIB's possible future activities in Lesotho

Under the Cotonou Agreement/Investment Facility, the Bank will continue to follow closely all opportunities for supporting viable projects in Lesotho, while giving particular attention to possible private sector projects or public sector infrastructure projects that contribute to improving the efficiency of public utilities. In view of the priority GoL attributes to improved access to water supply and sanitation services, and in close cooperation with the EC regarding its activities in this focal sector, EIB funding could be provided in particular for sustainable investments in the **water and sanitation sectors**.

In this context, the GoL has requested the EIB to support and develop the **Maseru Wastewater Project (MWWP)**, in the framework of the Second Call for Proposals of the EU Water Facility (EUWF) to be launched in March 2006. The EIB responded positively, proposing to fund a series of additional preparatory studies and including also support for the preparation of the Application to the EUWF. These studies are scheduled to be completed by end June 2006.

The GoL has also requested the EIB to assist with the funding of the **Metolong Dam Project** and the Bank has indicated its interest in considering a possible EIB financing contribution for this project, provided it conforms to EIB's usual technical, financial, economic and environmental viability criteria and procurement is in line with the Bank's guidelines. Discussions in this regard were initiated in 2005 and will be followed up in the course of 2006.

#### **4 PROGRAMMING PERSPECTIVES FOR THE FOLLOWING YEARS**

After a slow start in 2003 and 2004, the year 2005 witnessed a significant increase in commitments. Against this background, and on the basis of the current project pipeline and work in progress on project preparation, the programming outlook for the remaining years of the 9<sup>th</sup> EDF is good. It is now foreseen that by the end of 2006 total 9<sup>th</sup> EDF commitment will reach M€71 or 66.3 % of the total available amount of M€106.9 (A-envelope 86 M € plus transfers from 6<sup>th</sup>, 7<sup>th</sup> and 8<sup>th</sup> EDF's totalling M€20.9).

For 2006 it is anticipated that the intervention for support for institutional reform in the road transport sector will be approved as a component of the proposed EDF-World Bank co-funded Integrated Transport Project (ITP); an amount of 7.85 M € has been earmarked for this purpose.

Preparatory work on the project "Measures against HIV/AIDS" (set at 8 M € after the MTR, now increased to 12 M € to cover additional needs) is nearing completion; the project identification has been completed and formulation of the intervention focussing on support to orphans and children made vulnerable by HIV and AIDS (OVCs) will be finalised by May 2006. Likewise, the preparation for the proposed capacity building in public financial management (PFM) is progressing well. The identification phase has been completed and the financing proposal is now scheduled to be ready by May 2006; the decision for this 7.5 M € could thus be made before December 2006.

Identification is also underway for an intervention addressing governance at the local level. It is envisaged that a project will be prepared, which will take into account the lessons learned from micro-projects and build on GoL's recently introduced process of decentralisation; the proposed project would also seek to involve Non-State Actors (NSAs). Support may also be included in this project for capacity building of NSA's in advocacy. An amount of 4 M € has been reserved for this purpose and possibilities for collaboration and or co-funding with EU member states' agencies (GTZ, KfW, and DCI), and possibly UNDP are being investigated. Provision has also been made for a second Technical Cooperation Facility of 1.2 M € to allow for preparation of activities under the 10<sup>th</sup> EDF NIP.

As regards the utilisation of the B-envelope, it is now envisaged to seek funding for a new initiative of GoL in the national HIV/AIDS response, the "Know your Status" campaign, to be funded either directly from the B-envelope, or from resources transferred to the A-envelope. GoL has been pro-active in the framing of a national preparedness and response plan related to the 'Bird Flu' and will shortly submit a request for financial support to allow the implementation of contingency measures.

For the year 2007 the major commitment foreseen is for the project for upgrading of 110 km paved primary road network. The feasibility study is ongoing and the revised estimate of project cost now amounts to 22.8 M € (covering the works and supervision costs) instead of 17.4 M € as originally forecasted. In the macro-economic support and capacity building area, the financing proposal for the successor to the CBEP (Refer. Section 3.1.4) is likely to be presented for approval in early 2007. An amount of 6.5 M € has been reserved for this intervention which will focus on capacity building in key areas of the newly established Ministry of Finance and Development Planning (MFDP).

In keeping with the above projections it is proposed that the financial provisions of the 9<sup>th</sup> EDF CSP/NIP be amended as follows:

€ M

	Indicative allocation post MTR <sup>1</sup>		Final allocation <sup>2</sup>	
<i>Water and Sanitation</i>	36.5	35.1%	36.5	33.9%
<i>Road Transport</i>	26.4	25.4%	29.5	27.5%
<i>Macroeconomic support &amp; capacity building</i>	22.5	21.6%	19.8	18.5%
<i>HIV/AIDS</i>	8.0	7.7%	12.0	11.1%
<i>Programmes outside focal sectors</i>	10.6	10.2%	9.8	9.0%
<b>Totals</b>	<b>104.0</b>	<b>100.0%</b>	<b>107.6</b>	<b>100.0%</b>

Amended MTR

<sup>2</sup> Taking into account potential decommitted funds of approx. € 8.8 m

As regards programming for the 10<sup>th</sup> EDF, discussions between the Commission and GoL the possible options of support for **infrastructure development, HIV/AIDS and general budget support** have emerged. A final decision on the focal areas to be adopted for the 10<sup>th</sup> EDF indicative programme will be taken in the course of the preparation of the Country Strategy Paper (CSP), which will take place in the second quarter of 2006.

As regard **infrastructure development**, both the **water and sanitation** and the **road transport sectors** remain possible options. With regard to the water and sanitation sector, it should be noted that donor coordination is quite developed, which together with sector policy

development indicates good perspectives for establishing a SWAp. Further co-operation with EIB for funding of key investments in the sector is being actively pursued. GoL will further seek to optimise the possibilities for funding under the EU Water Facility.

In the road transport sector, adoption at cabinet level of the transport sector policy is a major milestone, together with the decision as regards the principle of raising road user charges to achieve full coverage of routine and periodic maintenance costs in the medium term. GoL has taken note of the EC initiative to set up with the EIB a Global Fund for infrastructures in Sub-Saharan Africa and will endeavour to obtain support for this vital development sector.

The **HIV/AIDS situation** in Lesotho remains of great concern. The National Aids Commission (NAC), set up in 2005 with the aim to improve the national HIV/AIDS strategy and strengthen the coordination of the response, will increasingly play a lead role in fighting the pandemic. It is more than likely that further support will be sought under 10<sup>th</sup> EDF to address the OVC issue, but other actions in the areas of prevention, treatment and mitigation will undoubtedly come to the fore.

The resumption of **general budget support** features largely in the programming for the 10<sup>th</sup> EDF. GoL is fully aware of and committed to the need to pursue improvements in the area of public financial management. GoL and the Commission have agreed to field a mission in the second quarter of 2006 to explore the possibilities in this regard and lay the foundations for such support. The participation in this mission and its follow-up of key institutions and donors (IMF, WB and DfID) is considered crucial for a successful outcome.

Support for Lesotho's initiatives to **improve governance** may be considered under the non-focal element in the CSP. It is recognised that the reform processes may require substantial external assistance, not only in financial terms. In addition to the efforts in strengthening public financial management referred to above, GoL's efforts to strengthen public sector performance, including reform of the public service and developing effective institutions for local governance, should be considered fundamental in this regard. In this context the issue of **migration** also needs to be addressed during programming, in particular the 'brain drain' to South Africa, which negatively affects public sector capacity.

Last, but not least, with regard to **regional integration** it is intended to seek active involvement with SADC member states in the preparation of the regional indicative programme. Resolution of issues with regard to the negotiations of **EPA**, as well as compatibility of current agreements with in the SACU context will play a pivotal role in this regard.

## 5 CONCLUSIONS

### 1. MAIN POLITICAL, ECONOMIC AND SOCIAL DEVELOPMENTS IN THE COUNTRY

**Political development and good governance:** Lesotho is a constitutional monarchy. Legislative authority is exercised by a Parliament which consists of the Senate and the National Assembly. With a total of ten parties represented in the National Assembly, the present Parliament is the most widely representative since the country's independence from Britain in 1966. The election in 2002, unlike any of the previous post-independence elections (1970, 1993 and 1998), has also brought about an unprecedented period of political stability.

A Parliamentary Reform Commission is working to change both the working methods as well as the knowledge of MPs and senators about the role of Parliament. Also as part of the process of deepening democracy in Lesotho, the GoL has decided to embark on a process of decentralisation. The first local elections took place on 30 April 2005 and were deemed by all independent observers to have been free and fair. With regard to **governance**, Lesotho has an increasingly sound record on human rights, especially since the 1998 political disturbances. Some issues remain around the behaviour of police, delays in the judicial system, prison conditions, women's rights under customary law and people living with HIV/AIDS, especially given the back-drop of significant levels of poverty and lack of services. Parliament, civil society and trade unions are strengthening their accountability roles, albeit from a weak basis, and there are notable developments such as the appointment of an active and effective Ombudsman. Lesotho has a good record of fighting corruption both international (Lesotho Highlands Water Project) and local. In 2004, Lesotho joined the African Peer Review Mechanism. As regards the **human rights** side, Lesotho has signed and ratified all major UN and AU instruments for the protection of human rights, with the exception of: the Optional Protocol to the ICCPR aiming at the abolition of the death penalty; and the Optional Protocol to the Convention against Torture. Lesotho has also ratified the Statute of the ICC<sup>22</sup>. GoL intends to introduce to Parliament in 2006 the Married Persons Equality Bill, which will provide for the necessary legislation to transpose CEDAW in national law. However, some more recently ratified instruments are still awaiting codification, reflecting the legal drafting capacity in Lesotho rather than any lack of will.

**Changes in the economic situation:** Although Lesotho is a Least Developed Country with limited natural resource endowments, it has achieved a real annual average GDP growth rate of 3.7% between 1980 and 2004 and the national economy (GDP) reached approximately US\$ 1.5 billion in 2004. In addition to goods and services produced within the country, Lesotho receives very important net transfers from the SACU revenue pool (20% of GDP in 2004 and circa 50% of the State Budget). However, there are severe constraints limiting Lesotho's growth performance such as the high HIV/AIDS rates, the continuing drought jeopardising the rural economy and the future export performance of the textile sector on the international markets. The **inflation rate** dropped from 5% in 2004 to 3.4% (estimates) in 2005. Although job creation in the small formal sector has been a priority issue since the 1980's, the unemployment rate remains high and is estimated to be in the range of 40-45% mainly due to the inability of the country to attract new investments, coupled with restructuring in major industries. The deficit in the **trade balance** increased from US\$ 541 million in 2003 to US\$ 594 million in 2004. The main destination for exports is North America (74% in 2004), mostly textile exports under the US African Growth Opportunity Act. It is expected that the textiles and clothing earnings resulting from exports to the US will continue to be eroded by the strength of the loti. In addition, the future of the textile industry (which accounts for more than 90% of merchandise exports) depends crucially on how it will adapt to the fact that the Multi-Fibre Agreement has expired on 1 January 2005. The **trade balance** with the European Community is at a **surplus**. In 2004 the trade surplus was € 8. The **fiscal situation** improved in 2004/05 and the fiscal surplus amounted to 7% of GDP. The budget surplus has been used for repayment of the external and domestic debt. The SACU windfall amounted to roughly US \$ 300 million. The value of **external debt** expressed as share of the GDP, fell from 55% in 2003 to 46.4% in 2004 principally due to a sharp appreciation of the Loti against the US Dollar. However, to ensure macroeconomic and fiscal stability, it is essential that key actions be undertaken, including further strengthening public finance management (PFM), strengthening the

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<sup>22</sup> International Criminal Court

financial system, and removing impediments to private sector development. The quality of public finance management (PFM) continues to be a concern. However, the GoL has adopted a number of measures to strengthen PFM. Reform of the PFM is one of the major goals of the multi donor-supported Public Sector Improvement and Reform Programme (PSIRP). A phased introduction of a medium-term expenditure framework started with the 2005/2006 budget. A Public Expenditure Review being carried out by the World Bank, in collaboration with the GoL, will inform on the reforms needed to improve the efficiency and quality of public expenditure. Finally since January 2005, the GoL is implementing a three-year PFM project with DfID. On balance, although the economic performance has deteriorated, with moderate growth and constrained inflation, macro-economic stabilisation can be considered sufficient.

**Changes in the social sectors and the food security situation:** The poverty situation in the country has not improved. Figures show that in 2004, Lesotho ranked 145<sup>th</sup> out of 177<sup>th</sup> listed countries in the UNDP Human Development Index (HDI), while in 2003, the country ranked at the 137<sup>th</sup> position out of 175 listed countries. The **Poverty Reduction Strategy Paper (PRSP)** was adopted by the GoL at the end of 2004. It focuses on poverty reduction through employment creation in the private sector, improvement of agricultural productivity, development of infrastructure, increasing access to and the quality of education, expanding access to health care, fighting the HIV/AIDS pandemic and improving the efficiency, accountability and transparency of government services and fiscal management. Indicators based on the Millennium Development Goals (MDG's) have been incorporated into the PRSP and intermediate targets set for the end of 2006. Although the MDG Status Report 2004 conveys a general message that based on the statistics available, Lesotho has the 'potential' to meet the MDG targets, overall the trend towards the achievement of the MDGs cannot be considered promising in all sectors, particularly not in the health sector (while in education and water/sanitation there are good prospects). The devastating effects of HIV/AIDS form a major obstacle to achieving the MDGs as well as to the development of Lesotho. Finally the GoL could redirect more budget resources to the social sectors, especially the health sector to which only 8% of the budget is allocated in 2005/06.

In 2004, the **National Education Strategy** has been adopted. Lesotho has also recently been endorsed for the education Fast Track Initiative (FTI) and is also benefiting from the FTI Catalytic Fund. The policy of Free Primary Education (FPE) was introduced in 2000 and yearly extended one grade since then; when the current standard 7 class graduates in 2007, FPE would be completed. This policy has led to a significant increase in the number of children attending primary school- with the subsequent increase in the demand for additional schools, classrooms and teachers<sup>23</sup>. Access to secondary school level, though is still to be improved. While net enrolment in primary education is much above the average of the sub-Saharan level in Lesotho (8 to 9 children out of 10 go to school compared to 6 out of 10), the efficiency of the education system is low as evidenced by the high repetition rates (one fifth of the children repeat a grade) and by the survival rates (only 7 out of every 10 starting primary school finish it). The secondary education sub-sector is much less developed with only every fifth child going of the age group to secondary school. Efficiency and quality of education need attention. Also education sector's response to HIV/AIDS in terms of curriculum, teacher training (awareness and prevention), special needs of OVCs and strategies to prevent and mitigate the HIV/AIDS impact on the teachers' workforce are critical issues for education. However, the budget proposed to be allocated to the Ministry of Education and Training for 2006/07 is the biggest of all ministerial allocations (18.6% of the total budget presented to Parliament).

The Lesotho Health Sector Reform Program (2000 to 2009) is a three phased process, whose main goal is to improve access to quality, preventive, curative and rehabilitative services. Phase I (preparatory stage – 2000/01- 2004/05), of which the main objective was to build sufficient sector capacity to effectively implement the reforms, was successfully completed. The sector reform program entered its second phase in 2005/06 financial year. The main objectives of the second phase are to i) increase

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<sup>23</sup> Factors such as the cost of textbooks and school uniforms remain also an important obstacle for full universal access to primary education.

access to quality health and social welfare services and ii) increase efficiency in managing the health resource. Priority interventions in the 2005/06 FY included the implementation of: i) a decentralised service delivery of the essential service packages; ii) an MTEF based budgeting; and iii) strengthening partnership and donor coordination. GoL allocated 8% of the total budget to the health sector in 2005/06.

Whilst *under-five mortality* decreased from 93 per 1000 in 1996 to 35 in 1000 in 2001, *infant mortality* rose from 74 per 1000 to 80 per 1000 in the same period. The latter is mainly due to the transmission of HIV and AIDS from infected mothers during pregnancy, birth and breast-feeding. **Maternal death in Lesotho is a tragedy in social, economic and public health terms:** it increased from 282 (1993) to 419 per 100,000 live births in 2002. It is estimated that 85 percent of women attend antenatal care, whilst contraceptive prevalence is estimated at 41% in general terms and at 27.2% for married women. Health MDGs are largely off track. Health is a key area in Lesotho's challenges towards development and poverty reduction: it is even a greater challenge given the impact of HIV/AIDS on child and adult health. There is an urgent need for the GoL to redirect budget towards the health sector.

With an officially estimated HIV/AIDS prevalence rate of 29%, circa 330,000 HIV- infected persons, not less than 125,000 OVCs<sup>24</sup> and a (WHO) target of 28,000 PLWAs<sup>25</sup> on ART<sup>26</sup> by end 2005 (circa 8,000- 9,000 on treatment today), Lesotho is amongst the countries worst affected by HIV/AIDS. 57% of infections occur in women. The number of AIDS- related deaths/month is roughly estimated around 2,000. Recent positive developments include the establishment of the National AIDS Secretariat (NAS) in late 2004; the appointment of the NAS Chief Executive in March 2005 and the gazetting of the enabling legislation to establish the National Aids Commission (NAC) in September 2005. The national HIV-AIDS response is currently under review and its outcome will serve as input for formulating the National HIV-AIDS Strategy 2006-2010. Monitoring and evaluation mechanisms, however, remain weak, as is the capacity for statistical analysis. In December 2005 the Know Your Status (KYS) Campaign was launched; an initiative that attempts to provide universal access to HIV/AIDS Testing and Counselling in Lesotho. The GoL has requested financial support for an amount of € 6 million for this campaign.

The **food security** situation remains fragile. The World Food Programme estimated that 500,000 to 600,000 people in Lesotho required some kind of food aid during 2005. The underlying causes are the reduced – structural – agricultural outputs, HIV/AIDS, the weakening economy and the general increases in the prices for staple food. The PRSP emphasis on attaining food security through employment and income generation, as distinct from the earlier emphasis on food production, is facing challenges in the light of recent developments, but it is considered that there is potential in improving agriculture – in particular at subsistence level and mainly through Conservation Agriculture techniques that reduce the amount of tillage required, boost yield and prevent soil erosion. In 2005, the GoL has adopted the National Strategy on Food Security and is now in the process of finalising the Action Plan of this strategy with support of FAO and prioritising and costing the various components of this plan.

**Achievements in cross-cutting issues:** As regards **Gender**, in 2005, Lesotho ranked nr 114 out in the gender development index out of 140 countries. While gender equality has been reached in education indicators (in both the primary and secondary there are more girls than boys), other domains of life are worse off. Customary and common law, enshrined in the Constitution, considers women as perpetual minors and results in discrimination against women (i.e. difficulties in accessing credit, loss of assets to the husband's family in the case of widows etc.). Despite this weak legal status Political representation is improving and in 2002 women held 17 % of the 80 parliamentary seats. The 2007 target is 30%. It is noteworthy that in the 2005 local government elections 53% of the elected councillors were women. Women hold six of the 21 cabinet posts.

However, women's equal rights have still to be legally endorsed. The PRSP eight priority areas do not describe gender aspects in their objectives. It is essential that the gender dimension is clearly addressed.

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<sup>24</sup> Orphans and Vulnerable Children.

<sup>25</sup> People Living with AIDS.

<sup>26</sup> Anti-Retroviral Therapy.

The GoL has ratified the CEDAW and intends to introduce to Parliament in 2006 the Married Persons Equality Bill, which will provide for the necessary legislation to transpose major part of CEDAW into national law.

Lesotho's **ecology is fragile** because of its mountainous topography, the thin soil layer and limited vegetative cover. The country faces **major environmental problems** because of pressure on the land from human and livestock activity. The problems are: loss of topsoil, which is eroding agricultural productivity and has increased the siltation of the main Orange River as well as other rivers; increased gully erosion, which reduces the land available for cultivation; loss of tree cover, owing to excessive cutting for firewood and damage of saplings from animals; and loss of pasture, because of overgrazing. Pollution of surface and ground water, by industrial activity, agricultural chemicals, pit-latrines, uncontrolled urban drainage and landfills are also not insignificant. The Lesotho **Environmental Act of 2001**, which provides a legislative framework for environmental protection, has still to be properly enabled by the promulgation of detailed regulations. This creates uncertainty in the planning and implementation of infrastructure and commercial development and lessens the effectiveness of environmental impact assessments (EIA). The Act provides for the establishment of an independent Lesotho Environmental Authority, to replace the National Environment Secretariat presently responsible for dealing with environmental issues. Although the existing Secretariat is supposed to have coordinating, advisory, regulatory and enforcement duties, it is weak institutionally. Lesotho is a signatory to the major multilateral environmental agreements. The lack of a comprehensive legal basis, administrative capacity and budget does not allow the implementation of an effective environmental policy.

**Regional and international developments:** The significant issue facing Lesotho, in terms of regional integration, remains how to encourage closer economic integration with South Africa while protecting its cultural, economic and political independence. Lesotho is member of SACU<sup>27</sup>, CMA<sup>28</sup>, SADC<sup>29</sup> and the African Union (AU). It has established a Joint Bilateral Commission on Cooperation, with the Government of South Africa as a vehicle for closer integration with its sole neighbour. In August 2006, Lesotho will take over the chairmanship of SADC for the period of one year. As regards Economic Partnership Agreement (EPA) negotiations, Lesotho has decided to negotiate within the SADC<sup>30</sup> framework. A national EPA Negotiations Committee acts as a forum for open stakeholder dialogue to come up with Lesotho' negotiating position. Lack of capacity within this Committee is obviously having adverse effects on Lesotho's capabilities to negotiate meaningfully. The challenge is therefore to build the capacity in terms of negotiating and analytical skills. A more relaxed set of EU Rules of Origin is one of the possible approaches that the GoL would favour in terms of trade with the EU.

#### STATE OF PLAY IN IMPLEMENTATION OF THE EC COOPERATION PROGRAMME

The financial performance under the 9<sup>th</sup> EDF as of end 2005 although remaining weak has improved. The level of global commitments under the 9<sup>th</sup> EDF reached € 56.7 million (57.84 %) of the A envelope plus transfers. The number of years to complete EDF commitments has dropped from 4.35 (end 2003) to 2.48 (end 2005). At the end of 2005, the level of individual commitments reached 4.48% of the A envelope plus transfers. The number of years to complete EDF assignments has increased from 8.36 (end 2003) to 12.77 (end 2005). The level of individual payments reached 1.20% of the A envelope plus transfers. The number of years to complete EDF payments has dropped from 12.57 (end 2003) to 10.70 (end 2005). The financial performance has improved but remains weak which is the result of insufficient attention to the need to commit new projects and programmes in 2002 and 2003 and the fact that the EC Delegation was deconcentrated in February 2005 without providing a relevant organigramme with sufficient staff. Thus Finance and Contract Section (FCS) of the EC Delegation, which is also the FCS for the EC Delegation in Swaziland, was understaffed until March 2006 and the Operation Section is still seriously understaffed which threatens to further slow down implementation

<sup>27</sup> Along with South Africa SACU comprises the BLNS countries (Botswana, Lesotho, Namibia, and Swaziland)

<sup>28</sup> Membership as SACU, but excluding Botswana.

<sup>29</sup> SADC membership in addition to BLNS and South Africa, also includes Angola, DR Congo, Malawi, Mauritius, Mozambique, Seychelles, Tanzania, Zambia and Zimbabwe.

<sup>30</sup> BLNS plus Angola; Mozambique and Tanzania. South Africa is participating in the SADC EPA configuration as an observer.

**Results achieved in the focal sector 1, Water and Sanitation Sector:** In 2005, the GoL took a major decision as regards the lowland potable water supply strategy with the adoption of the feasibility study which ultimately foresees supplying bulk water to all major settlements in the lowlands without requirement of a further dam construction. There is still a need to amend major legislation and to reform tariffs as well as to pursue institutional reforms. With regard to legislation, the GoL is in the process of reviewing main water legislation. In one year GoL will have drafted with the support of the World Bank a new comprehensive Water Resource Management Act and the Water Supply and Sanitation Services Act. These acts will address the issues on institutional reform. The creation of a regulatory body is planned. In the meantime, the newly created Office of the Commissioner for Water acts as regulator. Finalisation of tariffs review is expected during the course of 2006. Given the rapid urbanisation and industrial development, the GoL has adopted a national policy on wastewater management and issued a draft Industrial Wastewater Management Policy.

On 9<sup>th</sup> December 2005, the € 35.75 million Agreement under the 9<sup>th</sup> EDF for the Lesotho Water and Sanitation Sector Programme (LWSSP) was signed. This programme comprises four components, developed on the basis studies carried out with support from the 8<sup>th</sup> EDF during 2003 and 2004. The components are the following: the Six Towns Water Supply Project, the Maseru Wastewater Project, Technical Assistance to WASA and the Design of Lesotho Lowlands Bulk Water Supply Scheme. The "Six Towns Water Supply Project"<sup>31</sup> concerns the medium-term (2015) upgrading of water supply and sanitation in six urban centres of Lesotho. The water supply works consist mainly of upgrading/replacement and expansion of groundwater wells, river intake works, pumping stations, treatment plants, pipelines, storage tanks and yard connections. The "Maseru Wastewater Project" is an emergency intervention to rehabilitate the present sewerage system of Maseru. The Project<sup>32</sup> covers the execution of immediate works and the supply of equipment and materials only. In this context it is worth noting that EIB has positively responded to GoL's request to support an expanded Maseru Wastewater Project in the framework of the Second Call for Proposals of the EU Water Facility, scheduled for March 2006. The "Technical Assistance Support to WASA" will finance a long-term TA Adviser to provide technical support and advice to WASA. The "Design of Lesotho Lowlands Bulk Water Supply Scheme" concerns the Detailed Designs for the works of Phase 1A (Medium Term) of the potable water supplies scheme for the lowlands. The project will prepare detailed design and tender documents for the works of Phase 1A.

The 9<sup>th</sup> EDF support is complementary to a comprehensive, integrated sector-wide approach involving GoL, EC and a number of Lesotho's co-operating partners. It is now anticipated that the full SWAp will be ready by the end of 2007. Possibilities will be explored for the inclusion of a full SWAp for water and sanitation under the 10<sup>th</sup> EDF.

**Results achieved in the focal sector 2, Road Transport:** On 4<sup>th</sup> April 2006, the Cabinet approved the comprehensive **Transport Sector Policy**. GoL's overall objective for the sector is to develop a network capable of supporting national economic development and providing access to all communities. 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. With regard to **institutional reform**, the Cabinet approved the **Road sub-sector institutional Reform** which foresees a new Road Directorate, to improve efficiency and effectiveness in the delivery of services for the main road network. Commercialisation of the transport sector is the main reason for establishment of the Road Directorate, however, it will still function as a government department and it remains to be seen whether it can operate effectively and efficiently in this environment. It is expected that certain measures will have to be put in place to ensure a degree of autonomy and these would include, legislation defining the degree of operational/financial independence. It is clear that a considerable amount of detailed planning is still required for both the

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<sup>31</sup> The feasibility and design study for this project was undertaken under the Six Towns Water Supply Phase II (8 ACP LSO 017). Study contract was awarded in September 2003; the final reports was submitted in and approved by GoL in November 2004; a Draft Financing Proposal was prepared by in mid-December 2004, to become part of the consolidated Financing Proposal for the LWSSP in July 2005.

<sup>32</sup> The contract for the Maseru Wastewater Feasibility Study (8 ACP LSO 018) was awarded in September 2003; the Final Report and Draft Tender Dossiers were submitted in September 2004. Draft Financing Proposal was prepared by in mid-December 2004, to become part of the consolidated Financing Proposal for the LWSSP in July 2005.

formation of the Road Directorate and the transfer of the rural roads to local authorities and further reviews of the planned reform are essential to ensure effective management structures are put in place. It is envisaged that tertiary and feeder roads will eventually be the responsibility of the proposed local authorities. The proposed World Bank/EC co-funded Integrated Transport Project (ITP) will map out the new institutional set-up and to carry out the planning for future assistance. As regards **road fund management**, according to the approved Transport Policy the **Road Fund** will be responsible for collection of all monies associated with road maintenance, rehabilitation and upgrading. In the future this would include the government subvention for the shortfall in the maintenance requirement.

As regards **road maintenance** a recent study<sup>33</sup> determined that the annual routine and periodic maintenance need of the Lesotho road network was in the order of approx. 13.9 M €; In March 2006 Cabinet approved the **Lesotho Road Network Maintenance Strategy** and hereby increased the level of the fuel levy and toll fee charges. The effect of this is that the Road Fund will cover 60% of the routine and periodic maintenance requirements. Levies will be increased annually to reach 100% coverage by FY 2010/11. Until such times as there is full coverage from the Road Fund the Government will endeavour to cover the shortfall through the budget. EC support forms part of a multi-donor programme. The 8<sup>th</sup> EDF allocated € 37.7 million for the **Road Transport Infrastructure Project**. The project consists of: Rural and main tarred roads construction, institutional support, a road safety component and legal support to the GoL (in a major arbitration claim from a South African contractor). It has made good progress. Besides a rural road in the Mafeteng district all the construction projects were completed and the TAs will complete their contracts in June 2006. The activities were both monitored and evaluated in 2005 and gave very mixed results. Strong criticism was presented on the design of tarred roads as well as on GoL selection procedures for rural roads.

#### **Results achieved in the focal sector 3, Capacity Building for Economic Planning**

**(CBEP) and Financial Management:** The *CBEP project*, was approved in November 2003. The total amount for the programme is € 17.5 M. The implementation of CBEP gathered pace in 2005, economic planning, especially at macroeconomic level, is increasingly guided by coherent analysis of data thanks among other reasons to the technical support provided by the project; at the same time the institutional framework for economic analysis and policy has been strengthened with the creation of the new Department of Economic Policy. The development of a Macroeconomic Model (started end 2005), will help to consolidate the practise of evidence-based planning. At sector level the efforts to implement the Medium-Term Expenditure Framework (MTEF) gathered pace in 2005 with a set of six line ministries involved in the exercise. Generally, the project has been successful in providing the advisory services foreseen in the Financing Agreement, through long-term TA and short-term consultants. For a number of reasons the project has not been successful in providing the extensive training foreseen and although the structure of Ministry of Finance and Development Planning seems now sufficiently clear to form the basis for a targeted training programme, there will not be time to procure training for the Planning Cadre before the “sunset clause”, which imposes a deadline for the completion of procurement of December 2006, sets in. However, it is envisaged that a Training Needs Assessment for the cadres involved in the MTEF process will be carried out under CBEP as well as a general mid-term review of the whole project that will help shape its continuation. Thus, the actual training and other, to be defined, actions will have to be funded under the proposed future project for capacity building in the Ministry of Finance and Development Planning that will emerge after decommitment and recommitment of the funds still available under CBEP<sup>34</sup>. Furthermore, for this reason it is proposed to **reduce under the ETR the financial allocation for CBEP and Financial Management from € 22.50 million to € 19. 80 million**. As regards the project on strengthening **public finance management**, a financing proposal is expected to be submitted to Headquarters in July 2006.

**Results achieved in the focal sector 4, HIV/AIDS:** An HIV/AIDS review and identification mission in the second half of 2005 concluded that in the actions of the current fight against HIV/AIDS the area of specific support to OVCs is, by far, the least understood and supported in

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<sup>33</sup> 2003 Review of the Projected Road Maintenance Needs and the Generation of Road Fund Revenue

<sup>34</sup> In 2006 GoL introduced a request to decommit approx. € 11.7 M from CBEP as it will not be possible to procure the extensive training foreseen before the N+3 rule sets in December 2006. The training will likely be included in a future capacity building project in MFDP.

Lesotho. Given the additional needs to be covered identified by the identification mission, **financing of the project has been increased from € 8M to € 12M.**

**Cross-cutting issues** (gender, environment, capacity building and institutional development) have been integrated in all ongoing programmes. Under the CBEP Project the planning cadre will be strengthened and the tools in support of the planning process developed.

#### **Projects and programmes outside the focal sector, resources for Non-State Actors**

**(NSAs), Envelope B:** The major programmes supported outside the focal sector under the 8<sup>th</sup> EDF address the health sector and decentralised cooperation (micro-projects). Results achieved in the health sector are the development of a capacity for monitoring and evaluation of the health care system, the development of a comprehensive health policy, and the formulation of a strategic plan for decentralising health care. The project came to an end in March 2005. As regards the micro-projects programme, the implementation of community-based projects continued in the areas of water supplies, sanitation, education and small, medium and micro-enterprises. The overall result of the micro-projects programme is positive. As regards the **utilisation of Resources for NSAs**, to date engagement with NSAs in the context of the EDF programmes continues to be at a very low level. In the Micro-project Programme, NGOs have been acting as intermediaries in the majority of construction projects. A project to support NSAs is being elaborated. For this purpose an identification mission started *inter alia* mapping the NSAs landscape in the country and will suggest courses of action for an adequate engagement. As regards the **B envelope**, Lesotho did not qualify for support under this envelope so far.

#### **Other programmes: Stabex, Sysmin and thematic horizontal budget lines, regional**

**cooperation:** The German Red Cross ECHO-funded food-aid programme was again extended in 2005 and will be over in mid-2006. The original food hand-out approach has gradually been replaced by a focus on food security via Conservation Agriculture techniques. The **Community Budget Line on co-financing activities from NGOs** includes financing the joint German and Lesotho Red Cross Home-Based Care Programme in Lesotho (contributions are worth circa 1 MEURO; the programme started in July 2004 and will run for five years) and financing of activities with Skillshare UK. **Regional Cooperation** is concentrated on the support of economic integration. Being a member of SADC Lesotho participates in the SADC 9th EDF Regional Indicative Programmes and benefits from the regional dimension of ongoing projects.

#### **PROGRAMMING PERSPECTIVES FOR THE FUTURE**

At the end of 2005, **56.70%** of the A envelope plus transfers have been **committed**. It is expected that **all funds will be committed by end 2007** with the following projects in the pipeline: Road Transport, 110 km (2007; € 20.9M); RTIP (2007, € 7.85M); CBEP II (2007; € 6.5M); Strengthening of PFM (2006, € 7.5M), Support to OVCs (2006, € 12M); Micro-Projects and NSAs (2007, € 5.8M) and TCF (2007, € 2.0M). The total value of the pipeline amounts to € 62.55 M.

As demonstrated previously, the financial performance, although remaining weak has improved even though the EC Delegation is seriously understaffed. Lesotho has also made considerable progress in the focal sectors Water and Road Transport. Furthermore, Lesotho is the country with the 3<sup>rd</sup> highest rate of HIV/AIDS in the world and the AIDS pandemic is the main barrier for development in Lesotho. The fight against HIV/AIDS is therefore crucial for the attainment of the MDGs. In the light of the above, it is clear that the Lesotho- EC strategy proved correct and does not require any changes, since its priorities remain within the PRSP objectives.

Within the existing available funds and expected de-committed funds from previous EDFs, it is proposed to shift financial allocation between the sectors to cover additional needs in the focal sectors as follows:

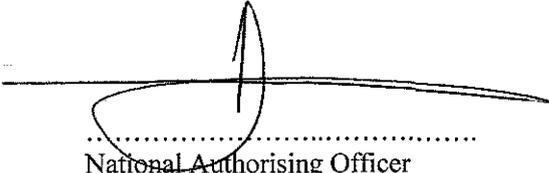
It is proposed to increase the financial allocation for the focal sector "HIV/AIDS from € 8 million to € 12 million to top-up the project on OVCs.

It is also proposed to increase the financial allocation for the focal sector Road Transport from € 26.40 million to € 29.50 million in order to top-up the project on "Upgrading and Strengthening of 110 km Paved Primary Network" rendered necessary since operation costs increased due to the appreciation of the Rand/€ exchange rate and the fact that additional work on the drainage system is necessary.

Given that the implementation of the CBEP project was delayed due to delays in the merging operation between the Ministry of Finance and the Ministry for Economic Planning, the training component cannot be fully implemented as foreseen. It is therefore proposed to decrease the financial allocation for the focal sector "Capacity Building" from € 22.50 million to € 19.80 million.

Finally it is proposed to decrease the financing allocation for non-focal sectors from € 10.60 million to € 9.78 million.

**SIGNED:**



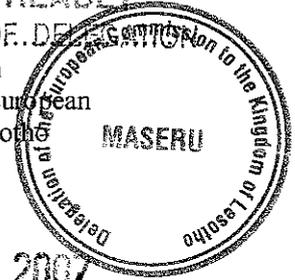
.....  
National Authorising Officer  
Ministry of Finance and Development Planning

Date:

03 MAY 2007



ANDREW HEADEY  
ACTING HEAD OF DELEGATION  
Head of Delegation  
Delegation of the European  
Commission in Lesotho



Date:

3 MAY 2007

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## FINANCIAL DONOR MATRIX

<i>Donors</i>	Budget Estimates '2005/2006	% of Total	Estimated Disbursements '2005/2006	% of Total	Budget Estimates '2006/2007	% of Total	Projections '2007/2008	% of Total	Projections '2008/2009	% of Total
EDF/EC	39,000,000	22.1	26,110,538	13.7	134,298,538	30.0	140,333,332	30.2	151,215,332	48.4
Ireland (DCI)	27,880,000	15.8	36,013,890	18.8	42,100,000	9.4	27,160,000	5.8	26,800,000	8.6
Germany (GTZ/KfW/DED)	9,500,000	5.4	8,124,000	4.2	30,300,000	6.8	12,356,000	2.7	0	0.0
UK (DFID)	8,000,000	4.5	12,457,480	6.5	26,150,419	5.8	15,904,530	3.4	10,885,460	3.5
Denmark	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
<b>Total EU</b>	<b>84,380,000</b>	<b>47.8</b>	<b>82,705,908</b>	<b>43.3</b>	<b>232,848,957</b>	<b>51.9</b>	<b>195,753,862</b>	<b>42.1</b>	<b>188,900,792</b>	<b>60.5</b>
UNICEF	0	0.0	0	0.0	3,750,000	0.8	3,800,000	0.8	3,800,000	1.2
UNDP	0	0.0	1,800,000	0.9	4,048,300	0.9	4,508,991	1.0	847,217	0.3
WB (GF/GEF/IDA)	28,050,000	15.9	33,990,397	17.8	72,411,200	16.2	75,271,299	16.2	56,897,216	18.2
WFP	24,000,000	13.6	35,790,397	18.7	76,459,500	17.1	79,780,290	17.2	57,744,433	18.5
UNFPA	1,200,000	0.7	200,000	0.1	3,788,200	0.8	2,627,712	0.6	400,000	0.1
WHO	2,000,000	1.1	2,000,000	1.0	2,300,000	0.5	2,400,000	0.5	2,860,000	0.9
FAO	900,000	0.5	500,000	0.3	210,000	0.0	1,750,000	0.4	0	0.0
<b>Total "UN Family"</b>	<b>56,150,000</b>	<b>31.8</b>	<b>74,280,794</b>	<b>38.8</b>	<b>162,967,200</b>	<b>36.4</b>	<b>170,138,292</b>	<b>36.6</b>	<b>122,548,866</b>	<b>39.2</b>
Japan	30,000,000	17.0	30,000,000	15.7	1,000,000	0.2	0	0.0	0	0.0
ADB/ADF	3,300,000	1.9	150,193	0.1	3,700,000	0.8	856,315	0.2	0	0.0
China	0	0.0	0	0.0	37,700,000	8.4	97,333,239	20.9	0	0.0
India	1,000,000	0.6	1,000,000	0.5	181,000	0.0	0	0.0	0	0.0
BADEA	770,000	0.4	1,770,000	0.9	1,820,350	0.4	0	0.0	0	0.0
Norway (NORAD)	1,000,000	0.6	1,313,000	0.7	1,000,000	0.2	1,000,000	0.2	1,000,000	0.3
South Africa	0	0.0	0	0.0	7,000,000	1.6	0	0.0	0	0.0
<b>Total Other Donors</b>	<b>36,070,000</b>	<b>20.4</b>	<b>34,233,193</b>	<b>17.9</b>	<b>52,401,350</b>	<b>11.7</b>	<b>99,189,554</b>	<b>21.3</b>	<b>1,000,000</b>	<b>0.3</b>
<b>Total Donor Grants</b>	<b>176,600,000</b>	<b>100.0</b>	<b>191,219,895</b>	<b>100.0</b>	<b>448,217,507</b>	<b>100.0</b>	<b>465,081,708</b>	<b>100.0</b>	<b>312,449,658</b>	<b>100.0</b>

Source: Ministry of Finance and Development Planning  
Capital Budget Estimates 2006/2007

## SUMMARY TABLE OF EC COOPERATION WITH LESOTHO

EDF	Allocation	% Global/ Allocation	Global commitments	% Individual/ Global	Individual Commitments	% Payments/ Individual	Payments
<b>6th EDF</b>							
NIP	40,298,864		30,456,862	100	30,456,862	100	30,456,862
Special Loans			9,842,002		9,842,002		9,842,002
Risk Capital			4,959,171		4,959,171		4,959,171
Stabex			4,364,313		4,364,313		4,364,313
Transfert from other funds			1,053,146		1,053,146		1,053,146
Structural Adjustment Facility							
<b>Total</b>			<b>50,675,494</b>	<b>100</b>	<b>50,675,494</b>	<b>100</b>	<b>50,675,494</b>
<i>Uncommitted/unpaid Balance</i>					0		0
<b>7th EDF</b>							
NIP	47,607,141		47,607,141	96	45,589,794	100	45,374,470
Interest			6,885,017		6,885,017		6,885,017
Risk Capital			17,183,000		17,183,000		17,183,000
Stabex			3,705,350		3,705,350		3,705,350
Transfert other funds			5,303,745		5,039,178		4,982,102
Structural Adjustment Facility			21,586,392		21,586,392		21,586,392
<b>Total</b>			<b>102,270,645</b>	<b>98</b>	<b>99,988,731</b>	<b>100</b>	<b>99,716,331</b>
<i>Uncommitted/unpaid Balance</i>					2,281,914		272,400
<b>8th EDF</b>							
NIP	54,245,842		54,245,842	93	50,419,856	88	44,435,202
Interests			1,096,329		1,096,329		1,096,329
Structural Adjustment Facility	18,500,000		18,500,000		14,783,929		14,771,016
<b>Total</b>			<b>73,842,171</b>	<b>90</b>	<b>66,300,113</b>	<b>91</b>	<b>60,302,547</b>
<i>Uncommitted/unpaid Balance</i>					7,542,058		5,997,566
<b>9th EDF</b>							
A Envelope	98,087,665	58	56,735,100		4,392,196		1,199,592
B Envelope	10,300,000						
<b>Total</b>	<b>108,387,665</b>		<b>56,735,100</b>	<b>8</b>	<b>4,392,196</b>	<b>27</b>	<b>1,199,592</b>
<i>Uncommitted/unpaid Balance</i>					52,342,904		3,192,604

**INTERVENTION FRAMEWORKS**

## SUMMARY TABLE

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

## IFW FOCAL AREA I – WATER SUPPLY AND SANITATION

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

## IFW FOCAL AREA II– TRANSPORT

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

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

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

## IFW FOCAL AREA IV – FIGHT AGAINST HIV/AIDS

NARRATIVE	PERFORMANCE INDICATORS	SOURCE OF VERIFICATION	ASSUMPTIONS
<p><b>Overall objective</b></p> <p>Ensure the prevention of orphanhood and vulnerability, protection, care and support and development of OVC.</p>			
<p><b>Intervention objective]</b></p> <p>Basotho OVCs enabled to cope with their trauma and loss and assisted to acquire life skills, formal and vocational skills to move on and grow into age-appropriate roles and have food security</p>		NAC Report	
<p><b>Results:</b></p> <p>School teachers/providers trained in psychosocial care facilitation for securing OVCs access to essential services</p> <p>OVCs supported to manage the loss of parents and assisted in securing access to essential services;</p> <p>Life Skills Curriculum rolled out and teachers enabled to teach OVCs decision-making skills</p> <p>Know-how in zero-till farming methods and vocational skills transferred to OVCs</p> <p>Capacity in management of OVC Support of DSW and District-based staff will be strengthened</p>	<p>3,000 Care-givers</p> <p>Up to 60,000 OVC's supported</p> <p>1,668 schools and sites for instructing OVCs involved</p> <p>13,800 older OVCs and indirectly to 69,000 of their</p> <p>DSW take over OVC management</p>	NAC Report	

CHRONOGRAMME OF ACTIVITIES

ANNEX IV

Lesotho – 9 <sup>th</sup> EDF Indicative Programme	€'000	2004		2005		2006				2007				2008				2009							
Total available 9th EDF NIP <sup>1)</sup>	112,888	1 <sup>st</sup> Sem	2 <sup>nd</sup> Sem	1 <sup>st</sup> Sem	2 <sup>nd</sup> Sem	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4				
<b>FOCAL SECTORS</b>																									
<b>1. WATER &amp; SANITATION</b>	<b>36,500</b>																								
Lesotho Water and Sanitation Sector Programme	35,750				<b>FD</b>																				
<i>Lesotho Lowlands Water Supply (Design)</i>						<b>PC</b>	<b>PC</b>																		
<i>Six Towns Water Supply (Works)</i>		<b>FS</b>	<b>PF</b>			<b>PC</b>	<b>PC</b>																		
<i>Maseru Wastewater</i>		<b>FS</b>	<b>PF</b>			<b>PC</b>	<b>PC</b>																		
<i>TA to WASA</i>		<b>FS</b>	<b>PF</b>			<b>PC</b>	<b>PC</b>																		
TA to Commissioner of Water	750																								
<b>2. ROAD TRANSPORT SECTOR</b>	<b>31,400</b>																								
Upgrading & strengthening 110 km of PPR Network	23,550			<b>PC</b>	<b>PC</b>	<b>PF</b>	<b>PF</b>	<b>FP</b>		<b>FD</b>	<b>PC</b>	<b>PC</b>													
Road Transport Infrastructure Programme Phase 2	7,850			<b>FS</b>	<b>FS</b>		<b>PF</b>	<b>FP</b>	<b>FD</b>																
<b>3. MACRO SUPPORT &amp; CAPACITY BUILDING</b>	<b>19,800</b>																								
Capacity Building Economic Planning	5,800	<b>PC</b>																							
Capacity Building Economic Planning II	6,500						<b>PF</b>	<b>FP</b>		<b>FD</b>	<b>PC</b>														
Capacity Building PFM	7,500				<b>PF</b>	<b>PF</b>	<b>FP</b>	<b>FD</b>	<b>PC</b>																
<b>4. HIV/AIDS</b>	<b>18,000</b>																								
Support OVC	12,000				<b>FS</b>	<b>PF</b>	<b>FP</b>		<b>FD</b>																
Know-Your-Status (Ex B-Envelope)	6,000						<b>PF</b>	<b>FP</b>	<b>FD</b>																
<b>5. NON-FOCAL</b>	<b>7,185</b>																								
Micro-projects, Decentralisation and Support to NSA	4,000							<b>PF</b>	<b>FP</b>	<b>FD</b>	<b>PC</b>														
Technical Cooperation Facility (TCF)	1,985	<b>FD</b>																							
Technical Cooperation Facility II (TCF II)	1,200						<b>PF</b>	<b>FP</b>	<b>FD</b>																
<b>Total projects</b>	<b>112,885</b>																								

Note: 1) A-envelope € 86 m + balances 6th, 7th and 8th EDF + transfer B-envelope

FS Feasibility Study      PF Project formulation      FP Financing proposal  
**FD** Financing Decision      PC Procurement  
 Implementation      **MR** Mid-term Review

**INDICATIVE TIMETABLE FOR COMMITMENTS AND DISBURSEMENTS**  
**€'000**

LESOTHO	End 2005		End 2006		End 2007		End 2008		End 2009	
	Allocation / Comm.	Payments	Comm.	Payments	Comm.	Payments	Comm.	Payments	Comm.	Payments
<b>EDF Co-operation Programmes</b>	<b>112,885</b>									
<b>1. WATER &amp; SANITATION</b>	<b>36,500</b>									
<b>Lesotho Water And Sanitation Sector Programme</b>	<b>35,750</b>		<b>35,750</b>		<b>35,750</b>		<b>35,750</b>		<b>35,750</b>	
<i>Lesotho Lowlands Water Supply (Design)</i>			9,400	3,760	9,400	6,580	9,400	9,400	9,400	9,400
<i>Six Towns Water Supply (Works &amp; Supervision)</i>			22,950	5,473	22,950	16,065	22,950	22,950	22,950	22,950
<i>Maseru Wastewater</i>			2,350	940	2,350	1,890	2,350	2,350	2,350	2,350
<i>TA to WASA</i>			1,050	182	1,050	432	1,050	682	1,050	932
<b>TA to Commissioner of Water</b>	<b>750</b>		<b>750</b>		<b>750</b>		<b>750</b>		<b>750</b>	
<i>TA Contract</i>	500	304	750	456	682	608	750	750	750	750
<b>2. ROAD TRANSPORT SECTOR</b>	<b>31,400</b>									
<b>FS Upgrading 110 km of PPR Network</b>	<b>750</b>		<b>750</b>		<b>750</b>		<b>750</b>		<b>750</b>	
<i>Feasibility Study Contract</i>	548		650	390	650	650	650	650	650	650
<b>Upgrading 110 km of PPR Network</b>					<b>22,800</b>		<b>22,800</b>		<b>22,800</b>	
<i>Works and Supervision</i>					22,800	4,560	22,800	14,820	22,800	20,520
<b>RTIP Phase 2</b>			<b>7,850</b>		<b>7,850</b>		<b>7,850</b>		<b>7,850</b>	
<i>Trust Fund Agreement (WB)</i>			7,850	2,093	7,850	4,710	7,850	7,327	7,850	7,850
<b>3. MACRO SUPPORT &amp; CAPACITY BUILDING</b>	<b>19,800</b>									
<b>Capacity Building Economic Planning</b>	<b>17,500</b>		<b>5,800</b>		<b>5,800</b>		<b>5,800</b>		<b>5,800</b>	
<i>Implementation contracts</i>	2,624	443	5,800	900	5,800	2,600	5,800	4,200	5,800	5,800
<b>Capacity Building PFM</b>			<b>7,500</b>		<b>7,500</b>		<b>7,500</b>		<b>7,500</b>	
<i>Implementation contract</i>					7,500	3,500	7,500	5,500	7,500	7,000
<b>Capacity Building MFDP</b>					<b>6,500</b>		<b>6,500</b>		<b>6,500</b>	
<i>Implementation contracts</i>					3,000	1,200	6,500	3,800	6,500	5,800
<b>4. HIV/AIDS</b>	<b>18,000</b>									
<b>Support OVCs</b>			<b>12,000</b>		<b>12,000</b>		<b>12,000</b>		<b>12,000</b>	
<i>Trust Fund Agreement (WB)</i>					12,000	3,200	12,000	7,200	12,000	11,200
<b>Know Your Status</b>			<b>6,000</b>		<b>6,000</b>		<b>6,000</b>		<b>6,000</b>	
<i>Implementation contracts</i>					3,000	2,400	6,000	4,800	6,000	6,000
<b>NON-FOCAL AREAS</b>	<b>7,185</b>									
<b>MPP, Decentralisation &amp; Support NSA</b>			<b>4,000</b>		<b>4,000</b>		<b>4,000</b>		<b>4,000</b>	
<i>Implementation contracts</i>					2,500	1,000	4,000	2,600	4,000	3,600
<b>Technical Cooperation Facility (TCF)</b>	<b>1,985</b>		<b>1,985</b>		<b>1,985</b>		<b>1,985</b>		<b>1,985</b>	
<i>Implementation contracts</i>	720	452	1,400	1,152	1,985	1,985	1,985	1,985	1,985	1,985
<b>Technical Cooperation Facility II (TCF II)</b>			<b>1,200</b>		<b>1,200</b>		<b>1,200</b>		<b>1,200</b>	
<i>Implementation contracts</i>					600	360	1,200	1,080	1,200	1,200
<b>Total Global Commitments</b>	<b>56,735</b>		<b>83,585</b>		<b>112,885</b>		<b>112,885</b>		<b>112,885</b>	
<b>Total Individual Commitments/Payments</b>	4,392	1,199	54,700	15,346	105,617	51,740	112,785	90,094	112,785	107,987
<b>% of Total 9th EDF Allocations</b>	<b>50.3</b>	<b>1.1</b>	<b>74.0</b>	<b>13.6</b>	<b>100.0</b>	<b>45.8</b>	<b>100.0</b>	<b>79.8</b>	<b>100.0</b>	<b>95.7</b>

## FINANCIAL SITUATION FOR 9TH EDF (GRANTS)

## ANNEX VI

Project No.	Project Title	Date Committed	Global Commitment	Individual Commitments	%	Total Paid	%
9 ACP LSO 001	TA to Ministry of Natural Resources	1.8.03	750,000	500,000	66.7	303,929	60.8
9 ACP LSO 002	Capacity Building in Economic Planning	17.12.03	17,500,000	2,623,705	15.0	443,220	16.9
9 ACP LSO 003	Study - Upgrading & Strengthening Paved Primary Road Network	22.12.03	750,000	548,441	73.1	0	0.0
9 ACP LSO 004	Technical Cooperation Facility (TCF)	19.10.04	1,985,100	720,050	36.3	452,443	62.8
9 ACP LSO 005	Lesotho Water And Sanitation Sector Programme (LWSSP)	25.8.05	35,750,000	0	0.0	0	
	Total Ongoing Projects		56,735,100	4,392,196		1,199,592	
	Total Closed Projects		0	0		0	
	<b>TOTAL 9th EDF</b>		56,735,100	4,392,196		1,199,592	

Allocation, Envelope A	98,087,665	%
Global commitments	56,735,100	57.84
Global uncommitted	41,352,565	42.16
Individual commitments	4,392,196	10.62
Individual uncommitted	36,960,369	89.38
Payments	1,199,592	27.31
<b>Global commitments in 2005</b>	<b>35,750,000</b>	
<b>Individual commitments in 2005</b>	<b>3,235,402</b>	
<b>Payments in 2005</b>	<b>896,923</b>	

## FINANCIAL SITUATION FOR 8TH EDF (GRANTS)

## ANNEX VII

Project No.	Project Title	Date Committed	Global Commitment	Individual Commitmen	%	Total Paid	%
8 ACP LSO 002	Road Transport Infrastructure Programme	30.6.99	37,700,000	37,524,535	99.5	34,646,855	92.3
8 ACP LSO 003	8th EDF Multi-Annual Microprojects Programme	9.9.99	5,300,000	3,387,111	63.9	2,294,880	67.8
8 ACP LSO 005	Information, Workshop, Conference and Cultural Initiatives	8.1.00	476,000	198,136	41.6	110,998	56.0
8 ACP LSO 007	Support to the Department of Economic Cooperation	16.1.01	1,100,000	776,028	70.5	603,436	77.8
8 ACP LSO 008	Support To Health Sector Reform	24.4.01	1,800,000	1,792,289	99.6	1,158,106	64.6
8 ACP LSO 009	Poverty Reduction Budgetary Support PRBS 2001/2002	13.9.01	8,500,000	6,283,929	73.9	6,271,016	99.8
8 ACP LSO 010	Poverty Reduction Budgetary Support PRBS 2001/2002	13.9.01	10,000,000	8,500,000	85.0	8,500,000	100.0
8 ACP LSO 011	Lesotho Lowlands Water Supply - Feasibility Study	26.10.01	1,750,000	1,506,700	86.1	1,388,769	92.2
8 ACP LSO 012	Support To The Department of Economic Planning	7.9.02	750,000	728,660	97.2	650,868	89.3
8 ACP LSO 016	Review Of Current HIV/Aids Related Activities	26.6.02	40,000	38,742	96.9	37,132	95.8
8 ACP LSO 017	Six Towns Water Supply - Phase II	24.10.02	1,900,000	1,568,000	82.5	658,294	42.0
8 ACP LSO 018	Maseru Wastewater Feasibility Study	19.8.02	750,000	749,812	100.0	743,045	99.1
8 ACP LSO 019	Adviser, Economic Planning and Budget Support	7.11.02	230,000	230,000	100.0	222,977	96.9
8 ACP LSO 020	TA to the Bureau of Statistics	27.3.03	530,000	0	0.0	0	
	Total Ongoing Projects		70,826,000	63,283,942		57,286,376	
	Total Closed Projects		3,016,171	3,016,171		3,016,171	
	<b>TOTAL 8th EDF</b>		<b>73,842,171</b>	<b>66,300,113</b>		<b>60,302,547</b>	

Global commitments	73,842,171	%
Individual commitments	66,300,113	89.79
Individual uncommitted	7,542,058	10.21
Payments	60,302,547	90.95
<b>Individual commitments in 2005</b>	<b>2,600,125</b>	
<b>Payments in 2005</b>	<b>3,037,252</b>	

## FINANCIAL SITUATION FOR 7TH EDF (GRANTS)

## ANNEX VIII

Project No.	Project Title	Date Committed	Global Commitment	Individual Commitments	%	Total Paid	%
7 ACP LSO 001	Muela Hydro-Electr Centrale	21.10.91	32,300,000	32,273,646	99.9	32,134,137	99.6
7 ACP LSO 014	2nd Multi Annual Microprojects Programme.	18.5.94	1,978,252	1,277,873	64.6	1,277,873	100.0
7 ACP LSO 027	TA to the Office Of the NAO	4.6.96	750,000	697,418	93.0	697,418	100.0
7 ACP LSO 033	Third Microprojects Programme	7.10.96	1,766,689	570,597	32.3	570,597	100.0
7 ACP LSO 038	Axle Load Control	22.9.97	850,000	802,907	94.5	745,831	92.9
7 ACP LSO 041	Six Towns Urban Water Supply	16.3.98	1,996,000	1,831,108	91.7	1,831,108	100.0
7 ACP LSO 045	Assistance to the Bureau of Statistics	25.5.99	851,000	799,600	94.0	735,036	91.9
7 ACP LSO 048	8th EDF Multi-Annual Microprojects Programme	9.9.99	407,000	383,877	94.3	383,877	100.0
	Total Ongoing Projects		40,898,941	38,637,027		38,375,877	
	Total Closed Projects		61,371,704	61,371,704		61,371,704	
	<b>TOTAL 7th EDF</b>		102,270,645	99,988,731		99,716,331	

Global commitments	102,270,645	%
Individual commitments	99,988,731	97.77
Individual uncommitted	2,281,914	2.28
Payments	99,716,331	99.73
<b>Individual commitments in 2005</b>	<b>43,000</b>	
<b>Payments in 2005</b>	<b>105,789</b>	

***Water Sector*****Proportion of people without access to safe drinking water (Lesotho MDGs):**

23% (in 2001)  
19% (expected in 2015)

**Proportion of people without access to basic sanitation (Lesotho MDGs):**

55% (in 2001)  
40% (expected in 2015)

**Sectoral Policy Commitments**

- Cabinet approved in May 2005 the recommendation by the EDF-funded firm Parkman known as the “No-Dam” option whereby the Northern Lowlands should not see any further dam construction but the additional release of water into the rivers from the already existing dams if so required;
- The Lesotho lowlands potable water supply strategy is expected to be approved in 2007 (currently under review);
- GoL aims at adopting Integrate Water Resource Management Policy by end 2007 (currently under review);
- GoL aims at adopting a Water SWAp in the sector by end 2007.

**Other Donors’ Involvement:**

World Bank: Water Sector Improvement Programme (15 MUS)  
BADEA: Maseru Peri-Urban Water Supply (7 MUS)  
EIB: Maseru Industrial Wastewater Study (0.09 MEURO)  
Irish Aid: Rural Water Supply

***Transport Sector*****Number of Kms of road built during 2000/05:**

225 Kms of bitumen roads

70 Kms of gravel roads

**Sectoral Policy Commitments**

- Cabinet approved Roads sub-sector institutional Reform (Roads Directorate) in September 2005;
- Cabinet approved the Lesotho Road Network Maintenance Strategy in March 2006;
- Cabinet approved Transport Sector Policy in April 2006;
- GoL aims at adopting Integrated Transport Policy by 2010.
- By end 2009 two major bridges are to be completed in order to open up the South-East Corridor towards Durban through Lesotho so as to shortcut the current link through South Africa.

**Other donors' involvement**

World Bank: Integrated Transport Project (23 MUS)

African Development Bank: Upgrading to bitumen standards of 40 Kms of road in Leribe (8 MEURO)

***HIV/AIDS Sector*****HIV/AIDS prevalence, 15-49 years (Lesotho MDGs):**

31% (in 2000)  
 25% (expected in 2008)  
 17% (expected in 2015)

**HIV/AIDS prevalence among pregnant women (Lesotho MDGs):**

21% (in 2000)  
 18% (expected in 2008)  
 15% (expected in 2015)

**Percentage of women (15-49) using condoms (Lesotho MDGs):**

6.5 (in 2000)  
 15 (expected in 2008)  
 30 (expected in 2015)

**Death rates associated w/TB in % (Lesotho MDGs):**

14 (in 2000)  
 10 (expected in 2008)  
 6 (expected in 2015)

**Life expectancy for males and females (Lesotho MDGs):**

**Male**  
 48.7 (in 2001)  
 63 (expected in 2015)  
**Female**  
 56.3 (in 2001)  
 67 (expected in 2015)

**Sectoral Policy Commitments**

- LAPCA (Lesotho AIDS Programme Coordinated Authority) was created in 2000; a dysfunctional body, it has been replaced by the National AIDS Commission and its Secretariat (National AIDS Secretariat - NAS);
- NAC has been fully established in March 2006, whereas NAS was already operational at the beginning of 2005;
- the National HIV/AIDS Strategy 2000/04 was issued in 2000 but the new, replacing Strategy is still being drafted;
- A National Plan for Orphans and Vulnerable Children was issued in 2005;
- A National Roll-Out Plan for ART (Antiretroviral Therapy) was approved in July 2004, linked to WHO's "3 by 5" Initiative that aimed at 28,000 patients under ART by end 2005;
- The Know Your Status (KYS) campaign was launched in December 2005 and aims at providing universal access to counseling and testing.

**Other Donors' Involvement**

There are many actors currently involved in the sector, ranging from NGOs (i.e. CRS or World Vision) to private sector (Ontario Hospital, Bristol Mayer Squibbs). The main source of funding remains the Global Fund for AIDS, TB and Malaria (GFTAM) albeit the Country Coordination Mechanism (CCM) remains weak.

**PROJECT SHEETS**

# PROJECT SHEET

## 9<sup>th</sup> EDF

Title	Adviser (Water) to Ministry of Natural Resources	N°	9 ACP LSO 001
Date of Financing Agreement/Primary Commitment		1 <sup>st</sup> October 2003	
Date of termination of Financing Agreement		31 <sup>st</sup> July 2012	
End Phase 1 - implementation:	31 <sup>st</sup> July 2010	Date of N+3:	30 <sup>th</sup> June 2006
Global Commitment	€ 750,000	Total disbursement 2005	€ 147,600
Individual Commitment(s) 31/12/05	€ 500,000	Total disbursement to end 2005	€ 284,758
		Forecast disbursement to end 2006	€ 465,358
Objective	Provide technical support to the Commissioner of water and the Lowlands Water Supply Unit on matters related to the potable water and wastewater sectors, primarily, but not exclusively, in the Lesotho Lowland.		
Purpose	To advise and assist the Commissioner for Water in the implementation of EDF-financed studies and projects in the potable water and wastewater sectors, in particular the Lowlands Water Supply Feasibility Study (LLWSFS) and the Six Towns Water Supply – Phase II.		
Results expected	<ol style="list-style-type: none"> <li>1. The supervision of the LLWSFS in all its stages and phases resulting in recommendations, acceptable to GoL on the most suitable infrastructure development option, implementation schedule and financing options for securing the long-term availability for the population, institutions and industries in the Lesotho Lowlands;</li> <li>2. The supervision of the studies and subsequent implementation of the Six Towns Water Supply Phase 2 Project, resulting in medium-term availability of potable water for Maputsoe, Teyateyaneng, Mapoteng, Roma, Morija and Quthing.</li> <li>3. The supervision of the studies and subsequent implementation of the Maseru Wastewater Project.</li> <li>4. Initiating, managing and supervising other studies and projects aimed at alleviating potable water shortages in Lesotho;</li> <li>5. Strengthening the technical capacity of the Department of Water Affairs and the Office of the Commissioner for Water.</li> </ol>		
Results Achieved and/or Progress in 2005	<p>Strengthening the technical capacity of the Office of the Commissioner for Water and of Department of Water Affairs is ongoing.</p> <p>Lesotho Lowlands Bulk Water Supply The contract for the feasibility study for this project was awarded in December 2002; the final reports and tender dossiers were available in September 2004. Approval of the report and acceptance of Phase 1 of the Works (“no-dams” option) by the GoL was made in May 2005. A Draft Financing Proposal was prepared by in mid-December 2004, to become part of the consolidated Financing Proposal for the LWSSP in July 2005.</p> <p>Six Towns Water Supply Project: The Feasibility Study, the Design Reports; the Draft Tender Dossiers and the Draft Financing Proposal were prepared by in mid-December 2004, to become part of the consolidated Financing Proposal for the LWSSP in July 2005.</p> <p>The contract for the Maseru Wastewater Feasibility Study was awarded in September 2003; the Final Report and Draft Tender Dossiers were submitted in September 2004. Draft Financing Proposal was prepared by in mid-December 2004, to become part of the consolidated Financing Proposal for the LWSSP in July 2005.</p> <p>Financing Agreement for Lesotho Water and Sanitation Sector Programme (9 ACP LSO 005) signed on 9 December 2005</p>		

## PROJECT SHEET

<b>Title</b>	<b>CAPACITY BUILDING IN ECONOMIC PLANNING</b>		<b>N°</b>	<b>9 ACP LSO 002</b>
Date of Financing Agreement/Primary Commitment	17 <sup>th</sup> December 2003			
Date of termination of Financing Agreement	31 <sup>st</sup> December 2011			
End Phase 1 - implementation:	31 <sup>st</sup> December 2009	Date of N+3:	16 <sup>th</sup> December 2006	
Global Commitment	€ 17,500,000	Amount disbursed in 2005	€	361,875
Individual Commitment(s) 31/12/05	€ 2,798,955	Total disbursement to end 2005	€	461,147
		Forecast disbursement to end 2006	€	1,541,147
<b>Objective</b>	Poverty alleviation through increased economic growth and improved economic management			
<b>Purpose</b>	To strengthen GoL's capacity for macroeconomic management, sectoral planning, the collection, analysis and dissemination of statistical data, demographic research and population and manpower modelling			
<b>Results expected</b>	<ol style="list-style-type: none"> <li>1. Sustained upgrading of analytical and planning capacity within the Planning Cadre;</li> <li>2. Capital Budget targeted at national development objectives;</li> <li>3. Macroeconomic planning based on rigorous economic analysis;</li> <li>4. Ministerial/sectoral planning procedures and practices established and adhered to;</li> <li>5. Improvement in quality and timeliness of statistics reports;</li> <li>6. Sector programming, Monitoring and Evaluation a routine feature of public expenditure management;</li> <li>7. Medium Term Expenditure Framework approach to planning and budgeting introduced and operational</li> </ol>			
<b>Results Achieved and/or Progress in 2005</b>	<ul style="list-style-type: none"> <li>• 42-month Consultancy to Develop and Implement a Macroeconomic Model for Lesotho recruited in November 2005</li> <li>• Macroeconomic Adviser extended for 24 months from 1 January 2006</li> <li>• Consultancy to develop a public debt strategy for Lesotho concluded</li> <li>• Preparations for recruitment of four years of TA to BoS concluded, recruitment expected in July 2006</li> <li>• Preparations for recruitment of TA to the 2006 Census concluded. TA mobilised in February 2006</li> <li>• TA Project Coordination Adviser for CBEP coordination recruited in March 2005 for 24 months</li> <li>• Following a revision of plans within the Lesotho Revenue Service the NAO has withdrawn its request for funding for a customs information system under CBEP</li> </ul>			

## PROJECT SHEET

<b>Title</b>	<b>STUDY - UPGRADING &amp; STRENGTHENING OF PAVED PRIMARY ROAD NETWORK</b>		<b>N°</b>	<b>9 ACP LSO 002</b>
Date of Financing Agreement/Primary Commitment	17 <sup>th</sup> December 2003			
Date of termination of Financing Agreement	31 <sup>st</sup> December 2011			
End Phase 1 - implementation:	31 <sup>st</sup> December 2009	Date of N+3:	16 <sup>th</sup> December 2006	
Global Commitment	€ 750,000	Amount disbursed in 2005	€ 0	
Individual Commitment(s) 31/12/05	€ 548,441	Total disbursement to end 2005	€ 0	
		Forecast disbursement to end 2006	€ 411,330	
Objective	To improve access to isolated areas, markets and economic and social services			
Purpose	To provide the required information to enable decision making on the proposed Upgrading and Strengthening of 110km of the Paved Primary Network (A1-A2-A11-B23)			
Results expected	<p>The study is expected to deliver the following results:</p> <ul style="list-style-type: none"> <li>• verification of the relevance of the proposed project to address the existing problems in the economic and social sectors in the western lowlands of the country;</li> <li>• detailed analysis of the technical, economic and financial, institutional and management, environmental and socio-cultural feasibility of the proposed Upgrading and Strengthening of 110km of the Paved Primary Network (A1-A2-A11-B23);</li> <li>• detailed analysis of the potential sustainability of the project results;</li> <li>• detailed plan which specifies indicators for project objectives, results and activities and incorporates required resources, the institutional structure for implementation and stipulates the responsibilities of various bodies, project timing/phasing, estimated costs and a logical framework planning matrix;</li> <li>• detailed engineering design, technical specifications and tender documents for physical works and supplies;</li> <li>• recommendations for the following steps and any further actions to secure project financing and implementation</li> </ul>			
Results Achieved and/or Progress in 2005	The tender dossier for a restricted tender was prepared during 2003 and finally approved in December 2004. The Procurement notice was published on 19 May 2004; Invitation to Tender issued on 8 February 2005; the contract was signed in September 2005 and the contractor started mobilisation in November 2005; fieldwork commenced in January 2006			

## PROJECT SHEET

<b>Title</b>	<b>TECHNICAL COOPERATION FACILITY (TCF)</b>		<b>N°</b>	<b>9 ACP LSO 004</b>
Date of Financing Agreement/Primary Commitment	13 <sup>th</sup> February 2004			
Date of termination of Financing Agreement	31 <sup>st</sup> January 2011			
End Phase 1 - implementation:	31 <sup>st</sup> January 2009	Date of N+3:	25 April 2007	
Global Commitment	€ 1,985,100	Amount disbursed in 2005	€ 455,234	
Individual Commitment(s) 31/12/05	€ 720,050	Total disbursement to end 2005	€ 497,230	
		Forecast disbursement to end 2006	€ 1,333,000	
Objective	<p>A. The implementation of the Government of Lesotho's Development Strategy through the support of sound development programmes financed from the European Development Fund (EDF).</p> <p>B. The fostering of a more coherent and informed approach to development and trade issues among decision-makers in Lesotho.</p>			
Purpose	The project purpose is the identification and implementation of actions under the NIP and other EDF funds together with improved awareness among key actors of general development and trade issues and of EU policies in these areas by means of training for beneficiaries in the Kingdom of Lesotho.			
Results expected	<p>i. Identification of programmes to be financed from the EDF. Approximately six (6) such exercises will be completed during the project period;</p> <p>ii. Preparation and formulation of programmes to be supported from the EDF. Approximately five (5) such exercises will be completed during the project period;</p> <p>iii. The NAO's Office will be enabled to maintain satisfactory monitoring of - and tendering procedures for - ongoing projects - where this cannot be provided for in the projects themselves or other projects;</p> <p>iv. Audits and evaluations of other projects will be financed through this initiative whenever they cannot be financed out of the project itself or where it is convenient or efficient to combine a number of audits/evaluations of related interventions;</p> <p>v. Increased understanding of development and trade issues by key actors - to this end approximately eight (8) conferences and/or seminars will have been organised in Lesotho and the participation of (approximately) thirty-five (35) participants from Lesotho will have been financed in conferences, seminars etc. organised by bodies other than the Commission.</p>			
Results Achieved and/or Progress in 2005	<p>During 2005 the following contracts were awarded and implemented:</p> <ul style="list-style-type: none"> <li>• Identification Mission HIV/AIDS</li> <li>• RTIP End of Term Review</li> <li>• Maseru Rail Terminus Pre-feasibility Study</li> <li>• Mafeteng Ground Water study</li> </ul> <p>Final reports for all studies have been submitted.</p>			

# PROJECT SHEET

## 8<sup>th</sup> EDF

<b>Title</b>	<b>Road Transport Infrastructure Programme</b>		<b>N°</b>	<b>8 ACP LSO 002</b>
Date of European Commission approval	10 <sup>th</sup> June 1999			
Date of Financing Agreement/Primary Commitment	25 <sup>th</sup> August 1999			
Start Date:	30 <sup>th</sup> June 2000	End Date:	31 <sup>st</sup> December 2006	
Global Commitment	€ 37,700,000	Amount disbursed in 2005	€ 1,325,714	
Individual Commitment(s) 31/12/05	€ 36,810,535	Total disbursement to end 2005	€ 34,686,266	
		Forecast disbursement to end 2006	€ 37,400,000	
Objective	To improve the well being and livelihoods of all Basotho			
Purpose	To improve access to isolated areas and to basic services			
Results expected	<ol style="list-style-type: none"> <li>1. Improved all-weather access in areas serviced by project roads</li> <li>2. Enhanced private sector capacity for carrying out labour intensive road construction and maintenance</li> <li>3. GoL capacity for management of roads sector policy and administration strengthened.</li> <li>4. Improved Road Safety</li> </ol>			
Results Achieved and/or Progress in 2005	<p>The largest component of the RTIP was the <u>upgrading to bitumen standard</u> of 115 km gravel roads in Mafeteng and Maseru districts (B 42, B 43, and B47). The works contract was signed with WBHO for an amount of LSL 105M (€ 20.8M) in July 2000; works commenced in September 2000 with a contractual time for completion of 24 months.</p> <p>Supervision was carried out by the Roads Department of the MoPWT assisted by Bergman-Ingérop (SA) (Restricted tender. A major increase in the contract price resulted from additional services required for the design and supervision of the road safety measures in the Maseru South Industrial Area (see below).</p> <p>Delays were attributed to design discrepancies, late land acquisition and periods of heavy rainfall. The contractor lodged a claim for approximately LSL 161 million (€21million), which is currently under arbitration. The arbitration hearing took place in late January 2006 but a final decision is only expected in July 2006. Final Acceptance Certificates for the works were issued in July-August 2004 but the contractor has refused to sign the Final Statement of Account and would seem to be waiting on the outcome of the Arbitration.</p> <p><u>Results:</u> This contract has resulted in 115km of rural road being upgraded to an all-weather standard, including the provision of three bridges and a substantial number of drainage structures, which has meant unlimited access, in this district, throughout the year. An 'End Term Review' (ETR) of the RTIP suggested that, from this contract, there was an insignificant contribution to the Project Purpose, of improving access to isolated areas, however, there are a number of feeder roads already under construction. New housing developments and new industrial parks have been located adjacent to the B47 West.</p> <p>The review further stated that:</p> <ul style="list-style-type: none"> <li>• Feasibility studies should be completed before detailed design is started.</li> <li>• Consideration should be given to using FIDIC conditions of contract</li> <li>• Completed detailed design should be subject to a design check</li> <li>• Financing should be made available for geotechnical investigations at detailed design</li> <li>• Topographical surveys could be improved by the use of TMH 7.</li> </ul> <p>In general it was thought that there should be a much greater effort in the design of the project to ensure realistic achievements. More work was required in the construction of the log frame matrix and of particular concern was the choice of indicators, which were either thought to be inappropriate or unavailable locally.</p> <p><u>Upgrading of Earth tracks to LCU gravel standard:</u> Under the RTIP the Department of Rural Roads undertook the upgrading of some 61 kms of earth track to all-weather gravel status, using labour-based techniques. The roads upgraded under this element of the programme were:</p> <ul style="list-style-type: none"> <li>▪ BB09 from Ha Selomo to Tsimé in Butha Buthe district (19.3 km)</li> <li>▪ BR02 from Teyateyaneng to Ha Senekane in Berea district (16 km)</li> <li>▪ MF13 (North) from Van Rooyen's Gate to Tsupane in Mafeteng district (9.3km)</li> <li>▪ MK10 from Mokhotlong to Phahameng in Mokhotlong district (16.6 km)</li> </ul> <p>The final cost was LSL 20,295,483, of which paid by EDF 18,985,188; a total labour input amounted to 188,590 man-days (md); labour productivity 3,257 md/km; average cost LSL 319,542 per km.</p> <p>The new Programme Estimate for <u>rural roads</u> became valid on 17<sup>th</sup> December 2004. However, the advance was only deposited in the imprest account on 23<sup>rd</sup> May 2005, causing a delay in the commencement of the Programme. The mini-bridge to be constructed under this PE by direct labour has been completed. Work on the adjacent vented ford has been suspended, as procurement for the required culverts entails consultations, now requiring a complete dossier for supply tender. These documents were sent to the NAO end of December 2005. The dossier has been approved by the NAO and is awaiting endorsement by the HoD. It is foreseen that a new PE has to be prepared to complete all the works by direct labour. The tender for the upgrading of 10.6 km of earth tracks to all-weather standard has been evaluated and the recommendation for award has been sent to the NAO end of December 2005.</p>			

## PROJECT SHEET

Title	Road Transport Infrastructure Programme	N°	8 ACPLSO 002
	<p><u>Institutional strengthening and capacity building:</u> In support of the improvement to the road network, the Road Transport Infrastructure Programme is providing technical assistance for strengthening and building the institutional capacity of the (MoPWT) Planning Unit and the Department of Rural Roads. The two advisers for these positions took up their positions in September and October 2000 and their contracts have been extended to July 2006. It has been difficult for both advisors to fulfil their primary role as they have generally been required to assist the MoPWT in implementation of donor infrastructure programmes. Whilst providing a very necessary service, the End Term Review concludes that this is not institutional strengthening. It recommends that a more comprehensive approach is required to identify the real needs of the MoPWT, to ensure external TA is used effectively. This may well be the case, however, there is a severe lack of capacity within the MoPWT, and more immediate assistance will definitely be required before the ongoing capacity problems are ultimately solved.</p> <p><u>Road Safety Improvement Programme:</u> In addition to the construction activities and transport sector institutional issues, the RTIP, made provision for financial and technical assistance in support of a Road Safety Improvement Action Plan. The introduction of this Plan, in conjunction with the simultaneous introduction of Axle Load Control (also EU-financed) will begin to address the problem of Lesotho's poor road safety record. The project continued the monitoring the police surveillance programme, developing educational materials for schools and piloting the same through a number of schools in Maseru, preparations for the establishment of a National Road Safety Council, a survey to determine road accidents costs in Lesotho and implementing a programme for the identification and rectification of danger spots within Maseru.</p> <p><u>Road Safety Works Maseru South;</u> The rapid industrialisation and residential development in the Thetsane and areas of Maseru South has resulted in a situation where there are very large numbers of both pedestrian and vehicle traffic using the present road system during peak hours, with a corresponding increase in the risks of pedestrian and traffic accidents. Pedestrian facilities and service roads were designed and supervised by Bergman-Ingérop contract and following a local open tender a works contract was awarded to Lesotho Consolidated Civil Contractors for an amount of LSL 22,247,291.15.</p> <p>The works contract started mid-January 2003 and with a period of performance of 9 months was due to finish in October 2003, however, the works were delayed, due mainly to poor performance by the contractor, and a final acceptance certificate was only issued in October 2005. The Final Statement of Account has also been issued and signed by all parties.</p> <p><u>Results:</u> The provision of these access roads and pedestrian ways has created a much safer environment for both road users and pedestrians. The roundabouts have brought down the average speeds along the main Maseru by-pass and with the provision of 'no-stopping' signs, taxis, which cause a lot of the congestion, will be restricted to the access roads, giving a good level of service along the by-pass. The new configuration has also meant that there are far fewer accesses to the by-pass, which has a direct result in decreasing the accidents. Pedestrians no longer walk along the by-pass and safety should be further enhanced with street lighting planned for the walkways, access roads and the bypass.</p> <p>The End Term Review had some minor criticisms of the works, suggesting that a 'rigorous quantitative analysis' to assess reductions in accidents should have been carried out and a more extensive range of alternatives should have been investigated. It was thought somewhat unfair as; the project was brought forward by the MoPWT on the back of numerous complaints about public safety in the area and the fact that during the design process numerous alternatives were investigated.</p>		

## PROJECT SHEET

Title	8 <sup>th</sup> EDF Multi-annual Micro-projects Programme		N°	8 ACP LSO 003		
Date of Financing Agreement/Primary Commitment						
Start Date:	31 <sup>st</sup> December 1999	End Date:	30th June 2005			
Global Commitment	€ 5,300,000	Total disbursement 2004	€ 1,565,501			
Individual Commitment(s) 31/12/05	€ 3,387,111	Total disbursement to end 2005	€ 2,294,880			
		Forecast disbursement to end 2006	€ 4,387,000			
Objective	Create sustainable social and economic development in the poorest areas of Lesotho					
Purpose	The implementation of a programme of self-help projects in rural and peri-urban areas					
Results	Up to 130 Micro-projects have been successfully implemented by a locally staffed coordination unit					
Results Achieved and/or Progress in 2005	<p>The Third Multi-Annual Micro-project Programme (8 ACP LSO 003), which was subjected to a mid-term review (MTR) in late 2004, in close collaboration and engagement with the line departments, NGO's, as well as the community-based organisations (CBOs), effectively cleared a considerable backlog of community applications during 2005. The Micro-projects Programme Coordination Unit (MCU) also successfully completed the implementation of activities under the Annual Work Programme and Cost Estimate (AWPCE 05/03, which had commenced in November 2004, during the first quarter of 2005.</p> <p>Four Water Supply Systems were completed in the Leribe and Quthing districts at a cost of LSL 515,600 (approx. € 68,000) and seven two-classroom block were constructed in Leribe, Mokhotlong, Berea, Botha-Bothe and Quthing districts at a cost of LSL 1,483,000 (€ 198,000).</p> <p>A new Programme Estimate, based on the PG was approved late June 2005, covering the construction of some 30 two-classroom blocks and 93 small village water supply projects. The implementation of 89 water and sanitation projects in collaboration with the Department of Rural Water Supply was to be the subject of a separate Programme Estimate.</p> <p>In March 2005, the new "Practical Guide (PG) for Direct Labour Operations" was introduced and became operational with immediate effect. The most noticeable impact of the new rules was on procurement, whereby procurement on the basis of an individual micro-project was considered unacceptable by the EC Delegation as it was deemed to constitute "splitting". Given the fact that micro-projects are small (in most cases below € 50,000) though significant in numbers, the new arrangement compelled the MCU to lump projects together for tendering purposes. In the case of village water and sanitation projects this resulted in reaching limits requiring open international tendering for supplies. On 30<sup>th</sup> November 2005, the MPP Steering Committee, convened in its first meeting since the establishment of the MCU in 2002, raised concerns on the relevance and applicability of the new set of rules on the MPP. A proposal to implement the projects on a district by district basis, to allow engaging smaller contractors under the supervision of the district water engineer, was approved in early March 2006. The tender for works contracts for the construction of classroom blocks, previously undertaken by local tradesmen on small local service contracts, had to be cancelled because the tenderers (medium-small contractors) had not been able to effectively deal with the beneficiary's contribution to the projects. Permission has now been obtained to proceed with direct negotiations.</p>					
<b>Projects executed during 2005</b>						
No.	Village	District	Implementing Agency	Project Description	MPP contributions	Community contributions
<b>Water Supply Systems</b>						
1	Mohope	Leribe	DRWS	Gravity/Waterpoint	204,015	68,445
2	Nqanqasing	Quthing	Plenty	Water Supply	71,609	29,430
3	Folosire	Quthing	Plenty	Water Supply	44,208	21,132
4	Khohlong	Quthing	Plenty	Water Supply	55,099	21,618
					<b>374,931</b>	<b>140,625</b>
					73%	27%
<b>Education</b>						
1	Lisolokane P.S.	Leribe	LEC	2 Classrooms	140,640	71,214
2	Mapholaneng	Mokhotlong	LEC	2 Classrooms	140,640	71,214
3	Malithuso Sec.	Berea	RCC	2 Classrooms	140,640	71,214
4	Nking P.S.	Quthing	RCC	2 Classrooms	140,640	71,214
5	Bitso-Lebe P.S.	Berea	RCC	2 Classrooms	140,640	71,214
6	Khukhune H.S.	Botha-Bothe	ACL	2 Classrooms	140,640	71,214
7	Hangers Hope	Berea	Seventh Adv.	2 Classrooms	140,640	71,214
					<b>984,480</b>	<b>498,498</b>
					66%	34%
	<b>Totals</b>				<b>1,359,411</b>	<b>639,123</b>
					68%	32%

## PROJECT SHEET

<b>Title</b>	<b>Support to the Department of Economic Cooperation</b>		<b>N°</b>	<b>8 ACP LSO 007</b>
Date of Commission Approval	22 <sup>nd</sup> December 2000			
Date of Financing Agreement/Primary Commitment	6 <sup>th</sup> February 2001			
Latest Start Date:	30 <sup>th</sup> September 2001	End Date:	31 <sup>st</sup> December 2005	
Global Commitment	€ 1,100,000	Amount disbursed in 2005	€ 24,677	
Individual Commitment(s) 31/12/04	€ 776,028	Total disbursement to end 2005	€ 603,436	
The project is to be closed in Q 2 2005	€ 776,028	Forecast disbursement to end 2006	€ 603,436	
Objective	To achieve and maintain levels of economic growth necessary for progress, the alleviation of poverty and social development			
Purpose	To develop in Government a capacity for the effective coordination and management of external assistance			
Results expected	<ol style="list-style-type: none"> <li>1. Policy on external assistance adopted by Cabinet.</li> <li>2. External assistance management information system operating and producing regular reports</li> <li>3. Guidelines on preparation and implementation of external assistance projects published</li> <li>4. Lesotho/EC development cooperation strategy for 2000/2005 agreed and signed</li> <li>5. National Indicative Programme for 9<sup>th</sup> EDF signed</li> </ol>			
Results Achieved and/or Progress in 2005	Closure of project is awaiting closure of Work Programmes/Cost Estimate Agreements			

## PROJECT SHEET

<b>Title</b>	<b>Support to Health Sector Reform</b>		<b>N°</b>	<b>8 ACP LSO 008</b>
Date of Commission Approval	19 <sup>th</sup> February 2001			
Date of Financing Agreement/Primary Commitment	2 <sup>nd</sup> April 2001			
Latest Start Date:	30 <sup>th</sup> June 2001	End Date:	27 March 2005	
Global Commitment	€ 1,800,000	Total disbursement 2005	€ 334,700	
Individual Commitment(s) 31/12/04	€ 1,792,289	Total disbursement to end 2005	€ 1,158,106	
Project to be closed Q 3 2005		Forecast disbursement to end 2006	€ 1,670,000	
Objective	An affordable equitable health care system			
Purpose	The purpose of the project is to support the development of a unified health information system and the development and piloting of a strategic plan for decentralisation			
Results expected	<ol style="list-style-type: none"> <li>1. Regular and timely production of valid and reliable data of key health performance indicators;</li> <li>2. Health Service Area boundaries redefined</li> <li>3. Unified M&amp;E system within MoHSW and in 3 pilot Health Service Areas;</li> <li>4. Proposals for District Health Management Teams developed and implemented</li> <li>5. Health Boards revitalised.</li> </ol>			
Results Achieved and/or Progress in 2005	<p><u>Decentralisation:</u> Based on the recommendations of the health sector review EDF-financed assistance was redirected to: support the process of developing a comprehensive health sector policy; the development of a district health package; and the formulation of a strategic plan for decentralising health care as part of the overall decentralisation of the Government. Adoption of the approach commenced in 2004. Three Districts have been piloted and after serious delay, District Teams were appointed and equipped and became operational. GoL's decentralisation process is gathering momentum and has created a conducive environment for the "first pull" given by the project to the decentralisation of the Health Sector; it is now the Ministry's clear strategy to proceed with decentralisation of the Health Sector in the remaining seven Districts.</p> <p><u>Monitoring and Evaluation:</u> At the start of the project there was no effective Health Information System in place in Lesotho. A four year data backlog (1998 through 2002) had to be dealt with and the project assisted in clearing this. The focus of the component has been on the collection and analysis of decentralised health data, however due to the delays in district level implementation capacity the developed instruments have not been fully tested and as a result the health management information system has not been delivered. There are however, a number of qualitative improvements noted in the review: strengthened staffing and capacity in the Health Planning and Statistics Unit; significantly improved data delivery from hospitals and health centres; The national demographic health survey (DHS), has provided more accurate data on the incidence of HIV/AIDS was completed during 2005.</p> <p>The project came to an end in March 2005. The project is to be closed after final payment and auditing of the Work Programmes/ Cost Estimate Agreements.</p>			

## PROJECT SHEET

<b>Title</b>	<b>Lesotho Lowlands Water Supply Feasibility Study</b>		<b>N°</b>	<b>8 ACP LSO 011</b>
Date of Commission Approval	8 <sup>th</sup> October 2001			
Date of Financing Agreement/Primary Commitment	23 <sup>rd</sup> November 2001			
Latest Start Date:	1 <sup>st</sup> March 2002	End Date:	1 <sup>st</sup> September 2004	
Global Commitment	€ 1,750,000	Amount disbursed in 2005	€ 336,508	
Individual Commitment(s) 31/12/05	€ 1,506,700	Total disbursement to end 2005	€ 1,388,769	
		Forecast disbursement to end 2006	€ 1,388,769	
Objective	To achieve sustainable economic growth and reduce poverty			
Purpose	The development of an investment programme that will secure the medium- and long-term water supply for human and industrial consumption to the urban and peri-urban populations of the lowlands of Lesotho.			
Results expected	<ol style="list-style-type: none"> <li>1. Financing Proposal for submission under the 9<sup>th</sup> EDF;</li> <li>2. Tender dossier for the design of the proposed solution</li> <li>3. Recommendations for institutional and management procedures and long-term capacity building</li> <li>4. Water sector personnel trained for implementation phase.</li> </ol>			
Results Achieved and/or Progress in 2004	<p>The tender for a Lesotho Lowlands Water Supply Feasibility Study was launched on 14<sup>th</sup> February 2002, with seven (7) European and regional consultancy firms being invited to make submissions. The tender closed on 15<sup>th</sup> May 2002 and a contract was awarded to the Centre for Ecology and Hydrology (UK) to assist the Department of Water Affairs, Ministry of Natural Resources in the technical evaluation of the tenders submitted. Following the evaluation three companies were considered as being eligible to progress to the second stage (Price evaluation) and on opening the price envelopes for the three companies the offer submitted by Parkman International was found to be the lowest priced and an offer of award of contract followed. The contract with Parkman was signed on 11<sup>th</sup> December 2002 for an amount of LSL 13,537,244. The consultant mobilised his team in early 2003 and the intermediate report outlining the prospective options was presented in September 2003. A decision on the chosen options was submitted in February 2004 and the final report with Draft Terms of Reference and Tender Documents for the next phase (detailed design) was submitted in September 2004.</p> <p>A Draft Financing Proposal was prepared by in mid-December 2004, to become part of the consolidated Financing Proposal for the LWSSP in July 2005. The Financing Agreement was signed on 9 December 2005.</p> <p>Project is to be closed.</p>			

## PROJECT SHEET

<b>Title</b>	<b>Support to Department of Economic Policy</b>		<b>N°</b>	<b>8 ACP LSO 012</b>
Date of Commission Approval	1 <sup>st</sup> June 2001			
Date of Financing Agreement/Primary Commitment	1 <sup>st</sup> June 2001			
Latest Start Date:	31 <sup>st</sup> December 2001	End Date:	30 <sup>th</sup> November 2005	
Global Commitment	€ 750,000	Total disbursement 2005	€ 211,868	
Individual Commitment(s) 31/12/05	€ 728,660	Total disbursement to end 2005	€ 650,867	
		Forecast disbursement to end 2006	€ 716,000	
<b>Objective</b>	Strengthen the Ministry of Development Planning's capacity for guiding policy makers on development priorities through sound macroeconomic analysis and forecasting			
<b>Purpose</b>	Integrate the work of the Department of Economic Policy into the budgetary process and develop tools (including macroeconomic modelling) for ensuring an efficient allocation of government resources in accordance with the overall objectives of augmenting economic growth and poverty reduction			
<b>Results expected</b>	<ol style="list-style-type: none"> <li>1. A clear definition of the functions of the Department of Economic Policy, and of the tasks, routines and individual job descriptions needed to fulfil the functions;</li> <li>2. The development of a clear understanding of the relative roles of DEP, the Fiscal Analysis and Policy Unit in the Ministry of Finance and the Research Department in the Central Bank, together with the establishment of appropriate means of ensuring the complementarities and effectiveness of the three units;</li> <li>3. The introduction of a macroeconomic forecasting model as a basic tool in Government's planning and budgeting process,</li> <li>4. The annual production of the three-year rolling Development Plan based <i>inter alia</i> on the scenarios and projections produced by the model;</li> <li>5. The integration of the Public Sector Investment Plan into the Development Plan;</li> <li>6. The incorporation into the Poverty Reduction Strategy Paper of an "Economic Policy Framework" as a guide for subsequent strategic planning and decision making;</li> <li>7. A training needs analysis and staff development plan for DEP;</li> <li>8. The preparation of a broader institutional capacity building proposal for key areas within the central ministries. The proposal to be submitted for consideration under the 9<sup>th</sup> EDF National Indicative Programme.</li> </ol>			
<b>Results Achieved in 2005</b>	<p>Following restricted consultations, a three-year direct agreement contract was awarded to Mr. G. West. He took up this assignment in December 2001. Rider No.1 extended the contract to December 2005. Strengths and Achievement for 2005 were recorded as follows:</p> <p><b>Macroeconomic Working Group:</b> The MWG was established in July 2002. It has become an established institution with a key role in the annual plan and budget process and in the provision of economic policy advice. It has demonstrated its value by updating reviews of economic performance and economic forecasts and by preparing the Medium-Term Fiscal Framework. It is an important forum for briefing the Minister on all aspects of planning and budgeting. It has also become the focal point for liaison with the IMF. The MVVG has contributed to sound macroeconomic management and good fiscal performance as acknowledged in reports by the IMF and Fitch Ratings.</p> <p><b>Budget reforms:</b> In January 2004 GoL agreed that the new budgeting system should be introduced with effect from 2005/06, based on the MTEF approach. The MTEF Task Team was established in August 2004 to oversee the introduction of the MTEF approach. The TA provides an effective link between MTEF and MWG and was therefore able to ensure that the annual budget contributes to aggregate fiscal discipline. The Task Team adopted an evolutionary approach to the introduction of the MTEF reforms. There is enormous potential to improve the quality of resource allocation and utilisation through the practical application of the principles of sound public expenditure management. The full MTEF reforms are being introduced progressively over several annual budget cycles. Annual MTEF documentation should ultimately have the capacity to replace rolling Development Plans and the PSIP.</p> <p><b>Planning Activities:</b> The Government has successfully completed the preparation of the National Vision 2020 (a long-term perspective study) and of the Poverty Reduction Strategy. Both documents were based on the priorities identified through wide-ranging national consultations. It has also established a programme for the attainment of the Millennium Development Goals by 2015. During 2003, DEP demonstrated its capacity by producing a draft rolling Development Plan, largely based on ministerial submissions for Budget 2003/04 and to the PRS process.</p> <p><b>Merger of the Ministries of Finance and Development Planning:</b> This provides considerable opportunities for a more effective organisational structure and improvements in the coordination of planning and budgeting activities. Finalisation of the structure and reporting arrangements should improve the TA's access to the senior management team.</p> <p><b>Macroeconomic modelling:</b> Although there have been substantial delays, this component of the Capacity Building in Economic Planning project commenced in November 2005. This has great potential to improve the quality of macroeconomic forecasting and to develop econometric skills within DEP.</p> <p><b>Public Financial Management Programme:</b> This DFID-funded activity commenced in January 2005. It supports complementary reforms in accounting, human resource development, procurement, auditing. In particular, the introduction of an Integrated Financial management Information system should lead to a significant improvement in the timeliness and accuracy of fiscal data The Consultant completed the assignment by 30 November 2005. Final payments to be processed, after which project is to be closed.</p>			

## PROJECT SHEET

<b>Title</b>	<b>Feasibility Study - Six Towns Water Supply Phase 2</b>		<b>N°</b>	<b>8 ACP LSO 017</b>
Date of Commission Approval	18 <sup>th</sup> October 2002			
Date of Financing Agreement/Primary Commitment	24 <sup>th</sup> October 2002			
Latest Start Date:	31 <sup>st</sup> December 2002	End Date:	31 <sup>st</sup> December 2007	
Global Commitment	€ 1,900,000	Total disbursement 2005	€ 427,586	
Individual Commitment(s) 31/12/05	€ 1,568,000	Total disbursement to end 2005	€ 658,294	
		Forecast disbursement to end 2006	€ 950,000	
Objective	The provision of medium-term security (10 to 15 years) of safe and reliable water supplies together with adequate wastewater treatment in six urban centres (Maputsoe, Mapoteng, Teyateyaneng, Roma, Morija and Quthing)			
Purpose	<p>The purpose of the study is:</p> <ul style="list-style-type: none"> <li>– To investigate and develop in greater detail the works identified in earlier reports as being necessary for the medium term security of water supply at the six urban centres</li> <li>– To investigate and develop proposals for any additional works (e.g. sewage treatment, water reticulation, etc) that may be appropriate at each centre</li> <li>– To develop a financing proposal for submission to the European Commission under the 9th EDF European Development Fund.</li> <li>– Subject to the launch of tender for works, to assist the Supervisor, in the launch evaluation of tenders for construction works for Phase II.</li> <li>– Subject to the award of the works contract for Phase II, to assist the Supervisor, in the adequate supervision of the works during the construction period of 18 months and the subsequent maintenance period of 12 months.</li> </ul>			
Results expected	<ol style="list-style-type: none"> <li>1. A feasibility study report, including the appropriate technical, environmental and financial/economic annexes and relevant tender documentation in sufficient detail to enable GoL to prepare a financial proposal for the Six Towns Water Supply Project – Phase II for submission to the EC.</li> <li>2. A contract for the works of Phase II; and</li> <li>3. The completion of the works of Phase II of the Six Towns Water Supply Project</li> </ol>			
Results Achieved and/or Progress in 2005 to end	<p>A Consultancy Contract was awarded to Consulting Engineers Salzgitter (CES), a German Consultant, on the 15<sup>th</sup> August 2003. The Feasibility Report, Detailed Designs and Draft Tender Dossiers were submitted in November 2004. A Draft Financing Proposal was prepared by in mid-December 2004, to become part of the consolidated Financing Proposal for the LWSSP in July 2005. The Financing Agreement was signed on 9 December 2005.</p> <p>The Consultant is expected to be remobilised in July 2006 to assist the Supervisor in evaluation of the works tender and for subsequent supervision of the construction works for Phase II (18 months and the subsequent maintenance period of 12 months).</p>			

## PROJECT SHEET

<b>Title</b>	<b>Maseru Wastewater Feasibility Study</b>		<b>N°</b>	<b>8 ACP LSO 018</b>
Date of Commission Approval			1 <sup>st</sup> January 2002	
Date of Financing Agreement/Primary Commitment			1 <sup>st</sup> August 2002	
Latest Start Date:	1 <sup>st</sup> January 2003	End Date:	31 <sup>st</sup> December 2004	
Global Commitment	€ 750,000	Total disbursement 2005	€ 335,517	
Individual Commitment(s) 31/12/05	€ 749,812	Total disbursement to end 2005	€ 743,045	
		Forecast disbursement to end 2006	€ 743,045	
Objective	The cost-effective, financially viable and environmentally sound collection, treatment and disposal of domestic and industrial wastewater in Maseru.			
Purpose	To identify an immediate, medium and long-term investment programme to meet realistic objectives			
Results expected	<ol style="list-style-type: none"> <li>1. The identification of feasible options for an appropriate immediate- (2 years), medium- (7 years) and long-term (20 years) policy for domestic and industrial wastewater collection, treatment and disposal;</li> <li>2. The identification of rehabilitation/extension needs for wastewater collection and treatment facilities;</li> <li>3. The preparation of an investment project to cover the immediate and mid-term needs of wastewater collection, treatment and disposal. The activities envisaged to include: <ul style="list-style-type: none"> <li>– The rehabilitation and extension of Ratjomose wastewater treatment facilities including provisions for environmentally safe disposal of effluents and residues arising from wastewater treatment;</li> <li>– Construction of new treatment facilities as justified by the feasibility study and approved by the Government;</li> <li>– Abolishing of Maseru West Industrial Estate Wastewater treatment ponds. Installation of pre-treatment units in the individual factories in order to meet WASA standards for acceptance into the communal sewers.</li> <li>– Rehabilitation and extension of the sewerage system (trunk mains, interceptors, pumping stations and possibly limited secondary mains).</li> </ul> </li> <li>4. The determination of separate average full cost recovery tariffs for domestic and industrial customers, that will ensure the financial viability of the proposed investment project and the wastewater services in general. The tariff system recommended will cross checked against affordability and willingness to pay, and acceptability of higher-level service.</li> </ol>			
Results Achieved and/or Progress in 2005	<p>Feasibility Study Contract was awarded to GKW, a German Consultant, on 15<sup>th</sup> August 2003. The Consultant mobilised his team during the Fourth Quarter of 2003 and the Feasibility Study and the Draft Tender Dossier for the “immediate” works was submitted in November 2004. A Draft Financing Proposal was prepared by in mid-December 2004, to become part of the consolidated Financing Proposal for the LWSSP in July 2005. The Financing Agreement was signed on 9 December 2005.</p> <p>Project is to be closed.</p>			

## PROJECT SHEET

<b>Title</b>	<b>Adviser, Economic Planning and Budget Support</b>		<b>N°</b>	<b>8 ACP LSO 019</b>
Date of Commission Approval	6 <sup>th</sup> November 2002			
Date of Financing Agreement/Primary Commitment	7 <sup>th</sup> November 2002			
Latest Start Date:	16 <sup>th</sup> November 2002	End Date:	15 <sup>th</sup> November 2004	
Global Commitment	€ 230,000	Total disbursement 2005	€ 29,152	
Individual Commitment(s) 31/12/04	€ 230,000	Total disbursement to end 2005	€ 222,977	
Project to be closed Q 2 2005		Forecast disbursement to end 2006	€ 222,977	
Objective	To strengthen the Ministry of Development Planning's capacity for guiding policy makers on efficient and effective resource management			
Purpose	To optimise the contribution of the Department of Economic Cooperation to the preparation and implementation of economic policy, by reviving the Public Sector Investment Programme, by capacity building in public finance management, economic analysis and in the collection of national statistics			
Results expected	<ul style="list-style-type: none"> <li>- The publication of the Public Sector Investment Programme as part of the annual National Development Plan;</li> <li>- A Project Appraisal Committee using established national development priorities as criteria for the approval and ranking of capital investment initiatives;</li> <li>- A Capital Budget Estimates document that can be used as a management tool;</li> <li>- The preparation of a capacity building proposal for submission to the EDF as a possible activity to be undertaken as part of the 9<sup>th</sup> EDF CSP/NIP</li> </ul>			
Results Achieved and/or Progress in 2005	<p>The Adviser commenced work in December 2002 and ended his assignment in December 2004.</p> <p>Project is to be closed.</p>			

## PROJECT SHEET

7<sup>th</sup> EDF

<b>Title</b>	<b>Muela Hydropower Project</b>		<b>N°</b>	<b>7 ACP LSO 001</b>
Date of Financing Agreement/Primary Commitment	29 <sup>th</sup> July 1991			
Start Date:	8 <sup>th</sup> October 1991	End Date:		
Global Commitment	€ 32,300,000	Total disbursement 2005	€ 31,096	
Individual Commitment(s) 31/12/04	€ 32,273,646	Total disbursement to end 2005	€ 32,134,137	
The project is to be closed in Q 2 2005		Forecast disbursement to end 2006	€ 32,166,723	
Objective	To develop hydroelectric potential sufficient to meet Lesotho's normal requirements by 2003			
Purpose	The construction of a 72 Mw Hydroelectric Power Plant			
Results expected	<ol style="list-style-type: none"> <li>1. The construction of a 72 Mw underground powerhouse and associated waterways; access facilities; upstream surge shaft, downstream surge chamber; tailpond and dam; operations building; transmission lines and sub-stations</li> <li>2. Environmental Action Plan and Awareness Programme</li> <li>3. Technical training</li> <li>4. Institutional support for the Lesotho Highlands Water Commission (formerly JPTC)</li> <li>5. Environmental protection and enhancement in the `Muela area</li> </ol>			
Results Achieved and/or Progress in 2005	<p>With the commissioning of the dam and hydropower station in 1998 the project reached substantial completion. The only remaining outstanding activity i.e. the provision of a treated water supply to nine villages in the `Muela area was completed in 2004.</p> <p>Following discussions between the EC Delegation, the NAO's office and the LHDA it was agreed that the Department of Rural Water Supplies would be responsible for supervising the project and that the works would be conducted on a design and build basis using a local contractor.</p> <p>Subsequently, following a local open tender, for which 5 companies submitted offers, a contract was awarded to Sigma Construction in the amount of LSL 2,303,884.60. The survey and design phase commenced in September 2003 and the works were completed by March 2004. Final acceptance was done in 2005 and final payment was being processed at years' end.</p> <p>Outstanding issues before project closure are the final audit of the Micro-projects components; to be undertaken in 2006.</p>			

## PROJECT SHEET

<b>Title</b>	<b>Axle Load Control</b>		<b>N°</b>	<b>7 ACP LSO 038</b>
Date of Financing Agreement/Primary Commitment			6 <sup>th</sup> November 1997	
Start Date:	8 <sup>th</sup> August 1998		End Date:	n/a
Global Commitment		€ 850,000	Total disbursement 2005	€ 10,789
Individual Commitment(s) 31/12/05		€ 802,907	Total disbursement to end 2005	€ 745,831
			Forecast disbursement to end 2006	€ 745,831
Objective	To develop and maintain a road transport network capable of supporting sustained economic development and giving equitable access to basic services			
Purpose	To develop in Government a capacity to maintain the national road network and carry out effective road management			
Results expected	<ol style="list-style-type: none"> <li>1. Monitoring of heavy vehicle axle loads</li> <li>2. Enforcement of axle load control legislation</li> <li>3. Improved and up-to-date Traffic Information System</li> </ol>			
Results Achieved and/or Progress in 2005	<p>After lengthy delays in the preparation and tendering process, a contract (LSL 3,391,504) for both Lot 1 (Installation of permanent weigh-bridge sites at Maseru Bridge and Maputsoe) and Lot 2 (purchase and supply of portable weighbridges and construction of lay-byes) was awarded to M &amp; C Construction in July 2002. The works contract was completed successfully in May 2003. Final acceptance took place in July 2004. Final payment was made in 2005.</p> <p><u>Results:</u> Records following the operationalisation of the weigh-bridges showed the serious overloading problem, and as a result of the enforcement the overloading was drastically reduced. However, the enforcement has not been as effective as it should be in the absence of approved new legislation.</p> <p>Project is to be closed.</p>			

## PROJECT SHEET

<b>Title</b>	<b>8<sup>th</sup> EDF Multi-annual Micro-projects Programme</b>		<b>N°</b>	<b>7 ACP LSO 048</b>
Date of Financing Agreement/Primary Commitment	2 <sup>nd</sup> September 1999			
Start Date:	31 <sup>st</sup> December 1999	End Date:	30 <sup>th</sup> June 2005	
Global Commitment	€ 407,000	Total disbursement 2005	€ 0	
Individual Commitment(s) 31/12/04	€ 383,877	Total disbursement to end 2004	€ 383,877	
The project is to be closed in Q 2 2005		Forecast disbursement end 2006	na	
Objective	Create sustainable social and economic development in the poorest areas of Lesotho			
Purpose	The implementation of a programme of self-help projects in rural and peri-urban areas			
Results expected	Up to 405 Micro-project Agreements successfully concluded and implemented by a locally staffed coordination unit			
Results Achieved and/or Progress in 2005	This commitment has been used to finance technical assistance as an adviser to the Micro-projects Programme. The technical assistance completed his assignment in September 2003 and the payment recorded during 2004 constituted the final payment.  Project is to be closed.			

## REGIONAL PROJECTS

**- 7 ACP RPR 600 - SADC–HYCOS (Hydrological Observation System)**

Project completed; the commitment is to be closed;

**- 8 ACP TPS 154 – EISP (Economic Integration Support Programme to the BLNS)**

The programme was designed to support the BLNS states coping with the negative effects of the Trade, Development and Cooperation Agreement (TDCA) signed between the EU and RSA. No activity foreseen under the project was implemented; a review mission traveled to Lesotho as part of a BLNS tour in mid-2004 to gauge whether GoL would agree on a time extension of the programme; a Contribution Agreement seems to have finally been signed in March 2006 with SACU; no activities in Lesotho so far;

**- 8 ACP RAU 014 – Regional Support for an Expanded Multi-Sectoral Response to HIV/AIDS in the SADC Region**

A set of different initiatives were scheduled to take place in Lesotho in 2004 under this programme (i.e. strengthen support to migrants and mobile populations; reduce the effects of HIV infection among nurses and midwives); no information is available regarding such initiative;

**- 8 ACP TPS 097 - EUMETSAT – Meteorological Transition in Africa Project (MTAP/PUMA)**

The project aims at positively impacting the countries' economies by providing meteorological information via satellite. During 2004 GoL technicians were trained and the installation of the ground equipment was completed in April 2005;

**- 9 ACP RPR 025 - African Trans-boundary River Basin Support Programme**

The Programme consists of five discrete projects providing support to trans-boundary river basin organizations in West, East and Southern Africa. The project component relevant to Lesotho is the Orange-Senqu Basin Commission (ORASECOM), engaging Lesotho, South Africa, Botswana and Namibia. The overall objective of the Programme is to promote economic growth and improved quality of life for the people living in the five trans-boundary river basins. The feasibility study for the ORASECOM project was completed in 2005 and the Financing Proposal for the project execution is to be finalized by the consultant to incorporate SADC and other stakeholders' comments;

**- 9 ACP SAD 004 – Support to SADC Regional Integration and the Multilateral Trading System**

The overall objective is to liberalize trade in services in the SADC region according to WTO commitments and integration of the Region's economy into the world economy. The FA, worth 1.3 MEURO, was signed in July 2004; the Delegation is unaware of any actions taking place in Lesotho;

**- 9 ACP SAD 006 – Facility to Support EC-SADC Negotiations for an Economic Partnership Agreement (EPA)**

The overall objective is the integration of SADC Member States into the world economy and poverty reduction through sustainable economic growth. The FA, worth 7.5 MEURO, was signed in September 2005; the Delegation is unaware of any actions taking place in Lesotho;

**- 9 ACP SAD 007 – Support to SADC Member States in Standardization, Quality Assurance, Accreditation and Metrology (SQAM)**

The overall objective is to support trade and investment, enhance the protection of consumers and improve the competitiveness of suppliers of products and services in SADC Member States. The FA, worth 14.67 MEURO, was signed in December 2005; the Delegation is unaware of any action taking place in Lesotho;

**- 9 ACP SAD 005 – Technical Cooperation Facility (TCF)**

The overall objective is the successful implementation of SADC's RIP/RSP through the support of sound development programmes financed from the EDF and fostering a more coherent and informed approach to development and trade issues in the SADC region. The FA, worth 1.95 MEURO, was signed in April 2005; the Delegation is unaware of any action taking place in Lesotho.

## EIB PROJECTS

## LESOTHO

## EIB Loan Portfolio as at 31.12.2005

Loan No	Name of contract	Loan signed on	Loan amount	Loan disbursements (amounts in EUR)				Loan repayments		
				Amount disbursed	(Actual) Date of first disbursement	Amount cancelled	Amount to be disbursed	Amount loan outstanding EUR	First repayment date	Last repayment date
17170	-Muela Hydropower	3/15/1994	5,000,000.00	5,000,000.00	3/28/1994	0.00	0.00	1,824,735.10	8/20/1999	2/20/2009
17455	(PHASE 1B)	5/25/1998	44,000,000.00	42,122,243.19	5/25/2000	1,877,756.81	0.00	38,368,680.68	7/31/2004	1/31/2018
17690	(PHASE 1B)	10/7/1998	10,000,000.00	10,000,000.00	n/a	0.00	0.00	9,773,773.48	1/31/2004	7/31/2018
	<i>sub-total own resources</i>		<i>59,000,000.00</i>	<i>57,122,243.19</i>		<i>1,877,756.81</i>	<i>0.00</i>	<i>49,967,189.26</i>		
<b>Loans on risk capital resources</b>										
70206	LNDC Tourism Study	2/13/1981	50,000.00	50,000.00	3/12/1981	0.00	0.00	0.00	8/30/1982	8/30/1986
70207	LNDC Ceramics Studies	2/13/1981	50,000.00	47,516.50	9/16/1981	2,483.50	0.00	0.00	8/30/1983	8/30/1987
70259	LNDC PG	12/17/1981	3,000,000.00	2,513,000.00	6/7/1982	487,000.00	0.00	0.00	3/1/1986	3/1/2006
70560	LNDC PG II	8/13/1985	3,000,000.00	2,815,500.00	3/20/1986	184,500.00	0.00	37,500.00	3/1/1989	3/1/2010
70630	Lesotho Highlands Water Study	12/15/1986	3,500,000.00	3,500,000.00	9/4/1987	0.00	0.00	0.00	11/10/1997	11/10/2001
70794	LNDC Industrial Estate	10/26/1989	3,000,000.00	1,459,171.00	11/25/1992	1,540,829.00	0.00	1,144,793.66	10/1/2005	10/1/2009
70942	Muela Hydropower	3/15/1994	15,000,000.00	15,000,000.00	9/18/1995	0.00	0.00	13,630,500.00	2/20/2005	2/20/2014
70968	LNDC IV GL A	9/28/1994	750,000.00	750,000.00	9/20/1995	0.00	0.00	414,000.00	10/31/1999	10/31/2013
70969	LNDC IV GL B	9/28/1994	1,750,000.00	1,265,000.00	9/3/1996	485,000.00	0.00	288,300.00	10/31/1999	10/31/2008
70970	LNDC IV GL C	9/28/1994	500,000.00	168,000.00	1/20/2000	332,000.00	0.00	79,166.67	10/31/2005	10/31/2010
	<i>sub-total risk capital resources</i>		<i>30,600,000.00</i>	<i>27,568,187.50</i>		<i>3,031,812.50</i>	<i>0.00</i>	<i>15,594,260.33</i>		
	<b>Grand Total</b>		<b>89,600,000.00</b>	<b>84,690,430.69</b>		<b>4,909,569.31</b>	<b>0.00</b>	<b>65,561,449.59</b>		

\* depending on type of allocation

## EPA QUESTIONNAIRE

QUESTIONS	ANSWERS
1) Give your assessment of the level of preparation of each ACP country in order to take part in trade and EPA negotiations.	
a) Technical capacity of ministries concerned	Technical capacity of ministries concerned is inadequate as existing human resource do not match expanded responsibilities.
b) Existence of national strategies concerning trade and regional integration.	National strategies concerning trade and regional integration do exist for example, a denim mill which imports cotton from the region has been established. Market for the denim cloth is also in the region, however dual membership of SADC members to different regional organizations with different customs regimes impedes progress in practical business decisions.
c) Open dialogue with relevant stakeholders from the private sector and civil society.	Yes, there is dialogue with relevant stakeholders (see 1.d below)
d) Establishment and functioning of a national EPA negotiations committee.	Committee comprising of Public and Private sector as well as the Civil Society has been established. It acts as a forum for open dialogue by relevant stakeholders to finally come up with Lesotho's negotiating position.
2) Give your assessment of the level of implication of each government in regional integration and in taking part in its regions EPA.	
a) To what extent the Government position reflects stakeholder opinion and interests in a long term development perspective.	Private Sector is always consulted.
b) How does each country view the negotiating process and does it have confidence in the role played by the relevant regional organisation(s) in these negotiations?	Yes SADC members have confidence in the roles played by regional organizations.
c) Report any technical or political obstacles that might prevent a better implication of each government in regional integration and the EPA process.	Membership of SADC countries to different regional organizations and obligations could be an obstacle. Furthermore some SADC members states still heavily depend on customs and excise revenues.
3) If your country has not asked for an impact study on the effects of an EPA, does it wish to do so now?	
a) If it has benefited from one or more impact studies and / or national seminars, can you try to ascertain from the government if these have delivered the information and recommendations expected and have they been useful in identifying relevant opportunities and problems that could influence a country's position vis-à-vis the EPA, as well as what economic integration initiatives or reforms would be necessary to support and/or optimise the results of the EPA process.	The BLNS countries are de facto members of the RSA and EU TDCA, this means the BLNS are already making a reciprocal offer to the EU. Lesotho status as an LDC should be taken into account in order to compensate for tariff revenue loss adjustment costs. Lesotho will require special compensation from the EU.

QUESTIONS	ANSWERS
b) Have the studies / seminars proposed concrete actions / support measures and what is the country's (government, private sector) position vis-à-vis those support propositions.	Lesotho will need a study to assess the impact of the TDCA agreement between RSA and the EU in relation to the EPA process/negotiations.
c) Report the current support to the countries EPA preparation efforts, including other donor's cooperation.	Regional preparatory task force has been established to identify support programmes which need assistance in the form of studies or technical assistance that task force is composed of SADC National Contact Points, Directors of Trade, Ministries of Finance and EC Head of Delegation, Botswana.
4) Identify any bottlenecks or serious blockages in our ongoing programmes.	Major bottleneck in on-going programmes is the EU's lengthy and complicated procedures in releasing funds.
5) Indicate as a consequence what additional regional integration, trade and trade-related assistance needs to be undertaken or programmed in each country's NIP or the RIP, taking into account the capacity of absorption and implementation of the proposed implementing partners.	