

Kingdom of Lesotho -European Community

**Country Strategy Paper
and
National Indicative Programme
for the period 2008 – 2013**

The Government of the Kingdom of Lesotho and the European Commission hereby agree as follows:

- (1) The Government of the Kingdom of Lesotho (represented by Mr Timothy T. Thahane, Minister of Finance and Development Planning, National Authorising Officer of the European Development Fund) and the European Commission (represented by Mr Peter Beck Christiansen, Head of Delegation in Lesotho), hereinafter referred to as the "parties", held discussions in Maseru from April 2006 to August 2007 with a view to determining the general orientations for co-operation for the period 2008 -2013. During these discussions, the Country Strategy Paper and an Indicative Programme of Community Aid in favour of the Kingdom of Lesotho were drawn up in accordance with the provisions of Articles 2 and 4 of Annex IV to the ACP-EC Partnership Agreement, signed in Cotonou on 23 June 2000 as revised in Luxemburg on 25 June 2005. These discussions complete the programming process in Lesotho. The Country Strategy Paper and the National Indicative Programme are annexed to this document.
- (2) As regards the indicative programmable financial resources which the Community plans to make available to the Kingdom of Lesotho for the period 2008 -2013, an amount of **€136 million** is scheduled for the allocation referred to in Article 3.2 (a) of Annex IV to the ACP-EC Partnership Agreement (A-Allocation) and of **€2 million** for the allocation referred to in Article 3.2 (b) (B-Allocation). These allocations are not entitlements and may be revised by the Community, following the completion of mid-term and end-of-term reviews, in accordance with Article 5.7 of Annex IV to the ACP-EC Partnership Agreement.
- (3) The A-Allocation is destined to cover macroeconomic support, sectoral policies, programmes and projects in support of the focal or non-focal areas of Community Assistance. The National Indicative Programme under Part 2 concerns the resources of the A-Allocation. It also takes into consideration financing from which the Kingdom of Lesotho benefits or could benefit under other Community resources. It does not pre-empt financing decisions by the Commission.
- (4) The B-Allocation is destined to cover unforeseen needs such as emergency assistance where such support cannot be financed from the EU budget, contributions to internationally agreed debt-relief initiatives and support to mitigate adverse effects of instability in export earnings. The B-Allocation shall be triggered according to specific mechanisms and procedures and therefore does not yet constitute a part of the National Indicative Programme.
- (5) Resources can be committed within the framework of this Country Strategy Paper and National Indicative Programme upon the entry into force of the 10th EDF Multi-annual Financial Framework for the Period 2008 -2013 of the revised ACP-EC Partnership Agreement but not before 1 January 2008. Financing decisions for projects and programmes can be taken by the Commission at the request of the Government of the Kingdom of Lesotho within the limits of the A- and B-Allocations referred to in this document. Financing decisions can also be taken on the basis of Article 15(4) in conjunction with Article 4(1) (d) of Annex IV to the ACP- EC Partnership Agreement for support to non-State actors or on the basis of Article 72 (6) to the ACP- EC Partnership Agreement for humanitarian and emergency assistance funded from the B- allocations. Financing decisions shall be taken and implemented according to the rules and procedures laid down in the EC Council regulations on the implementation of the 10th EDF and on the financial regulation applicable to the 10th EDF and in Annex IV to the ACP- EC

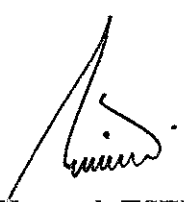
Partnership Agreement.

- (6) The European Investment Bank may contribute to the implementation of this Country Strategy Paper by operations financed from the Investment Facility and/or from its own resources, in accordance with Paragraphs 2(c) and 3 of Annex Ib of the ACP- EC Partnership Agreement regarding the 10th EDF Multi-annual Financial Framework for the period 2008 - 2013.
- (7) In accordance with Article 5 of Annex IV to the ACP-EC Partnership Agreement, the National Authorising Officer and the Head of Delegation shall annually undertake an operational review of the National Indicative Programme and undertake a mid-term review and an end-of-term review of the Country Strategy Paper and the National Indicative Programme in the light of prevailing needs and performance.
The mid-term review shall be undertaken in 2010 and the end-of-term review in 2012. Following the completion of the mid- and end-of-term reviews, the Community may revise the resource allocation in the light of needs and performance at the time.
Without prejudice to Article 5.7 of Annex IV concerning reviews, the allocations may be increased according to Article 3(5) of Annex IV in order to take account of special needs or exceptional performance.
- (8) The agreement of the two parties on this Country Strategy Paper and the National Indicative Programme, subject to the ratification and entry into force of the revised ACP-EC Partnership Agreement and the 10th EDF Multi-annual Financial Framework for the Period 2008 -2013, will be regarded as definitive within eight weeks of the date of the signature, unless either party communicates the contrary before the end of this period.

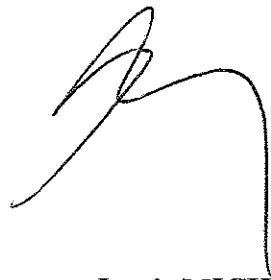
Done at Lisbon on 9 December 2007

For the Government of
the Kingdom of Lesotho

For the European Commission



Mohlabi Kenneth TSEKOA
Minister of Foreign Affairs



Louis MICHEL
Member of the Commission in charge of
Development and Humanitarian Aid

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Summary

Lesotho is small, landlocked and surrounded by South Africa, the region's largest economy. With few exploitable natural resources – diamonds, water transfer and wonderful mountain landscape with possible tourist potential – and strictly limited agricultural potential, the people have developed a strong culture of wage employment. Historically, Lesotho sent migrant labourers to the mines in South Africa, with remitted wages providing sustainable livelihoods and general household security for their families living mainly in rural areas. However, such opportunities for migrant employment have declined sharply since the political and economic reconfiguration of South Africa after 1994. Fortuitously, a substantial influx of foreign direct investment created an export-oriented garment industry from the late 1990s, providing jobs for 50,000 (mostly female) employees.

Poverty is multi-faceted and deeply entrenched in Lesotho, with a third of the population barely surviving on under half of the poverty datum. Subsistence agriculture, the main standby in many other parts of Africa, is not able to support many rural households in competition with lower-cost producers in South Africa. Internal migration in search of employment is resulting in increasingly high levels of poverty in the Lowlands and around the towns.

The Government of Lesotho (GoL) has a well-defined development framework – concerning what is to be done – in its Poverty Reduction Strategy (PRS), emphasising the pursuit of economic growth as the main remedy, supported by better living conditions for the poor (with improved education, health and environment) and public sector reforms including the establishment of effective and sustainable local government institutions and improved public services. The Millennium Development Goals (MDGs) established for Lesotho appeared ambitious but achievable.

However, the positive trends detected in the period after 2000, driven by helpful external economic circumstances, have been reversed by the very rapid onset of HIV/AIDS in the country. The prospects are not good and the MDGs now clearly out of reach. The pandemic is threatening the future of Lesotho, being a disaster for the lives, social structures and livelihoods of the people. One tenth of the population are now orphans and vulnerable children.

GoL is now striving to cope with the immediate and medium-term effects of HIV/AIDS in addition to implementing the PRS. A difficult task may have become almost impossible.

In generating an optimum response from Development Partners for the period 2008 -13, the European Community (EC) has collaborated with the EU Member States most active in Lesotho (Ireland, Germany and United Kingdom) in the spirit of harmonisation. The situation analysis set out in this Country Strategy represents a broad consensus and points the way towards joint programming and development management in the future.

After extensive stakeholder consultations, it has been agreed that EC assistance in Lesotho will continue to be supportive of poverty reduction through economic growth and better provision of basic services, with the crucial addition of a major contribution to the defeat of HIV/AIDS and TB as a necessary condition for the country's survival and development.

EC assistance under the 10th European Development Fund (EDF) will focus on the following two areas *Human Development*, predominantly through the campaign to eliminate HIV/AIDS and TB; and *Infrastructure*, continuing EC support for the key public service areas of water & sanitation provision and of road transport. Macroeconomic support and capacity building will accompany this assistance, with EC funding being linked to progress with GoL implementation of the PRS and the achievement of targets specific to improved public financial management, public sector reform and the decentralisation of service delivery. The indicative allocation for the 10th EDF A-Envelope is €136 million and the indicative allocation for the B-Envelope is €2 million.

Part 1: Strategy Paper

I. THE FRAMEWORK OF RELATIONS BETWEEN THE DONOR AND THE PARTNER COUNTRY

I.1.1 General objectives of the EC's external policy

In accordance with Article 177 of the Treaty Establishing the European Community, Community policy in the sphere of development co-operation is to foster:

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

Europe should project a coherent role **as a global partner**, inspired by its core values in assuming regional responsibilities, promoting sustainable development, and contributing to civilian and strategic security.

The Union has developed a broad spectrum of external relations tools in the shape of the common trade policy, co-operation under bilateral and multilateral agreements, development co-operation, humanitarian aid and financial assistance as well as the external aspects of internal policies (energy, environment, transport, justice and home affairs, etc.).

EU external action including the Common Foreign & Security policy, common trade policy and co-operation with third countries provides a framework both for integrating all EU instruments and for gradually developing a set of common actions based on common positions in the broader sphere of political relations.

Enlargement has entrusted the EU with even greater responsibilities, as regional leader and as global partner. It should therefore strengthen its capacity to promote human rights, democracy and the rule of law as well as its capacity to focus on the fight against poverty, both in its own neighbourhood and through its multilateral and bilateral policies, which are mainly aimed at sustainable development and political stability. Thus, the EU will achieve genuine coherence between its domestic and its external agendas, contributing thereby to global security and prosperity.

I.1.2 Strategic objectives of co-operation with the partner country

The Treaty objectives are confirmed in Article 1 of the ACP-EU Partnership Agreement, signed in Cotonou on 23 June 2000 and revised in Luxembourg on 25 June 2005. The overarching objective of the Cotonou Agreement is to promote the development of a common strategic approach to poverty reduction, consistent with the objectives of sustainable development and the gradual integration of ACP countries into the world economy. Co-operation between the Community and Lesotho is to pursue these objectives, taking into account the fundamental principles set out in Article 2, in particular the encouragement of "ownership" of the strategy by the country and populations concerned, and the essential elements and fundamental element as defined in Articles 9 and 11b of the Agreement.

While the Treaty and the Cotonou Agreement provide the legal basis for EC co-operation with ACP countries, the recently adopted European Consensus on Development sets the general policy framework at EU level. The primary and overarching objective of EU development policy is the eradication of poverty in the context of sustainable development, in line with the international agenda, and with particular attention for the Millennium Development Goals. Human rights and good governance are recognised as other important objectives.

Better aid effectiveness is essential to achieving poverty eradication. Therefore, the EU will advance co-ordination, harmonisation and alignment. It will promote better donor complementarity by working towards joint multi-annual programming based on partner countries' strategies and processes, common implementation mechanisms, joint donor-wide missions, and the use of co-financing arrangements. The EU will take a lead role in implementing the Paris Declaration commitments on improving aid delivery and it will capitalise on new Member States' experience to strengthen their role as donors.

Policy coherence for development will advance in a number of areas. The purpose is that all EU non-aid policies make a positive contribution to developing countries' efforts to attain the MDGS.

The principle of concentration will guide the Community country and regional programming. This means selecting a limited number of priority areas of action, through dialogue with partner countries, rather than spreading efforts in too many sectors. In this context the Community will be active primarily in the following nine areas, taking into account its comparative advantages in a number of these: trade and regional integration; the environment and the sustainable management of natural resources; infrastructure, communications and transport; water and energy; rural development, territorial planning, agriculture and food security; governance, democracy, human rights and support for economic and institutional reforms; conflict prevention and fragile states; human development; social cohesion and employment.

The mainstreaming approach will be strengthened for four cross-cutting issues: democracy, good governance, human rights, the rights of children and indigenous peoples; gender equality; environmental sustainability; and the fight against HIV/AIDS.

In December 2005, the European Council agreed on an EU Strategy for Africa. The Strategy provides a long-term, strategic framework for interaction between Europe and Africa at all levels: with pan-African institutions such as the African Union, regional organisations and national authorities. It defines how the EU can best support Africa's own efforts to promote sustainable development and reach the MDGS. The Strategy rests on three pillars: (i) promoting peace, security and good governance as central prerequisites for sustainable development, (ii) supporting regional integration, trade and interconnectivity to promote economic development and (iii) improving access to basic social services (health, education) and protection of the environment to reach the MDGS 1 to 6 faster.

Main bilateral agreements

The Partnership Agreement (Cotonou) as amended in June 2005 is the main bilateral accord governing Lesotho-EU co-operation. Lesotho is eligible to benefit from the EU's global Everything But Arms (EBA) initiative.

II. COUNTRY DIAGNOSIS

II.1 The Political, Economic, Social and Environmental Situation in the Recipient Country

Lesotho is a Least Developed Country (LDC). Successive triennial reviews have shown that it fails to meet the criteria for graduation in any of the categories of income, human assets and economic vulnerability. Sustained economic growth will be necessary to meet the income criterion while the adverse impact of HIV/AIDS means that progress towards the human assets criterion has actually been reversed. As a small, landlocked country with a limited range of export commodities, Lesotho is unlikely to overcome its intrinsic vulnerability and it has been unable to take advantage of some of the preferential arrangements available to LDCs. It is doubtful that Lesotho will achieve many of the MDGS by 2015.

II.1.1 Political and institutional situation

Lesotho is a constitutional monarchy established in 1966, with the King as Head of State and executive power in the hands of the Government led by the Prime Minister. There is a dual legal system with traditional Customary Law and General Law based on the Roman-Dutch system and a constitution that provides for a clear separation of powers among the executive, legislature and judiciary.

The bicameral Parliament consists of an elected National Assembly and appointed Senate, in which 22 of 33 seats are held permanently by Principal Chiefs. The National Assembly comprises 120 seats filled on a reformed electoral system (Mixed Member Proportional), with 80 seats contested on a "first past the post" basis and 40 by proportional representation.

Decentralisation

A Local Government Act was passed in 1997, centred on the creation of institutional structures at District and Community level to transfer to the people both the responsibilities and the resources for managing their own affairs and local development. It was intended to redress a poor performance over many years with regard to provision of basic services to the mass of people, particularly in rural areas, and to promote stakeholder participation in national issues.

Implementation of the ambitious decentralisation programme started in earnest in 2005. Ten Community Councils have been established in all of the ten Districts. The Councils have begun to operate and to build up their capacity to manage service delivery, and to devise and control budgets. They will be obliged to make difficult choices between sectors and, crucially, between recurrent costs (wages) and development investments. Councillors are being trained, regulations

drawn up under the Local Government Act and infrastructure is being created. Decentralisation has started well, but it will take several years to achieve full articulation of the radical new set-up. Political leadership will be required to maintain the reform impetus and overcome the resistance of some beneficiaries of the old order.

The most pressing issue is the realisation of equitable, automatic and robust resource transfer arrangements from Central Government to supplement local revenues, including the establishment of planned District Development Funds at the disposal of the elected local authorities.

Democratic principles

Following the 1998 political crisis, an Interim Political Authority (IPA) was set up with the participation of Government and opposition parties. The IPA devised an all-inclusive parliamentary model that was used successfully for the General Election of May 2002. The result was 77 seats for the Lesotho Congress for Democracy (LCD), 21 for the Basotho National Party (BNP) and the remaining 22 seats shared between eight other parties. This resolution defused the tensions that led to violent civil unrest following the “non-acceptance” by some parties of the 1998 election results, in which the LCD won 78 of 79 contested seats.

17 February 2007 marked another milestone in consolidating the culture of democracy in Lesotho with another General Election. Following some high profile defections from the incumbent LCD, the last quarter of 2006 has seen the formation of a new political party, the All Basotho Convention (ABC), which has wide support and substantial representation in the National Assembly. The general consensus from observers is that the election was credible, transparent, lawful and, most importantly, peaceful. The key issue at this point is the acceptance of the results by the political party leaders and their followers. The use of alliances in the Mixed-Member-Proportional (MMP) representation scheme resulted in a major victory for the LCD with an absolute majority (82 mandates) and a good result for the ABC (27) but a near annihilation of the smaller parties of which seven shared 10 mandates. It is now up to LCD to initiate a reform of the MMP model, to close some of the loopholes in the electoral law, even though LCD was the only party to benefit the most from the system.

The Parliamentary Reform Commission began work in 2005 with a mandate to enhance parliamentary democracy.

To ensure economic and political stability, the legal and judicial systems are being capacitated and restructured to enforce law and order, investigate crimes and protect the Constitution.

Since August 2004, Lesotho has belonged 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. Work has started to prepare Lesotho for the review process by establishing a committee.

Human rights

Fundamental human rights and the freedom of all persons are guaranteed under the constitution, a guarantee that is reinforced through Lesotho being a signatory to most of the UN Human Rights Treaties and the pertinent main international and regional conventions.

A Human Rights Unit (established in 1995) in the Ministry of Justice & Human Rights has the mandate to promote, protect and monitor human rights in Lesotho. An Ombudsman’s Office is in place to protect the rights of individuals against unjust acts on the part of the Executive Branch. An Advocacy Programme has been launched on human rights issues, with a countrywide campaign of community meetings.

Legislation is being drafted with the assistance of UN agencies and NGOs to make the legislative framework comply with the State’s human rights obligations. The death penalty remains on the statute book although a *de facto* moratorium has been effective since the 1990s. Although Lesotho is a signatory to the Convention on Elimination of all Forms of Discrimination against Women (CEDAW), women are treated as minors under Customary Law and a number of gender-discriminatory laws remain.

Related new laws include the Vital Registration Act (to address the issue of compulsory vital registration) and the Education Act (on compulsory free primary education). The Sexual Offences Act (2003) consolidated all laws regulating sexual conduct and repealed those that were discriminatory and did not offer adequate protection to victims. The Married Persons Equality Bill, which seeks to remove all restrictions on the legal capacity of a wife, has been enacted as the ‘The Legal Capacity of Married Persons Bill’. The Child Protection & Welfare Bill, which is being drafted, seeks to promote and protect the rights of children as defined in the 1989 United Nations

Convention on the Rights of the Child, the 1990 African Charter on the Rights and Welfare of the Child and other international instruments to which Lesotho is signatory.

GoL adopted the Gender & Development Policy in March 2003 to create a favourable environment for mainstreaming gender in the public sector. GoL has mandated the Law Reform Commission to review all discriminatory legislation as a step in addressing gender disparities.

Governance and the reform programme

GoL has recognised that poor service delivery has impeded achievement of its development goals, through inefficient service provision, the mismanagement of limited resources, and weak control measures leading to corruption. In 2001/02, GoL devised the *Public Service Improvement & Reform Programme* (PSIRP) to improve the delivery capacity, effectiveness, accountability and transparency of public services.

The main elements of PSIRP are Public Financial Management (PFM), Public Service Reform and Decentralisation. However, little has been achieved so far in tackling the reforms, which focus on the efficient and cost-effective delivery of public services.

Corruption

GoL is committed to eliminating the corruption that has eroded development efforts in the past. The Prevention of Corruption & Economic Offences Act was passed in 1999. The Directorate on Corruption & Economic Offences (DCEO, established in April 2003) is the body charged with fighting corruption. The DCEO has been active at rallies and national events in educating and making the public aware of the evils of corruption, and has conducted several workshops for Government agencies. The DCEO joined forces with civil servants, private-sector operators and NGOs in an Anti-Corruption Steering Committee in 2005. This body is mandated to assist the DCEO with expertise and guidance and to demonstrate zero tolerance towards corruption in all fields of activity.

Cases of corruption which have been brought before the Courts also serve as powerful tools for deterrence. Legal proceedings taken by GoL against some international companies involved in bribery in the Lesotho Highlands Water Project (LHWP) were successful, resulting in convictions and blacklisting. One senior LHWP official was convicted; other cases against individual former employees of LHWP in Lesotho are still ongoing.

Security and social cohesion

Over forty years, the democratic processes have been marred by military coups, 23 years of authoritarian rule and clashes between and within regimes. From a turbulent political scene in the 1990s, marked by a low point in 1998 when SADC military intervention was required, the situation has stabilised. Peace, stability and tranquillity prevail in Lesotho. Serious attempts are being made to consolidate democracy and generate a more inclusive society. Lesotho has been elected to the SADC Organ for Peace and Security and, in July 2004, to the Peace and Security Council (PSC) of the AU for two years. Fifteen Member States of the AU constitute the PSC, with Lesotho, RSA and Mozambique representing the Southern Region.

II.1.2 Economic and commercial situation

Economic situation, structure and performance¹

Lesotho has a total land area of 30,355 square kilometres, of which two-thirds is mountainous. The natural resource endowment of the country is limited, the principal tangible assets being diamonds and water. The abundant water supplies are located in the mountains far from most of the population and have been tapped by the Lesotho Highland Water Project for transfer to RSA. The country has no energy sources other than hydroelectric and solar power and has to import power, coal and oil from RSA. The magnificent scenery could attract more tourists if better marketing, eased passport requirements for South Africans and satisfactory facilities were in place.

Less than 10% of the total land area is suited to crop cultivation. Low-value-added agriculture and herding helps to support the population situated in both the Mountain and Lowland rural areas.

Lesotho has been undergoing an economic transformation since the early 1990s, from being essentially a supplier of labour to South Africa to being driven by domestic production fuelled by private investment. Migrant remittances amounted to 50% of GNP until the late 1980s, which proportion has fallen to 20%. Agriculture has been falling as a share of GDP, with the service sector stagnant, but manufacturing, construction and mining growing.

¹ Key economic indicators, trends and projections are shown in Annex 1.

The garment industry established in the 1990s accelerated from 2000 with access to the US market thanks mainly to the US Africa Growth & Opportunities Act (AGOA). The key feature of AGOA is the third country fabric clause that, until 2012, allows for the worldwide outsourcing of raw materials. Garment exports increased from \$100 million in 1998 to \$450 million in 2004, employing around 50, 000 workers (80% women) in some 50 companies.

This rapid growth slowed during 2004 -05 due to the strong Rand and the expiry of the Agreement on Textiles & Clothing– Multi-Fibre Agreement (MFA) that opened the US and EU markets to Asian exporters. Some 10, 000- 13, 000 jobs were lost in the factory closures of 2004. FDI is now gathering pace again, this time with a strong South African presence and some non-textile production. Over the period 1999 -2004, GDP measured in current market prices grew by an annual average of 9.7% (2.9% in real terms), whereas GNI increased by 9.0%. Net transfers grew by an annual average of 12.5% over this period.

Lesotho receives important net transfers from the SACU revenue pool (20% of GDP in 2004 and 50 -60% of the State Budget). Lesotho is therefore very vulnerable to modifications in trade tariffs.

Provisional output indicators and export data indicate that economic performance weakened significantly in 2005. GDP at market prices grew by only 2.9%, largely driven by a decline in manufacturing.

GNI grew rapidly in 2003 and 2004. This occurred because of increases in net income from abroad and an appreciation of the Maloti against major currencies (especially the US Dollar) that improved the terms of trade. In 2005 GNI declined largely as a result of the decline in the manufacturing sector.

GDP and GNI growth rates 2004- 2009

	2004	2005	2006*	2007 [§]	2008 [§]	2009 [§]
GDP in Current Prices (% p.a.)	4.0	2.9	6.2	6.9	6.6	6.5
GNI in Current Prices (% p.a.)	7.8	4.0	7.1	4.8	5.5	5.3

Source: Central Bank of Lesotho (2006) * Estimate [§] Projection

Current Transfers are provided mainly from the revenue pool established under SACU. The new revenue-sharing formula came into operation with effect from 1 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 RSA consumption boom has meant rapid growth in customs collections so receipts are higher than original estimates. For 2006/07 the budgeted receipts have been adjusted up from LSL 2.0 billion (approximately €277.8 million) to LSL 2.8 billion (€388.9 million).

In terms of Lesotho's trade (2004), 15% of exports go to the SACU countries and 69% to the USA, whilst 90% of imports come from SACU. Diamonds have become a substantial export commodity to Europe.

SACU Revenue 2005/06 -2009/10

LSL million

	2005/06	2006/07	2007/08*	2008/09 [§]	2009/10 [§]
Allocation	2,307	4,203	3,836	4,458	4,369

Source: Ministry of Finance and Development Planning (2007) * Estimate [§] Projection

Structure and management of public finances

Fiscal management has been sound, with a surplus of LSL 621.1 million (€62.1 million, 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% and capital expenditure recording a small decline). The medium-term fiscal position is expected to remain strong. A further surplus of LSL 398.5 million (€39.8 m, 4.2% of GDP) is expected for 2005/06, resulting from higher revenue collection and under-spending on wages, on goods and services and on capital. The public- sector wages and salaries bill for about 35, 000 employees (including teachers, health workers and the defence force) is high at 13% of GDP, but politically difficult to reduce.

In recent years, GoL has used prudent fiscal management to reduce public debt to sustainable levels. Public debt peaked at 104% of GDP in 2001/02 but has declined since and is projected to fall to a sustainable 46% by 2009/10.

Inflation, which was estimated at 3.4% for 2005 is driven primarily by prices in RSA, which remains the source of almost 90% of the country's imports for final consumption.

Assessment of the Public Financial Management reform process

Serious efforts are being made by GoL to improve Public Financial Management (PFM) and to install effective budget execution systems and a transparent PFM accountability framework to support policy objectives and development targets. A key weakness relates to an under-performing and obsolete financial management information system (GoL Financial Information System – GOLFIS) and insufficient capacity within GoL to develop, maintain and manage functional PFM application systems. This has led to omissions in the accounts, transaction recording and posting errors and an almost complete absence of reconciliation of subsidiary records to the general ledger, increasing susceptibility to fraud and corruption. There is inadequate cash management and a weak internal control environment that is compounded by the absence of an effective internal audit function.

Strengthening of the PFM has been ongoing since January 2005 in the context of the PSIRP. The scope includes all aspects of public sector budgetary and financial management, procurement and multi-year expenditure planning (including the introduction of a Medium-Term Expenditure Framework – MTEF). Arrangements are underway for an Integrated Financial Management Information System (IFMIS) to replace the GOLFIS.

During the May 2006 Joint Mission on Budget Support, development partners expressed concern that insufficient attention had been given to the optimal sequencing and inter-linkages between the various activities under the PFM reform programme. This was of particular concern with regard to the plans for the introduction of an Integrated Financial Management and Information System (IFMIS) which the Government plans to deploy from April 2007 on a pilot basis. International experience and emerging best practice in IFMIS reforms point to the need to firmly anchor such reforms in an overall strategy with key systems reforms completed in advance of deployment.

Key sequencing issues were reviewed in June 2006 under the PFM reform programme.

The establishment (January 2003) and operation on a sound professional basis of the Lesotho Revenue Authority (LRA) has been a success in collecting due taxes, easing cross-border trade by reducing bureaucracy, and working closely with the South African Revenue Service.

Trade policy and external environment

The EU is in the process of negotiating an Economic Partnership Agreement (EPA) with seven of the SADC countries (Angola, Botswana, Lesotho, Mozambique, Namibia, Swaziland and Tanzania) and South Africa. South Africa became party to the EPA negotiations in February 2007. The process was launched in July 2004 in Namibia.

Lesotho is seeking closer economic co-operation with its sole neighbour, South Africa. To this end, the two countries have established a Joint Bilateral Commission on Co-operation (JBCC). Both are members of SACU, CMA, SADC and the African Union (AU). As a SACU member, Lesotho is taking part in negotiations between SACU and third countries to create Free Trade Agreements (FTAs) and Preferential Trade Agreements (PTAs). Regional trade relations are evolving rapidly, however, and SACU and CMA are likely to be superseded by wider regional groupings. Lesotho is engaged fully with the rapid evolution of the SADC Regional Indicative Strategic Development Plan (RISDP), for which the ambitious milestones include the attainment of a Free Trade Area by 2008, Customs Union by 2010, Common Market by 2015 and Monetary Union by 2016, with the generation and implementation of regional macroeconomic policies.

The medium to longer-term prospects of reduction, and the eventual disappearance, of SACU revenues as a result of the expected international and regional trade arrangements are a major concern to GoL. Current levels of net inflows from SACU, far outweigh donor aid flows (grants and loans), which are unlikely to increase to sufficient level to compensate for the anticipated revenue loss.

Beyond SACU, Lesotho has had zero-duty, zero-quota access to EU and US markets but has found it difficult to exploit these opportunities on a sustainable basis. GoL has managed to balance the need to broaden the domestic productive economic tax base with measures that attract and retain investors.

The EPA has provided only marginal gains to Lesotho, given the country's pattern of trade based on the sale of services and on re-exports. In direct commercial competition with the regional partners, potential benefits to Lesotho from EPA are likely to be modest and slow to materialise. WTO-driven agreements are bound, in any case, eventually to bring down customs revenues as well as reducing the relative advantages of trade preferential schemes from which Lesotho has benefited.

While recognising that Lesotho will inevitably lose out from these trends, an EPA Negotiations Committee has been formed, with members from the public and private sectors as well as civil

society, to devise an optimum negotiating position for the country. As belonging to SACU confers de facto membership of the EU-RSA TDCA, Lesotho is faced with a major challenge in co-ordinating and aligning the EPA negotiations with the TDCA review. There is a need to build up the Committee's negotiating and analytical skills, and provide it with specialist advice and support.

Lesotho faces an increasingly competitive operating environment in the garment market, caused by the strong exchange rate and the end of quotas under the Uruguay Round's Agreement on Textiles & Clothing (ATC) with effect from 31 December 2004. Competition is increasing from lower-cost producers in China and India. The textile industry is attempting to penetrate markets other than the USA and GoL is seeking to attract further FDI with a package of incentives including corporate tax reduction.

Between 1999 and 2004, exports grew at a nominal rate of 33.9% per annum while imports increased by only 11.9% per annum. However, because imports started from a higher base value, these trends did not result in a reduction in the deficit on trade in goods, which was LSL 3.8 billion (€380 million) in 2004. Because of the downturn in the textile industry, the provisional value of exports declined by 10.3% in 2005.

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.

Transport Sector **Sector context**

Given Lesotho's landlocked location and mountainous terrain, it is critical to have an efficient transport system that ensures cost-effective access to economic opportunities, internal and external markets and basic services.

Lesotho's road infrastructure comprises a road network of 7, 437 km, of which 16% is paved, 51% is gravel and 33% is earth. There are 221 footbridges. Most of the road network is in fair- to- good condition, although this percentage is higher for paved than for unpaved roads. This is largely the result of the difficulty in maintaining gravel roads with steep gradients where weathering effects can cause quick deterioration of unpaved surfaces. Road transport is the primary means of travel and road transportation service is provided almost entirely by private entrepreneurs.

Agency	Paved	Gravel	Earth	Total
Roads Branch	1,150.00	1,150.00	-	2,230.00
Department of Rural Roads	-	2,140.00	1,360.00	3,500.00
Ministry of Local Government	28.50	184.60	778.40	991.50
Maseru Municipal Council	83.30	283.30	326.60	693.20
Total	1,261.80	3,757.90	2,465.00	7,436.70

(Source: Africon Lesotho: Review of the Projected Road Maintenance Needs, June 2003, pg. 27)

Although the Lowlands of Lesotho are relatively well served with the existing network, about 25% of the country's population lives in the rugged mountains (75% of the total country area), where extreme isolation results in poor access to basic services and commodities, as well as to market opportunities. Poor access through the mountain zones also hinders communication within the country, and prevents continuous outlet to ports beyond the country's surrounding borders with South Africa.

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; the LRMS is run annually, taking into account visual assessment, to determine an annual road maintenance programme. For main roads a pure economic analysis is used, whilst for rural roads the system includes also the assessment of social benefits.

Transport Policy

The PRS, in spelling out the objective of reducing poverty and promotion of equitable growth, places special emphasis on water and roads infrastructure development in Lesotho. Roads are in particular earmarked for their importance in connecting economic centres and for fostering Lesotho's economic development in order to reduce poverty.

GoL's 1995 Letter of Road Sector Policy (LoRSP) laid the foundation for a series of institutional and policy reforms to be pursued. These included, among others: (i) rationalising road management institutions; (ii) achieving sustainable road maintenance financing; (iii) ensuring stakeholder participation in road management; (iv) shifting away from force account works to contracting; and (v) building the capacity of the public and private sectors to assume their evolving roles. These reforms were first introduced in the Transport Sector Programme and then updated and consolidated in the Policy Paper on Road Reform approved by Cabinet in September 2005.

In this Reform a Roads Directorate was set up within the MoPWT, amalgamating the former Departments of Rural Roads and Roads Branch. The Directorate was intended to have a small core of professional staff, with maintenance work contracted out to the private sector, and force account labour gradually phased out. Responsibility and management of the rural and feeder roads network was delegated to Local Authorities under the Ministry of Local Government in June 2005, in line with the Local Government Act of 1997.

In 2006, Cabinet approved the Road Transport Network Maintenance Strategy and Transport Sector Policy. The Maintenance Strategy proposes to raise 64% of the current annual maintenance costs through oil levy and toll gate fees, and raise it gradually over four years to 100%. The remainder of the annual maintenance cost over the transitional years will be covered from the Government budget. The Sector Policy has the overall objective of providing an enabling environment for efficient, cost-effective and safe transport to facilitate the sustainable development of the economy, social services and of the population in general.

Water Sector

Sector context

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

The management of water in Lesotho comes primarily under the responsibility of the Ministry of Natural Resources, which also has responsibility for energy and minerals. A Commissioner of Water is responsible for the Departments of Water Affairs (DWA) and Rural Water Supply (DRWS). He sets Government policy under which the parastatals, the Lesotho Highlands Development Authority (LHDA) and the Water and Sewerage Authority (WASA) operate. The Lowland Water Supply Project Unit (LWSPU) has been set up to oversee the LLWSS implementation programme.

WASA (established in 1991) is responsible for water supply and sanitation in 16 urban areas, while LWSPU (set up in 2002) oversees the development and implementation of the Lowlands Water Supply Scheme. It comprises a Director and several key team members covering the various fields of expertise required.

Sector Policy

The 1999 Water Resources Management Policy proposed the following, of which to date points 1. and 2. have been implemented:

1. The position of a Commissioner of Water to be created to co-ordinate water sector policy and planning.
2. The establishment of a Policy, Planning and Strategies Unit (PPSU) to provide technical support in respect of policy matter to the Commissioner of Water.
3. The establishment of a Water Utility Regulatory Body, outside the Ministry (but with policy guidance by the Ministry), to monitor the performance of water utilities including adherence to the policy and strategies.
4. Encouraging private- sector participation in the management of the distribution system.
5. Encouraging Local Government entities in the provision of urban water and sanitation services.

Lesotho's current water networks cannot supply the fast growing urban areas of the Lowlands. The GoL strategy is to improve water access and conservation through the following interventions:

- i. Monitoring, refining and formulating water policies and legislation, including a new Water and Sanitation Act which will bring the Water Resources Act of 1978 into line with international developments.

- ii. Improving institutional capacity to assess and monitor water resources, as well as improving storage, delivery and distribution.
- iii. Improving water conservation and management, as well as strengthening the capacity of communities to manage rural water schemes.

Social situation

The current size of the population is estimated to be 2.1 million with an annual growth rate of 2.1%.² The 1996 Census classified 83% of the population as “rural”, defined as living outside the administrative boundaries of Maseru and the main towns. There are many people with homes located away from population centres whose main incomes are derived from earnings in town and RSA rather than the local rural economy.

Education

Lesotho’s ten-year Education Sector Strategic Plan 2005 -15, draws on the principles of the Education for All (EFA) initiative and the goals established at the Dakar World Education Forum of 2000. In this regard, the implementation of the strategic plan closely follows the EFA Regional Framework for Action³.

In addition to bilateral support to the education sector from a number of Development Partners, Lesotho will also benefit from the Fast Track Initiative, under which \$7.2 million is to be disbursed.

Net primary school enrolment was 76% in 1990 and fell to 69% by 2000, which prompted GoL to declare Free Primary Education (FPE) for all, including textbooks and meals, in that year. The introduction of FPE has increased significantly the proportion of children at school, with coverage of all seven grades of Primary Education in the 2005/06 school year. It will be difficult to reduce pupil-teacher ratios because of the higher enrolment ratios and the impact of HIV/AIDS on the teacher population.

Enrolment has fallen slightly in the last two years. There has also been a change in the gender balance, with the gender parity index now at 0.98. The reason for this change is unclear – it may be a result of higher repetition among boys, or withdrawal of girls to care for ill relatives. The dropout rate has reduced noticeably with the introduction of FPE but repetition remains high. Teacher supply remains a concern, and the system is currently losing about 250 teachers per year, while the total output from the teacher-training programme is less than 200. There are also infrastructure shortages. The pupil- to- classroom ratio is 65:1, and many students remain in temporary classrooms. Quality remains a concern, especially in the core subjects.

Orphans and vulnerable children (OVCs) have access to education up to primary level, although in practice the costs of uniforms, books, transport or toiletries, and the obligation to take care of ailing parents or younger siblings, heavily curtail this access.

Lesotho has a relatively high adult literacy rate at 83.4%; the female literacy rate was estimated at 93.6% and the male at 72.6% in 2004 (UNESCO Global Monitoring Report). However, secondary and tertiary education enrolment rates are estimated at only 25% and 2% respectively. GoL is giving priority to the sector. Monitoring and evaluation mechanisms are judged to be fair, and the capacity for statistical analysis to be strong.

Health and nutrition

After positive developments in the 1980’s and 1990’s, the health status of Lesotho’s population has declined in the past decade. Key indicators for the sector are not encouraging. Life expectancy at birth has declined, whilst infant mortality, under-five child mortality and maternal mortality have all increased. Increases in morbidity and mortality due to HIV/AIDS and other communicable diseases such as tuberculosis, as well as to non-communicable diseases are all too evident. The high level of the HIV/AIDS epidemic in Lesotho is clearly a major contributor to these negative trends; however, it is considered that the quality of health services delivery has also declined compared to the high- quality primary care system that existed in the 1970s and 1980s.

Child mortality (under-fives) decreased from 93‰ in 1996 but has since risen to 113‰, whilst infant mortality has risen from 74‰ to 91‰ over the same period. The recent deterioration is due

² Estimate based on the extrapolation of the 1996 ‘de jure’ figures, i.e. citizens, plus those having long-term allegiance to Lesotho. The differences between the various internationally published figures appear to be caused by confusion between ‘de facto’ and ‘de jure’ population figures. With significant numbers of Basotho ‘migrant’ workers, mainly in RSA, the ‘de facto’ figures, i.e. those actually present during the census

³ www.unesco.org/education/efa/ed_for_all/framework.shtml

mainly to the transmission of HIV and AIDS from infected mothers during pregnancy, birth and breast-feeding. The situation tends to be worse in rural and mountain areas.

Maternal death in Lesotho is a tragedy in social, economic and public health terms; it has increased from 282 (1993) to 762 per 100, 000 live births in 2004. An estimated 85% of women attend antenatal care, whilst contraceptive prevalence is estimated at 41% in general and 27.2% for married women. About 85% of the clients of health facilities live within one-hour travelling 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 a 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.

Likewise, nutrition standards have not improved in a decade, with a quarter of the population undernourished and the highest rate of protein-energy malnutrition in the region.

Health facilities, especially in the rural areas that lack infrastructure (roads, clinics, bridges, communications, sanitation and access to water and energy), are still problematic and impact negatively on the population.

The main areas outlined for intervention in the PRS that need urgently to be addressed include: a huge imbalance between over-crowded Government health centres with highly- subsidised fees and CHAL health centres where fuller fees are paid; the high cost of medical care to providers and users; long distances to medical facilities in mountain areas; and the insufficient numbers of health personnel, especially in rural areas. In line with the Primary Health Care Strategy, Lesotho's health services are organised and delivered through 18 Health Service Areas.

Essentially, there is the strong need to balance improvements in health- sector processes with a focus on improving health services delivery.

HIV/AIDS

The most recent estimate for the HIV/AIDS prevalence rate in Lesotho is 27 percent⁴. With an estimated 330,000 HIV-infected persons, the country now has the world's third highest HIV rate amongst adults. HIV/AIDS is today the single biggest killer in Lesotho, claiming approximately 2,100 lives every month, mostly via tuberculosis as an opportunistic infection. The pandemic is threatening the future of the country.

Available data point to a feminization of HIV/AIDS: 57 percent of adult infections occur in women. Data from the DHS⁵ raise alarm bells: based on voluntary testing of 3, 951 women (15 to 49 years old), 40 percent of women 24 to 39 years old were found to be HIV-positive. Total fertility rates are expected drop and infant mortality increase as a result. Unless the trends are arrested, the prospect is for a decline in the population and a reduction in life expectancy at birth to 35 years by 2015.

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, early sexual debut, and low condom use. Although there is new evidence that awareness of the measures to curb the spread of HIV/AIDS has increased, low adoption rates of preventive measures and changes in behaviour are instrumental in the failure to reduce the rate of new infections.

HIV/AIDS has a devastating economic and social impact on affected households as assets and incomes are lost and the burden of dependency on the remaining active adults rapidly becomes insupportable. The pandemic is a disaster for the lives, social structures and livelihoods of the people, invariably increasing the levels of misery, poverty and unemployment. One of the consequences of the pandemic is the swelling number of Orphans and Vulnerable Children (OVCs) in the country⁶. The estimates vary from 125, 000 (single and double orphans attending school, MoET) to 180, 000 (USAid). And those numbers are estimated to increase in the short term, mainly fuelled by the HIV/AIDS pandemic that will continue to claim the lives of mothers and fathers in Lesotho.

⁴ MoHSW, 2005 estimate of HIV/AIDS prevalence in population 15 – 49 years. The all-age prevalence of HIV/AIDS was estimated in the 2005 Demographic & Health Survey (DHS) at 23% of the total population.

⁵ Lesotho Demographic and Health Survey 2005

⁶ The National Policy on Orphans and Vulnerable children defines an orphan as “any person who is below the age of 18, who lost one or both parents due to death”.

Recent developments include the establishment of a National AIDS Commission (NAC) in September 2005. The five-year National HIV/AIDS Strategy and a corresponding strategic response implementation plan were approved in December 2006. Concerns of the donor group working in the HIV/AIDS arena focus on the need for effective coordination and harmonisation of the wide range of interventions, as well as the delivery capacity of the health services.

The Know Your Status (KYS) Campaign was launched in December 2005, an initiative that seeks to provide universal access to HIV/AIDS testing and counselling by the end of 2007. Breaking the stigma attached to the virus and convincing people to be tested – in order to reinforce appropriate behaviour for those that are negative and to start treatment and care for those that are positive – are the challenges to be overcome. Sustained recurrent funding for ARV-dependent citizens once the testing, counselling and delivery mechanism is in place needs to feature amongst GoL's priorities.

Thorough and accurate demographic modelling is required urgently to inform possible scenarios for the course of HIV/AIDS and TB through the nation in the medium term, and so permit cost projections for alternative responses.

From very preliminary extrapolations of HIV prevalence rates and population, it appears that 188,000 to 266,000 Basotho will need Anti-Retroviral (ARV) treatment between 2008 and 2010. The total funds required in 2008, 2009 and 2010 to treat all those in need who cannot afford to pay – most of them – range up to LSL 450 million (€45 million) each year. This figure exceeds half the proposed budget for FY 2006/07 for the Ministry of Health & Social Welfare. Although the GFATM Country Co-ordination Mechanism remains weak, Lesotho is currently receiving funds from GFATM Round 2 totalling \$34 million (\$29 million for HIV/AIDS and \$5 million for TB) over a five-year period. Under Round 6, a grant proposal of \$6.6 million to support the prevention and control of tuberculosis has been approved, while the funding request for HIV/AIDS interventions has been referred back to GoL for review and re-submission.

All GoL's undertakings are affected by the decentralisation process, started by the first ever local government elections in April 2005 and continued since then under the leadership of the Ministry of Local Government (MoLG). Vis-à-vis HIV/AIDS, this process has translated into an increasing transfer of responsibilities from the central to the local level regarding Prevention, Treatment, Care and Support and Impact Mitigation. The "Gateway Approach", pioneered since 2003 by MoLG, UNDP and GTZ in several areas of the country, is an example of this trend of HIV/AIDS-competence decentralisation. According to this approach, the "protection of Orphans and Vulnerable Children" is the responsibility of the Local Authorities.

In terms of OVCs, the EC supports worldwide the UNICEF OVC Framework (Framework for the Protection, Care and Support of Orphans and Vulnerable Children Living in a World with HIV and AIDS, July 2004). In Lesotho, a National Policy on Orphans and Vulnerable Children was issued in April 2005 and the subsequent Lesotho National Strategic Plan for Orphaned and Vulnerable Children in May 2005. A Children Protection and Welfare (CPW) Bill has been drafted.

The new HIV/AIDS National Strategic Plan for 2006 -2011 contains specific provisions and targets concerning the OVC population:

1. To ensure that legislation and policies to protect the rights of Orphans and Vulnerable Children are implemented by 2007.
2. To increase the proportion of OVC households receiving free basic external support in caring for the child to 80% by 2010.
3. To ensure that 80% of OVCs have access to care and psychosocial support by 2010.

The National OVC Strategy, finally, proposes foster care and a "Community Care-Giver System" as some of the preferred options to address the OVC problem. This is fully in line with the proposed approach of a community caretaker, which draws upon traditional modus operandi in Lesotho.

Gender, employment and welfare

In Lesotho, women enjoy higher levels of educational attainment and literacy, and dominate subsistence agricultural production and small enterprises. Women account for some 62% of professional, technical and related positions in the formal sector and about 80% of jobs in the garment sector. However, Basotho society is still largely patrilineal and patriarchal. In customary and statutory law women have been considered to be perpetual minors under the guardianship of their male spouse or relative. This results in discrimination against women in such areas as difficulties in accessing credit and the loss of assets to the husband's family if he dies. These inequities extend to the 30% of households that are headed by women. Sexual abuse, aggression and violence against women are widespread.

The Legal Capacity of Married Persons Bill, which seeks to remove all restrictions on the legal capacity of a wife, has been enacted. Political representation is improving and in 2002 women held 17% of the 80 elected seats in the National Assembly; the 2007 target is 30%. Women hold six of the 21 Cabinet posts. In the 2005 Local Government elections, 53% of the elected Councillors were women. In addition to the Convention on the Elimination of All Forms of Discrimination Against Women (CEDAW), the country has ratified the SADC Addendum on the Prevention & Eradication of Violence Against Women. Since 2000, the Sexual Offences Bill has been enacted, but its implementation remains a serious challenge.

The decline in the number of Basotho workers employed in RSA and in the activities of the LHWP has depressed employment rates in the country. Private- sector development and expansion, both local and foreign, is constrained from growing and providing jobs by the lack of a conducive environment and legal framework.

Unemployment levels are high. Unemployment was estimated at 24.3% in 2002 (CWIQ Survey). The total fell with the garment industry creating jobs, (10, 000 jobs in a single year in 2001), but increased with the recent contraction of that sector. The numbers of male workers available for employment within Lesotho have increased rapidly as the demand for miners in the South African Mining Industry has fallen, but many have inappropriate skills and the supply has far outstripped local demand for agricultural or unskilled labour. Measures are needed to promote the business and entrepreneurial skills needed to develop small and medium-sized enterprises and self-employment.

At professional and managerial levels, the structural “brain drain” to RSA continues to deplete the pool of talent in the country and underlines both the lack of opportunities in Lesotho and the higher salaries and better working conditions in RSA. GoL keeps on financing the training of such key personnel as doctors and nurses, losing them even before recouping its investment, and then replacing them with foreign staff. As long as the opportunity gap between both countries remains, it is difficult to foresee an end to this highly damaging dynamic.

Agriculture and food security

More than half of the rural population derive their livelihoods from low-input/low-output crop and livestock production. Land in Lesotho is not owned by the people (the King holds it in custody for the nation). Agriculture is practiced with insecure legal tenure and the traditional system excludes women from having control over the land and property. The Draft Land Code tries to rectify this anomaly and seeks to give local authorities decentralised control over the allocation and management of lands.

The sector faces a number of inherent constraints, including the altitude, frosts (which reduce the effective growing season), poor soils and irregular rainfall. Extensive soil erosion is a major problem; poor agricultural practices, including overstocking and overgrazing, are key contributors to the problem. Erratic weather conditions (both rain failure and heavy rains) in recent decades appear to have made rain-fed agriculture even more hit-and-miss and the encroachment of building onto limited arable land has further reduced agricultural production. The traditional occupation of cattle herding has been undermined by widespread cross-border rustling and stock-theft. The downward trend in small-scale agricultural activity, coupled with a deteriorating natural resource base, is continuing as HIV/AIDS is reducing the numbers and strength of farm workers and forcing the sale of cattle and other productive assets. Lesotho is classified as a Low Income Food Deficit country by the World Food Programme.

The agriculture sector has been deregulated. Until the mid-1990s, GoL participated directly in producing, marketing and processing most agricultural inputs and outputs, thereby limiting private-sector involvement in these activities. GoL now seeks to support farmers with advice and market information, and continues to regulate sector trade. GoL has now adopted a Food Security Policy and drawn up a ten-year action plan for its implementation. The Cabinet’s Food Security Sub-Committee will oversee the implementation of the National Action Plan 2007– 17.

Environmental situation

Environmental issues and trends

The main environmental issues are the cumulative effects over decades of increasing population pressure on fragile resources: soil erosion (estimated at 36, 000 – 39, 000 mt/year), reduction in soil quality, tree cutting for fuel-wood, overgrazing and pollution, including household and human waste. The extensive soil erosion with gullies (“Dongas”) and sheet erosion is in evidence everywhere. Topography and soil textures play an important role, but poor agricultural practices, including overstocking and overgrazing, are thought to be major contributors to the problem. It is intended to reduce the loss of top soil to 20, 000 mt/year by 2015.

Pollution is of increasing concern. Pollution of surface and ground water is common, by industrial activity (particularly the very visible surface water pollution associated with the garment industry), agricultural chemicals, unimproved latrines, uncontrolled urban drainage and landfills. Air pollution is confined mainly to urban areas, with industry, solid- waste burning, coal fires for cooking and heating, and vehicle emissions as major contributors.

Environmental policies and institutional aspects

GoL has set time-bound, measurable goals for combating environmental degradation and set up appropriate institutions for their achievement. The National Environment Secretariat has the mandate to oversee environmental affairs and coordinate the implementation of relevant programmes. Development of the National Environmental Action Plan (1998), enactment of the Lesotho Environmental Act and increasing public education combine to create a fair operating environment, but enforcement remains weak.

GoL has ratified several related UN instruments including the Convention on Biological Diversity in 1995 and the Biosafety Convention in 2001, the Convention to Combat Desertification in 1995, the UN Framework Convention on Climate Change and the Kyoto Protocol, and the Stockholm Convention on Persistent Organic Pollutants in 2002.

II.1.3 The country in the international context

Although Lesotho is signatory to a substantial number of international conventions⁷, it faces the challenge of transposing these into domestic law. The speedy domestication of treaties is hindered, among other things, by conflicts with customary law as well as the absence of political will to enact laws that lack popular support. With particular regard to the Rome Statute of the International Criminal Court, Lesotho has signed a Bilateral Immunity Agreement under Article 98. Given its unique geographical situation, the economy of Lesotho is, and has always been, closely linked to that of RSA. The big differences between GDP and GNP have long been explained by the migrant earnings and business activities of Basotho in the much-larger South African economy. The countries have shared resources, some joint facilities and the free movement of goods, services and people, together with common membership of SADC, SACU and the CMA. The trend is towards closer economic cooperation.

II.2 Poverty reduction analysis

Poverty profile

According to the UNDP Human Development Report 2005, Lesotho is ranked 149 out of 177 countries on the Human Development Index. Best estimates suggest that two-thirds of the population live below the poverty line, with more than one third surviving below half of the poverty datum, and that both poverty and income disparities have increased since the 1980s.

The incidence and intensity of poverty are greater in rural areas, particularly the mountains, and related mainly to unemployment and underemployment. The rural economy does not offer adequate means to earn a living, as the principal activities of low-input/low-output rain-fed crop production and animal husbandry are not sufficiently profitable to sustain a household without supplementary income. A large proportion of the rural population is not food-secure and requires welfare rations most years, the more so when the rains fail or appear at the wrong times. WFP estimated that 500, 000 to 600, 000 people required food aid during 2005.

The issue of food security for Lesotho is one of purchasing power for individual citizens, as there is little prospect of food self-sufficiency for the country as a whole or for most households. There are also clear links between HIV/AIDS, food insecurity and the degrading environment. Although self-sufficiency is not an option, a more efficient agricultural production system based in conservation agriculture techniques (that reduce the amount of tillage required, boost yields and minimise soil erosion) and secure land tenure might make an important contribution to the livelihoods of many rural Basotho.

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% share less than 1%. There are also distinct rural-urban and Mountain-Lowland disparities. Poverty incidence in the rural mountainous area of Mokhotlong is almost double that in the capital district of Maseru.

Prospects for achieving Millennium Development Goals⁸

The MDG Status Report 2004 suggested that Lesotho would achieve or exceed several of the targets by 2015, including universal primary education, gender equality in education and environmental sustainability, but would fall short on health outcomes, child malnutrition and the

⁷ Lesotho's position against a list of international conventions is included at annex 8

⁸ The key indicators of MDG progress are set out in the second table in Annex 1.

first target, the eradication of hunger and extreme poverty. Although the Report conveyed a general message that, based on the statistics available, Lesotho still had the “potential” to meet several of the MDG targets, the overall trends cannot be considered promising.

The reality is that the devastating effects of HIV/AIDS form a major obstacle to achieving the MDG as well as the other economic and social development targets set out in the PRS. The pandemic is most overwhelming for children, as coping mechanisms are failing and the number of destitute orphans and child-headed households is rising fast.

Lesotho’s economy needs to grow by 7% per year to meet the headline target of halving the proportion of people below the poverty line, (from 58% in 2000 to 29% by 2015). Whereas annual growth rates of around 6% were recorded in the 1990s, the trend over the past five years has been around 3% and the estimate for 2005 is for a further slowdown to around 1%. This economic growth gap does not augur well for the achievement of the MDG.

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

Despite the major shortcomings in data, it is clear from observed trends that the progress sought in all aspects of poverty reduction and the attainment of an acceptable quality of life for all Basotho in the medium term are hostage to the HIV/AIDS crisis. The pandemic has probably put the health-related MDG beyond reach already, including the targets for reducing death rates associated with the “old” killer disease in Lesotho, tuberculosis, from 14% (2000) to 10% (2008) and 6% (2015). Lesotho may meet the 2008 intermediate target of 25% HIV prevalence itself, and possibly even the 2015 target of 17%, but the knock-on effects are threatening the attainment of the education, water & sanitation and other goals which were deemed reasonable when set.

II.3 Lesotho’s development strategy

The ambitious aims encapsulated in Lesotho’s Vision 20/20 are that, by the target year, “Lesotho shall be a stable democracy, a united and prosperous nation at peace with itself and its neighbours. It shall have a healthy and well- developed human resource base, a strong economy, a well-managed environment and an established technological base”. These objectives were translated into a Poverty Reduction Strategy (PRS, July 2005) through a participatory formulation process. Eight “priority areas of action” were identified and grouped under three key “pillars” of policy objectives, as follow:

- First Pillar: Employment and income generation through higher economic growth: creation of employment opportunities; improvement of agricultural production and food security; and infrastructure development.
- Second Pillar: Sharing the benefits of growth through improved health and education standards and the conservation of the environment: improved access to health care and social welfare; improved quality of and access to education; and better management and conservation of the environment.
- Third Pillar: Improving governance and public- sector performance: deepening democracy and governance and strengthening safety and security; improved public service delivery.

In addition, there are three cross-cutting themes: HIV/AIDS, Gender and Children & Youth.

The First Pillar reflects the GoL conviction that economic growth is the key determinant in achieving the MDG. Lesotho's economic future of Lesotho is seen to depend mainly upon investment in human resources and the growth of private enterprise within the country through the generation and exploitation of productive and management skills in the labour force, increased efficiency year-on-year in private- sector operations (including micro-scale farming activities), and value addition in service provision and the light- manufacturing sector.

The GoL contribution to economic growth is seen as creating a conducive environment for business, particularly export-oriented firms, by removing barriers to trade, mobilising affordable investment capital and supporting initiatives in any economic activities in which Lesotho is perceived as enjoying comparative advantages.

The push for agriculture is geared to developing commercial production in commodities for which there is a supposed market niche, such as some vegetables and fruits, and to pursuing food security by promoting appropriate production activities targeted on the poor.

Underpinning private- sector growth potential, and often a crucial determinant for mobile foreign investors, is adequate infrastructure: roads, electricity, communication and – in the modern era –

access to market and technical information. Funding of the substantial public investments required to realise the PRS, particularly for the public goods needed to attract private- sector investment, will require medium-term grant commitments from Development Partners (DPs) and this is likely to be implemented through increased use of public-private partnerships.

Under the Second Pillar, GoL has shown resolve in emphasising and resourcing the health and education sectors for both quality- of- life and economic reasons. HIV/AIDS prevention and treatment programmes have stretched financial and human resources. Great efforts are being made to match higher education provision to the practical needs of a modern economy.

The thrust of proposed environmental measures is squarely towards the community management of range, land and water resources through a mix of incentives and education. GoL also intends to tackle the emerging problems of industrial and urban pollution.

The Third Pillar entails far-reaching reforms to increase both the efficiency of the civil service (both Central and Local) and its answerability to the public. In fact, the decision to decentralise and create a separate Local Government Service preceded the PRS formulation by several years. Decentralisation requires a parallel “right-sizing”, reorientation and professional uplift of the residual central public sector. At the heart of the reform programme, for both central and decentralised agencies, is a thorough overhaul of accounting systems and financial management procedures, not least to eliminate the potential for corruption.

Steps have been taken to fund and pursue the three cross-cutting themes, including the establishment of the National AIDS Commission in 2005 and plans to create robust policy, legal and institutional frameworks to tackle HIV/AIDS, gender discrimination and the needs of children and youth.

II.4 The viability of current policies and the medium-term challenges

Overall, the development path presented by the PRS appears coherent and fit for purpose. The difficulties lie not in the expressed policies but in their translation into programmes and investments. In this assessment, the issue of HIV/AIDS predominates as the main hindrance to any progress for the country and for individual Basotho.

Under the First Pillar of the PRS, it is not clear that GoL has the technical and managerial expertise to lead private- sector enterprise or business development but it certainly has ample scope for enabling local economic activity by simplifying rules, regulations and procedures, promoting skills development and providing incentives to banks to extend affordable credit to emergent local firms. The 2006 Budget included a radical cut in corporate income tax to make Lesotho a more attractive location for doing business.

For export markets, the imperative is for GoL to retain its proactive stance in developing sustainable economic and trading linkages, based on sound analysis, coherent policy and robust negotiations.

The risk of further contraction of the garment industry, by withdrawal of foreign-owned large-scale operators, was significantly reduced by the adoption of the Special Rule for Apparel Applying to Lesser- Developed AGOA Countries, will apply until 30 September 2012.

The longer-term prospects are limited for commodity exports, other than wool and mohair. This underlines the need for a diversification of the export- base and expansion of the local market. The fostering of a conducive investment climate through removal of barriers, as well as the facilitation of movement of people, goods and services within SADC will be pursued.

There is also emphasis on deepening economic and trading ties with RSA as the export customer with the lowest transaction costs. There is already much integration at the individual and micro-business level and many Basotho have extended family connections in the Republic.

The First Pillar of the PRS combines agricultural production with food security as a “priority area of action”, with the increase of income from agricultural activities as the mechanism to provide food security. It extends the notion of private sector development to the farm, to allow markets to guide crop and enterprise selection, and distinguishes clearly between short-term developmental subsidies and welfare transfers. It is far from certain, however, that market forces will make small-scale farming a profitable business.

The Second Pillar is intended to support economic growth through human- resource development as well as improving directly the quality of life of the poor. As noted repeatedly, halting HIV/AIDS is a necessary condition for any sustainable development progress to be made, and so has to be tackled with force and urgency.

Achievement of the Third Pillar will require vigorous and sustained political leadership over several years.

III. OVERVIEW OF PAST AND PRESENT EC COOPERATION, COMPLEMENTARITY AND CONSISTENCY

III.1 Overview of past and present EC cooperation

The main lessons learned in the recent past and present cooperation have been:

- the full extent and ramifications of the HIV/AIDS and TB crisis;
- the importance of institutional capacity building of all actors in the economy, including the supporting role of the public sector;
- the necessity to address weaknesses in development management and financial management systems in the public sector;
- the priority of maintenance arrangements in all infrastructure investments; and
- the relatively weak position of Lesotho in influencing the rapid ongoing regional economic institutional developments.

III.1.1 Cooperation administered by EC and EIB prior to 9th EDF

From 1975 under the 4th and 5th EDF, the NIPs included a wide range of small and medium-sized projects and non-programmable assistance including STABEX transfers and emergency aid. The 6th EDF comprised projects in agriculture and rural development, road infrastructure and natural resources (hydropower and water supply) plus STABEX transfers in respect of mohair. Under the 7th EDF, Lesotho became eligible for Structural Adjustment support and an allocation of €21.6 million was added to the €50 million of programmable funds for the NIP. The greater part was concentrated in hydropower and water supply. Eight STABEX transfers were made for losses arising from reduced exports of wool and mohair 1991 -94.

The allocation for the 8th EDF was €61.5 million plus €18.5 million for structural adjustment. The Focal sectors were road transport infrastructure and social sectors (water supply, community development and health), with assistance for the management and administration of EDF programmes and for strengthening macroeconomic and development policy analysis. €18.5 million was committed to the "Poverty Reduction Budgetary Support Programme" in parallel with the IMF- financed "Poverty Reduction Growth Facility". Although 80% (€14.8 million) of the total budgetary support was disbursed from 2002, the facility was not extended beyond August 2004 as various performance criteria related to public expenditure management and social aspects of poverty were not met.

Under the 7th and 8th EDFs, the EIB made concessional lending commitments totalling €77 million, mainly to LHWP for the hydropower component at Muela and Phase 1B of the water component for the transfer of additional water to RSA. Including these commitments, the overall EIB/EC contribution to LHWP to date is €167 million. EIB has also supported industry through lines –of -credit to the Lesotho National Development Corporation (LNDC).

III.1.2 Focal sectors (and macroeconomic support) under 9th EDF

Focal sector 1: Provision of and access to water and sanitation

Focal sector 1 was allocated up to 20% (€17.2 million) of the A Envelope for the 9th EDF. With resources carried over from earlier EDFs, it is expected to utilise 34.1% (€36.5 million) of the available programmable funds (€106.9 million).

The sector was selected to follow up on the success of the LHWP with the development of water resources for the country as a whole and the populous Lowlands in particular. Supply and demand factors, combined with limited institutional capacity in the sector were seen to be contributing to a situation of increasingly unreliable supplies to existing consumers and an inability to meet the demands of new consumers, especially in Maseru. GoL gave priority for improved access to water and sanitation because of its potentially strong impact on poverty reduction and the premise that the Lowlands is rapidly approaching critical water shortages. The 9th EDF support has contributed to an emerging Sector- Wide Approach (SWAp).

The Commissioner of Water, responsible for coordination of all water and sanitation affairs, has been supported by the technical assistant (TA) to the Ministry of Natural Resources (9 ACP LSO 001), particularly in the Policy Planning & Strategy Unit.

The "Lesotho Water & Sanitation Sector Programme" Financing Agreement (€35.75 million) was signed in December 2005, based on studies carried out under the 8th EDF during 2003 and 2004. It comprises four components.

The "Six Towns Water Supply Project" concerns the upgrading of water supply and sanitation in the six urban centres of Mapoteng, Maputsoe, Morija, Roma, Quthing and Teyateyaneng, which have a combined population of over 130, 000 inhabitants and potential for economic and social development. The implementing agency is the Water & Sewerage Authority (WASA).

The "Maseru Wastewater Project" (MWWP) is an emergency intervention to rehabilitate the Maseru sewerage system, which has deteriorated from lack of investment in maintenance and from limited management and operational capacity constraints in WASA. The Project covers the execution of immediate works and the supply of equipment and materials only.

Under "Technical Assistance Support to WASA", a long-term TA Adviser is to provide technical support and advice to WASA, ensuring the effective supervision of MWWP, advising and developing the capabilities of the O&M Department and assisting the Chief Executive in planning and reporting.

The project "Design of Lesotho Lowlands Bulk Water Supply Scheme" is preparing detailed design and tender documents for the works under the scheme to provide affordable potable water supplies for domestic and commercial use to all major settlements in the Lowlands.

Focal sector 2: Road transport sector strategy, focusing on improving accessibility and institutional capacity building

Focal sector 2 was allocated initially up to 20% (€ 17.2 million) of the A Envelope for the 9th EDF. Following agreed adjustments, it is expected to utilise 34.12% of the available programmable funds.

TA Support under the 8th EDF Road Transport Improvement Programme (RTIP) was provided for the formulation of Transport Policy, which culminated in Cabinet approval of the comprehensive Transport Sector Policy in April 2006. An End- of- Term Evaluation (ETR) of RTIP took place in the second half of 2005. The report concluded that the sustainability of the physical works was very much dependent on GoL commitment to maintenance. As regards institutional strengthening, it was concluded that the TA components had not been designed to be sustainable. The safety improvements are possibly sustainable in the long -run, but will need further support. Lessons Learned focused on the importance of project formulation and design, and on the need for rural road selection procedures 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. Progress has been made with the crucial issue of securing adequate funding for maintenance of the road network. Direct annual expenditure on road maintenance increased by about 18% between 1998/99 and 2002/03, but has declined since. In March 2006, Cabinet approved increases in the level of the fuel levy and other road user charges that should permit the Road Fund to cover 100% of the forecast cost of routine and periodic road maintenance requirements by FY 2010/11. Reform of the Road Fund, in line with the 2005 Road Fund Regulation, is needed to reduce overhead costs.

Institutional reform and capacity building in the sector is being supported from early 2007 through the WB/EC co-funded Integrated Transport Project (ITP). The lack of technical and administrative capacity in the Ministry of Public Works & Transport (MoPWT), will necessitate focused *Technical Assistance* in the implementation of the ongoing institutional changes in the sector, including the "rightsizing" and coordination of all agencies with road network responsibilities. The establishment of a Roads Directorate, which will take responsibility for all planning, development and maintenance of the national road network, is a necessary but not sufficient step in the institutional reform process. The building of capacity in the local authorities, which are assuming responsibility of the rural network, provides a major challenge.

Additional focal sector: fight against HIV/AIDS

HIV/AIDS featured as a crosscutting issue in the 9th EDF but was elevated to being a third focal sector in the revised Lesotho CSP/NIP, signed on 9 February 2005, with an allocation of 7.7% (€8 million) of available programmable resources, which was later increased to 11.5% (€12 million).

An HIV/AIDS review and identification mission later in 2005 concluded that, among the various responses to the crisis, the desperate plight of OVCs was least understood and worst supported. Sheer numbers of orphans have, in a very few years, overwhelmed the diminishing capacity of family and community to care for them.

In line with The Framework for the Protection, Care and Support of Orphans & Vulnerable Children Living in a World with HIV and AIDS, (UNICEF, 2004) and the EC's action programme for the fight against HIV/AIDS, malaria and tuberculosis 2007 -11, an "OVC Support Programme"

has been developed and implementation will start in early 2007. The programme concentrates on the psycho-social and material wellbeing of the children

Macroeconomic support and capacity building

Up to 50% (€43 million) of the A Envelope for the 9th EDF was allocated to "Macroeconomic Support and Capacity Building", but the proportion has been revised down to an estimated 18.7% (€20 million) of the available programmable funds.

"Macroeconomic support": Budgetary support was a feature of the Country Strategy developed jointly for the 9th EDF. In common with other DPs and external financing agencies, the EC has not realised the General Budget Support flagged in the NIP, citing continuing weaknesses in GoL financial management. The revision of the 9th EDF NIP that followed the Mid-Term Review of November 2004 included provision for measures to strengthen public financial management capacity to permit a resumption of macroeconomic support.

"Public Financial Management (PFM)": A concerted GoL-DP effort has been launched to improve PFM in Lesotho. EC resources are being applied to the implementation of an *Integrated Financial Management & Information System* (IFMIS) in the Treasury to replace the dysfunctional and obsolete GOLFIS. The IFMIS Project will provide the necessary hardware and software together with consultancy and training support.

"Capacity Building in Economic Planning (CBEP)": The programme (9 ACP LSO 002) has been operational since May 2004 with an initial commitment of €17.5 million for TA and Training. The programme has the following components:

- "Support to the Bureau of Statistics": TA was recruited to assist with the conduct of the Census 2006. Further administrative and technical support to the BoS will help to consolidate the practise of evidence-based planning.
- "Macroeconomic Modelling": The institutional framework for economic analysis and policy has been strengthened with the creation of the Department of Economic Policy (DEP). Since the end of 2005, the development of a Macroeconomic Model by DEP is being assisted by a four-year consultancy. Another consultancy has assisted GoL to establish a Public Debt Strategy. The 2001 contract of the Macroeconomic Adviser has been extended to the end of 2007.
- "Institutional Capacity Building – Planning Cadre": A Training Needs Assessment for the personnel involved in the MTEF process is to be carried out, but the time has expired to procure the substantial training programme before the "sunset clause" contracting deadline of December 2006.
- "Population & Manpower Modelling": This activity complements the Macroeconomic Modelling work of DEP as well as the interpretation by BoS of the data generated in the Census 2006, cross-border population movements and employment statistics.
- "Assistance to the NAO": The EC deconcentration process and revision of the Cotonou Agreement have increased the responsibilities and workload of the Office of the National Authorising Officer (ONAO) in managing the EC-Lesotho programme of cooperation. An Aid Co-ordination function has been established within the Department of Development Planning (DDP). The ONAO is established within this function, with a small full-time staff. A Programme Estimate for the operational expenditures of the unit was signed in February 2005 for the period to October 2006. Support to the ONAO has been provided by a TA Adviser since May 2004.

III.1.3 Projects and programmes outside focal sectors

Originally allocated up to 10% (€8.6 million) of the A Envelope for the 9th EDF, the revised allocation to projects and programmes outside focal sectors has been increased to 10.2% (€10.6 million) of available resources.

Health sector

The completed "Support to Health Sector Reform" (8 ACP LSO 008) took the form of "TA to Planning (Monitoring & Evaluation)" and the "Decentralisation of Health Services" in three pilot Districts. The Mid-Term Review in 2004 concluded that most of the planned activities were being carried out but outcomes in terms of results were low, largely due to conceptual, institutional and management factors in the MoHSW. The project ended in March 2005.

Micro-projects Programme

The Third Multi-annual Micro-Projects Programme (MPP, 8 ACP LSO 003) has been moving into a final phase since a constructive MTR in late 2004, working closely with line departments, NGOs and community-based organisations. The main countrywide MPP investments, in response to local

requests, have been in village water supply systems, water and sanitation schemes, and two-classroom blocks.

The MPP has experienced difficulties in applying the “Practical Guide (PG) for Direct Labour Operations” that came into effect in March 2005. The new PG is regarded as ill suited to the implementation of micro-projects in Lesotho given the very limited capacity of local organisations. The new procedures compelled the MPP Co-ordinating Unit to lump projects together for tendering purposes as many of the numerous micro-projects fall below the €50, 000 threshold. In the case of village water and sanitation projects, this necessitated open international tendering for supplies. A counterproposal to implement the projects on a District-by-District basis, to allow smaller contractors to operate under the supervision of District Water Engineers, was approved in early March 2006. The tender for works contracts for the construction of classroom blocks, previously undertaken by tradesmen on local service contracts, had to be cancelled because the tenderers (larger-scale contractors) could not deal with the beneficiaries’ mandatory contribution to the projects. Permission has now been obtained to proceed with direct negotiations.

Utilisation of resources for Non-State Actors (NSA) and civil society

The preparation of a €6 million Financing Proposal is underway, following an identification mission into all forms of engagement with NSA and civil society, including Micro-projects and Decentralisation,

III.1.4 Utilisation of B -Envelope

The B -Envelope is intended to cover unforeseen needs such as emergency assistance, contribution to debt relief initiatives as well as support to mitigate adverse affects of instability in export earnings. Lesotho has yet to qualify for support under the B -Envelope.

III.1.5 Other instruments

STABEX and SYSMIN

Residual STABEX funds have been applied to labour-intensive public works schemes, focused on road construction and maintenance. 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 LSL 5, 598, 404 (€559, 840) being injected into target communities. Work was completed in April 2005. Lesotho has not been eligible for *System for Mineral Products* (SYSMIN) support.

Regional Cooperation

Lesotho has been party to various regional EC initiatives in recent years alongside the rapid evolution of bilateral links with South Africa and of SADC integration plans. These include:

Economic Integration Support Programme to BLNS (8 ACP TPS 154); Expanded Multi-Sectoral Response to HIV/AIDS in the SADC Region (8 ACP RAU 014); Meteorological Transition in Africa Project/EUMETSAT (8 ACP TPS 097); African Trans-Boundary River Basin Support Programme (9 ACP RPR 025).

Intra-ACP Cooperation

Lesotho is also eligible for intra ACP programmes such as the energy facility and the water facility. Following the First Call for proposals for the **Water Facility** of 2004, a proposal for the improvement of the Maseru Waste Water System was approved in the amount of m€ 28.6. The project to be implemented by the Water and Sanitation Authority (WASA), is to be jointly funded by the EU water Facility (m€ 10), the GoL (m€ 4.3) and an EIB loan (m€ 14.3).

A proposal for rural electrification in the amount of m€ 22 was submitted by GoL under 2006 Call for proposals for the **Energy Facility**. Following evaluation, the proposal was placed on the reserve list, with a final deadline of 31 December 2008.

Lesotho is a beneficiary of the Global Fund to fight AIDS, TB & Malaria (GFATM).

Community Budget Lines

The Community Budget Line on Co-financing Activities with NGOs is supporting the German-Lesotho Red Cross Home-Based Care Programme worth about €1 million (July 2004-June 2010). This project provides training for community-based carers that cater for the needs of chronically ill persons, mainly HIV- positive patients. The same Budget Line is supporting Skillshare UK for five years from December 2005 in a project that seeks to uplift the situation of physically and mentally disabled people.

Furthermore, Lesotho participates in the COOPENER project entitled TIE-ENERGIA (Turning Information into Empowerment: Strengthening Gender and Energy Networking in Africa).

ECHO

The German Red Cross completed the ECHO-funded food-aid programme in Berea and Leribe Districts by mid-2006. The original food handout approach was replaced gradually by a focus on food security via Conservation Agriculture techniques.

European Investment Bank (EIB)

As at the end of 2005, EIB's loan portfolio in Lesotho stood at €89.6 million focused mainly on investments in the Muela Hydropower Project (completed in 1999), construction of the Matsoku Diversion Weir and Tunnel (inaugurated in 2001), and support to LNDC. Following three global loans of €3 million each made available under previous Lomé Conventions, a fourth global loan facility of €3 million was provided to LNDC under Lomé IV in 1994 and applied to GoL equity in LNDC, the financing of SMEs and factory shells and a "Feasibility Study of Effluent Treatment & Recycling for a Sustainable Textile Industry in Maseru".

GoL requested the EIB to support and develop the MWWP, in the framework of the Second Call for Proposals of the EUWF in March 2006. The EIB responded positively and provided funding for a series of additional preparatory studies and a consultancy assignment to assist WASA in the preparation of the EUWF II application. The GoL has also requested the EIB to assist with funding of the Metolong Dam Project and discussions in this regard are under way.

III.2 The programmes of the Member States and other donors (complementarity)

Lesotho's Development Partners⁹

The EU (MS and EC) provides approximately 75% of the grant aid received by Lesotho. Aside from EIB, major multilateral financial and technical supporters of the country are WB, IFC and IMF; AfDB/AfDF; BADEA; Kuwait Fund, GFATM and the UN agencies (FAO, IFAD, UNAIDS, UNDP, UNICEF and WHO). Significant bilateral assistance is received from China, Japan and USA.

In the Transport Infrastructure sector the Integrated Transport Programme (ITP) is co-funded between EDF and WB/IDA.

UNDP has a prominent role in orchestrating the technical assistance and programme support received from the UN family, major DPs and the large numbers of smaller contributors and NGOs. UNDP is proposing supporting the decentralisation process, alongside the EDF, both building on the experience gained under the GTZ- supported Decentralised Rural Development Programme.

Increasingly, the programmes supported by the DPs are following a SWAp, with multi-donor participation and better coordinated financing of agreed interventions. Currently the sectors in which this process is most advanced are road transport reform and development, health, water/sanitation and the reform of public utilities as well as agricultural restructuring and reform.

Programmes of the Member States

The three EU MS most active in providing bilateral support to the development of Lesotho are Ireland, Germany and the United Kingdom. Their individual current strategies, approaches and programmes of assistances are summarised in Annex 3, together with a matrix showing the complementary deployment of resources by the EU and MS between the key areas of action established in the PRS. In the Water and Sanitation sector complementarity exists with Ireland and UK, whilst in Transport Infrastructure Ireland provides ongoing support in the rural areas. Micro-projects in which EDF has played a major role are also supported by Germany. In the Governance area Germany and Ireland are major supporters for Decentralisation, whilst in Public Finance, Planning & Budgeting all MS are actively involved. For Legal & Justice Reform and Anti-Corruption the UK is a major supporter, as it is for Democracy and Civil Society, alongside Germany and Ireland. Finally in the fight against HIV/AIDS all MS are actively supporting GoL's response, alongside the EC support.

The trend is towards convergence of analysis and approach with differing sectoral emphasis of intervention within the broad areas of poverty reduction, institutional reform and capacity building, and the fight against HIV/AIDS and TB. Ireland is focused on education, health, infrastructure, decentralisation and institutional development including investment; Germany on decentralised administration and development planning, land policy and sustainable land management, rural infrastructure as well as HIV/AIDS and gender as a cross-cutting issue; and UK on public financial

⁹ The *Donor matrix* in Annex 2 shows the major donors by sector of involvement.

management, institutional support, trade, governance and justice.

Furthermore, the EU- Energy Initiative-Partnership and Dialogue Facility support a project in Lesotho on a Household Energy Access Strategy. The strategy will focus on the delivery of modern energy services for low-income groups in rural and peri-urban areas.

III.3 Other EC policies

The commencement of negotiations for an EPA with seven members of SADC will have a direct impact on the fiscal position and will diminish the preferential trade status presently accorded to Lesotho.

EU policies on the social dimensions of globalisation are relevant to the particular circumstances of Lesotho, given that the losses associated with reduced customs revenues and the end of preferential market access concessions are unlikely to be offset fully by increased trade. Policies on the promotion of human and civil rights are a top priority in all EU dealings with LDCs.

III.4 The political dialogue with Lesotho

The platform for the political dialogue between GoL and the EU is the almost continuous aid planning discourse, given the importance of the EC/MS contributions in funding the development budget. Given the relatively recent resumption of tranquillity and democracy to the country, the present exercise included the formulation of an issues paper focused on the human rights situation, governance, the rule of law and the fight against corruption.

Until now, frequent "open door" exchanges have been preferred to occasional structured meetings. The last years in Lesotho have been characterised as a period of confidence- building and consolidation after the political upheavals of the late 1990s. The first Article 8 political dialogue took place in January 2007.

III.5 The state of the partnership with Lesotho and progress towards harmonisation

In line with the Paris Declaration, the EC and MS have embarked on the process of aligning their responses to the needs of Lesotho, based on a joint analysis, and moving towards the synchronisation of programming rounds with GoL's budget cycles, systems and procedures. The fact that the four European Development Agencies in Lesotho (EDAL) provide three-quarters of the total development grant transfers makes alignment a relatively simple goal if the concerned DPs remain able and willing to carry it through.

There is not yet an agreed Harmonisation Roadmap within the EDAL group. There is, however, strong EDAL commitment to the harmonisation process, as evidenced by the MS agreement to generate and adhere to a joint situation analysis for the present CSP. During the execution of the 10th EDF NIP the process of implementation harmonisation will be pursued; the mid-term review will provide an opportunity for closer harmonisation of the NIP and the programmes of MS. GoL is well aware of the constraints on harmonisation posed by shortcomings in the public sector financial and aid management services, and is engaged fully in the ongoing capacity building programmes. The process should reduce substantially the high transaction costs entailed in coping with multiple donor procedures and timetables.

IV. RESPONSE STRATEGY

IV.1 Priorities for cooperation

Resources in the 9th EDF were concentrated in the public infrastructure areas of "Water and Sanitation" and "Road Transport", with a substantial provision for budget support and complementary activities in institution building, governance and interaction with NSA. This allocation was relevant and cognisant of the interventions of MS and other DPs.

The development path to which GoL is committed depends on rapid and sustained growth of the economy through the promotion of private- sector activity and, given Lesotho's position at the end of international market chains, the pursuit of export market opportunities and advantageous trading arrangements. Increased income is the key to poverty reduction and food security for the population, generated in formal or informal economic activity including subsistence agriculture.

GoL has prepared a Poverty Reduction Strategy that emphasises the promotion of production and services for domestic and export markets. The growth needed to achieve the developmental goals

was set at an ambitious 7%, year after year. The vital roles of Government in achieving this target were identified as:

- generating a peaceful and conducive legal, regulatory and financial environment;
- ensuring that the economic infrastructure and services upon which businesses depend were in place and operational, including access roads, water and sewerage, power and telecommunications, and regulatory and advisory services left in the public sector, such as the maintenance of law and order, health and safety oversight and agricultural extension; and
- ensuring that affordable investment capital was accessible to all entrepreneurs, from the largest industrialists to individual micro-scale enterprises and farmers.

In recognition of the high levels of un- and underemployment in the economy, and the reality of intractable poverty for at least one third of the population, the PRS sought to balance the drive for private sector growth with the direct provision of social infrastructure and services as both economic and humanitarian investments. GoL brought in Free Primary Education and set about the upgrading and decentralisation of health services. For pressing reasons of economy and efficiency, GoL embarked on a reform of the public service.

However, analysis such as by the World Bank (2000) and United Nations (2004) has greatly improved understanding of the nature and rapid spread of the HIV/AIDS pandemic. The disease was flagged as a crosscutting issue, among others, in the PRS and the last CSP, but socio-economic projections did not indicate that it would prevent Lesotho from progressing towards its MDG targets. It may be that societal coping strategies masked the full impact of HIV/AIDS into this century, but the severity and dynamics of the deteriorating situation have become all too apparent over the past two or three years. Almost all the advances detected with key indicators of progress in poverty reduction have been reversed and, particularly for the poor majority, conditions are going to become far worse before they improve.

A well designed, fully funded and sustained campaign to defeat HIV/AIDS has become an essential prerequisite for any realistic hope of economic growth and poverty reduction. It is therefore imperative that the limited resources at the disposal of GoL, including the contributions of DPs, are deployed to best effect.

The response strategy for the 10th EDF has been devised with due regard to the expressed wishes of GoL and stakeholders and the intentions of the MS and other DPs, as well as to the important EC precept of concentration of effort. The priorities for cooperation have been defined jointly based on the following criteria:

- response to the medium-term challenges;
- relevance to good governance, poverty reduction and employment creation;
- existence of an ongoing, structured sector policy dialogue and capacity within the relevant government agencies;
- complementarity with other external funding agencies;
- lessons from past experience;
- capacity of NAO and EC Delegation to manage and monitor interventions; and
- potential capacity of NSA to participate in the areas of cooperation.

Taking into account these criteria, GoL has determined that 10th EDF assistance should be concentrated on two focal sectors, "Human Development" and "Infrastructure", with complementary support to "Decentralisation", "Good Governance & NSA" and "Trade".¹⁰ Concurrent assistance will be provided through Macroeconomic Support (and Capacity Building) for the PRS. Within these areas, HIV/AIDS, gender, governance, decentralisation and environmental management will form important cross-cutting thematic issues. It is expected that NSA will be able to contribute to the design, implementation and monitoring of the interventions through the instruments of decentralised co-operation. The intervention logic for cooperation under the 10th EDF is outlined in the framework (page 32).

IV.2 Focal sector 1 Human Development

Harmonised sectoral response

DPs of all sizes and specialisations are supporting GoL in implementing programmes in Human Development, including the delivery of Free Primary Education and a major overhaul and decentralisation of health services. Over the last several years, the HIV/AIDS pandemic has threatened the population directly and all progress in the sector indirectly. The EC strategic

response therefore is to concentrate resources on the immediate and medium- term mitigation of the impact of HIV/AIDS and so permit other essential human development programmes to continue.

HIV/AIDS and TB campaign

The overall national response to HIV/AIDS comprises three necessary elements: prevention, treatment and dealing with the impacts of the pandemic, including OVCs, households reduced to destitution and dependency, and the loss of key public service providers (including frontline health workers and teachers). It is vital that the vicious cycle of new infections is broken through systemic interventions. Preliminary estimates show that the costs of an adequate response are both high and protracted. Despite the welcome mobilisation of many agencies to tackle each aspect of response, committed resources fall far short of the medium-term requirement, particularly for patient care. It is a problem of scale and capacity.

Patently, few poor people can pay for appropriate sustained AIDS treatment and so the issue is one of political economy: can and should GoL assume responsibility for the considerable recurrent costs in the medium term, making space in the budget and seeking prolonged support from DPs? The reaction of GoL and DPs to other emergencies has been to distribute substantial quantities of food aid, albeit neither channelled through markets nor well targeted. Such emergency feeding programmes have been effective and immediate, but not geared to resolving the underlying issue of food insecurity. In contrast, there is no quick fix for the HIV/AIDS crisis.

The HIV/AIDS emergency is overlaid on a weak health service for which users have to pay. Health sector provision has failed to come to grips with TB and Sexually Transmitted Diseases in the past, and trying to cope with HIV/AIDS has now stretched capacity to breaking point. With strong support from Irish Aid, GoL has embarked on a major programme to decentralise and re-capacitate health services. EU contributed to this programme under the 9th EDF. It is a priority of IA and plans are advanced for the replacement of the QEII Hospital in a public-private partnership.

Given the magnitude of the problem, the large number of donors and actors and the limitation of available resources under the 10th EDF, the strategic opportunity for the EC is to focus on that area, where it can have the largest impact. Under the 9th EDF a start is being made with the support to OVCs. At the same time, experience has been gained with home-based care, for which budget line support has been provided.

With current support only one third of OVCs are targeted for help and OVC numbers are increasing daily. The task of creating capacity and the delivery of actual support to OVCs is thus far from being completed. The response strategy is therefore to concentrate support under the 10th EDF on strengthening and expanding the support to OVCs, which has just begun.

It is important that national responses to HIV/AIDS be in step with programmes in RSA and the SADC region, including the parallel ongoing and proposed initiatives with EDF funding, both national and regional.

IV.3 Focal sector 2 -Infrastructure

The EC will respond to the continuing need for economic infrastructure as a foundation for poverty reduction in Lesotho. GoL is striving to provide the public infrastructure needed by a modern economy to support production, service delivery and decent standards of living. There is strong commercial and political demand for access roads, water and sanitation as well as rural electrification, telecommunications and, in recent years, Internet connectivity.

The strategic response will be principally to build on and consolidate the current support in the *Water and Sanitation* and *Road transport* sub-sectors, provided under the 9th EDF. In road transport the emphasis shifted to institutional and policy reform, whilst in water and sanitation, the basis was laid for addressing the lowland water requirements by designing a bulk water scheme. The firm intention of GoL is to embrace a Sector-Wide Approach in all future infrastructure investments.

The provision of and access to water and sanitation are considered crucial by GoL. The EC response strategy will resource further implementation of the "Lesotho Water & Sanitation Sector Programme". Emphasis will be given to investment in Rural Water Supply, which has a real poverty focus, but which has been neglected in recent years. The implementation of the "Lesotho Lowlands Bulk Water Supply Scheme" will require financial resources well beyond the scope of the 10th EDF NIP and may be better resourced from other donor sources. Given the international dimensions of a shared watercourse, further cooperation with RSA will be important, building on the work of ORASECOM.

In the road transport sub-sector, in line with the PRS objectives, the GoL goals are to support economic activity throughout the country by providing and maintaining year-round links between producers and customers, service providers and users, and to improve access to basic services for

rural communities in remote and highland areas. EC support will seek mainly to strengthen institutional reforms and capacity for maintaining the road network, possibly through a sector-wide approach. Emphasis will be on building up the decentralised technical, financial and managerial capacity (local government) for the routine maintenance of rural roads and structures.

IV.4 Macroeconomic support (and capacity building)

Following the Paris Declaration 2005 on improving the effectiveness of development assistance, the EC expressed a wish to increase the proportion of untied budget support within the national envelope. The GoL strongly supports this initiative as it is expected significantly to reduce transaction costs of aid disbursement by harmonising donor procedures with those of Government and to encourage the strengthening of national systems of public expenditure management.

The groundwork for the reintroduction of macroeconomic budget support has been laid. GoL hosted a multi-donor mission in May 2006 (led by the EC and the WB, with participation from the Irish, DFID and GTZ). The main output was the preparation of a roadmap identifying actions prior to final agreement and expected first disbursement by mid-2008.

This theme was reiterated at the Donor Round Table Conference held in Maseru in November 2006 and the opportunity was taken to update the roadmap and hold discussions on refining the triggers for disbursement. As it will be difficult to monitor any short-term changes in the poverty reduction outcomes or progress towards the MDGs, process indicators related to public financial and budgetary management and to development administration capacity will be critical.

Assuming satisfactory progress in setting mutually agreed indicators and the action plan to achieve those indicators, the EC response strategy is the application of 35% of the A envelope of the 10th EDF to general budget support of Government's national development agenda.

Macroeconomic and fiscal management has been satisfactory in recent years. The challenge will be to maintain this level of performance while improving the effectiveness and efficiency of resource utilisation. Thus, the facility includes provision for building up institutional capacity to manage public expenditure (including the resources provided through budget support). Focal areas include improving statistics for planning purposes, economic planning, fiscal management, financial reporting and monitoring and evaluation. The shift from project assistance to budget support entails a disciplined and sustained effort to achieve the agreed indicators and the strengthening of national reporting systems.

IV.5 Non-focal areas

Decentralisation

Decentralisation is central to GoL's drive to reduce poverty by providing services to the population and promoting development investments within the community. It is an important part of the major reform in governance, bringing the management and control of resources to local communities, and placing central and local government agencies at the service of the people.

The creation of local authorities, with stable management and robust fiscal arrangements, is at an early stage and NSA are still adjusting to their roles and functions in the new dispensation. With such major changes, it will take several years to reach a steady state and the optimum use of resources. The EC response strategy in this transition period is to contribute to the scaling up of the institutional development support programme piloted by Germany (through its technical cooperation organisations GTZ and DED) and to promote the engagement and collaboration of NSA with Councils at the local level.

Trade

The pragmatic economic development path is to promote all manner of private- sector business activity, including agriculture, to generate incomes, substitute local produce for imports and provide a solid base for responding to export opportunities. Small increments in efficiency throughout the economy, year on year, have the potential to accumulate. Such business growth could benefit from the specialist inputs of the Centre for the Development of Enterprise (CDE) and Centre for the Development of Agriculture (CDA).

Within the general drive for increased business activity within the country, the special circumstances of Lesotho make trade development a key factor. The EC strategic response is to target the trade dimension in GoL's drive for economic growth. Given the importance and speed of change of Lesotho's trade and customs arrangements, expert advice and backstopping are needed for the GoL teams negotiating the EPA and other external trade instruments. Highly qualified short-term specialists would be made available to ensure that the best possible deal is obtained for the country as SADC member states progress towards increased economic integration.

IV.6 Complementarity and coherence of response strategy

Complementarity

The proposed EC support under the 10th EDF is harmonised with that of the three Member States prominent in Lesotho within an increasingly convergent joint analysis and a shared intention to simplify and align programme support with GoL development plans. The EC response strategies mesh with the current and planned areas of concentration of the MS. The EC and MS are participating in the broader but looser grouping of DPs represented in the Development Partners' Consultative Forum (DPCF) to optimise the combined impact of external technical and financial assistance. Despite recent improvements in the frequency and depth of consultations between DPs, the GoL's management and administration of external assistance remains weak.

EC macroeconomic support is being synchronised with the other concerned DPs – IMF, WB, DfID and IA – with ongoing joint negotiations on the rules of engagement, including the refinement of appropriate performance criteria that can be monitored. A central element will be institutional capacity building in line with GoL's programme of public sector improvement and reform. The response is focused on improved governance and far greater efficiency in service delivery, in line with the EC's development policy. Possible areas for support are policy analysis, public expenditure management, national statistics, administration of justice, donor co-ordination and the management of aid. Close consultation with cooperating DPs will ensure a sensible deployment of resources and avoid overlaps.

GoL and EC recognise the complementary role of and potential for contributions by the NSA to the development process. NSA were involved in the formulation of Vision 20/20 and the PRS and have been consulted in the elaboration of the present CSP. The capabilities of NSA will be enhanced directly through activities under non-focal area decentralisation and through decentralised cooperation with the strengthening of community-based organisations, local government services and participatory networks.

The core EDF/EIB provision to Lesotho may be supplemented with access to other EC development instruments, including the following EC budget lines: B7-6000 NGO co-financing; B7-6200 Environment; B7-6212 HIV/AIDS and Population Related Operations; B7-6340 Decentralised cooperation; B7-7020 Democracy and Human Rights;

Coherence

The identified response strategies support directly the development priorities expressed by GoL and endorsed by civil society in the PRS. The proposed EC assistance will make a positive contribution to poverty reduction by concentrating on important pro-poor sectors. Sustained medium-term support addressing development issues in the key "Infrastructure" sector is to be continued through active involvement in the multi-donor emergent SWAps in "Water & Sanitation" and "Road Transport". An adequate response to the HIV/AIDS crisis under Human Development is regarded as an essential prerequisite for national economic survival and poverty reduction.

The other cross-cutting issues of gender, environment, institution building and conflict prevention will be prime considerations in the design and implementation of all interventions within the response strategies. In particular, gender issues will be a priority in HIV/AIDS, decentralised cooperation and the administration of justice. Environmental concerns will be addressed in the implementation of *Infrastructure*, including the issue of industrial pollution arising from the expansion of the textile industry.

IV.7 Support through the European Investment Bank

Under the Cotonou Agreement Investment Facility, the Bank will continue to follow closely all opportunities for supporting viable projects in Lesotho, while paying 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 the *Infrastructure* focal sector, EIB funding could be provided in particular for sustainable investments in water and sanitation. Specifically, this includes the Maseru Wastewater Project (MWWP)-Medium Term Works, which has been submitted for grant funding under the Second Call for Proposals of the EU Water Facility and is to be co-financed by the EIB and GoL. Following a request from GoL, the EIB has also indicated its interest in considering a contribution to the Metolong Dam Project, provided the project conforms to the Bank's usual technical, financial, economic and environmental viability criteria and procurement guidelines.

The overall extent to which the Bank will be able to commit resources in Lesotho will largely depend on the macroeconomic framework and on the business environment, which is itself largely determined by the economic policy of the GoL.

Part 2: Indicative Programme

V. NATIONAL INDICATIVE PROGRAMME

V.1 Introduction

On the basis of the cooperation strategy presented in Part 1 and in accordance with Article 4 of Annex IV to the Cotonou Agreement, the National Indicative Programme has been drawn up as a set of tables showing the intervention framework¹¹ for each sector, the financial programming timetable and a detailed chronogramme of activities for all listed programmes over a rolling three-year period.

Amounts mentioned in this chapter indicate the overall breakdown of funds between the focal sectors, macroeconomic support and other programmes. The breakdown may be adjusted in the light of the operational, mid-term, final or *ad hoc* reviews. However, for any adjustment resulting in a substantial change to the structure of the response strategy, a formal decision in the form of an addendum to the strategy document will be required.

V.2 Financial instruments

The implementation of the EC's cooperation strategy with Lesotho will be financed from several financial instruments. The following is an indication of their mobilisation as currently envisaged.

V.2.1 10th EDF, A- Envelope, €136 ,000 ,000

This Envelope will cover long-term programmable development operations under the Strategy. Allocations to specific areas are as follows:

Human development	€27.2	20.0%	of total	Sector support/project support
Infrastructure	€38.8	28.5%	of total	Sector support/project support
- Water and Sanitation	€32.0			
- Transport	€6.8			
General Budget Support	€53.8	39.5%	of total	
Other Programmes	€16.2	12.0%	of total	Project support
- Decentralisation	€8.0			
- TCF	€2.0			
- Governance	€3.0			
- Non-State Actors	€2.0			
- Trade	€1.2			
Total commitments	€136.0			

V.2.2 10th EDF, B- Envelope, €2 million

This Envelope will cover unforeseen needs such as emergency assistance where such assistance cannot be financed from the EU budget, contributions to internationally agreed debt relief initiatives and support to mitigate adverse effects of instability in export earnings.

In accordance with Article 3(5) of Annex IV to the Cotonou Agreement, this amount may, if necessary, be increased in the light of the operational or *ad hoc* reviews.

¹¹ Refer to page 32 for logical frame.

V.2.3 Investment Facility

In addition to the financial instruments mentioned above, of which the A- Envelope is the main programmable basis for the NIP, the 10th EDF also includes an Investment Facility, which is an instrument managed by the European Investment Bank. The Investment Facility is not part of the NIP.

Some specific activities may be supported by the Centre for the Development of Enterprise and the Centre for the Development of Agriculture.

V.2.4 10th EDF, Regional Indicative Programme

This allocation will cover long-term programmable development operations under the Regional Strategy for the SADC Region. The allocation is not part of the National Indicative Programme but may have repercussions at national level depending on Lesotho's participation in the programmes proposed under the regional framework.

V.2.5 Other financial instruments

Specific activities may be supported by external actions funded by the general budget of the European Community carried out under the financial framework for 2007- 2013 subject to special procedure and availability of funds, and out of the EIB's own resources. Actions funded by the general budget include, among others, programmes funded under the Development Cooperation Instrument such as the thematic programmes "investing in people", "non-state actors in development", "migration and asylum", "environment and sustainable management of natural resources" and "food security", as well as actions funded from other instruments such as the stability instrument, the instrument for the promotion of human rights and democracy or the instrument for humanitarian and emergency assistance.

V.2.6 Monitoring and Evaluation

Monitoring of results and evaluations of impact of individual activities (programmes, projects, sectors) under this CSP will be undertaken in line with the Technical and Administrative Provisions that are attached to each individual Financial Agreement prepared to implement this CSP.

The result and the impact of the Community's cooperation with the Kingdom of Lesotho implemented through the NIP and through other external actions funded by the general budget of the European Community, will be assessed by means of an independent external evaluation. This country- level evaluation may be undertaken jointly with EU Member States and possibly also with other donor agencies.

V.3 Focal sectors

Human Development

The following specific objective will be pursued: poverty reduction through a significant decrease in the hardship, morbidity and mortality experienced by the people of Lesotho. The intergenerational spill- over resulting in a significant increase in orphaned and vulnerable children is of particular concern.

As an indicative amount, approximately €27.2 million will be set aside for this field.

The main actions proposed will support the establishment and operation of a well-planned, effective and sustained effort by GoL, non-state actors and development partners in the fight against HIV/AIDS and the impact on society, commensurate with the immense scale of the challenges. Multi-year support will be provided where most needed in aspects of support for

the affected. This will involve up-scaling of the ongoing support for orphaned and vulnerable children (OVCs).

The main implementing instrument will be project support.

The main sectoral policy measures to be taken by the Government as a contribution to the implementation of the response strategy in this field include:

- Publication of a five-year National AIDS Strategic Plan, approved in December 2006; and
- HIV/AIDS is also to receive greater prominence in line ministries' plans and sector investment plans.

The main commitments by the Government to ensure mainstreaming of the cross-cutting issues include:

- The review of policy and laws which affect the rights and protection of women and children and domestication of international conventions such as CEDAW and the Convention on the Rights of the Child. The Legal Capacity of Married Persons Bill is in the Senate for consideration; and drafting of the Child Protection and Welfare Bill is being finalised; and
- Gender mainstreaming through the development of Gender Focal Points (GFP) in line ministries and the ten districts.

When needed, the appropriate type of environmental assessment (SEA or EIA) will be carried out.

Infrastructure

The following specific objective will be pursued: poverty reduction through improved living standards and increased incomes enabled by the availability of essential public economic infrastructure.

As an indicative amount, approximately €38.8 million will be set aside for this field.

The main actions proposed are: the creation and/or renovation and operation & maintenance of economically justified public infrastructure in the water & sanitation and road transport sectors.

Water and Sanitation

Further investments are planned to provide sustainable access to an improved water source and access to basic sanitation in selected rural areas of Lesotho.

The water sector is in the process of reviewing its water policy in view of Integrated Water Resource Management. Development of a Sector-Wide Approach (SWAp) is under active preparation.

The main implementing instrument therefore will be sector support and/or project support. The main sectoral policy measures to be taken by the Government as a contribution to the implementation of the response strategy in this field are:

- refinement of water policies and legislation, to include a new Water and Sanitation Act which will bring the Water Resources Act of 1978 in line with international developments;
- establishment of a development plan for water supply and sanitation in the Lowlands, full cost recovery for operation and maintenance whilst assuring water and sanitation services are affordable for low-income groups.

The indicative allocation for the Water and Sanitation sector is €32.0 million.

The appropriate type of environmental assessment (SEA or EIA) will be carried out and funds set aside for this purpose.

Transport

The emphasis in road transport is on the building of capacity in local government authorities (technical, financial and managerial) for routine and periodic maintenance of the rural road network needed to ensure reliable access to isolated areas and to markets and basic services. Intervention in this sector will seek to:

- build on the emerging SWAp; recently approved maintenance strategy; and recently approved integrated transport policy; respond to population movements to the Lowlands; and expedite the provision of basic services to rural communities in the Mountains;
- secure adequate funding for sustainable rural road maintenance and to address institutional weaknesses in relevant agencies;
- provide isolated rural communities with year-round access to markets and basic social services.

Although sector support is the intended implementation instrument, conditions for this have yet to be fulfilled.

The main sectoral policy measures to be taken by the Government as a contribution to the implementation of the response strategy in this field include:

- Finalisation of a review of roads legislation in order to clarify responsibilities of all institutions involved in construction and maintenance as well as attracting private transport operators to rural areas.
- Reinforcement of the current Road Fund to ensure adequate funding for regular road maintenance works.

The main commitments by the Government to ensure mainstreaming of the crosscutting issues are: HIV/AIDS sensitivity to be exercised in all publicly funded employment; equal opportunity targets to be included in all labour-based public infrastructure construction and maintenance contracts; and stringent application of regulations protecting water sources, particularly with respect to industrial pollution within the precept of “the polluter pays”.

The appropriate type of environmental assessment (SEA or EIA) will be carried out and funds set aside for this purpose.

The indicative allocation for the Transport sector is €6.8 million.

V.4 General Budget Support

Part of this National Indicative Programme provides resources for General Budget Support (GBS).

GBS is GoL’s preferred funding instrument as it allows for the allocation of resources in accordance with its PRS.

In moving from a ‘traditional’ project approach to budget support GoL is well aware of the criteria that apply to this type of support, which include a well enunciated national policy and development strategy, improvements in Public Financial Management and macroeconomic policy that is stability- oriented.

GoL is committed to the jointly developed Roadmap for the resumption of budget support. In this regard, it is expected that a process of open dialogue will lead to continued progress in implementing the Roadmap.

There is the expectation that the drive for harmonisation of approach and procedures among donors should result in reduced transaction costs for GoL. However, it is recognised that the shift to budget support itself entails a disciplined and sustained effort in reporting on agreed indicators.

The facility would also include a provision for building the institutional development management capacity to handle budget support, particularly in statistics, economic policy and planning and effective monitoring and evaluation.

As an indicative amount, approximately €53.8 million will be set aside for this type of support.

In the light of changing needs and circumstances, however, if GBS were not be activated, it may be decided to reallocate funds earmarked for this type of support to other priority areas in the NIP. Such a decision can be taken in the form of a specific agreement between the European Commission and the National Authorising Officer or within the context of an operational, mid-term, final or *ad hoc* review.

V.5 Non Focal Areas

An indicative amount of €16.2 million is set aside for the following actions:

Decentralisation

Actions will be taken to consolidate the ongoing major reforms in decentralisation, bringing the management and control of resources to local communities, and placing central and local government agencies at the service of the people. Decentralisation is central to GoL's drive to reduce poverty by providing services to the population and promoting development investments within the community. Strong support is needed for the still-new local authorities, to embed stable management and robust fiscal arrangements, and to build up links between Councils and their constituencies. The emergent Councils are responsible for the maintenance of minor roads and other public infrastructure as well as securing the funding of new investments. A major part of the required institution building over the next several years is enabling Councils and their professional staff to plan, manage budgets, particularly in funding the non-salary recurrent costs of operation, maintenance and administration. There is an opportunity to devise a public-private approach suitable for Lesotho in which Councils, NSA and communities combine their managerial, financial and human resources for local development projects, such as school classrooms, village water supply or enhancing productive infrastructure.

Technical Cooperation Facility (TCF)

As under the previous Indicative Programme, it will be necessary to have access to a facility, which provides financial resources to carry out feasibility and preparatory studies, reviews and evaluation and audit, where funds are not available within the budgets of the projects or programmes concerned. There is also a need for supporting actions in the area of trade, and particularly for the development of negotiating and analytical capacities.

Governance

GoL is committed to improvements to the justice system, anti-corruption and money-laundering measures, and support to public accounts committees and other control bodies. The EC will provide support in these areas.

Non-State Actors

Support for non-State actors covers non-State actors eligible for funding as defined in Article 6 of the Cotonou Agreement and Article 4(1)(d) of Annex IV to the revised Agreement. Eligible non-State actors should be active in the thematic areas of: gender; governance; HIV and AIDS; sustainable agriculture; and natural resources management. Specific support may cover

activities including, inter alia, capacity building, advocacy, research, awareness raising, monitoring and delivery of services to the population. In supporting non-State actors, the EC may make use of Article 15 (4), which allows it to be the Contracting Authority. An amount of €2 million shall be made available for this purpose.

Trade

Support for trade development will focus on technical assistance and/or studies required for the period after the EPA signature and will complement support provided under the SADC Regional Indicative Programme.

V.6 Intervention framework and performance

FOCAL AREA 1 - HUMAN DEVELOPMENT National HIV/AIDS Response – Support to OVC	Performance indicators	Source of verification	Assumptions
Overall Objective Improve the present and future livelihoods of people affected by HIV/AIDS throughout Lesotho.	<ul style="list-style-type: none"> Reduction in HIV/AIDS prevalence / Prolonged life expectancy. 	<ul style="list-style-type: none"> Demographic Health Survey (DHS) / Sentinel Surveys. 	
Intervention objective Basotho OVCs enabled to cope with their trauma and loss and assisted to access services and acquire life skills, and enjoy food security.	<ul style="list-style-type: none"> Number of OVC supported by the Programme within its year period. 	<ul style="list-style-type: none"> Reports (MoET, MoGYSR) / NGO Reports 	
Results: <ol style="list-style-type: none"> OVCs provided w/psychosocial support OVCs provided with HIV/AIDS prevention knowledge OVCs attend school, at least during (free) primary education. OVCs protected against abuse, especially sexual abuse and loss of property OVCs able to access GoL's and other providers' services OVCs benefit from food security OVCs provided with basic supplies (i.e. school uniforms, toiletries, food items) DSW and districts are capable to provide OVC support 	<ul style="list-style-type: none"> Number. of Caregiver Groups trained HIV/AIDS prevalence in the OVC cohort. OVC school attendance Number. of abuse cases reported and dealt with (Referrals). Number. of OVCs benefiting from bursaries for secondary education Number of OVCs benefiting from legal and health referrals Number of training delivered. Material distributed Number of OVCs engaged in food security activities Materials purchased and distributed /grant disbursement and justification levels. Training programmes delivered / Equipment purchased and distributed. 	<ul style="list-style-type: none"> OVC programme Reports / DHS and Sentinel Surveys. Department of Social Welfare (DSW) Reports. 	<ul style="list-style-type: none"> Life Skills Curriculum in place in schools. Other GoL support systems for children are in place and operational (i.e. Child and Gender Protection Unit of Police). GoL appoints required personnel and facilitates capacity- building processes.

Second focal sector – Infrastructure

FOCAL AREA 2 - INFRASTRUCTURE Water Supply and Sanitation	Performance indicators	Source of verification	Assumptions
Overall Objective Poverty reduction through improved standard of living of the rural population of Lesotho	1. Incidence of water-borne diseases reduced 2. Employment created through the creation and development of SMEs	MoNR reports Bureau of Statistics reports MoHSW reports	
Intervention objective To provide sustainable access to an improved water source and access to basic sanitation in selected rural areas of Lesotho	Proportion of the rural population with sustainable access to an improved water source and with access to basic sanitation from <45% (2006) to 70% by 2015	<ul style="list-style-type: none"> ● Baseline study – Households surveys ● Project Evaluation Reports 	<ul style="list-style-type: none"> ● GoL able to mobilise resources for implementation of second pillar of PRS ● Effective measures taken to protect economically active population from effects of HIV/AIDS and TB
Results: <ol style="list-style-type: none"> 1. Small- scale rural water and sanitation system developed/constructed in selected rural areas 2. Public (DRWS and Local Government) and private sector (small contractors) capacity for rural water supply and sanitation enhanced 	<ol style="list-style-type: none"> 1. Number. of small scale systems constructed 2. Medium Term RWS Strategic Plan and District Plans and implemented 	<ul style="list-style-type: none"> ● Regular District and National technical unit reports. ● Programme M&E reports. ● Programme completion reports. 	<ul style="list-style-type: none"> ● GoL remains fully committed to decentralisation process

FOCAL AREA 2- INFRASTRUCTURE Transport	Performance indicators	Source of verification	Assumptions
Overall Objective Poverty reduction through improved standard of living of the rural population of Lesotho	MDG Indicators	<ul style="list-style-type: none"> ● Bureau of Statistics 	
Intervention objective: To improve access to isolated areas, markets and basic services within rural areas	Proportion of people having access to basic services and markets using motorised and non-motorised roads	<ul style="list-style-type: none"> ● Baseline study – households surveys ● Traffic surveys ● Project Evaluation Reports 	<ul style="list-style-type: none"> ● GoL able to mobilize resources for implementation of second pillar of PRS ● Effective measures taken to protect economically active population from effects of HIV/AIDS and TB
Results: 1. Road network maintenance improved in rural areas 2. Local Authorities Capacity for rural road maintenance enhanced 3. Employment generated by labour intensive road maintenance approach	1. Overall % of rural network classified as fair or good 2. Number of km of road network maintained per District 3. Number of people employed in annual road maintenance operations	<ul style="list-style-type: none"> ● Lesotho Road Management System (LRMS) ● Road Fund and Local Government reports ● District and Local Government reports 	<ul style="list-style-type: none"> ● Funds for regular maintenance works will be made available through the Road Fund

V.7 Indicative Timetables for Commitments and Disbursements

Indicative timetable for Global Comm

	Indicative allocation €m	2008		2009		2010		20
		1	2	1	2	1	2	1
Focal Sector 1 - Human Development	27.2				27.15			
Focal Sector 2 - Infrastructure								
- Water and Sanitation	32.0		32					
- Transport	6.8				6.8			
General Budget support	53.8		53.8					
Non Focal Areas	16.3							
Decentralisation	8.0				8.0			
TCF	3.0		2.0					
Governance			3.0					
NSA	2.0			2				

Indicative timetable of disbursements¹²

Indicative allocation €m	2008		2009		2010		2011		2012		2013		
	1	2	1	2	1	2	1	2	1	2	1	2	
27.2				1.3	2.6	2.6	2.6	2.6	2.6	2.6	2.6	2.6	22.1
													0.0
32.0				8.0		6.0		6.0		6.0		6.0	32.0
6.8				0.4	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	6.8
53.8		12.0		12.0		12.0		12.0	5.8				53.8
8.0				0.5	0.8	0.8	1.0	1.0	1.0	1.0	1.0	0.8	7.9
2.0		0.5	0.5	0.4	0.4	0.2							2.0
3.0		0.4	0.8	0.8	0.8	0.2							3.0
2.0				0.4	0.4	0.4	0.4	0.4					2.0
1.2				0.4	0.4	0.4							1.2
136.0	0.0	12.9	1.3	24.2	6.2	23.4	4.8	22.8	10.2	10.4	4.4	10.2	
	0.0	12.9	14.2	38.4	44.6	68.0	72.8	95.6	105.8	116.2	120.6	130.8	

Year

¹² Disbursement forecast synchronised with GoL fiscal year.

V.8 Chronogramme of activities

	Indicative allocation €m	2008				2009				2010 →			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Focal Sector 1 - Human Development	27.2				AAP09		FD	PI					
Focal Sector 2 - Infrastructure													
- Water and Sanitation	32.0		AAP08	FD	PI								
- Transport	6.8				AAP09		FD	PI					
General Budget support	53.8		AAP08	FD	PI								
Non Focal Areas													
Decentralisation	8.0				AAP09		FD	PI					
TCF	2.0		AAP08	FD	PI								
Governance	3.0		AAP08	FD	PI								
NSA	2.0				AAP09		FD						
Trade	1.2				AAP09		FD						

AAP: Annual Action Programme

FD: Financing Decision

PI: Project Implementation 

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Annex 1: “Country at a Glance” Tables

Macroeconomic indicators

Indicator		2000	2001	2002	2003	2004	2005	2006	2007
Basic data									
1	Population <i>de jure</i> (in 1,000)	2.14	2.19	2.23	2.28	2.33	2.38	2.43	2.48
	- annual change in %	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.1
2a	Nominal GDP (in USD million)	~	923	1,052	1,166	1,280	1,403	1,540	1,689
2b	Nominal GDP per capita (in USD)	401	348	317	467	599	674	608	628
2c	- annual change in %	-7.7	-13.1	-9.0	47.3	28.4	2.5	-0.9	3.3
3	Real GDP (annual change in %)	~	3.2	3.8	3.3	3.6	3.9	4.0	4.0
4	Gross fixed capital formation (in % of GDP)	44.6	42.8	44.2	44.2	41.0	40.5	40.8	40.6
International transactions									
5	Exports of goods and services (in % of GDP)	24.6	37.0	50.7	44.2	51.3	44.0	42.2	43.2
	- of which the most important: ~ (in % of GDP)	~	~	~	~	~	~	~	~
6	Trade balance (in % of GDP)	-60.1	-51.8	-57.7	-48.6	-43.3	-41.4	-46.1	-45.7
7	Current account balance (in USD)	~	-113	-133	-129	-66	-45	-80	-106
8	Net inflows of foreign direct investment (in % of GDP)	~	~	~	~	~	~	~	~
9	External debt (in % of GDP)	72.4	95.2	69.6	55.0	46.6	43.8	42.8	42.5
10	Service of external debt (in % of exports of goods and non-factor services)	5.4	4.8	1.7	2.6	6.0	6.7	4.8	3.1
11	Foreign exchange reserves (in months of imports of goods and non-factor services)	~	~	~	~	~	~	~	~
Government									
12	Revenues (in % of GDP)	~	44.4	43.5	43.1	42.5	48.3	45.1	41.3
	- of which: grants (in % of GDP)	~	1.6	2.8	3.8	3.2	3.2	3.0	2.8
13	Expenditure (in % of GDP)	~	47.3	44.2	47.3	44.0	45.7	43.1	41.7
	- of which: capital expenditure (in % of GDP)	~	16.3	24.7	22.8	19.7	18.9	20.3	20.3
14a	Deficit (in % of GDP) including grants	~	-2.9	-0.7	-4.2	-1.5	2.7	2.0	-0.4
14b	Deficit (in % of GDP) excluding grants	~	-4.5	-3.5	-8.1	-4.7	-0.6	-1.0	-3.2
15a	Domestic debt (in % of GDP)	~	12.9	13.2	11.5	12.4	9.1	6.3	6.2
15b	External debt (in % of total public debt)	~	72.5	89.1	73.4	51.8	49.1	47.0	42.5

Indicator		2000	2001	2002	2003	2004	2005	2006	2007
Other									
16	Consumer price inflation (annual average change in %)	~	~	~	~	~	~	~	~
17	Interest rate (for money, annual rate in %)	~	9.72	11.49	12.75	11.75	10.75	9.75	9.0
18	Exchange rate (annual average of national currency per \$ 1)	~	7.36	9.07	9.69	7.59	7.97	8.37	8.79
19	Unemployment (in % of labour force, ILO definition)	~	~	~	~	~	~	~	~
20	Employment in agriculture (in % of total employment)	~	~	~	~	~	~	~	~

Sources:

1. A Review of Economic Performance, 1998-2002; Economic Prospects, 2003-2007 and Fiscal Strategy, 2004/5-2006/7, Ministry of Finance & Development Planning, February 2004.
2. Central Bank of Lesotho Quarterly Review, March 2006, (Volume XXV, Number 1).
3. Joint Annual Report on Co-operation between the European Union and the Kingdom of Lesotho, 2005.

Indicators for the Millennium Development Goals

Indicator	1990	2000	2004	2005	2006	2007	2008	2009	2013	2015
Impact										
1. Proportion of population living on less than \$ 1 per day	36.4 (1995)	58	~	40	~	~	~	~	~	29
2. Prevalence of underweight children (under five years of age)	16.9 (1992)	22.8 (2002)	~	19	~	~	~	~	~	8
3. Under-five mortality rate	104	113	97	~	~	58	~	~	~	37
Outputs										
4. Net enrolment ratio in primary education	65	69	~	~	~	85	~	~	~	95
5. Primary Completion Rate	73	74	~	~	~	85	~	~	~	100
6. Ratio of girls to boys in:										
- primary education	121	102	~	100	~	100	~	~	~	100
- secondary education	149	131	~	127	~	120	~	~	~	100
- tertiary education	~	122	~	~	~	~	~	~	~	100
7. Proportion of births attended by skilled medical personnel	50 (1993)	60	~	~	~	80	~	~	~	80
8. Proportion of one-year-old children immunised against measles	~	77	73	~	~	~	~	~	~	100
9. HIV prevalence among 15 to 24 year-old pregnant women	2.3	21	29	~	~	~	18	~	~	15
10. Proportion of population with sustainable access to an improved water source	64	77 (2001)	79	~	~	81	~	~	~	81

Comparison of 2004 Demographic Health Survey (DHS) with the 2001 Demographic Survey (DS) – (Irish Aid)

Health Indicator	2001 DS	2004 DHS
Infant Mortality Rate	81‰	91‰
Under Five Mortality Rate	113‰	113‰
Maternal Mortality Rate	419/100,000	762/100,000
Life Expectancy	54 years	36.3 years
HIV/AIDS adult prevalence	29% (sentinel surveillance)	23%
Notification for TB	420/100,000	571/100,000
Treatment success for TB	51%	71%
Prevalence of wasting	5.4%	4%
Prevalence of underweight	17.8%	20%
Prevalence of stunting	45%	38%

Annex 2: Donor Matrix

	SECTOR/AREA	AfDB	BADEA	China	EC	FAO/ IFAD	GF ATM	Germany	Ireland	Japan	Kuwait Fund	UN	UK	USA	WB/ IFC
1.	Agriculture and Food Security														
	Food Security	X				X				X		X	X*		
	Land reform/Land management							X					X		
2.	Education														
	Basic/Primary	X							X	X					X
	Secondary	X								X					X
	Improve quality of & access to education	X							X			X			X
3.	Health														
	Sector reforms	X								X					
	Improve access to health & social welfare	X					X		X			X			X
4.	Infrastructure														
	Water and Sanitation	X	X	X	X				X		X	X	X*	X	X
	Water and Sanitation sector management	X													X
	Transport Infrastructure	X			X				X*						X
	Transport sector management	X*			X*										
	Rural electrification	X													X
	Micro-projects				X			X							
5.	Trade and industry														
	Improved investment climate								X						
	Trade issues								X*				X		
	Commodity markets												X		
	SMEs												X		
	Employment creation		X										X		X
6.	Governance														
	Decentralisation				X			X	X			X			X
	Public Finance, Planning & Budgeting	X*			X			X	X				X		
	Public Service delivery							X					X		X
	Legal & Justice reform, Anti-corruption											X	X		
	Democracy and Civil Society			X	X			X	X				X		
7.	Crosscutting issues														
	Environment							X				X			X
	HIV/AIDS			X*	X		X	X*	X*				X		X

Note: * Capacity Building/Technical Assistance.

Sources: African Development Bank (2006), Country Strategy Paper; and World Bank (2006), Country Assessment Strategy for the Kingdom of Lesotho.

Annex 3: Overview of co-operation with Member States

A3.1 REPUBLIC OF IRELAND – IRISH AID

A3.1.1 Current country strategy and intervention rationale

Irish Aid's current strategy with Lesotho has a budget of €32.15 million and covers the period 2005-2007.

The overall goal of Irish Aid in Lesotho is to support the Government and the people of Lesotho to reduce poverty in line with the *Vision 20/20*, the *Poverty Reduction Strategy* and the *UN Millennium Development Goals*. Two strategic objectives guide the programme in meeting this goal:

- Core systems of the Government of Lesotho strengthened to promote efficiency, accountability, transparency, gender equality and citizen participation.
- Quality of service delivery improved in Education, Health, HIV/AIDS and Water and Sanitation, in line with the Poverty Reduction Strategy.

Health, Education, HIV/AIDS, Rural Water & Sanitation and Governance are the five priority areas. These focus sectors were identified in consultation with the Government and other Development Partners using the following criteria:

- Government priorities as outlined in the Poverty Reduction Strategy.
- Irish Aid's comparative advantage in Lesotho.
- The need to promote complementarity with other donors.

A3.1.2 Recent, ongoing and committed programme of support

- The Governance programme provides support to the following:
 - The Government's Public Financial Management Programme with DfID, and others.
 - The Office of the Ombudsman for implementation of its strategic plan.
 - Selected civil society organisations to advocate for improved service delivery, transparency and accountability.
 - The Parliamentary Reform Committee.
 - The Independent Electoral Commission.
- The Health, Education and Rural Water/Sanitation programme components provide grant-in-aid, to the Ministries of Health, Education and Natural Resources, respectively, to implement their individual sector strategic plans.
- The HIV/AIDS programme component provides grant-in-aid to the National AIDS Commission and to Civil Society organisations working in both service delivery and advocacy.

Budget in Euros (millions)

Sector	2005	2006	2007	Total
HIV/AIDS	0.890	0.880	0.880	2.65
Governance	2.530	2.430	2.430	7.40
Health	1.250	3.240	4.230	8.72
Education	1.660	1.560	1.550	4.77
Rural water& Sanitation	2.350	2.465	2.590	7.40
Rural Access	0.920	0.295	-	1.215
Total	9.600	10.87	11.68	32.15

A3.1.3 Harmonisation with EC and other Development Partners

The underlying principle of improving aid effectiveness through better donor co-ordination is a core strategy for achieving the stated objectives of Irish Aid in Lesotho.

To this end, Irish Aid works closely and in co-ordination with other donors in Lesotho. These include the European Union, and the Governments of the UK (DfID), Germany (GTZ) and the United States (USAID). Close liaison is also enjoyed with the UN Agencies which are represented by UNDP, UNICEF, UNAIDS, UNFPA, WHO, WFP and FAO under the leadership of the UN Resident Co-ordinator. The World Bank, the International Monetary Fund and the African Development Fund, although non-resident, are also long-standing partners of Lesotho. All donors and Agencies are on the same page in terms of supporting Lesotho to achieve the MDG within the National Framework of the *Vision 20/20* and *Poverty Reduction Strategy* and support the move away from stand-alone projects towards a co-ordinated and strategic approach.

A3.2 FEDERAL REPUBLIC OF GERMANY – GERMAN DEVELOPMENT CO-OPERATION

A3.2.1 Current country strategy and intervention rationale

The Governments of Lesotho and Germany both pursue the goal of poverty reduction, laid down in the PRSP and in the German Programme of Action 2015. In that context, both governments regard democratic, responsible governance as well as agrarian reform and the development of the productive potential of the poor as important fields for activity.

The specific objective of Lesotho-German co-operation was defined as follows by mutual agreement:

“Efficient decentralised institutions, including well-functioning local self-administration and local democratic participation mechanisms, ensuring improved public service delivery.”

The present Strategy thus addresses primarily the political/institutional environment. The decentralised, pluralistic system (districts, communities, NGOs, the private sector, etc.) is to be enabled to engage in pursuing the said objectives and to deliver effectively and efficiently important tasks of rural development to that end. Generally, this applies to all sectors. However, the co-operation program will focus particularly on capacity building in support of tapping the productive potential, especially in the fields of land use and infrastructure development. As far as that is feasible within the scope of Lesotho-German Development Co-operation, there are also to be some limited efforts in support of local economic development and employment.

Taking account of the aims on the one hand and of other donors’ activities and the strengths of German Development Co-operation on the other, it was agreed during the consultations in February 2003 that the following areas should be addressed:

- Decentralised administration and development planning (main focus), including:
 - support at the national level with regard to managing the decentralisation process, local administration systems and governance (e.g. advice on management and organisation);
 - policy advice at the national level in accordance with needs and as per agreement (e.g. legislation, human resource capacity, financing of development at the community level);
 - in particular, efforts to strengthen administration and governance at the district level, working with non-governmental players (e.g. human resource development with regard to planning, monitoring and financial monitoring, drafting of strategies for the financing of decentralised service systems and financing of development plans);
 - at the local and community levels, promotion of people’s political participation; and
 - at the local and community levels, promotion of local economic development (including employment).

Three special challenges and thus, fields for action, have been identified:

- ensure sustainable local-level models for financing development (fiscal decentralisation, rural development funds, transparent financial management, etc.);
- development of competent management at the national, district and community levels (training, incentive systems for rural regions, focus on “core sectors”, etc.); and
- ensure responsible and informed participation (procedures, training of Council members, promotion of political participation of women, inclusion of young men, etc.).

- Land policy and sustainable land management
 - support at the national level with a view to managing the land reform process (e.g. harmonisation of planning procedures and methods);
 - policy advice at the national level with regard to land reform and land use policy in accordance with needs and as per agreement;
 - support for the implementation of integrated land management in pilot regions; and
 - linking resource management and local economic development.
- Rural infrastructure
 - construction and financing of local infrastructure on the basis of district and community development plans if available, (during the first phase, the focus will be on investments and on the preparation of financing mechanisms for the second phase); and
 - support for job-generating strategies.

Important crosscutting issues will be HIV/AIDS and gender. HIV/AIDS as a crosscutting issue may mean, for instance, workplace counselling on how to deal with HIV/AIDS, or support for campaigns for public sensitisation and education, especially for young people (girls and boys). Moreover, KfW is implementing a separate project on this issue, supporting health centres' activities for reproductive health. Taking account of gender aspects, i.e. the differing roles, problems and potential of girls and boys, men and women is particularly important in this focal area with a view to political participation (women are currently a minority in that regard), land reform (women's access is less secure), income-generating activities (high unemployment among male youth), and HIV/AIDS (girls are particularly vulnerable).

A3.2.2 Recent, ongoing and committed programme of support

Technical Co-operation

I. Decentralised Rural Development Programme (DRDP)

Objective

Local Authorities and other important governmental and non-governmental organisations in the four Southern Districts of Lesotho implement sustainable practices for community development, which are geared towards the needs of the population.

Programme Components:

- The essential parts of legal, organisational and institutional regulations necessary for decentralised rural development have been put in force.
- The districts carry out their co-ordination role for an integrated development.
- Local Authorities (DCs, CCs) as well as governmental and private service providers carry out their functions in promoting participatory rural development and land management.
- The human resource departments of all ministries at central level relevant to decentralisation are improving their service delivery in human resource management in preparation for an adequate provision of personnel to decentralised administrative structures.
- Fight against HIV/AIDS: integrated approach based on the Mainstreaming Policy of GOL.

Total financial commitment for 3 years phase: up to Euro 5.8 million

Phasing: 03/2004 – 02/2007

Envisaged extension: 03/2007 – 02/2010

Planned new commitment: up to Euro 5.6 million

Implementing Agency: GTZ

II. Direct Technical support to various governmental and non-governmental organisations

- Fight against HIV/AIDS: prevention measures in Educational Institutions and youth organisations.
- Natural Resource Management: Technical support to Ministry of Forests and Land Reclamation.
- PRS monitoring: TC to Lesotho Council of NGOs.
- TC to the Central Bank of Lesotho.

Total financial commitment per year Euro 1.0 million

Phasing: ongoing

Implementing Agencies: DED and CIM

Financial Co-operation

- Local Government infrastructure improvement programme (ongoing)

Total financial commitment: Euro 2.56 million

- Proposed contribution to ‘District Development Financing’

Total proposed contribution: Euro 5.0 million

Implementing Agency: KfW

A3.2.3 Harmonisation with EC and other Development Partners

The bases of harmonisation are the *Vision 20/20* and PRS. The German contribution is aimed at supporting technically and financially the implementation of these programmes through PSIRP and support to the land reform process.

In terms of formal harmonisation networks the main ones are:

- **European Development Agencies in Lesotho (EDAL):** is a co-ordination forum of EC and Member States (Ireland, UK and Germany) that meets monthly to align their support programmes, particularly regarding PRS and PSIRP.
- **The Development Partners’ Consultative Forum (DPCF):** includes the UN family of agencies, EDAL members, other multilateral agencies such as World Bank and representatives of counties assisting Lesotho (USA, China, Libya etc.).
- **Donor Round Table:** co-ordinated by Ministry of Finance and Development Planning, this forum should prove to be the Government of Lesotho platform for harmonisation.

In terms of bilateral issue/sector-based harmonisation, GTZ is working closely with the World Bank on Fiscal Decentralisation and Capacity Building and with EC on capacity building support to decentralisation and NSA.

A3.3 UNITED KINGDOM – DEPARTMENT FOR INTERNATIONAL DEVELOPMENT

A3.3.1 Current country strategy and intervention rationale

There is an overarching Technical Co-operation Memorandum of Understanding between the Government of Lesotho and the British Government, signed in Maseru on the 12th June 1995. DfID's development assistance to Lesotho previously formed part of the DfID Southern Africa's Regional Strategy, now the Regional Plan.

Our overall objectives in Lesotho are the reduction of poverty and achievement of the Millennium Development Goals.

Our Bilateral Aid Framework is currently £ 5.0 million *per annum*. Expenditure is forecast to meet this ceiling. DfID, in accordance with its commitments to the Paris Declaration on Harmonisation, has aligned its support to the GoL's PRS and will formalise its financial and other commitments by way of a joint statement of intent with other Development Partners. We are also participating closely with the development of the EC CSP.

A3.3.2 Recent, ongoing and committed programme of support

DfID's current bilateral programme is set up in two main interventions:

- the Poverty Reduction Strategy Foundation Programme; and
- the Poverty Reduction Strategy Priority Support Programme.

The **PRS Foundation Programme** is providing £ 5.0 million over four years to February 2008. Its aim is to help GoL and other partners build the foundation upon which assistance may be provided through budget support in the future. The use of this modality will be subject to financial systems being sufficiently robust and there being continued good governance and a sound democratic process during the elections of 2007.

DfID recently participated in a joint mission with IA, EC, GTZ and WB to appraise fiduciary standards and develop a *Roadmap* with GoL to the position at which donors and GoL would be content to use budget support as the primary aid modality. The target date is from 2008 onwards.

The PRS Foundation Programme addresses specifically:

- public financial management;
- establishment of the Lesotho Revenue Authority;
- support to the Vulnerability Assessment Committee to develop poverty monitoring;
- a strong focus on improving donor co-ordination, particularly with EU countries and local UN agencies; and
- support to Civil Society.

The **PRS Priority Support Programme** is providing £7.5 million over five years to mid-2009. This addresses the PRS priorities of:

- **Job Creation** – the Government's top priority.
 - Supported through the DfID regional programme "Making Commodity and Service Markets Work for the Poor "(ComMark).
 - This seeks to improve the productivity of Lesotho's garment industry.

- In turn, ComMark also explores options for a private sector lead on initiatives for care and prevention of HIV/Aids in the garment industry – Lesotho’s largest employer – through the groundbreaking Apparel Lesotho Alliance to Fight AIDS (ALAFA) programme.
- In addition, a further £ 2.0 million is dedicated to working with the Ministry of Trade, Industry, Marketing & Co-operatives, related Ministries and the private sector to improve the business environment, including developing a strategy to take advantage of Lesotho’s position surrounded by South Africa.
- **HIV/AIDS** – identified as the No 1 crosscutting challenge.

We are supporting:

- GoL with the establishment of the National Aids Commission to work with UNAIDS;
- GoL to mainstream HIV/Aids into Local Government structures through UNDP; and
- the private sector response to the pandemic. This is ongoing through ALAFA.
- **Food Security** – the second PRS national priority.

In the medium term, UK has committed £ 2.0 million to this sector. Five key areas for support have been identified. These relate to:

- developing Government capacity to improve policy, planning and performance management at Central and Local levels;
- increasing capacity to support food security interventions at District and Community levels;
- strengthening homestead food security approaches in the field;
- producing and disseminating data, research and analysis on key issues; and
- supporting and promoting innovative private sector approaches to creating jobs and improving incomes.
- **Governance**, including £ 5.5 million to the Lesotho Justice Sector Development Programme which seeks to:
 - build Government capacity;
 - progress reform of the justice sector;
 - ensure protection of human rights and improvement of the rights of the most vulnerable; and
 - continue to mainstream gender in Lesotho Law.

A3.3.3 Harmonisation with EC and other Development Partners

In line with the Paris and Rome Declarations, DfID have been liaising with other DPs in Lesotho, (particularly the European donors but also within the "Development Partners' Consultative Forum"), towards signing a joint statement of intent with GoL. The intention would be to make long-term commitments of financial and other resources to Lesotho, upon which the country could develop its own plans. DfID is also working closely with other Member States in-country (IA and GTZ), particularly now that the EC Delegation is developing a Joint CSP for the 10th EDF.

A3.4 MATRIX OF SUPPORT FROM EU MEMBER STATES

Republic of Ireland

PRSP National Challenge	Project Code/Sun Code	Project Partner	Budget in € 2005	Budget in € 2006	Proposed Budget in € 2007	Objective/Purpose
Cross Cutting No.1 HIV/AIDS	HIV					Objective: To reduce the impact of HIV/AIDS in Lesotho Specific Objectives: (i) National Co-ordination Mechanisms Strengthened (ii) Civil Society response to HIV/AIDS supported
National Co-ordination		NAC / DATEs	€ 310,000.00	€ 460,000.00	€ 460,000.00	
Civil Society		Positive Act and others	€ 260,000.00	€ 400,000.00	€ 400,000.00	
Mainstreaming		Irish Aid	€ 20,000.00	€ 20,000.00	€ 20,000.00	
Migrant Workers (MoLE)		Ministry of Labour	€ 300,000.00			
Sub Total			€ 890,000.00	€ 880,000.00	€ 880,000.00	
No. 1 Job Creation			€ 0.00	€ 0.00	€ 0.00	
No. 2 Food Security			€ 0.00	€ 0.00	€ 0.00	
No. 3 Infrastructure Development (rural access)	RA					(i) Support to selected rural access projects continued with particular emphasis on the construction of footbridges. (ii) Smooth transition ensured between Irish Aid, DRR and other development partners as Irish Aid disengages from the sector
Gravel Roads		DRR MoPWT	€ 200,000.00	€ 0.00	€ 0.00	
Footbridges		DRR MoPWT	€ 500,000.00	€ 250,000.00	€ 0.00	
Cross Drainage Structures		DRR MoPWT	€ 150,000.00	€ 0.00	€ 0.00	
ILO /TRL study on design standards		DRR MoPWT	€ 45,000.00	€ 45,000.00	€ 0.00	
Capacity Building		DRR MoPWT	€ 25,000.00	€ 0.00	€ 0.00	
Sub Total			€ 920,000.00	€ 295,000.00	€ 0.00	

PRSP National Challenge	Project Code/Sun Code	Project Partner	Budget in € 2005	Budget in € 2006	Proposed Budget in € 2007	Objective/Purpose
No. 3 Infrastructure Development (rural water and sanitation)						Strategic Plan of the Department of Rural Water Supply implemented
Contribution to sub-sector programme (pooled fund)	RWS	DRWS	€ 2,350,000.00	€ 2,465,000.00	€ 2,590,000.00	
No. 4 Governance	Gov					Strengthened Democracy, transparency and accountability in Lesotho
Donor Co-ordination			€ 200,000.00	€ 200,000.00	€ 200,000.00	
Civil Society PRS monitoring		LCN	€ 250,000.00	€ 250,000.00	€ 250,000.00	
PRS Monitoring		MoFDP	€ 250,000.00	€ 250,000.00	€ 250,000.00	
Elections Support		IEC	€ 250,000.00	€ 150,000.00	€ 150,000.00	
Parliamentary Reform		Parliament	€ 50,000.00	€ 50,000.00	€ 50,000.00	
Office of the Ombudsman		Ombudsman	€ 80,000.00	€ 80,000.00	€ 80,000.00	
Sub Total			€ 1,080,000.00	€ 980,000.00	€ 980,000.00	
No.5 Improved Health And Social Welfare	HLT					(i) Improved health service delivery (ii) Health Sector Response to HIV/AIDS improved (iii) Donor Harmonisation Advanced
Improved Service Delivery (including HIV/AIDS response)		MoHSW and CHAL	€ 900,000.00	€ 3,240,000.00	€ 4,230,000.00	
Civil Society		LPPA	€ 50,000.00			
Sub Total			€ 950,000.00	€ 3,240,000.00	€ 4,230,000.00	

PRSP National Challenge	Project Code/Sun Code	Project Partner	Budget in € 2005	Budget in € 2006	Proposed Budget in € 2007	Objective/Purpose
No.6 Well established Human Resource Development						(i) Improved quality of education in line with ESSP (ii) Institutions strengthened in line with PSIRP (iii) Enhanced Donor Co-ordination in the Education Sector (iv) Strengthened capacity of civil society to support monitor and implement PRS.
Quality Basic Education		MoET	€ 1,200,000.00	€ 1,200,000.00	€ 1,200,000.00	
Systems Strengthening		MoET	€ 100,000.00	€ 100,000.00	€ 100,000.00	
HIV/AIDS mainstreaming		MoET	€ 250,000.00	€ 250,000.00	€ 250,000.00	
Process Fund		MoET	€ 10,000.00	€ 10,000.00	€ 0.00	
Bursaries		Lesotho SCF	€ 100,000.00	€ 0.00	€ 0.00	
Sub Total			€ 1,660,000.00	€ 1,560,000.00	€ 0.00	
No.8 Public Sector Improvement	Gov					Improved efficiency and responsiveness of the Public Service in Lesotho
Public Financial Management and Public Sector Improvement		MoFDP and MoPS	€ 1,400,000.00	€ 1,400,000.00	€ 1,400,000.00	
Programme Support Process Fund		Irish Aid	€ 250,000.00	€ 250,000.00	€ 250,000.00	Programme Support Costs
TOTAL			€ 2,600,000.00	€ 2,715,000.00	€ 2,840,000.00	

FEDERAL REPUBLIC OF GERMANY

PRSP National Challenge/Priority	Project Code/MIS Code	Project Title	Project Amount	Start date	End Date	Objective/Purpose
No.1 Job Creation	03.2245.3-001.03	DRDP GTZ - Support to Decentralised Rural Development Lesotho - 3) Performance of Local Government and Other Service Providers (Responsible body: Ministry of Local Government)	5.800.000,- Euro - this is for all components of DRDP up to 2007	4/1/04	2007/28/02	Local governments (UCs, CCs) as well as governmental and private service providers carry out their functions in promoting participatory rural development and land management. <ul style="list-style-type: none"> National planning guidelines are drawn up and in force, based on a harmonized legislation. In at least two of the four districts there is an increase in communal development measures, which have been planned in accordance with the national planning guidelines. At least 50% of the sector and donor financed district projects are planned in accordance with the national planning guidelines. The share of resources for poverty oriented development measures increases out of the total resources. The communities have access to national and donor funded development funds (number of development measures financed from these funds) Ongoing, GTZ input to PSIRP.
No.1 Job Creation		DRDP - GTZ/DED Support to LED, 4 Southern Districts, 4 DED DWs	78.011,- Euro p.a. per Development Worker + additional project budget and GTZ programme support			Support to Land use planning, Mafeteng; Marketing especially re Forestry and Business Development, Mohales Hoek; Eco- tourism, Quthing; Agriculture, Qacha's Nek; Note: Quthing Wildlife Development Trust (QWDT) is a NGO with the aim to support sustainable use of the natural resources in the Quthing District. DED assists QWDT in the aim to conserve the natural living conditions, to conserve key species, to promote sustainable use of the natural resources and to develop alternatives for income generating for the rural population.
No.1 Job Creation		DED - PPP Support	78.011,- Euro p.a. per Development Worker + additional project budget and GTZ programme support	2005	2007	Support to public private partnerships
No.1 Job Creation		DED - Advisor to organisations	78.011,- Euro p.a. per Development Worker + additional project budget and GTZ programme support	2005	2007	Advisor to local organisations and monitoring of PRSP, LCN / DED
No.2 Food Security	03.2245.3-001.01	DRDP GTZ - Support to Decentralised Rural Development Lesotho - 1) Legal and Institutional Framework Conditions for Decentralisation and of Land Management (Responsible body: Ministry of Local Government, MoLG)		4/1/04	2007/28/02	The essential parts of legal, organisational and institutional regulations necessary for a decentralised rural development have been put in force. <ul style="list-style-type: none"> The implementation regulations concerning local governance (Local Government Act, LAG) are adapted empirically (measured by the inputs from Urban (UCs) and Community Councils (CCs)). From the budget year 2004/2005 onwards UCs and CCs during the first quarter of the financial year receive at least 75% of their running costs assigned to them from the centre (proved using the budget planning of the Ministry of Finance) The legal and institutional structures foreseen in the Land Law have been created. Sufficient share of the budget has been allowed, to enable their completion. Ongoing, GTZ input to PSIRP

PRSP National Challenge/Priority	Project Code/MIS Code	Project Title	Project Amount	Start date	End Date	Objective/Purpose
No.3 Governance, Safety & Security	03.2245.3-001.01	DRDP GTZ - Support to Decentralised Rural Development Lesotho - 1) Legal and Institutional Framework Conditions for Decentralisation and of Land Management (Responsible body: Ministry of Local Government, MoLG)		1-Mar-04	28-Feb-07	The essential parts of legal, organisational and institutional regulations necessary for a decentralised rural development have been put in force. <ul style="list-style-type: none"> • The implementation regulations concerning local governance (Local Government Act, are adapted empirically (measured by the inputs from Urban (UCs) and Community Councils (CCs)). • From the budget year 2004/2005 onwards UCs and CCs during the first quarter of the financial year receive at least 75% of their running costs assigned to them from the centre (proved using the budget planning of the Ministry of Finance) • The legal and institutional structures foreseen in the Land Law have been created. • Sufficient share of the budget has been allowed, to enable their completion. Ongoing, GTZ input to PSIRP
	03.2245.3-001.02	DRDP GTZ - Support to Decentralised Rural Development Lesotho - 2) Development Planning and Financing (Responsible body: Ministry of Finance and Development Planning)				The districts carry out their co-ordination role for an integrated development <ul style="list-style-type: none"> • National planning guidelines are drawn up and in force, based on a harmonised legislation. • In at least two of the four districts there is an increase in communal development measures, which have been planned in accordance with the national planning guidelines. • At least 50% of the sector and donor financed district projects are planned in accordance with the national planning guidelines. • The share of resources for poverty oriented development measures increases out of the total resources. • The communities have access to national and donor funded development funds (number of development measures financed from these funds) Ongoing, GTZ input to PSIRP.
	03.2245.3-001.03	DRDP C6GTZ - Support to Decentralised Rural Development Lesotho - 3) Performance of Local Government and Other Service Providers (Responsible body: Ministry of Local Government)				Local governments (UCs, CCs) as well as governmental and private service providers carry out their functions in promoting participatory rural development and land management. <ul style="list-style-type: none"> • National planning guidelines are drawn up and in force, based on a harmonised legislation. • In at least two of the four districts there is an increase in communal development measures, which have been planned in accordance with the national planning guidelines. • At least 50% of the sector and donor financed district projects are planned in accordance with the national planning guidelines. • The share of resources for poverty oriented development measures increases out of the total resources. • The communities have access to national and donor funded development funds (number of development measures financed from these funds) Ongoing, GTZ input to PSIRP.
No.8 Public Service Delivery		DRDP GTS/DED - Support to Decentralised Rural Development Lesotho - 3) Performance of Local Government and Other Service Providers (Responsible body: Ministry of Local Government) 4 DED DW in Southern Districts				Local governments (UCs, CCs) as well as governmental and private service providers carry out their functions in promoting participatory rural development and land management. <ul style="list-style-type: none"> • National planning guidelines are drawn up and in force, based on a harmonised legislation. • In at least two of the four districts there is an increase in communal development measures, which have been planned in accordance with the national planning guidelines. • At least 50% of the sector and donor financed district projects are planned in accordance with the national planning guidelines. • The share of resources for poverty oriented development measures increases out of the total resources. • The communities have access to national and donor funded development funds (number of development measures financed from these funds) Ongoing, GTZ input to PSIRP.

PRSP National Challenge/Priority	Project Code/MIS Code	Project Title	Project Amount	Start date	End Date	Objective/Purpose
No.8 Public Service Delivery	03.2245.3-001.05	5) GTZ - Support to Decentralised Rural Development Lesotho - focal area co-ordination				The partner ministries view the German Development Co-operation as transparently and coherently acting partners. • Timely and culturally adapted concepts, instruments and systems of human resource management are applied in all ministries. • At least 30% of leadership positions in the ministries are filled in a transparent manner according to technical criteria and a public advertisement of the positions. • The efficiency of the personnel (measured by an assessment by the superiors) in the ministries has improved. Ongoing GTZ input to PSIRP.
No.4 Infrastructure Development		Financial Co-operation - Labour intensive Road Construction				
No.4 Infrastructure Development	03.2245.3-001.03	DRDP GTZ - Support to Decentralised Rural Development Lesotho - 3) Performance of Local Government and Other Service Providers (Responsible body: Ministry of Local Government)		4/1/04	2007/28/02	Local governments (UCs, CCs) as well as governmental and private service providers carry out their functions in promoting participatory rural development and land management. National planning guidelines are drawn up and in force, based on a harmonised legislation. • In at least two of the four districts there is an increase in communal development measures, which have been planned in accordance with the national planning guidelines. • At least 50% of the sector and donor financed district projects are planned in accordance with the national planning guidelines. • The share of resources for poverty oriented development measures increases out of the total resources. • The communities have access to national and donor funded development funds (number of development measures financed from these funds) Ongoing, GTZ input to PSIRP.
No.5 Improved Health & Social Welfare	03.2245.3-001.03	DRDP GTZ - Support to Decentralised Rural Development Lesotho - 3) Performance of Local Government and Other Service Providers (Responsible body: Ministry of Local Government)		4/1/04	2007/28/02	Local governments (UCs, CCs) as well as governmental and private service providers carry out their functions in promoting participatory rural development and land management. • National planning guidelines are drawn up and in force, based on a harmonised legislation. • In at least two of the four districts there is an increase in communal development measures, which have been planned in accordance with the national planning guidelines. • At least 50% of the sector and donor financed district projects are planned in accordance with the national planning guidelines. • The share of resources for poverty oriented development measures increases out of the total resources. • The communities have access to national and donor funded development funds (number of development measures financed from these funds) Ongoing, GTZ input to PSIRP.
	1995.3542.8	Study and Expert Fund	€5000,00	1-Jan-95		Ongoing GTS.
No.6 Well established Human Resource Development	03.2245.3-001.04	DRDP GTZ - Support to Decentralised Rural Development Lesotho - 4) Support to the Mediator Levels of Decentralised Rural Development		4/1/04	2007/28/02	The human resource departments of all ministries at central level relevant to decentralisation are improving their service delivery in human resource management in preparation for an adequate provision of personnel to decentralised administrative structures.
No.7 Environmental Management		DRDP GTZ /DED Marketing/Forestry Mohales Hoek. Follow Up to Social Forestry and Conservation Program	Supported by DRDP (GTS)	1-Mar-03	31-Dec-04	
No.7 Environmental Management		CIM - Support to Forestry	Own finances + supported by GTS			

PRSP National Challenge/Priority	Project Code/MIS Code	Project Title	Project Amount	Start date	End Date	Objective/Purpose
No.7 Environmental Management	LE-PROBEC 1.1	DED - Co-operation with GTZ Program on Biomass Energy Conservation	78.011 EURO p.a. per Development worker + additional support by GTZ	1/7/04	30/6/06	To promote technologies and techniques to use biomass energy for cooking, baking, heating and food processing. Private households and institutions are the groups to be addressed. Given that in the foreseeable future biomass will remain the primary source of basic energy for up to 80% of total energy consumption for families and small businesses, it is important that the available energy (biomass) be used in an environmentally sound and socially responsible way. The programme therefore aims at promoting a comprehensive package of solution, appropriated to Lesotho, with which it is feasible to reach multiple, long lasting environmental, economic and social benefits.
No.7 Environmental Management	LE-QWDT 1.1	DRDP GTZ / DED - Support to Quthing Wildlife Trust	78.011,- Euro p.a. per Development Worker + additional project budget	1/4/03	30/4/05	Quthing Wildlife Development Trust (QWDT) is a NGO with the aim to support sustainable use of the natural resources in the Quthing District. DED assists QWDT in the aim to conserve the natural living conditions, to conserve key species, to promote sustainable use of the natural resources and to develop alternatives for income generating for the rural population.
No.7 Environmental Management	03.2245.3-001.03	DRDP GTZ - Support to Decentralised Rural Development Lesotho - 3) Performance of Local Government and Other Service Providers (Responsible body: Ministry of Local Government)		4/1/04	2007/28/02	Local governments (UCs, CCs) as well as governmental and private service providers carry out their functions in promoting participatory rural development and land management. <ul style="list-style-type: none"> National planning guidelines are drawn up and in force, based on a harmonised legislation. In at least two of the four districts there is an increase in communal development measures, which have been planned in accordance with the national planning guidelines. At least 50% of the sector and donor financed district projects are planned in accordance with the national planning guidelines. The share of resources for poverty oriented development measures increases out of the total resources. The communities have access to national and donor funded development funds (number of development measures financed from these funds) Ongoing, GTZ input to PSIRP.
No.7 Environmental Management	03.2245.3-001.01	DRDP GTZ - Support to Decentralised Rural Development Lesotho - 1) Legal and Institutional Framework Conditions for Decentralisation and of Land Management (Responsible body: Ministry of Local Government, MoLG)		4/1/04	2007/28/02	The essential parts of legal, organisational and institutional regulations necessary for a decentralised rural development have been put in force. <ul style="list-style-type: none"> The implementation regulations concerning local governance (Local Government Act) are adapted empirically (measured by the inputs from Urban (UCs) and Community Councils (CCs)). From the budget year 2004/2005 onwards UCs and CCs during the first quarter of the financial year receive at least 75% of their running costs assigned to them from the centre (proved using the budget planning of the Ministry of Finance) The legal and institutional structures foreseen in the Land Law have been created. Sufficient share of the budget has been allowed, to enable their completion. Ongoing, GTZ input to PSIRP
No.8 Public Service Delivery		Financial Co-operation - Support to District Administration and Local Government Infrastructure	€2,560,000			
No.8 Public Service Delivery		CIM - Support to Regional Planning	Own finances	3/6/02	2/6/06	Institutionalised decentralisation of planning administration. Preparation of a physical, spatial Planning framework for the whole country. Frameworks therefore are gasetted Regional-, district-, Structure- and Local area plans on the basis of the Town and Country Planning Act. The CIM-Experts advise, instruct and train the responsible Physical Planners. Establish a well functioning Database within the LSPP on a GIS base to serve for customers needs in terms of planning, survey, lands and cartography.
No.8 Public Service Delivery		CIM - Support to Urban Planning	Own finances	1/2/02	31/1/06	
No.8 Public Service Delivery		CIM - Support to Central Bank	Own finances			

PRSP National Challenge/Priority	Project Code/MIS Code	Project Title	Project Amount	Start date	End Date	Objective/Purpose
National Cross Cutting No.1 HIV/AIDS	GH-Aids 1.1	DED - Support to HIV/AIDS Mitigation, Qacha's Nek Schools Programme	78.011,-Euro p.a. per Development Worker + additional project budget	1/11/03	30/10/05	School Awareness-programme concerning HIV/Aids for pupils and teachers of secondary- and High schools in the district. Assistance to the District Aids Task Force of Qacha's Nek that this organ is more able to play its role. Support to the Decentralised Rural Development Programme by surveying the functioning of information and supply structures between communities and the national level and vice versa in the field of HIV/Aids.
National Cross Cutting No.1 HIV/AIDS		DRDP - GTS/ DED Support to Mainstreaming of HIV/AIDS, 4 Southern Districts	78.011,-Euro p.a. per Development Worker + GTZ programme support	2005	2007	Support and technical assistance to the National University of Lesotho (students trained on HIV/AIDS)
National Cross Cutting No.1 HIV/AIDS			78.011,-Euro p.a. per Development Worker + GTZ programme support	2001	2007	Support and technical assistance to the Lesotho College of Education (teacher training on HIV/AIDS)
National Cross Cutting No.1 HIV/AIDS		CIM		2005	2007	Technical Advice to the Youth Centre Khubetsoana
National Cross Cutting No.1 HIV/AIDS	GH-Aids-CARE 1.1	DED - Support to HIV/Aids Mitigation, Workplace-Policy- Programmes	78.011,-Euro p.a. per Development Worker + additional project budget	1/9/04	30/9/06	Develop HIV/Aids Workplace-Policy-Programmes together with private companies and institutions in Lesotho and facilitation of implementation.
National Cross Cutting No.1 HIV/AIDS	03.2245.3-001.03	DRDP GTZ - Support to Decentralised Rural Development Lesotho - 3) Performance of Local Government and Other Service Providers (Responsible body: Ministry of Local Government)		4/1/04	2007/28/02	Local governments (UCs, CCs) as well as governmental and private service providers carry out their functions in promoting participatory rural development and land management. <ul style="list-style-type: none"> • National planning guidelines are drawn up and in force, based on a harmonised legislation. • In at least two of the four districts there is an increase in communal development measures, which have been planned in accordance with the national planning guidelines. • At least 50% of the sector and donor financed district projects are planned in accordance with the national planning guidelines. • The share of resources for poverty oriented development measures increases out of the total resources. • The communities have access to national and donor funded development funds (number of development measures financed from these funds) Ongoing, GTZ input to PSIRP.
National Cross Cutting No.1 HIV/AIDS	03.2245.3-001.01	DRDP GTZ - Support to Decentralised Rural Development Lesotho - 1) Legal and Institutional Framework Conditions for Decentralisation and of Land Management (Responsible body: Ministry of Local Government, MoLG)		4/1/04	2007/28/02	The essential parts of legal, organisational and institutional regulations necessary for a decentralised rural development have been put in force. <ul style="list-style-type: none"> • The implementation regulations concerning local governance (Local Government Act) are adapted empirically (measured by the inputs from Urban (UCs) and Community Councils (CCs)). • From the budget year 2004/2005 onwards UCs and CCs during the first quarter of the financial year receive at least 75% of their running costs assigned to them from the centre (proved using the budget planning of the Ministry of Finance) • The legal and institutional structures foreseen in the Land Law have been created. • Sufficient share of the budget has been allowed, to enable their completion. Ongoing, GTZ input to PSIRP

UNITED KINGDOM

PRSP National Challenge/Priority	Project/MIS Code	Project Title	Project Amount	Start date	End Date	Objective/Purpose	Status and Comments
PRS FOUNDATION PROGRAMME (£ 5m)							
	032-542-038	Strengthening GoL's Poverty Monitoring Function	£ 0.7m	1/10/04	31/12/07	To co-ordinate the implementation of PRS. To develop a national poverty information database for monitoring PRS. To support and strengthen the links of LVAC.	DfID approved a costed extension to LVAC, both TA (Peter Mugangi) and financial support of LVAC activities through CARE Lesotho-SA. The revised end date is now December 2007. PS/Cabinet issued memo confirming LVAC's institutional home will be DMA, and not MoAFS as outlined in the FS Policy. Clarification being sought from Minister. DfID also approved commitment of ~£ 140K to BoS through UNFPA to complete certain activities for the Census 2006.
	032-542-038	Civil Society Support Programme (CSSP)	£ 0.3m	8/1/04	31/7/2007	To support the development of a dynamic and sustainable civil society engaged in monitoring and shaping PRS implementation.	The first Annual Review has been scheduled for first week August 2006, led by Steve Godfrey supported by Itumeleng Kimane. Key issues to be assessed include institutional arrangements and LCN's effectiveness as implementing partner.
	032-542-038	Public Financial Management (PFM)	£ 3.1m	1/2/05	31/5/08	To strengthen GoL's Public Finance Management Systems including accountability and procurement.	Second Annual Review scheduled for 25th - 29th September 2006, to be led by Ken Robson. Participation on this joint review being actively sought from Irish Aid, EC and WB. Key issues continue to be accessing EC funds for IFMIS, and ensuring the complementarity with the other two PSIRP components of decentralisation and HR reform.
	032-004-001 032-542-036	Lesotho Revenue Authority (LRA)	£ 6m	18/3/02	31/3/09	To assist the GoL in establishing an Independent Revenue Authority	Second Phase three-year support approved of £ 2.1m and administered as Financial Aid. Four-month interim phase agreed with LRA/DfID to build the capacity of Finance Administration Department to effectively procure and manage TA using FA funds. A review is scheduled for end August 2006 to assess FAD's progress in putting in place suitable systems and procedures for FA.
	032-542-038	Donor Harmonisation	£ 0.4m	2004	2008	To support GoL to co-ordinate donor activities around the PRS and PSIRP more efficiently	Second commitment to UNDP for placement of economist Osten Chulu in the Social Policy Unit. DfID continues to attend Development Partners Consultative Forum (DPCF) that discusses inter alia support to the Donor Roundtable Conference due in November 2006.

PRSP National Challenge/Priority	Project/MIS Code	Project Title	Project Amount	Start date	End Date	Objective/Purpose	Status and Comments
PRS PRIORITY SUPPORT PROGRAMME (£ 7.5m)							
No. 1 Cross-cutting: HIV/AIDS	032-542-039	HIV/AIDS	£ 2m	2004	31/12/06	To reduce risk and improve capacity to care, and mitigate the impact of HIV	Annual Review undertaken in early June 2006, scoring '2'. UNDP 'Scaling up National Response' scheduled to end December 2006; UNAIDS TA (Henry Tabifor) in post from March 2006 for two years; PSCAAL Phase 2 concluded in November 2005; ComMark long-term intervention study now developed model for care/prevention in the garment industry branded as ALAFA and launched in June by Bono.
No.1 Job Creation	032-542-038	Job Creation	£ 2m	1/12/05	31/5/09	To improve the investment climate and increase market access for the poor	PMTC consortium contracted through international OJEU process. Inception Phase concluded end May 2006 with submission of report and detailed costed work plan to GoL/DfID. Output Managers have been identified in MoAFS (5) and MoTIMC (3), initial activities underway. First Annual Review scheduled for early 2007.
No.1 Job Creation	032-542-038	Making Commodity Markets Work for the Poor (ComMark)	£ 1.5m	21/02/02	3/1/08	To enhance the growth and development of selected commodity and service sectors in the SACU region for the sustainable benefit of the poor	Two agreed elements to Lesotho: support to garment sector and the wool and mohair markets. More precisely focussed key stakeholders on issues confronting textile and clothing industry. Provided technical support and advice on a range of trade and industrial policy issues. Also played a major role in attracting new investments to the country and some new buyers of garments.
No. 2: Food Security	032-542-038	Food Security	£ 2m	1/12/05	31/5/09	To reduce hunger and vulnerability in Lesotho	See above for Job Creation
No. 3: Governance, Safety, Security	032-542-037	Lesotho Justice Sector Development Programme (LJSDP)	£ 5.5m	1/8/03	28/2/08	To develop the Lesotho Justice Sector so that pro-poor policies are developed and implemented.	Second Annual Review took place in March 2006, scored at '3'. New Project Manager, Thandeka Dhlamini, in post since March; recruitment underway of Technical Adviser to replace Senior Programme Manager who retired end April 2006. Interviews to take place end August. Clarification of Secretariat roles and responsibilities currently underway.

Annex 4: HIV and AIDS Context

NATIONAL STRATEGIC PLAN (NSP) ON HIV AND AIDS FOR 2006-2011

SUMMARY

The revised National Strategic Plan (NSP) on HIV and AIDS for 2006-11 was developed through an extensive stakeholder consultation process following the completion of the Joint Review of the national response to HIV and AIDS. The first phase was a joint review of the national HIV and AIDS response undertaken in September 2005 to determine achievements, lessons learned, weaknesses and challenges met during the course of implementation. The second and third phases were the development of the multi-sectoral National HIV and AIDS policy and the multi-sectoral national strategic plan that were guided by the findings from the Joint Review process.

Development of the NSP involved five stages, namely: literature review, a national level stakeholder consultative meeting, district level stakeholder consultation, a four-day national strategic planning workshop and several meetings that were held with the National Strategic Plan Steering Committee which was established by NAC to guide the plan development process.

Justification for the development of the NSP

The HIV and AIDS epidemic in Lesotho is of a mature pattern, with a high case-fatality ratio, large numbers of orphans and vulnerable children, increasing mother-to-child transmission, decreasing life expectancy, declining productivity affecting the national economy and very high demands on the health care system.

The prevalence of HIV in Lesotho is estimated at 23.2% of adult Basotho aged 15 to 49 years by 2005, translating to approximately 266,000 adult men and women living with HIV infection. The prevalence is particularly high in urban areas at levels of 28.8%, compared to 21.8% in the rural areas with a considerable variation in prevalence rates by district. The HIV prevalence is highest among the 15 to 49 years age-bracket and skewed towards women with 85% of diagnosed cases of HIV, and more among young women than young men of similar age with a ratio percentage of more than 60% to less than about 30% for young males.

Other pertinent issues to the strategic plan development are those related to the burden of disease, where Ministry of Health and Social Welfare (MOHSW) has reported that more than 50% of outpatients attendances are AIDS related ailments and that more than 60% of inpatients are due to AIDS related illnesses. In addition, the number of orphans is rapidly increasing as a result of HIV and AIDS related deaths. Level of vulnerability has increased due to the failure of the traditional healthcare infrastructure to cope with the increasing demands to take care of individuals and families affected and infected with HIV and AIDS.

The identified drivers of the epidemic in Lesotho include the following:

- Cultural factors including gender inequality and lack of empowerment; Multiple and concurrent sexual relationships;

- Intergenerational sex;
- Early sexual debut;
- Social and economic factors of poverty and food insecurity that predispose women to sexual abuse; High population mobility due to the need for economic survival;
- Substance abuse predisposing individuals to risky sexual behaviour; Inadequate education of population on HIV and AIDS;
- Inadequate behaviour change despite widespread HIV and AIDS awareness, Stigma that prevents disclosure and responsible behaviour; and
- Insufficient coordination of activities in the national response.

National Response

The national response to the HIV and AIDS epidemic in Lesotho consisted of the provision of education programmes to increase knowledge and awareness, provision of services such as condom distribution and STI management, treatment of AIDS related opportunistic infections, provision of care and support services to those infected and suffering from AIDS, provision of impact mitigation services to provide a safety-net for individuals and families affected and to facilitate the implementation of relevant interventions.

The national response was established immediately after the reporting of the first case of AIDS in 1986, the Government of Lesotho has over the years developed and put in place several policies and plans to guide the response to the HIV and AIDS epidemic. Programmes addressing the different aspects of the epidemic by different organisations are being implemented and appropriate central structures to facilitate the national response are being implemented, albeit not efficiently due to low coordination capacities.

Challenges in the Response

The joint Review of the national response has identified challenges and gaps in HIV interventions have been designed and implemented. The review indicated that the response interventions currently employed were based on limited strategic analysis and mainly directed by the perceived goals and objectives of individual implementing organisations. Furthermore, they had limited national strategic direction and were inadequate_ coordinated. These factors were further aggravated by the general low resource and technical resources and absence of clear national strategic priorities as well as coordination.

Key Challenges Addressed by the National Strategic Planning Process

The national strategic planning processes identified the key challenges for attention that would enable the country to effectively and efficiently move forward in halting the spread of HIV epidemic in Lesotho: to provide quality treatment, care and support to those infected: to ensure mitigation of the impact of the epidemic especially on orphans and vulnerable children to facilitate implementation of HIV and AIDS programmes at national and community levels to support interventions.

Details of the key strategic objectives by each thematic area are listed in the next section: "Strategic Focus on Management and Coordination Mechanisms".

Strengthening *of* mechanisms to coordinate the national response was identified as a strategic focus area in the context of provision of direction to the national response, ensuring equity in the allocation *of* resources as well as guiding development partners to national priority needs and the provision *of* a monitoring system to evaluate performance and provide information on the trends of the epidemic.

Advocacy for policy and legislation development

Current policy and legislative environment is supportive of HIV and AIDS environment but some of the basic policies and legislature have not been enacted. The strategic focus will therefore be:

- To ensure that the minimum package *of* legislation required making a difference in guaranteeing equity gender equality, protection against discrimination of PLWHAs and protection of vulnerable groups are in place, and to get those that have been stalled at various stages of enactment completed.
- To ensure that beneficiaries as well as implementers are aware of the existence of the enabling policies and legislature.
- To create a legal, policy environment that reduces vulnerability to HIV infection by 2008.
- To ensure verifiable leadership involvement and commitment in the fight against HIV and AIDS throughout the duration *of* the NSP.
- To ensure that the legal status of women as minors without contractual capacity is changed to reduce their vulnerability to both HIV infection and the impact of the epidemic.
- To ensure that legislation, policies and programmes are in place to address issues of girls' education, violence against women, property and inheritance rights, and putting value to women's involvement in household and community work, and universal access to HIV and AIDS treatment and care.

Establishment of Viable Coordination Mechanisms

Coordination of the national response was identified as critical to halting the spread of HIV and AIDS and mitigation of the Impact of AIDS. As coordination provides the guidance and leadership in the determination of priorities, identification of needs and gaps at national level and the establishment of synergy and efficiency in the allocation and utilisation of resources

- To have in place a mechanism for mobilising and strengthening financial resources across all sectors by 2007;
- To create mechanisms for partnerships among civil society organisations, public sector, private sector and development partners by 2007;
- To strengthen the capacity for coordination of the national HIV and AIDS response at national, district and community level by 2007:

- Establish and implement a Monitoring and Evaluation system for HIV and AIDS by 2007.

Strategic Focus on Prevention Challenges

Prevention was identified as the main strategy to effectively address the spread of HIV and AIDS in Lesotho. Shortcomings in the implementation of prevention strategies were identified and appropriate strategic options developed consist of the following:

- Greater involvement of national leaders to advocate for behavioural change at all levels;
- Development of IEC and BCC strategies specifically addressing factors of abstinence, faithfulness in sexual relationships, and use of condoms.
- Scaling up prevention messages at all social, political, religious and service related facilities;
- Enactment of legislation/policies to support wide spread testing and counselling for HIV, as well as the establishment of post test service package to encourage wide spread need for testing.
- Know Your Status (KYS).
- PMCT.
- Condom Use.
- Life Skills for young people Education for empowerment of women.
- Provision of Post Exposure Prophylaxis (PEP) and others.
- Special programmes to increase access to special groups such a commercial sex workers, prisoners, people with disabilities, adolescents and herd boys are established.
- Comprehensive HIV workplace programmes.

Strategic Focus for Treatment (care and Support

It is estimated that there are approximately 266,000 adults with HIV in Lesotho. The plan has identified a need to rollout ART to prolong the lives of the infected individuals, as well as treatment, care and support and management of opportunistic infections and follow up for adherence during treatment.

The key challenge is scaling up ART include: increase of accessibility of treatment, care and support, ensuring that there are adequate human, technical, infrastructural resources and effective commodity procurement and distribution systems. In addition, there are also challenges regarding care and monitoring of patients on ARV for adherence as well as possible HIV drug resistance.

Specific objectives identified as a way towards addressing the challenges:

- To ensure that at least eighty percent (80%) of those found in need of ART have access to it.
- To increase access of those tested to post test services.
- To maintain a patient follow-up schedule that will ensure a minimum of 90% adherence to reduce possibility of HIV drug resistance.

- To increase access to care and support services for all those that need it.
- To establish minimum healthcare packages at health centres including HIV and AIDS testing and Counselling services.
- To ensure that all healthcare service providers are adequately trained to provide comprehensive HIV and AIDS services.
- Special health care services are accessible to all vulnerable groups such as commercial sex workers, adolescents, prisoners, and people with disabilities including herd boys.
- Employers to provide comprehensive HIV' workplace programmes.

Strategic Focus for Impact Mitigation

Impact mitigation has been identified in the NSP as a necessary intervention to deal with the impact of the spread of the HIV infection in Lesotho. The strategies identified to address impact mitigation include:

- Strengthening of Community coping mechanisms and safety nets through sustainable intervention;
- Development of mechanisms to coordinate public, private, civil society and other implementers to develop sustainable community development initiatives to provide food security and other support to families and individuals affected or made vulnerable by HIV and AIDS;
- Development of appropriate legislation and policies to protect the rights of orphans and vulnerable children and PLWHAs;
- Establishment of appropriate mechanisms for identification and registration of OVC;
- Dissemination of policies and legislation on OVC to communities to ensure application of these policies at suitable situations;
- Increase access of vac households to treatment, care and support services; Increase of vac access to care and psychosocial support by 20 10.
- Involvement of PLWHAs participation in the provision of care and support as well as psychological care;
- Capacitating of PLWHAs to participate in economic activities to support their livelihood.

Financial Implications

The estimated budget for implementation of this strategic plan over a period of five years is LSL 3.0 billion, which translates to approximately LSL 500 million per annum. Funding will be mobilised from the Government and various local and international organisations.

Implementation Arrangements

NAC has the overall mandate to mobilise and coordinate the technical physical and financial resources required for the implementation of the strategic plan. Various Implementing organisations from the public sector, civil society and international organisations/partners shall be required to align their sectoral strategic and annual plans to the national strategic plan. This would culminate into an agreed annual work plan for implementation. NAC will also establish and institutionalise M&E System for NSP.

Specific recommendations to initiate implementation include:

- Circulation of approved NSP to stakeholders before a one-day conference to discuss the implementation of the plan;
- Hosting a national stakeholders meeting to discuss and agree the way forward and roles of each key stakeholder;
- Determination of resource requirements for the Plan and development of a resource mobilisation strategy for the NSP;
- Establishment of HIV and AIDS information management system for tracking implementation and finances;
- Establishment of coordination framework that would ensure effective use of available resources as well as ensure allocation of new resources to priority areas identified.

Annex 5: Water and Sanitation Sector Context - Part I

Lesotho Water and Sanitation Policy¹³

FOREWORD

Lesotho has water as its most important natural resource, second to her people. The ownership of all water within Lesotho is vested in the Basotho Nation. The Government of Lesotho has the duty to ensure that this resource is used in a sustainable manner and to the benefit of all users, and the responsibility to provide security of access to water sources and improved sanitation. In pursuit of this responsibility, Government is producing this second water policy to provide direction in dealing with water resources

Government is committed to ensure effective and efficient management and development of this resource in order to maximize socio-economic benefits. It aims to achieve this objective in an equitable manner without compromising the sustainability of vital environmental systems. Proper planning, conservation, development, and management of water resources require a shared vision and ownership. Paramount on Lesotho's development agenda is the alleviation of poverty. Properly focused programmes should allow particularly the poor to have access to potable water supply and improved sanitation facilities. In this regard a minimum standard of 30 litres per capita per day will apply.

The principal challenges facing the water sector include:

- Improved coordination of water programmes and projects through a Sector Wide Approach (SWAp);
- Strengthening capacity of water sector institutions;
- Development of an effective legal and regulatory framework;
- Efficient service delivery and sustainability through appropriate levels of decentralisation;
- Mainstreaming HIV/AIDS, gender and environmental issues;
- Facilitation of partnerships in management and development of water resources; and
- A mechanism to track and measure achievement of developmental goals.

Lesotho's water and sanitation policy is based on the recognition of a need for a holistic and sustainable water resources management and development approach, ensuring as wide a participation of water stakeholders as possible and treating the resource as an economic, environmental and social good. We aim to make a clarion call to all sectors of the society to join hands in managing, conserving, and protecting this valuable resource in order to satisfy our present needs as well as those of future generations. Of vital importance are controlling land degradation, good rangeland management practices, wetlands conservation, controlling pollution and invasive alien species. Concisely, we need to adopt an integrated catchment management.

Apart from addressing specific water resource management issues and in recognition of the fact that water impacts on many other sectors, this policy document is aligned

¹³ The Policy was approved by GoL Cabinet on 13/02/07

with the National Vision 2020, the Poverty Reduction Strategy, the Millennium Development Goals and other related policies such as those on Decentralization, Energy, Environment, Food Security, Gender, Forestry and Land Reclamation, HIV/AIDS, Industrialisation, National Irrigation Policy, and Science and Technology. The Lesotho Water and Sanitation Policy goes all-out to embrace our principle that “Kopano ke Matla - Unity is Strength”. United we shall stand in the quest for a better future for all of our people. The Lesotho Water and Sanitation Policy (LWSP) is consistent with the global and regional consensus embodied in Agenda 21, the Dublin Principles, the Helsinki Rules, Johannesburg Plan of Implementation, Global Water Partnership, SADC Declaration, Southern African Vision for Water and Environment, SADC Regional Water Policy, and SADC Protocol on Shared Water courses.

The Water Resources Management Policy was adopted in 1999 and was set out to be updated every five years to accommodate domestic and international changes and challenges. Since 1999 a number of changes have taken place: the Government of Lesotho has adopted the National Vision 2020, the Poverty Reduction Strategy and Millennium Development Goals.

Lesotho has also become a signatory to various international agreements that directly and indirectly affect the development of the water sector in Lesotho. It was in the light of these developments that the Government of Lesotho committed itself towards ensuring efficiency in management and development of its water resources through an Integrated Water Resources Management Policy.

The water and sanitation targets feature under Goal – 7 (the environmental sustainability Goal) of the Millennium Development Goals. The wording calls on government to “half, by 2015, the proportion of people without access to a sustainable source of potable water and basic sanitation. Water for life – the provision of safe drinking water and sanitation is the imperative for human and economic development in poor communities. Access to clean water and safe sanitation therefore correlates closely with other critical MDG targets such as child mortality, gender equity and enrolment in education, and severe poverty. Governments are being encouraged to recognize that without success in water and sanitation, the entire MDG concept will be in jeopardy. Tracking the Millennium Development Goals (MDGs) targets and indicators is the responsibility of all.

The Office of the Commissioner of Water is mandated to promote improved coordination of programmes and activities within the sector. Effective sector wide coordination remains a challenge for proper management and development of the water resources in the country. For this to happen the necessary legal and regulatory framework has to be institutionalised and a SWAp initiated. This will allow us to measure levels of achievements and impacts towards agreed national objectives.

POLICY CONTEXT

Policy Objectives

The objectives of the Lesotho Water and Sanitation Policy (LWSP) are to promote:

- 1) The proper management of the country's water resources and its sustainable utilization;
- 2) Adequate and sustainable supply of potable water and sanitation services to all of the population of Lesotho;
- 3) Co-ordination and coherence in the management and development of water and other related natural resources, in order to maximise the resultant socio-economic benefits without compromising the sustainability of vital ecosystems; and
- 4) Harmonisation of processes and procedures followed by different development partners and other stakeholders in order to optimise available internal and external resources as well as ensure timely implementation of sector programmes.

Principles

The guiding principles of the Lesotho Water and Sanitation Policy are:

A. Fresh water is a finite and vulnerable resource, essential to sustain life, development and the environment. Its utilization must therefore be sustainable;

B. Since water sustains life, in order to be effective, the management of water resources demands a holistic approach, linking social and economic development with the protection of natural ecosystems. Effective management of water resources would also link land and water uses across the whole of a catchment area as well as the groundwater aquifer in an integrated management framework;

C. Water has an economic value and should be recognized as an economic good. Managing water as an economic good is an important way of balancing its competing uses and achieving its equitable, efficient and sustainable utilization while encouraging its conservation and protection;

D. Water management and development should be based on a participatory approach, involving users, planners and policy-makers. A participatory approach involves raising awareness on the importance of water among policy-makers and the general public. A participatory management approach also requires that, decisions be taken at the lowest appropriate level of governance, with full public consultation and the involvement of users in the planning and implementation of water and sanitation programmes and projects;

E. Women and girls continue to play a central role in the provision, management and safeguarding of potable water. The pivotal role of women as providers and users of water and as guardians of the living environment requires enabling policies and strategies to empower them to participate at different levels of decision-making in water resources management and development and to share in the benefits of water utilization on the basis of equity.

F. All the Basothos are entitled to have access to a sustainable supply of potable water and to the provision of basic sanitation services at an affordable cost;

H. Public-Private Partnerships are essential for sustainable development of water resources and accelerated access to potable water and sanitation services to the un-served and underserved population on account of improved efficiency of operations and investments; and

I. Each riparian state within a shared watercourse has a right to reasonable and equitable utilization of water within its boundaries. This right may be exercised through an integrated

basin management approach and the active participation in planning and implementation of joint programmes aimed at conserving and sustainable utilising river basin systems.

Policy Statement 1: Water Resources Management

Manage water resources in an integrated and sustainable manner to ensure availability of this resource in adequate quantities and quality for present and future social, economic and environmental needs.

Objectives:

1. To enhance the conservation and protection of the country's water resources and to promote its sustainable management; and
2. To improve the assessment of the nation's surface and ground water resources.

Strategies:

- a) Expand and maintain existing country wide monitoring networks and systems for effective assessment of national water resources;
- b) Develop and maintain a management information system for all water sector related data for ease of storage, retrieval, manipulation and dissemination;
- c) Develop and implement a communication strategy for effective flow of data and information at different levels with a view to avoiding duplication of efforts and increasing sharing of knowledge and experience, efficiency and collaboration;
- d) Promote integrated planning, development and management of water resources at different levels and in different sectors to maximize benefits arising from hydropower, tourism, flood control, irrigation, water supply, water bottling, water for export and others to enhance complementarity and synergies;
- e) Establish and implement water allocation principles and guidelines for different uses based on water demands for sectoral developments;
- f) Develop and implement drought relief strategies and flood management measures for risk reduction and effective mitigation of impacts.
- g) Develop systems and put in place measures and guidelines for retaining surface water runoff for utilization and for the artificial recharge of groundwater;
- h) Promote the adoption of integrated planning for and management of catchments to minimise land degradation and promote sustainable utilization of water and other natural resources;
- i) Encourage water conservation through the promotion of rainwater harvesting to further increase utilizable water resources;
- j) Introduce water use charges taking into account the economic value of water without however compromising the ability of poor communities to utilize water for domestic and other productive purposes; and
- k) Enhance capacity for managing the nation's water resources of the technical and professional personnel as well as of the institutions charged with the mandate of managing the nation's water resources.

Policy Statement 2: Water Supply and Sanitation Services

Ensure access to a sustainable supply of potable water and basic sanitation services for all Basotho

Objectives:

1. To accelerate the delivery of water and sanitation services to all Basotho in line with national development goals;
2. To promote increased investment in infrastructure development (reservoirs, conveyance structures, etc) to meet the water demand in urban and rural areas for socio-economic development and for meeting basic consumption and hygiene needs;
3. To devolve provision of water supply and sanitation services to relevant institutions at National, District and Community Council levels;
4. To promote equity in access to water supply and sanitation services taking into account vulnerable and marginalized groups including women, girls and all those affected by HIV/AIDS; and
5. To ensure that the tariffs charged by water and sanitation service providers cover the actual cost, including the capital costs as well as the cost of overheads, of providing water and sanitation services.

Strategies:

- l) Reconstitute water committees as a mechanism for sustainable service delivery at local level;
- m) Empower district and community councils in the effective implementation of water supply and sanitation programmes, including the development of all relevant by-laws;
- n) Establish long term water demands and water supply options for urban and rural areas beyond 2035;
- o) Formulate water supply and sanitation services programmes for the medium (10-15 years) and long term (20-25 years) in order to facilitate the determination of, and access to, funding mechanisms;
- p) Develop and implement principles and guidelines for various forms of Public-Private Partnerships to facilitate sustainable provision of adequate water supply and sanitation services to rural, peri-urban and urban areas;
- q) Develop and implement management systems for existing and planned bulk water storage structures (reservoirs, dams, etc);
- r) Develop and implement programmes aimed at creating public awareness on linkages between water supply, sanitation, health and hygiene;
- s) Establish and implement standards for provision of water supply and sanitation services;
- t) Establish and put into effect tariff structures and cost recovery mechanisms for water supply and sanitation services which ensure that water service providers recover the actual cost, including capital costs, of providing water services;
- u) Introduce a cross-subsidy tariff mechanism to reflect water for basic human needs only (30 litres per capita per day) in the case where customers are unable to afford the cost of lowest service;
- v) Tariffs for non-domestic water supply shall be flat rate and shall not be less than the marginal cost of the water supplied while tariffs for domestic consumers shall be banded,

but nevertheless its weighted average shall not be less than the marginal cost of the water supplied;

w) As a way of promoting equity, the Government shall endeavour to ensure that the maximum expenditure on water shall not exceed 5% of disposable income, and that the water service providers apply a uniform tariff in all areas as opposed to regional tariffs;

x) Put in place mechanisms to ensure that a proportion of the revenues from the Lesotho Highlands water is utilized to increase coverage of water supply systems in underserved areas;

y) Implement the Aftercare Strategy for rural water supply systems in order to improve sustainability of access to potable water; and

z) Introduce systems for monitoring and evaluating the performance of water supply and sanitation systems at community level.

Policy Statement 3: Water and Environment

Protect and conserve water resources and minimize the adverse impacts of socio-economic development activities on water

Objectives:

1. To promote integrated water resources management with a view to reducing the negative impacts of human activities and natural processes on sensitive ecosystems;
2. To encourage the implementation of catchment management principles and practices as the basis for managing the country's water resources;
3. To enhance protection of water resources against various forms of pollution and to minimise the risk of over-exploitation; and
4. To ensure integration of environmental and other inter-sectoral issues, among them HIV/AIDS and gender equity into water resources programmes and activities.

Strategies:

- a) Develop and implement relevant environmental standards and guidelines for aquatic ecosystems;
- b) Promote environmental education aimed at creating awareness of conservation and sustainable use of water resources for all groups including among others industrialists, herders, farmers, youths, councillors;
- c) Require the prevention of pollution at source through the adoption of cleaner technologies and management systems;
- d) Implement an industrial wastewater policy to effectively control discharges from industrial processes on the basis of the "Polluter Pays Principle" and the adoption of cleaner manufacturing and processing technologies;
- e) Implement integrated waste management and pollution control measures for the effective protection of water resources from potential non-point and point sources of pollution, including from solid and hazardous wastes disposal sites;
- f) Adopt and implement internationally recognised principles on wetlands management, among them principles drawn from the RAMSAR Convention on Wetlands of International Importance as Waterfowl Habitat;

- g) Put in place mechanisms for the conservation of wetlands by protecting them from overgrazing and other hazards, particularly fire;
- h) Promote Strategic Environmental Assessment (SEA) of policies and strategies, programmes and plans for water resources development in order to enhance sustainable development; and
- i) Adopt Environment Impact Assessment (EIA) for all water resources development projects with emphasis on environmental protection, poverty alleviation, and reduction of the spread of the HIV/AIDS pandemic;

Policy Statement 4: Trans-boundary Water Resources

Manage trans-boundary water resources on the basis of Lesotho's sovereignty in a way that ensures maximum benefits while taking cognisance of her obligations to downstream users under international law.

Objectives:

1. To strengthen co-operation with riparian states in an effort to find solutions to the challenges of managing trans-boundary water basins; and
2. To promote joint planning and management of the development of trans-boundary water resources while maximising benefits for the people of Lesotho.

Strategies:

- a) Cooperate with other riparian countries in the development, optimal utilization and protection of trans-boundary waters without compromising the country's sovereignty;
- b) Establish a comprehensive monitoring system in collaboration with other riparian states for the collection, processing and sharing of data on integrated water resources management and development;
- c) Adopt a comprehensive and integrated management framework for the Orange-Senqu River Basin to maximize the water resources benefits to the people of Lesotho and those of the other riparian states;
- d) Promote a bilateral initiative for the development and implementation of an integrated planning framework for the Mohokare /Caledon River basin water resources; and
- e) Cooperate in the establishment of a Management Information System for water resources that is compatible with national data management systems for ease of information sharing among riparian states.

Policy Statement 5: Sector Wide Approach

Adopt a sector wide approach to water resources management and to water supply and sanitation services development, in order to ensure effective and efficient use of internal and external resources

Objectives:

1. To promote a sector wide approach for water sector management and development in order to facilitate replacement of project-based approach with comprehensive sector-wide programmes;
2. To promote optimal use of national and international funding for the management of water resources and the development of water supply and sanitation services through

increased coherence between policy spending and results, and to reduce transaction costs; and

3. To improve coordination of water sector planning, programming and activities in order to enhance the chances of the attainment of developmental objectives and to facilitate monitoring and evaluation.

Strategies:

- a) Strengthen the capacity of the Water Commissioner's office to enable it to play its leadership role in the facilitation of sector wide collaboration, agreements, and negotiations, management, planning and reporting framework;
- b) Review and implement relevant water sector policies in order to facilitate participation in accelerated water resources management and development programmes;
- c) Develop and implement integrated water sector programmes that promote coherence between sectoral policy, spending and results through greater transparency and wider dialogue;
- d) Establish and implement a medium term expenditure framework for both internal and external resources that meet the requirements of the agreed sector programme with harmonized processes and procedures;
- e) Institutionalise performance monitoring and evaluation systems using agreed sector indicators including MDG targets and achievements at all levels of implementation;
- f) Establish and maintain a central management information system for the water sector for ease of storage, retrieval and processing of information;
- g) Establish and formalise a procedure for donor coordination for effective pooling of resources; and
- h) Establish and implement mechanisms for systematic dissemination of information on various aspects of water sector programmes in order broaden ownership by all stakeholders, clients and beneficiaries.

Policy Statement 6: Stakeholder Involvement

Ensure participatory approach with effective involvement of all stakeholders at different levels in water resources management and development in order to ensure sustainability of sector programmes.

Objectives

1. To promote effective stakeholder participation in the formulation and implementation of all sector programmes;
2. To ensure participation of all gender groupings in the formulation and implementation of all sector programmes;
3. To facilitate the involvement of the private sector as an important stakeholder in the management of water resources and in the provision of water services.

Strategy:

- a) Adopt and prepare guidelines for participatory approach at different phases of development programmes and projects with focus on traditional leaders; women, youth groupings, the disabled, orphans and all other vulnerable groups in affected communities;

- b) Promote and facilitate the participation of Non-Governmental Organizations (NGOs), Community Based Organisations (CBOs) and Civil Society in integrated water resources management;
- c) Develop and implement guidelines for facilitating private sector participation at different levels of water sector programmes and activities;
- d) Identify options and opportunities for the participation of the private sector in the management of water resources and in the provision of water services; and
- e) Facilitate the role of the private sector by creating an enabling environment for public private partnerships in water resources management and water services provision.

Policy Statement 7: Institutional Arrangements and Legislative Framework

Put in place appropriate institutional arrangements and a legislative framework for the sustainable development and management of the nation's water resources and for the supply of water and sanitation services.

Objectives:

1. To improve institutional and legal framework for implementation of the Water and Sanitation Policy;
2. To foster clarity and separation of roles and responsibilities in water resources development and management; and water and sanitation services delivery to match the needs of Basotho.

Strategies:

- a) Introduce and effect institutional reforms. In this regard, the priorities of Government in the medium to long term include the following:
 - i. Strengthen policy development and monitoring;
 - ii. Establish and operationalise a bulk water authority for raw water. The authority will operate and maintain large dams and reservoirs;
 - iii. Establish and operationalise an independent economic and services regulator with respect to tariffs for treated water, water distribution, and bulk supply of raw water;
 - iv. Provide for urban water utility, WASA to have responsibility for treatment and distribution of treated water;
 - v. Facilitate the establishment of water distributors at various levels;
 - vi. Establish and operationalise asset management agency. The agency will coordinate large investments for expansion water distribution networks and other related infrastructure
- b) Where need arises, establish project implementation units (PIUs) to catalyse implementation of complex projects that require specialized expertise. In the event where PIU is needed, an oversight board, with necessary expertise for quality control, will be formed to provide policy guidance to the former;
- c) Separate water resources development and management from the provision of water supply and sanitation services;
- d) Devolve water resources development and management functions to lower level institutions;

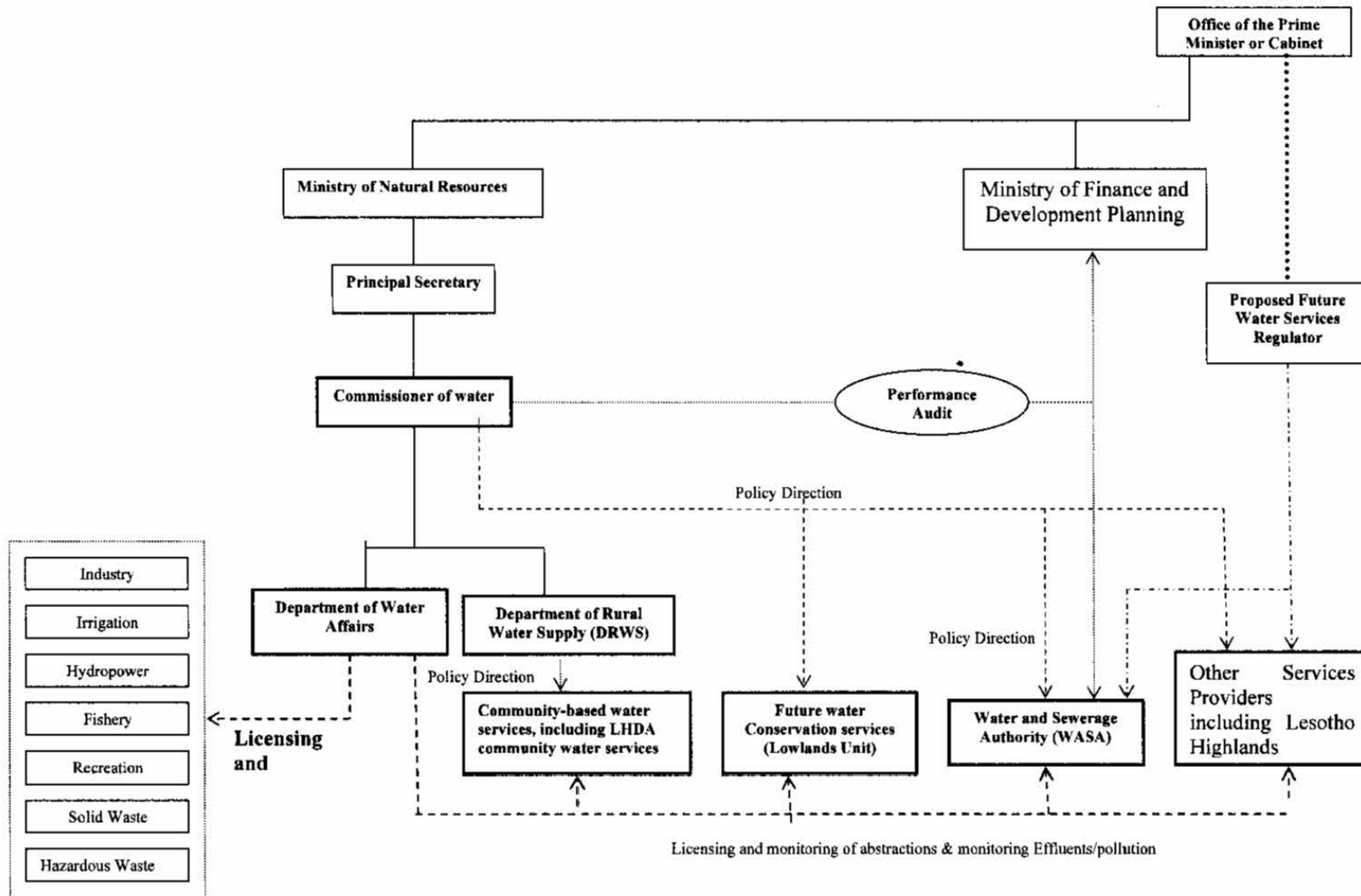
e) Promote involvement of other stakeholders, including local communities and the private sector in the management of water resources and in the provision of water supply and sanitation services;

f) Introduce and implement a legislative and regulatory framework for the management and development of water resources, covering *inter alia*, water rights; dispute resolution; public participation; water pollution control; water quality standard setting; catchment management; and introduce a basis for charging for water use among other issues. In this regard, the Government's priority in the short term is to:

i. Enact water resources management, and water supply and sanitation services bills. The former bill will among others elaborate the roles and responsibilities of key players within the sector particularly those of the Commissioner of Water;

ii. Review corporate governance arrangements for utility companies to be in line with international and regional standards for corporate agencies.

PROPOSED ORGANISATIONAL STRUCTURE OF THE WATER SECTOR IN LESOTHO



Monitoring and Evaluation

Objectives:

The on-going monitoring and assessment of water resources and coverage of water and sanitation services are of vital importance to our ability to manage and protect the resource and more importantly ensuring provision of adequate services to the majority of Basotho. The information generated through this process is essential for monitoring progress in the implementation of the LWSP as well as evaluating its effectiveness. The existing initiatives within the water sector should be strengthened to produce a comprehensive monitoring and evaluation system. Such a system will facilitate attainment of the following objectives:

1. To provide the Government and other stakeholder with up-to-date information on progress made in the implementation of the Lesotho Water and Sanitation Policy;
2. To identify weaknesses in the implementation strategies which need to be corrected to ensure effective policy implementation; and
3. To make proposals for appropriate policy reviews.

Strategies:

- a) Establish and maintain a monitoring and evaluation programme in consultation with stakeholders;
- b) In collaboration with stakeholders, develop or adapt indicators to be used in monitoring progress made in the attainment of set objectives;
- c) Harmonise national indicators with those proposed at regional and international levels;
- d) Establish a multi-stakeholder technical committee to monitor progress made in the implementation of the policy;
- e) Facilitate data exchange between various stakeholders dealing with water and sanitation issues;
- f) Regular reports showing state of water resources and sectoral programmes will be produced by the Office of the Commissioner in collaboration with all key stakeholders and such reports will be presented to parliament; and
- g) Develop and implement mechanisms to ensure all reports produced as part of monitoring and evaluation are made available to the public while observing legitimate confidentiality concerns;
- h) Review the Policy once every five years to bring it in line with developments at various levels.

GLOSSARY OF TERMS

1. **Conservation:** protection, maintenance, rehabilitation, restoration and enhancement of natural resources and includes the management of the use of natural resources to ensure the sustainability of such use.
2. **Development:** the process of improving the quality of all human lives. Important aspects of development are raising people's living levels, creating conditions conducive to the growth of people's self-esteem and increasing people's freedom of choice.
3. **Economic good:** a scarce resource that is limited in quantities in comparison to the demand for the resource. Treating water as an economic good that has economic market value recognizes that water has an opportunity cost.
4. **Economic growth:** the steady process by which the productive capacity of the economy is increased over time to bring about rising levels of national output and income.
5. **Gender:** the socially and culturally constructed roles, privileges, responsibilities, power and influence, social relations, expectations and value of males and females, girls and boys. There are significant differences in what females and males can or cannot do in one society when compared to another. In all cultures, the roles of females and males are distinct, as are their access to productive resources and their authority to make decisions. Typically, in most cases, males are held responsible for the productive activities outside the home, while the domains of females are the reproductive and productive activities within the home. In most developing countries societies, females have limited access to income, land, credit, education, limited ownership and control over these resources.
6. **Gender mainstreaming (UN):** the process of assessing the implications of women and men of any planned action, including legislation, policies and programmes, in any area and at different levels. It is a strategy of making concerns and experiences of women and an integral dimension in the design, implementation, monitoring and evaluation of policies and programmes, in all political, economic and societal spheres so that women and men benefit equally, and inequality is not perpetuated. The ultimate goal is to achieve gender equality.
7. **Integrated Water Resources Management (IWRM):** The institutionalised activities of water resources development, utilisation, allocation conservation and control.
8. **Public -Private Partnership (PPP):** Involvement of the private sector in water resources management including development of service delivery and operation. This can take several forms, with different features with respect to privatised asset ownership, Lease Contract, Financial Management Contracts etc. PPP will require setting up an independent body for mediation and regulation purposes of contracts entered into between government and the private sector.
9. **Participatory approach:** a planning approach in which all stakeholders, and in particular the envisaged beneficiaries are part of the decision making process.
10. **Policy coordination:** voluntary and largely unenforceable alignments of national policies and measures in particular fields.
11. **Policy harmonization:** agreement on the manner in which each member state will exercise or use a particular instrument over which it retains control.
12. **Potable water:** water, which is fit for drinking i.e. clean AND wholesome.
13. **Poverty:** the situation facing that in society whose material needs are least satisfied. Inability to afford an adequate standard of consumption because of low income is referred to as income poverty. If, apart from low income, malnutrition, poor health, low survival rates, low literacy levels characterize a country, inadequate housing and living conditions, etc., then there is a human poverty.
14. **Privatisation:** the sale of public assets to individuals or private business interests.

15. **Sanitation:** An adequate sanitation facility must meet social, cultural, technology, user satisfaction and environment friendly criteria. Adequate sanitation means access to safe excreta disposal facilities, services to households, public facilities, and disposal of liquid and solid waste without contamination of water sources, health hazards to people or deterioration of the environment.
16. **Sector Wide Approach:** a way of working together between government, development partners and stakeholders in collaboration, agreements, and negotiations, management, planning and reporting framework.
17. **Shared watercourse:** Water sources (surface as well as groundwater) that cross borders of countries or constitute borders between countries.
18. **Social good:** water as a commodity to which social value is attached, arising from the fact that water is an essential building block for life, the universal right of all to have access to water is generally accepted.
19. **Sustainable development:** a pattern of development that permits future generations to live at least as well as the current generation.
20. **Sustainable use:** use in a way and at a rate that does not lead to the long term decline of natural resources.
21. **Watercourse:** a system of surface and ground waters consisting by virtue of their physical relationship a unitary whole normally flowing into a common terminus such as the sea, lake or aquifer.
22. **Water Demand Management:** the use of price, quantitative restrictions and other devices (e.g. leakage detection and control) to control the demand for water.

Annex 5: Water and Sanitation Sector Context - Part II

Current Situation and Targets

Urban Water Supply

The Lowlands of Lesotho face a steep increase in population and industrial activity. However, in comparison with the highland areas the lowlands are rather dry. It is recognised that the long-term problem of providing clean and adequate water supplies to the domestic and commercial consumers of the western lowlands area of Lesotho is assuming critical importance. Maseru, the largest focus for urban water demands has already reached the point where it is not possible to provide sufficient water to meet current demands, and the situation is worsening rapidly in many other areas.

To assure water supply to the Lowlands in the medium term, bulk water supply schemes are required, bringing water from the Highlands to the Lowlands. This bulk water will then be distributed through existing local reticulation systems. Such a programme of action needs to be initiated immediately so that the required investments and facilities can be completed in time to meet the projected demands. Without the necessary investment, the population in the lowlands of Lesotho will suffer increasing water shortages leading to adverse impacts on livelihoods, health and economic development.

The ten lowlands towns all are important economic and social centres in Lesotho with a high potential for development. The combined population of these towns is at present over 400,000 inhabitants. Industry is developing in most towns and migration from rural to the urban areas is increasing. Water supply in all towns is estimated to meet less than half of demand – and in some cases it is less than 20% - and is becoming more critical every day. Industrialisation is severely constrained by lack of water.

Water borne sewage in the lowland towns is limited because of the large number of VIP¹⁴ latrines (propagated as the favoured means of sanitation) and conservancy tanks. However, treatment capacity is inadequate to cope with the expected volumetric growth and to protect the integrity of both surface and groundwater resources.

Maseru, with an estimated population of some 218,500 (2004) has been growing at 6 to 7% per year during the past decade. It is characterized by low-density construction, covering 13,250 ha of undulating area with a height difference of 400m (1,490 to 1,890 masl). This makes it technically difficult and therefore expensive to provide sewerage services. Presently sewered areas, which account for approx. 28% of domestic water consumption, are almost fully developed. The less developed areas in the South are growing fast due to immigration. The serious deficiencies in the functioning of the current wastewater system result in substantial volumes of untreated sewage flowing in the Caledon river, thus creating a major health hazard, as downstream water is used for domestic purposes in Free State, South Africa.

The growing population dictates the need for extension of its sewerage network and services, if it is not to further impact negatively upon the economic and social development of Lesotho. However, the current constraints on the availability of piped water severely restrict the ability to address expansion at present.

WASA's physical infrastructure suffers from lack of investment in maintenance, and from capacity constraints, particularly in management and skill in operations maintenance. Many of its existing assets require rehabilitation or replacement.

¹⁴ Ventilated Improved Pit-latrines

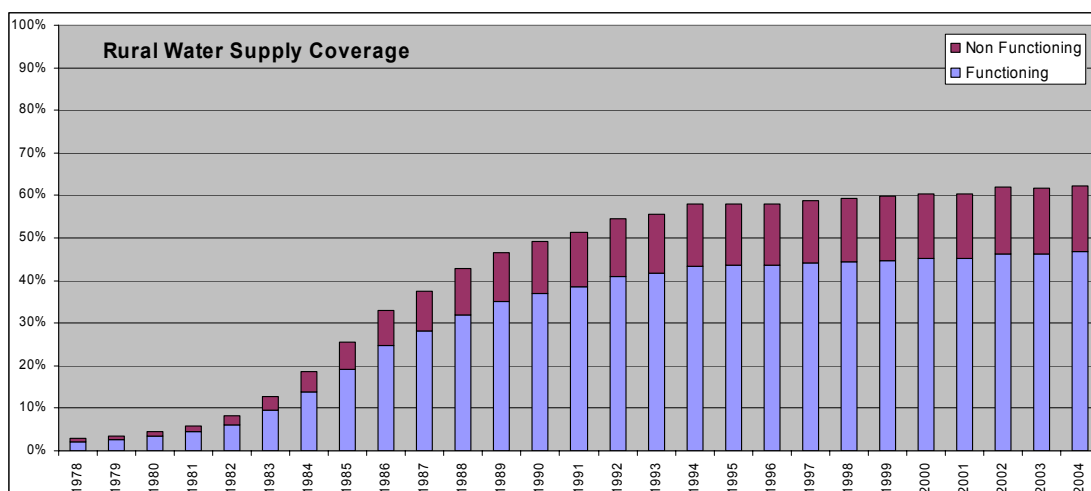
Rural Water Supply

The GOL has been supporting the implementation of rural water supplies through the Department of Rural Water Supply (DRWS) since the early 1970s and rural sanitation activities through the National Rural Sanitation Programme (NRSP) under the Ministry of Health and Social Welfare since 1986.

Presently the effective¹⁵ rural water supply coverage is estimated to be approximately 45%. DRWS has over the years until March 2005 implemented water systems for 1,257,000 people. This number of people represents some overlap since water systems might have been constructed twice in one community. The existing infrastructure is estimated to cover 940,000 people out of an estimated rural population of approximately 1.55 million people, corresponding to water system infrastructure existing for 62% of the rural population. DRWS estimates that around 75% of these systems are functioning fully and delivering the design standard of 30 litres/capita/day (l/c/d).

The infrastructure coverage increased considerably during the 1980s when there was adequate funding available from various donors for implementation of new rural water systems. During the last 10 years, the coverage has not increased due to limitations in funding to the sector. The achievements since 1978 in terms of national coverage with rural water infrastructure are illustrated in the graph below, also indicating water systems that are delivering 30 l/c/d (referred to as ‘functioning’) and also those that are delivering less than the standard or not delivering water at all (referred to as ‘non-functioning’).

As reflected in the statistics presented, 38% of the rural population in Lesotho corresponding to more than 625,000 people have not been covered by rural water systems. In addition a considerable number of the existing systems are not functioning due to maintenance and operational problems. The most problematic water systems in terms of operation and maintenance are the hand-pumps and the pumping systems like diesel and electrical powered systems. DRWS has focussed on improving the functionality over the last 2 years by investing in maintenance and rehabilitation of the systems that are not functioning.



The rural sanitation activities have resulted in coverage around 48%. The strategy for sanitation has until recently been based on that households build their own facilities and the NRSP supports with hygiene education and training of latrine builders. To reach the poorer segments of the

¹⁵ Proportion of the rural population that has access to a functioning water supply according to the national standards of 30 l/person/day within a distance of maximum 150 meters.

communities, subsidies¹⁶ have now been introduced and DRWS in cooperation with NRSP is supporting the construction of latrines in the villages where water systems are implemented.

The objective set for rural water supply and sanitation in Lesotho is that by 2015, 75% of rural households have improved hygienic practices and have access to functioning water supplies with a service level according to their need and demand.

¹⁶ The households provide the manual labour and all local materials like sand and stones. DRWS provides the skilled labour and purchased materials like cement, roofing sheets and ventilation pipes.

Annex 6: Transport Sector Context

1.1 Country Context

The Kingdom of Lesotho is land-locked within South Africa located in the southern part of the African Continent. Its lowest land located in the western part of the country at 1,400 m above sea level (asl), is the highest in Africa, and the highest point, the Thabana Ntentyana peak in the south east, which at 3,482 m asl, is the highest in southern Africa. The terrain is mostly highland with plateaus, hills and mountains. Arable land represents only 11% of a total of 33,000 km². Presently, the estimated population stands at approximately 2.1 million.

Since its birth as an independent nation, Lesotho underwent various periods of social, political and military unrest, culminating in the 1998 violent protest following contested elections and a military mutiny which led to the intervention by the Southern Africa Development Community (SADC) peace keeping forces.

Since then, Constitutional reforms have restored political stability, creating a conducive environment for national development, with Vision 2020, followed by the Poverty Reduction Strategy (PRS) setting the pace for the development of the country. The main objective of the PRS is economic growth and poverty reduction to be achieved through a series of interventions, spanning from employment creation, good governance, to health care etc. In the transport sector, links between industrial, farming and other economic centres are deemed essential to development.

Due to its terrain and to the land-locked situation, the GoL has recognised the development of the transport sector of strategic importance. The objective is to ensure efficiency and cost effective services to the road users so as to create opportunities for economic and social development, ensuring also an important standardisation of mode and means of trans-border traffic of passengers and goods.

1.2 Transport system

The main means of public transport in Lesotho is by road, which is provided by private transport operators throughout the country. A further mode is the inland water transport, but due to its nature, floods and period of droughts affect it's operation. Air transport is by charter planes and the only international flights, operated by South Africa Airways, are to/from Johannesburg, the main hub of the region. Finally the railway system in Lesotho is confined to two km of railroad starting from the capital Maseru to South Africa through the Caledon River Border post. Due to the nature of the terrain, rural areas are poorly served, posing a constraint to the welfare of 25% of people living high up in isolated areas.

1.2.1 Roads and road transport

The road network in Lesotho is managed by four different agencies: the Roads Branch, the Department of Rural Roads, the Ministry of Local Government and the Maseru Municipal Council.

Agency	Paved	Gravel	Earth/Other	Total
Roads Branch	1,150.00	1,150.00	-	2,230.00
Department of Rural Roads	-	2,140.00	1,360.00	3,500.00
Ministry of Local Government	28.50	184.60	778.40	991.50
Maseru Municipal Council	83.30	283.30	326.60	693.20
Total	1,261.80	3,757.90	2,465.00	7,436.70

(Source: Africon Lesotho: Review of the Projected Road maintenance Needs, June 2003, pg. 27)

In general, the paved roads are in fair to poor condition with the exception of those falling under the Maseru Municipal Council which are in good to fair condition. The gravel and the earth/other roads are in poor condition.

The major part of the road network is in the lowland districts. The highlands pose quite difficult conditions for road construction and maintenance. Some roads in highland districts reach heights of up to 3,100 m asl. During winter these roads are subject to icing, with cracking of the structure as consequence. During summer, a considerable amount of water seepage through the rocks causes landslides, fast deterioration of the wearing course, edge cracking and erosion.

1.2.2 Inland water transport

The Department of Traffic and Transport operate inland water transport. Presently crossings at 39 points are serviced by light aluminium rowing boat river ferries, with a maximum capacity of eight passengers. It does not operate during floods and dry season and therefore its economic importance is modest. The landing sites are generally in a poor condition due to the perennial changing water level of the rivers, varying from very low during dry season to raging torrents in the wet season. The crossings are planned to be converted to bridges in the not too distant future. With the construction of the two dams, Katse and Mohale, the two lakes formed are utilised for transportation, but severe restrictions on water pollution may in future discourage the practice. Whilst taking into account these restrictions, when the Lesotho Highland Water Project is completed with the construction of additional dams, the potential for water transport will increase more than tenfold with main beneficiaries the communities living along the shores and the agricultural sector.

1.2.3 Air transport

Lesotho has only one international airport, Moshoeshoe I International Airport, 20 km from the capital Maseru. Two or three flights per day, operated by South Africa Airways, connect Maseru, the capital of Lesotho to Johannesburg, the main hub of the region. Before its demise, the national carrier, Lesotho Airways Corporation, used to service two domestic centres, Qacha's Nek and Mokhotlong, both of which have paved runways. The other 27 gravel/grass airstrips in the country are utilised mainly for charter flights by the Lesotho Flying Doctors Service, operated by the Ministry of Health, serving a total of 12 rural clinics stationed nearby the strips, the Mission Airways Fellowship, and chartered military helicopters. Unfortunately, maintenance of these important facilities is rather poor. Plans are afoot to entrust local government authorities with their maintenance.

1.2.4 Rail transport

In Lesotho there are only two and one half kilometres of railroad from the railway station in Maseru to the Caledon border post with the Republic of South Africa (RSA). The line is a vital link for the transportation of goods to/from Bloemfontein, in RSA, with two trains running every day. The railway line is operated by the South African company Spoornet, which also operates the container terminal in Maseru on behalf of the Lesotho Revenue Authority. Unfortunately the facilities at the terminal are in a very poor state and equipment is limited. In 2005 railways was responsible for transportation of 390,000 tonnes of container traffic and bulk goods into Lesotho. There is an urgent need to improve the Maseru terminal, but this is thwarted by lack of specific policies in this important sub-sector. An important aspect would be the possible extension of the railway lines to the industrial centres in the north and eastern parts of the country.

1.2.5 Intermediate means of transport

Access to remote areas is mainly by footpaths. To date, the Department of Rural Roads, in charge of the sub-sector, with donor support, has managed to construct more than 100 km of paths and some 220 foot bridges. Other means of transport are by horse, donkey, horse drawn carts, bicycles and motorcycles. These intermediate means are of enormous economic importance due to the mountainous nature of the terrain, where maintenance is rather scanty and regular transport services are non-existent.

1.3 Management of the sector: issues and constraints to development

1.3.1 Institution and policy reforms

Following a general restructuring as part of the decentralisation process, which aims at streamlining Government operations, bringing services closer to the population and avoiding duplication of functions, GoL has embarked on restructuring the transport sector.

Presently, the Ministry of Public Works and Transport is in charge of the transport sector in Lesotho, while the Ministry of Local Government oversees the construction and maintenance of the rural road network. This arrangement is showing shortcomings, where improved efficiency and active management would secure results and benefits for the population.

The imminent amalgamation of the present Roads Branch and Department of Rural Roads will result in the creation of a Roads Directorate. The Directorate shall be operative by the beginning of 2008 and it is expected that the new directorate will have a leaner and more efficient structure to cope with the goals as defined in the PRS.

By institutionalising the creation of a road fund in 1997, the GoL has initiated a process of achieving sustainability in the road maintenance sector, so as to ensure adequate funding for maintenance activities. As structured, the fund has not been adequate in providing all necessary funds for the maintenance of the road network. However, of late, with the gradual increase of levies on fuel (already in place), road and registration taxes (not yet implemented) and of road toll gates (level and modalities of increase still under discussion), the GoL intends filling the funding gap.

The Road Traffic Bill to be adopted shortly will enforce an effective control of the axle load which presently is not strictly adhered to, introducing at the same time stringent safety measures designed for saving the lives of road users.

In early 2007, the Integrated Transport Programme (ITP) co-financed by the EC, World Bank and the GoL, shall commence with the aim of reforming the institutional set up in the roads sub sector. It will assist in formulation of policies in related transport sub sectors, channelling funds for construction of bridges both for vehicles and foot paths, rehabilitation of roads, assuring at the same time appropriate management, monitoring of activities and final evaluations.

1.3.2 The new Directorate

In this changing context, the MoPW&T has proposed a new organisation, the Roads Directorate, which will comprise the following departments:

- Roads network planning;
- Roads network development
- Roads network maintenance;
- Roads quality assurance, and

- Administrative and support services.

The original thinking behind the Roads Directorate therefore, is the creation of a lean body with a core of professional staff, well trained and with effective management so as to ensure the preservation of the investment made by the Government in the road sector. Although remaining within the civil service system, it is hoped that some kind of incentives could be introduced into the Directorate so as to assure sustainability and professionalism.

The staff made redundant in the MoPW&T would then be transferred to the MoLG ensuring staffing with adequate experience in the sector. The Directorate will be headed by a Director General, administratively responsible to the Principal Secretary of the MoPW&T.

The mandates of the directorate are as follows:

- Prepare proposal and design for construction and upgrading of roads on the primary and secondary network;
- Plan design and implement road maintenance programme for all primary and secondary network;
- Procure and manage contracts for development and management of all roads projects;
- Carry out traffic and conditions monitoring on any road as and when found necessary;
- Prepare strategic road network development plans;
- Set and enforce road standards across the country and carry out technical and performance audit for all public roads in Lesotho;
- Contribute to the development of the road construction industry in Lesotho;
- Undertake assessment and classification of road construction contractors and maintain a register;
- Provide technical training in equipment based and labour based methods of road construction and maintenance;
- Provide technical support to District and Community Councils for road maintenance and development on consultancy basis;
- Acquire and protect land earmarked for road network development;
- Determine and make recommendations to the Minister on the need to declare road reserves and building restrictions along any road;
- Determine and make recommendations to the Minister on the need to declare corridors for road network development at selected areas;
- Identify and select a suitable place of land from which to source material such as quarry necessary for construction and maintenance of roads and request a relevant authority to set aside such land for that purpose;
- Ensure mitigation of negative environmental impacts for road construction and rehabilitate affected areas, in accordance with environmental guidelines;
- Recommend to the Minister the tolling of any road under his jurisdiction;
- Protect all road furniture and ensure cost recovery from offenders who damage road furniture and the road itself.

The Road Directorate will be charged with the responsibility of development and maintenance of the primary, secondary road networks and international links owned by the central Government.

1.3.3 Financing of Road maintenance

As full financing of road maintenance is yet to be achieved, the Ministry of Finance and Development Planning, through the consolidated budget has had to supplement the resources

deriving from the Road Fund. Below an overview is presented of the funds made available to the road sector from the consolidated budget:

LSL'000

Consolidated Budget	99/ 00	00/ 01	01/ 02	03/ 04	04/ 05	05/ 06
Roads Branch	30,400	27,500	30,300	25,000	25,000	22,000
Dept. of Rural Roads				2,000	1,000	1,000
Labour Construction Unit*	2,018	2,000	2,492			
Civil Works*	450	478	402			
Local Government	420	917	557	354	262	682
Totals	33,288	30,895	33,751	27,354	26,262	23,682

*NB The labour Construction Unit and the Civil Works Section are under the Department of Rural Roads

1.3.4 The Road Fund

The recently established (1997) Roads Fund, as structured, cannot cope with the demand of funds for routine and periodic road maintenance.

It has been calculated that to maintain the entire network, LSL88.5M would be necessary every year. Revenues and expenditures by the Road Fund are summarised for the financial years from 1998/1999 to 2005/2006:

LSL'000

Year	98/99	99/00	00/01	01/02	02/03	03/04	04 /5	05/06
Revenues	29,977	28,948	24,292	29,775	31,452	30,688	31,777	32,548
Disbursements								
LCU	6,473	6,473	12,565	3,980	6,440			
Civil Works Section	1,688	5,622	6,289	2,898	5,440			
Dept. of Rural Road						14,398	14,000	9,013
Maseru City Council	809	0	1,466	3,134	3,683	685	76	1,467
Roads Branch	8,143	12,237	7,620	10,937	4,382	3,398	5,537	7,285
Local Government	140	2,454	3,834	1,638	2,769	145	2,633	2,169
Roads Safety	0	473	533	105	56	591	339	222
Total Disbursements	17,254	27,259	32,309	22,692	22,770	19,217	22,585	20,156

Presently, administrative costs of the Road Fund run at around 30% of total revenues, which is considered excessive.

In April 2006 Cabinet approved the Lesotho Road Maintenance Strategy that proposes to raise funds for annual routine and periodic maintenance to more than 60% of the annual maintenance needs (M88.5M approximately € 9.3M) by the end of 2007, and increase it gradually over the next four years to 2010 to cover 100% of the needs. The Strategy identified funding from an increased fuel levy and toll fees. In the meantime, MoFDP will continue to make up the shortfall from the Consolidated Budget.

1.3.5 Roads implementation capacity

Presently in Lesotho the road construction industry is very weak as capable contractors and consultants do not have adequate expertise or manpower to undertake road construction works. The

problem stems from the strong economy next door which has the capacity to absorb the most capable technicians. With the exception of the rural road sector where a good number of contractors were trained to execute labour based maintenance, contracts of certain magnitude are executed exclusively by foreign contractors and consultants.

1.3.6 Urban Roads

Municipal Councils are responsible for capital and recurrent expenditures for the maintenance of the city road networks. Presently, only the Maseru Municipal Council is active in the maintenance of its road network through its Engineering Section headed by the City Engineer/Director of Works. With the provision of institutional and financial instruments, it is expected that all Councils will oversee to the maintenance of their respective networks.

Annex 7: Energy Sector Context

Energy sources in Lesotho are dominated by traditional fuels such as biomass in rural areas. The rate at which these resources are used has negative impacts on the environment as the rate of replenishment is by far less than that of use.

Currently, electrification level stands at 11% countrywide, and only 1% of this electrification level covers the rural areas. This comprises the number of households that are connected to the national grid. In energy terms, electricity accounts for 3% of the total national energy consumption. Other commercial energies such as LPGas, petroleum and coal are imported at a very high cost, which eventually becomes a burden to a rural household. The other main sources of energy in rural households include firewood, paraffin, candles, LP Gas and coal.

The amount of expenditure on imported petroleum products and coal as alternative energies has significant negative impact on the national Balance of Payments. Furthermore, the current level of biomass energy use is not environmentally sustainable and as such needs to be effectively reversed. Provision of electricity is viewed as the sustainable option that will result in socio-economic and environmental sustainability. The table below depicts the energy consumption pattern in the Lesotho.

Energy form	Consumption PJ	%
Biomass	23.2	71.1%
Petroleum	6.6	20.2%
Coal	1.7	5.2%
Electricity	1.0	3.1%
LP Gas	0.1	0.4%
Total	32.7	100.0%

PJ = PetaJoule

Source: Lesotho Energy Policy Framework, 2002

Access to electricity will address significantly the multifaceted problems facing the rural communities which normally make it difficult for community development programmes in the diversified fields.

In the early 1990s Lesotho had the lowest level of electrification in the SADC region. In an effort to address this situation, the Government commissioned a study in 1996; Lesotho Electricity Master Plan study. The main objective of the study was to increase the level of electrification from the then 2.5% to 5% by 2000, which was comparable to some countries in the region. Furthermore, the study had to find some strategies of increasing electrification level to 10% by 2010. In 2001 the Government put in place the Interim Management Task Force within the LEC and, following that new management structure the level of electrification is currently 11% and has exceeded the target that was set in the Master Plan for 2010.

The PRS has identified five priority areas that have to be addressed in order to get the country out of the poverty trap. These include employment creation, food security, infrastructure services, good governance and improvement of social amenities such as education and health. These were identified through an extensive consultative process in communities in various geographic zones of the country.

Specific to food security, the country produces around 30% of the total food required to feed its population in a normal year. This means that 60% of the annual cereal requirement has to be imported at the going regional market price. Household purchasing power (from formal employment or other income generation activities) therefore plays an important role in household food security.

A Technical Working Group (TWG) was established for the production of the PRS. The TWG was an inclusive committee comprising representatives of all key ministries, civil society, and private sector and development partners. Under the leadership of the Ministry of Finance and Development Planning, this committee provided strategic guidance, supervision and coordination of the PRS process.

To enhance national participation and ownership, community perceptions were sought on the definition of poverty, its causes and on prioritised strategies to combat it. These views were consolidated, analysed and presented into a report entitled the "Voice of the People".

A proposal for rural electrification in the amount of m€ 22 was submitted by GoL in the context of the 2006 Call for proposals for the EU Energy Facility under the EUEI Partnership and Dialogue Facility. The intervention was to focus on the delivery of modern energy services for low-income groups in rural and peri-urban areas and is closely linked to the BEST initiative which promotes the development of national biomass energy supply and demand strategies in Africa, to include efficient use of wood and charcoal and alternative fuels such as LPG. Following evaluation, the proposal was placed on the reserve list, with a final deadline of 31 December 2008.

Lesotho is also a participant in the COOPENER project entitled TIE-ENERGIA (Turning Information into Empowerment: Strengthening Gender and Energy Networking in Africa). COOPENER is the external component of the EC programme for the promotion of policies, technologies and best practices in the fields of renewable energy and energy efficiency, the "Intelligent Energy – Europe programme" (IEE) (2003-2006).

Finally, an EU-Africa Energy Partnership which is expected to be launched at the EU-Africa Summit in December 2007 in Lisbon. This mutually beneficial partnership would respond to challenges such as development, the achievement of the Millennium Development Goals (MDGs), and enhancing access to energy especially in sub-Saharan Africa, energy security and climate protection.

Annex 8: Country Environmental Profile

*National environmental outlook*¹⁷

Environmental degradation in Lesotho, if not controlled, will see Lesotho in the next years with declining biological diversity (Lesotho has unique habitats such as mountain wetlands and sandstone cliffs and consequently support high level of plant endemism (more than 500 species)), loss of cultural heritage, declining water and air quality, encroachment of settlements into productive agricultural land and declining ecosystem services. The HIV/AIDS scourge and the increasing levels of poverty as a result of climatic variability will reduce economic growth and leave many people impoverished. The current trends indicate an unstable and unsustainable system characterised by loss of productivity and ongoing environmental degradation. The responses of society to reverse this state of affairs show little success and are marked by very poor performance levels. If the negative trends are not curbed or reversed and the positive ones reinforced, the future of the Lesotho's environment is gloomy.

However, the resilience shown by the country, the level of adaptation of innovative land management methods among the Basotho over the years, and the current realisation of several unsustainable approaches to development provide hope for a better future, if recommended strategies for sustainable development are implemented efficiently. The negative impacts can be mitigated, however, by interventions such as the protection of important cultural and historical sites, enforcement of environmental standards, sound land use practices, improved food security and self-sufficiency through, for example, the implementation of an irrigation policy, intensive HIV/AIDS awareness campaigns, the infusion of appropriate low-input technologies and alternative community-based natural resource management activities.

*National environmental issues*¹⁸

Land resource management has been characterised by constraints such as fragmented efforts, lack of a clear framework for land use planning, absence of security of land tenure, declining traditional authority and mixed rule of law between government institutions and traditional authorities. Unhindered bad land use practices include:

- encroachment on agricultural land by residential settlements, encroachment on steep slopes and marginal lands by crop farmers, uncontrolled mining and road construction in other environmentally sensitive areas such as the wetlands;
- land degradation due to soil erosion by overgrazing of rangelands, uncontrolled burning and cultivation of steep slopes without the implementation of proper conservation measures; and
- waste management problems due to uncontrolled urban sprawls caused by the difficulties in providing services particularly for sewerage systems, and the poor siting of housing in relation to industry, as industry and commercial activities generate wastes of wide variety, whose accumulation impacts directly on the environment.

National environmental policies

Lesotho prepared a comprehensive National Environment Action Plan (NEAP) that attempted to incorporate environmental issues into the country's economic development and to co-ordinate the country's environmental challenges. The NEAP did not become effective, however, due to the absence of an appropriate institutional mechanism to co-ordinate environmental programmes and activities. In 1994, Lesotho formulated a National Action Plan to implement Agenda 21 under the auspices of a National Environment Secretariat (NES). The NES was tasked to co-ordinate the implementation of the National Action Plan (NAP) and it was instrumental in formulating the

¹⁷ United Nations Environment Programme, 2006.

¹⁸ *Second State of the Environment (2002)*, Lesotho National Environment Secretariat.

National Environment Policy (NEP), which harmonised the programmes of both the NEAP and the NEP.

Lesotho has enacted an umbrella environment law (the Environment Act 2001) but some sections have not yet come into operation. Once gazetted, the law will provide for the management of the environmental and natural resources of the country. The law proposes the transformation of the NES into a statutory body with perpetual succession, the Lesotho Environmental Authority.

The Environment Act 2001 has the obligation to secure a healthy Environment for all Basotho. It is therefore noteworthy that the Act expands on the constitutional mandate by granting each individual the right to a clean and healthy environment, and empowers all persons to take legal action against any activity that may jeopardise their wellbeing. It also places a reciprocal duty on citizens to safeguard and enhance their environment. The Environment Act provides for:

- duty to develop and integrate environmental planning at the national, district and local levels;
- undertaking environmental impact assessments of all major development projects;
- monitoring compliance and auditing of ongoing activities by an environmental restoration inspectorate;
- controlling pollution based on the polluter-pays and precautionary principles;
- serving environmental restoration orders on activities that degrade the environment;
- setting environmental standards for, *inter alia*, water, air and noise;
- declaring environmentally protected areas and natural heritage sites;
- utilisation of economic instruments, based on a system of incentives and disincentives, to assure compliance;
- developing legislative proposals to implement international and regional environmental;
- conventions ratified by Lesotho; and
- promoting environmental education and freedom of information.

Transboundary environmental issues

The major transboundary environmental issues affecting the country are:

- air pollution by emissions;
- surface water pollution through urban storm water drainage systems, overflowing septic tanks and broken sewerage reticulation systems, the industrial waste discharged into rivers, dipping and spraying of free-range livestock against parasites using insecticides which are toxic, and the high sediment yield from the watershed that lowers water quality and renders costly water treatment;
- ground water pollution through leaching of substances – pesticides, herbicides, organo-phosphates into the water table; filtering through latrine water; leaching from landfill sites; uncontrolled urban drainage systems and possible leachates from cemeteries; and
- water resource management by Lesotho Water Project facilitates transfer of water to the Republic of South Africa.

Transboundary environmental policies

There are specific treaties and agreements relevant to water resources:

- The Lesotho Highlands Water Project (LHWP) Treaty between the Governments of Lesotho and South Africa (1987).

- The Protocol on Shared Watercourse Systems in the Southern African Development Community (SADC) Region (1995).
- The Revised Protocol on Shared Watercourses in the Southern African Development Community (SADC) Region (2000).

Environmental reports to international agencies

- 1989 – National Environmental Action Plan (Lesotho).
- 1998 – State of the Environment in Lesotho.
- 1998 – Biodiversity Strategy and Desertification (Lesotho).
- 1998 – National Action Plan (Lesotho).
- 1998 – National Environment Policy.
- 1999 – National Report on Desertification (Lesotho).
- 2000 – Lesotho Biodiversity Strategy and Action Plan.
- 2001 – Environment Act (to be enforced).
- 2002 – Second State of the Environment Report (Lesotho).

Annex 9: Country Migration Profile

Total number of residents circa 2.2 million
of which: Own nationals: circa 2.1 million
 Immigrants: 6,900

Immigrants

Status of immigrants:

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

Immigration trend:

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

Education:

Skilled labour: teachers and medical doctors.

Main country of origin:

Democratic Republic of Congo

Rate of return/Number of immigrants leaving Lesotho:

Normally they do not report.

Finance:

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

Emigrants

Total number of emigrants in 2004: N/a

Status emigrants:

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

Legal situation emigrants:

Documented:

Undocumented:

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

Trend:

Border crossings into RSA in 2004:

Record of returns from RSA in 2004:

There are no data available as many people are given renewable six-month exemption from the requirement to report to an immigration officer at the port of entry because of frequent crossings per person.

Educational level of emigrants:

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

Main country of destination: RSA

Rate of return:

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

Finance:

Amount of incoming migrant remittances (2004): LSL 128 million.
Remittances as % of GDP: 10.4%

Country Migration Profile¹⁹

Background

Lesotho formerly had a high proportion of its labour force temporarily employed outside its borders. For most of the 20th Century, as much as half the adult male population worked on a temporary basis in RSA, predominantly in the gold mines but also in most other economic sectors. Entry to RSA is easy as many Basotho are able, through strong family and other connections, to obtain the employment and residence documentation. Until the tightening of border controls in mid-Century, many Basotho also migrated permanently, albeit technically illegally, to RSA.

The consequences of the end of new legal migration to South African mines, and the retrenchment of migrants, have been devastating for Lesotho's economy, exacerbated by population growth, political instability, drought, continuing soil erosion, and the peculiarities of the country's limited economic development. Meanwhile, agricultural output has decreased in the last twenty years, with the returned migrants have limited access to good agricultural land.

Lesotho's migration has witnessed six main changes over the last 40 years or so:

- As opposition to Apartheid expanded, growing numbers of political refugees from RSA entered Lesotho. In the late 1970s and early 1980s, these refugees formed a distinct exile community, especially in the capital city of Maseru. After South African military attacks on exile housing, the number of such exiles dwindled, and political refugees moved to safer locales further north or beyond Africa altogether. After 1994, almost all these exiles left Lesotho.
- The numbers of workers from Lesotho in the mines of RSA first increased substantially, as real wages rose in the 1970s and 1980s and Lesotho became a preferred labour source. The numbers have since declined, dramatically in recent years, initially because of mechanisation and relative stagnation in gold mining, and later partly because of a preference for South African labour.
- There has been a constant and debilitating brain drain from Lesotho to RSA, and before that, to some extent, to Botswana and other African countries. This movement encompasses skilled workers, especially those in professional and technical fields.
- Some former migrant workers became legal permanent residents of RSA in the late 1990s, following changes in South African laws.
- With continued relative economic stagnation and political upheavals in Lesotho, and the drying up of migration opportunities for the unskilled, growing numbers of clandestine migrants have attempted to find work in RSA, especially in the less regulated parts of its economy such as farming and domestic service.
- A new group of economic migrants has come to Lesotho, the ethnic Chinese from East Asia, who now constitute the largest group of foreign residents ever to live in the country.

Migrant labour to South African mines

Lesotho was one of the largest sources of Black labour in South African mining for well over a century. In the 1970s and 1980s, Lesotho was a preferred source of mineworkers, and the number of miners from Lesotho in RSA probably peaked in 1990 at over 127,000. By 2003, the number from Lesotho in the mines fell as the miners earned money to pay bride price, and then "retired" to farming in Lesotho. Thus, although many sources give precise numbers for

¹⁹ Jim Cobbe, Professor of Economics and Chair of the Department of Economics at Florida State University.

different categories of migrants, except where the number is for a category with a clear definition (for example, the numbers of miners officially recruited), all such numbers should be treated with considerable caution. There exists a history of undocumented and unrecorded migration for economic, educational and social reasons to RSA with no way of knowing the real numbers involved.

Brain drain

Many of Lesotho's skilled workers have found employment, one way or another, in RSA. There remains a large salary differential between Lesotho and RSA, resulting in Lesotho's continuing shortages of doctors, nurses, accountants, engineers, many kinds of skilled manual workers, and other professionals. This brain drain is driven by the substantially higher remuneration available in RSA and elsewhere, the better prospects for advancement, and the far better social and infrastructural environment. National income per person in RSA is almost four times higher than in Lesotho, even by purchasing power parity estimates, and the actual monetary differential is even larger.

Given the large income differentials between the two countries, and Lesotho's substantial disadvantages as a location for economic activity within Southern Africa, it is a safe prediction that over the coming decades a substantial portion of Lesotho's population will move to RSA, at least for much of their working lives.

Illegal migrants

Borders between Lesotho and RSA are of the kind that can never be sealed. In the Western lowlands, it is a river that for much of the year can be walked through; the rest is in the mountainous territory that would be impractical to fence effectively. Therefore, crossing the border and evading controls has always been possible. Basotho visit RSA to shop, go to school, seek medical treatment or make social visits, and South Africans go in the other direction for similar reasons. Once in RSA, a Mosotho can seek employment or self-employment in the large informal sector with relatively little fear of detection, and not much risk of deportation if detected. Moreover, even if deported, it is easy to return to RSA.

Chinese immigrants

Historically, Lesotho has received very few foreign immigrants from outside Africa. Other non-indigenous groups have been confined to a few families of European ancestry who originally came as missionaries, traders or colonial officials, and who chose to stay. Lately there has been a growing Chinese community that appears to run counter to the past trend. In recent years, Chinese migrants have also moved into retail trade and have established themselves in construction throughout the country. Beijing's Embassy in Lesotho now estimates that there are close to 5,000 Chinese nationals in Lesotho from both Taiwan and the mainland, which makes it the largest foreign community ever to reside there.

Possible policy development

Because of Lesotho's lack of both natural and man-made resources, and its many disadvantages as a location for economic activity within the Southern African regional economy, in the context of relatively free movement of persons Lesotho will face severe problems maintaining public services. In order to do so, it will have to tolerate extreme inequality, substantial depopulation, or both. To retain the services of the skilled, employers (including the public sector) will need to pay salaries commensurate with those available in RSA.

Annex 10: Country Strategy Paper Drafting Process

Participation in drafting the Country Strategy Paper/National Indicative Programme

This CSP has been produced in a collaboration of GoL (the Office of the NAO), the EC Delegation and technical staff of the representations of Ireland, Germany and UK in Maseru. Six person-months of drafting assistance has been provided by two consultants, one local and one from UK, (who served as a Senior Planning Officer in the Central Planning & Development Office 1975-78).

The method employed has been for the consultants to produce preliminary versions of the five CSP chapters and various annexes stipulated in the global *Orientations* provided by the EC, and for the other parties to review the material and comment in writing and/or at fortnightly meetings of the EDAL group sitting with representatives of the Office of the NAO and acting as an *ad hoc* steering committee for the exercise.

Stakeholder participation

From the outset, all parties have been determined to elicit maximum stakeholder participation in the exercise, including sounding out the priorities of key Ministries other than MoFDP. The consultants took the view that the poverty-related policies of GoL were incorporated in the PRS and related documents, which had themselves been generated through extensive stakeholder consultations.

One major constituency not involved formally in the generation of the PRS was the elected membership of the new Community and District Councils, for the obvious reason that the PRS was completed before the local authorities came into being. The consultants met Council representatives and their staff in Teyatayaneng, Leribe, Butha-Buthe and Thaba Tseka (4-6 July), and invited District Council Chairmen to the main EC Country Strategy Stakeholder Consultation (CSSC) below.

Stakeholder Consultations

The main purpose of the meetings was to expose the draft CSP/NIP to the various interested parties, particularly those outside Central Government.

To this end, two Consultations were planned:

- the "Non-state Actors Consultation" on 13 July, seeking engagement with the CSP process particularly from the private sector operators featured in the PRS as key players in delivering economic growth; and
- the "EC Country Strategy Stakeholder Consultation" for GoL, DPs and NSA on 30 August to consider and comment on a first draft of the CSP/NIP, following which the views expressed were incorporated.

The earlier Consultation took place as planned with a very lively and constructive discussion following a short presentation on the CSP process and preliminary conclusions. The main concern expressed was a lack of information about the decision-making processes that led to the deployment of DP funds in general and EDF resources in particular.

The second meeting took place on 26 September 2006, with the following agenda:

- an introduction of the joint analysis of the EDAL group and Office of the NAO as captured in CSP Chapters 1-3 and supporting Annexes, as a tangible step towards harmonisation; and
- a presentation of the proposed EC response strategy and NIP (CSP Chapters 4-5) to the Stakeholders, mainly the NSA, for validation.

These purposes were served in a very constructive atmosphere. For the session in which the Office of the NAO presented the draft NIP, five NSA commentators were invited to respond. They were drawn from important groups in Lesotho's future development:

- the Director of an AIDS Treatment Clinic, highlighting the consequences of HIV/AIDS for poor sufferers and their households;
- the chairman of the NGO/civil society umbrella organisation, looking for more formal interaction with GoL and direct links with DPs;
- the elected chairman of one of the ten new District Councils, commenting on the practical problems attending decentralisation and the needs of the "grassroots";
- a businessman speaking on the needs of small and medium sized enterprises, including farmers and other micro-scale economic operators; and
- the chief executive of one of the garment manufacturers, representing large-scale business and pressing the case for managerial skills transfer to local entrepreneurs.

Prospects for further NSA and local authority involvement in the development process

Aside from the successes of the two principal consultations and a number of one-to-one discussions, the reality is that the CSP/NIP drafting was necessarily document-based. Looking beyond the immediate exercise, however, there are reasons to be optimistic about the consolidating the involvement of NSA.

There are opportunities opening up with decentralisation and the devolving of decision-making and budget management to local elected bodies. The Councils need the support and co-operation of community groups and all local players in promoting development programmes with inadequate resources.

Economic growth underpins GoL's poverty reduction strategy. In this light, constructive engagement with the emergent private sector is a necessity. Government should therefore concentrate on producing a "conducive" environment for business, through public infrastructure, deregulation, the maintenance of sound money and tranquillity, law and order, and leave the private sector to run their businesses, make profits and pay taxes. The practice is not far short of the desired situation, considering the few years experience of a truly free market in Lesotho and the very low starting point of the economy.

Follow-up with NSA in implementation of NIP

The first Focal area proposed for the 10th EDF, "Human Development", is expected to concentrate on the support for GoL's response to HIV/AIDS. This area of intervention is quite unlike the traditional programmes that concentrate on a discrete sector (often identified with a single Ministry or Department). The HIV/AIDS disaster transcends distinctions of hierarchy or politics and now affects every extended family in the land. Success will depend on sustained unity of purpose and application of effort for the good of the nation.

The Non-focal area of "Decentralisation" is expected to contribute directly to capacity building and the promotion of democracy at all levels. Consequently, NSA should play a major role in developing proposals for interventions in this area.

Annex 11: The Harmonisation Road Map

Prospects for Development Partner harmonisation in Maseru

In line with the Paris Declaration, the EC and EU MS in Maseru have embarked on the process of aligning their responses to the needs of Lesotho, based on a joint analysis, and moving towards the synchronisation of programming rounds with GoL's budget cycles, systems and procedures.

The fact that the four "European Development Agencies in Lesotho" (EDAL) provide three-quarters of the total development grant transfers makes alignment a relatively simple goal if the concerned DPs remain able and willing to carry it through. More broadly, intra-DP and DP-GoL relations are uncomplicated in Maseru given the small number of players and easy access to senior managers. Most of the key officials have offices within walking distance of one another.

The EC and MS are participating in the broader but looser grouping of DPs represented in the "Development Partners' Consultative Forum" (DPCF) to optimise the combined impact of external technical and financial assistance. Harmonisation in the DPCF is more complicated in that the membership comprises agencies of various types, including technical assistance providers alongside bilateral donors, and DPs with global rules of engagement quite different from those of the relatively "like minded" EDAL group. The DPCF meets regularly to share information of mutual interest such as the programmes and intentions of individual members and the findings of visiting teams.

Other non-resident DPs, notably AfDB, are committed to harmonisation at a headquarters level but have not yet progressed to formal co-ordination beyond general discussions in Maseru.

Engagement with Government

GoL is well aware of the constraints on harmonisation posed by shortcomings in the public sector financial and aid management services, and is engaged fully in the ongoing capacity building programmes. The process should reduce substantially the high transaction costs entailed in coping with multiple donor procedures and timetables.

Despite recent improvements in the frequency and depth of consultations between DPs, the GoL management and administration of external assistance remains weak. Consequently, co-ordination is largely *ad hoc* and programming based on individual DP-GoL discussions. The 9th "Round Table" meeting in November 2006 in part compensated for the absence of an effective regular system of GoL-DP interlocution.

Formalisation of collaboration

There is strong EDAL commitment to the harmonisation process, as evidenced by the MS agreement to generate and adhere to a joint situation analysis for the present CSP and to consider a future pooling of resources. The three MS have collaborated in the process of drafting Chapter 2 of this document, together with contributing Annex 3. The ease with which this has been accomplished reflects the shared views that have been developed over many years and the similar conclusions reached on appropriate responses to the same few key policy statements, pre-eminently the PRS. This cooperation has resulted in a pattern of complementary interventions, albeit running to different timetables and rules of engagement.

The MS are already moving on to the next stage of harmonisation with publicly stated intentions to carry the convergent CSP analysis into their next programming round. Irish Aid are about to initiate a new programming cycle and intend to utilise the CSP directly.

Harmonisation Roadmap

Whilst there is not yet an agreed "Harmonisation Roadmap" within the EDAL group, there is willingness in principle to devise one and to negotiate specific time bound targets.

Many of the pertinent issues have been addressed already in the "Roadmap" to general budget support, agreed by GoL and DPs as part of an evolving joint assistance strategy, including the capacity to operate and monitor the financial transfer mechanisms and the generation of appropriate performance indicators. Whilst it is not certain that GoL will achieve the required administrative and accounting capacity within the timetable, the exercise has demonstrated that the roadmap process can be achieved.

Annex 12: Kingdom of Lesotho Positions in Relation to Key International Conventions

Instrument	Signature	Ratification	Accession
Global Instruments			
Abolition of Forced Labour Convention (105)		14 June 2001	
Agreement establishing the World Trade Organisation	20 Dec 1994		
Amendment to Article 20(1) Convention on Elimination of all Forms of Discrimination Against Women	6 Nov 2001		
Basel Convention on the Control of Transboundary Movements of Hazardous Wastes and their Disposal			31 May 2000
Beijing Platform for Action			
Cairo Programme of Action			
Cartagena Protocol on Biosafety on the Convention on Biological Diversity			20 Sept 2001
Convention Against Torture and other Cruel Inhuman or Degrading Treatment or Punishment	12 Dec 2001		
Convention for the Suppression of the Traffic in Persons and the Exploitation of the Prostitution of others	24 Sept 2003		
Convention of the International Telecommunication Union	22 Dec 1992	11 Feb 2002	
Convention on Biological Diversity	12 June 1992	10 Jan 1995	
Convention on Mutual Administration Assistance for the Prevention, Investigation and Repression of Customs Offences			1977
Convention on the Development, Prohibition, Stockpiling and Use of Chemical Weapons and on their Destruction	7 Dec 1994	7 Dec 1994	
Convention on the Elimination of all Forms of Discrimination Against Women	17 July 1980	22 Aug 1995	
Convention on the International Trade in Endangered Species of Wild Fauna and Flora	3 Mar 1973		
Convention on the Reduction of Statelessness (1961)		24 Sept 2004	
Convention on the Rights of the Child	10 Mar 1992	9 Apr 1992	
Convention on the Simplification and Harmonisation of Customs Procedures	10 May 1973		10 May 1982
Discrimination (employment and Occupation) Convention (111)		27 Jan 1998	
Equal Remuneration Convention (100)		27 Jan 1998	
Forced Labour Convention (29)		31 Oct 1966	
Freedom of Association and Protection of the Right to Organise Convention (87)		31 Oct 1966	
International Convention for the Suppression of Financing Terrorism	6 Nov 2001		
International Convention for the Suppression of Terrorist Bombings	6 Nov 2001		
International Convention of Civil and Political Rights			9 Sept 1992
International Convention on the Harmonisation of Frontier Controls of Goods	21 Oct 1982	1 Jan 1988	
International Convention on the Protection of the Rights of all Migrant Workers and Members of their Families	Sept 2004		
Kyoto Protocol to the United Nations Framework Convention on Climate Change			6 Sept 2000
Labour Administration Convention (150)		14 June 2001	
Labour Inspection Convention (81)		14 June 2001	
Minimum Age Convention (138) –Specified at 15 years		14 June 2001	

Instrument	Signature	Ratification	Accession
Montreal Protocol on Substances that Deplete the Ozone Layer			25 Mar 1994
Occupational Safety and Health Convention (155)		1 Jan 2001	
Optional Protocol to the Convention on the Elimination of all Forms of Discrimination Against Women	6 Sept 2000		
Optional Protocol to the Convention on the Rights of the Child on the Involvement of Children in Armed Conflict	6 Sept 2000		
Optional Protocol to the Convention on the Rights of the Child on the Sale of Children, Child Prostitution and Child Pornography	6 Sept 2000		
Protocol Against the Smuggling of Migrants by Land, Sea and Air, Supplementing the United Nations Convention Against Transnational Organised Crime	14 Dec 2000		
Protocol to Prevent, Suppress and Punish Trafficking in Persons, Especially Children, supplementing the United Nations Convention Against Transnational Organised Crime	14 Dec 2000		
Right to Organise and Collective bargaining Convention (98)		31 Oct 1966	
Rome Statute of the International Criminal Court	23 Nov 1998	6 Sept 2000	
Safety and Health in Construction Convention (167)		27 Jan 1998	
Stockholm Convention on Persistent Organic Pollutants	23 Jan 2002	23 Jan 2002	
Termination of Employment Convention (158)		14 June 2001	
The Cotonou Partnership Agreement	23 June 2000		
The International Convention of Economic, Social and Cultural Rights			
The Protection of the World Cultural and Natural Heritage Convention	1972		
The Universal Declaration of Human Rights			
The World Heritage Convention	1972		
Tripartite Consultation (international Labour Standards) Convention (144)		27 Jan 1998	
United Nations Convention against Transitional Organised Crime	24 Sept 2003	24 Sept 2003	
United Nations Convention Against Transnational Organised Crime	14 Dec 2000		
United Nations Convention on the Law of the Sea	10 Dec 1982		
United Nations Convention to Combat Desertification in those Countries Experiencing Serious Drought and/or Desertification Particularly in Africa	15 Oct 1994	12 Sept 1995	
United Nations Framework Convention on Climate Change	11 June 1992	7 Feb 1995	
United Nations International Year for Cultural Heritage	2002		
Workers' Representation Convention (135)		27 Jan 1998	
Worst Forms of Child Labour Convention (182)		14 June 2001	
Regional Instruments			
African Union Convention on the Conservation of Nature and Natural Resources	27 Feb 2004	5 Nov 2004	
African Charter on Human and Peoples Rights	7 Mar 1984	27 Feb 1992	
African Charter on the Rights and Welfare of the Child		27 Sept 1999	
African Civil Aviation Commission Constitution	29 Mar 1973	27 Aug 1973	
African Union Protocol on the Court of Justice	27 Feb 2004	5 Nov 2004	
Agreement to establish the African Regional Labour Administration Centre for English Speaking African Countries	12 June 1979	30 Sept 1983	30 Sept 1983

Instrument	Signature	Ratification	Accession
Bamako Convention on the Ban of the Import into Africa and the Control of Transboundary Movement and Management of Hazardous Wastes within Africa	1 June 1991		
Convention establishing the Pan-African News Agency	9 Apr 1979		
Convention for the Elimination of Mercenarism in Africa	29 Nov 1982	21 Jan 1983	
Convention of the Pan African Telecommunications Union	Jan 1982	17 July 1984	
Grand Bay Declaration and Plan of Action for the Promotion and Protection of Human Rights			
Inter-African Phyto-Sanitary Convention	10 Sept 1967	24 Jan 1983	
International Treaty on Plant Genetic Resources for Food and Agriculture			21 Nov 2005
OAU Convention Governing the Specific Aspects of Refugee Problems in Africa	18 Nov 1988	30 Nov 1988	
OAU Convention on the Prevention and Combating of Terrorism	6 Mar 2002	14 Mar 2002	
OAU Protocol on Peace and Security Council	30 June 2003	7 July 2003	
Protocol establishing African Court on Human and People's Rights		24 Dec 2003	
Protocol on Shared Watercourses (SADC)	29 Aug 1995	18 Aug 1996	
Protocol on the Rights of Women in Africa			
SADC Protocol Against Corruption	14 Aug 2001	August 2003	
SADC Protocol of Forestry	3 Oct 2002		
Southern African Regional Tourism Council Agreement	28 Sept 1984		
Treaty establishing the Southern African Development Community	17 Aug 1992	5 May 1993	

Sources:

1. United Nations Multilateral Treaty Framework: An Invitation to Universal Participation. Focus 2002: Sustainable Development.
2. Ministry of Foreign Affairs: Lesotho Treaty List (2006).

Annex 13: Debt Sustainability Analysis

Increasingly in the past several years, GoL has used prudent fiscal management to reduce public debt to sustainable levels.²⁰

Starting in 1992/93, Lesotho's total public debt escalated from 7% to 45% of GNP when GoL engaged in foreign loan financing during the high LHWP period, as GoL's capital needs were high. In spite of GoL's preference for concessionary long-term borrowing, total public debt (mostly foreign) rose to a peak of 85% of GNP (104% of GDP) in 2001/02. There has since been a steep decline. In 2003/04, Lesotho's total public debt was recorded at a comfortable 53% of GNP. It has continued to decline as GoL has utilised the surpluses achieved in 2004/05 and 2005/06 to retire both 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 million of long/term bonds and a reduction in short/term borrowing reduced domestic debt outstanding by 44.2% to LSL 647.1 million by the end of 2004. GoL balances increased to LSL 958.1 million by 31st March 2005. Appreciation of the currency 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.

Public debt as a percentage of GNP and GDP²¹

	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04
Total public debt/GNP	61.8	72.9	80.5	85.6	65.2	52.6
o/w foreign debt/GNP	58.4	60.7	65.8	72.2	51.7	42.0
domestic debt/GNP	3.4	12.1	14.7	13.4	13.5	10.6
Total public debt/GDP	79.0	92.3	100.8	104.8	79.9	64.2
o/w foreign debt/GDP	74.6	77.0	82.4	88.4	63.3	51.3
domestic debt/GDP	4.4	15.4	18.4	16.4	16.6	12.9

Lesotho had a budget surplus of 4.6% of GDP in 2004/05 because of higher revenue collections and cuts in current expenditures. Revenues are expected to fall by at least 1% of GDP *per annum* as SACU transfers decline, while some of the negative impact will be offset by better collection. Overall, revenues are expected to stabilise around 41% of GDP in the medium term. Assuming that annual real GDP growth holds at 3.5% to 4%, fiscal measures to control waste and improve the efficiency of current expenditures are maintained, and total public expenditures and net lending are raised to 44% to 45% of GDP, Lesotho's medium term fiscal position is expected to remain strong.

In the 2005/06-2009/10 base scenario drawn from IMF projections (January 2005), Lesotho's fiscal deficit (inclusive of grants of about 2% of GDP) is expected to be in the comfortable range of 1.5% to 2.8% of GDP *per annum*, with public debt settling at a sustainable level of 46% of GDP in 2009/10.

²⁰ Sources: Lesotho Country Memorandum, World Bank, April 2005; and Joint Annual Report on Co-operation between the European Union and the Kingdom of Lesotho, April 2006.

²¹ Source: BoS, IMF and World Bank staff estimates, January 2005.

Annex 14: Government's Commitments

Governance area	Prospective commitments	Indicators	Timeframe
Political democratic governance			
Human rights	<ul style="list-style-type: none"> ● Establishment of a Human Rights Commission ● Government to meet reporting requirements on HR related conventions to which Lesotho is signatory 	<ul style="list-style-type: none"> ● HRC established and functioning ● Regular reports provided as required 	<ul style="list-style-type: none"> ● December 2007 ● Annually
Electoral process	<ul style="list-style-type: none"> ● Ensure transparency in the electoral process especially voter education 	<ul style="list-style-type: none"> ● Independent Electoral Commission (IEC) supported and funded 	<ul style="list-style-type: none"> ● Annually
Principles of constitutional democracy	<ul style="list-style-type: none"> ● Enhance the performance of Parliamentary Portfolio committees 	<ul style="list-style-type: none"> ● Staffing provision and research services up-scaled 	<ul style="list-style-type: none"> ● 2008
Political governance - rule of law			
Judicial and law enforcement system	<ul style="list-style-type: none"> ● Improve the court system ● Improve the physical infrastructure of prisons ● Strengthen implementation of rehabilitation programmes 	<ul style="list-style-type: none"> ● Delivery of court decision accelerated ● Number of Facilities renovated/ upgraded ● Increased number of rehabilitees 	<ul style="list-style-type: none"> ● 2007-2012 ● 2007-2012 ● 2007-2012
Control of corruption	<ul style="list-style-type: none"> ● Strengthening the Anti-Corruption Directorate ● Scaling up the fight against low-level corruption in the public sector. ● Passing and implementation of the Anti-Money Laundering legislation 	<ul style="list-style-type: none"> ● Staffing and funding ensured ● Number of cases successfully prosecuted ● Legislation enacted and functioning 	<ul style="list-style-type: none"> ● 2007-2012 ● 2007-2012 ● 2008

Government effectiveness			
Institutional capacity	<ul style="list-style-type: none"> ● Improve Government coordination ● Improve service delivery through strengthened local government structures ● Implement Civil Service Reform (CSR) 	<ul style="list-style-type: none"> ● Implementation of agreed plans and strategies strengthened ● Fiscal decentralisation effected and staffing and training needs addressed ● CSR package and effective performance management systems in place 	<ul style="list-style-type: none"> ● 2007-2012 ● 2007-2012 ● 2008-2012
Public finance Management	<ul style="list-style-type: none"> ● Improve the audit and financial reporting function ● Introduce new accounting systems and staff training ● Complete the reform of procurement arrangements 	<ul style="list-style-type: none"> ● Office of the Auditor General strengthened and legal framework for reporting updated ● Timely production and submission of Public Accounts ● Procurement legislation enacted and institutionalised 	<ul style="list-style-type: none"> ● 2007-2010 ● 2007-2010 ● 2008
Economic governance			
Private sector/market friendly policies	<ul style="list-style-type: none"> ● Streamline border procedures in cooperation with RSA ● Facilitate access to banking and other services ● Improve issue of work and residence permits ● Improve company registration process 	<ul style="list-style-type: none"> ● Increased volumes of tourism and investment ● National identity cards introduced ● Reduced waiting time ● Reduce delays in from 80 to > 7 days 	<ul style="list-style-type: none"> ● 2007-2012 ● 2007-2012 ● 2008-2012 ● 2007-2012
Management of natural resources	<ul style="list-style-type: none"> ● Strengthen Environmental Protection ● Sound environmental policies and necessary administrative provisions established 	<ul style="list-style-type: none"> ● Use of Environmental Impact Assessment (EIA) for all major projects ● Harmful effects of land erosion reduced 	<ul style="list-style-type: none"> ● 2007-2012 ● 2007-2012
Social governance	<ul style="list-style-type: none"> ● Enhancing the effectiveness of the national response to the HIV/AIDS crisis 	<ul style="list-style-type: none"> ● National HIV/AIDS Strategy implemented ● Coordination within government and between all stakeholders strengthened 	<ul style="list-style-type: none"> ● 2007-2012 ● 2007-2012

Annex 15: Abbreviations and acronyms; Exchange rates

ACP	African, Caribbean & Pacific countries (Cotonou Agreement)
AfDF	African Development Fund
AGOA I/II/III	African Growth & Opportunity Act (USA)
AIDS	Acquired Immune Deficiency Syndrome
ALAFA	Apparel Lesotho Alliance to Fight AIDS
APRM	African Peer Review Mechanism
ARV	Anti-Retroviral (drugs)
ATC	Agreement on Textiles & Clothing (under MFA)
AU	African Union
BADEA	Arab Bank for Development in Africa
BLNS	Botswana, Lesotho, Namibia and Swaziland
BNP	Basotho National Party
BoS	Bureau of Statistics
CAS	Country Assistance Strategy (WB)
CBEP	Capacity Building in Economic Planning
CBR	Crude Birth Rate
CC	Community Council
CDA	Centre for the Development of Agriculture
CDE	Centre for the Development of Enterprise
CDR	Crude Death Rate
CEDAW	Convention on the Elimination of All Forms of Discrimination Against Women
CEO	Chief Executive Officer
CHAL	Christian Health Association of Lesotho
CIM	Centre for International Migration
CMA	Common Monetary Area (Rand zone) – Lesotho, Namibia, RSA and Swaziland
ComMark	Making Commodity Markets Work for the Poor
CSP	Country Strategy Paper
CSSP	Civil Society Support Programme
DC	District Council
DCEO	Directorate on Corruption & Economic Offences
DDP	Department of Development Planning (MoFDP)
DED	German Development Service
DEP	Department of Economic Policy (MoFDP)
DfID	Department for International Development (UK)
DHP	District Health Package
DHS	Demographic Health Survey (2005)
DP	development partner
DPCF	Development Partners' Consultative Forum
DRDP	Decentralised Rural Development Programme
DRR	Department of Rural Roads
DRWS	Department of Rural Water & Sanitation
DW	Development Worker
DWA	Department of Water Affairs
EBA	Everything But Arms protocol (EU)
EC	European Commission
EDAL	European Development Agencies in Lesotho
EDF	European Development Fund
EIA	Environmental Impact Assessment
EIB	European Investment Bank
EPA	Economic Partnership Agreement

ESSP	Education Sector Support Programme
EU	European Union
EUMETSAT	European Meteorology Satellite
EUWF	European Union Water Facility
FAD	Fiscal Administration Department
FAFA	Financial & Administrative Framework Agreement
FAO	Food & Agriculture Organisation (UN)
FD	Financing Decision
FDI	Foreign Direct Investment
FP	Financing Proposal
FPE	Free Primary Education
FS	Feasibility Study
FTA	Free Trade Agreement
FY	Fiscal Year of GoL (1st April- 31st March)
GDI	Gross Domestic Income
GDP	Gross Domestic Product
GFATM	Global Fund to fight AIDS, Tuberculosis & Malaria
GNI	Gross National Income
GNP	Gross National Product
GoL	Government of Lesotho
GOLFIS	GoL Financial Information System
GTZ	Gesellschaft für Technische Zusammenarbeit (German Technical Co-operation)
HDI	Human Development Index
HIPC	Highly Indebted Poor Country
HIV	Human Immuno-deficiency Virus
IA	Irish Aid (formerly Development Co-operation Ireland – DCI)
IBRD	International Bank for Reconstruction & Development (UN)
IDA	International Development Agency (UN)
IFAD	International Fund for Agricultural Development (UN)
IFC	International Finance Corporation
IFMIS	Integrated Financial Management & Information System
ILO	International Labour Organisation (UN)
IMF	International Monetary Fund
ITP	Integrated Transport Project (EU/WB)
JAR	Joint Annual Report on Co-operation between EU and Lesotho
JBCC	Joint Bilateral Commission on Co-operation (Lesotho and RSA)
KfW	Kreditanstalt für Wiederaufbau (German Financial Co-operation)
KYS	Know Your Status (HIV campaign)
LAPCA	Lesotho AIDS Programme Co-ordination Authority
LCN	Lesotho Council of NGOs
LDC	Least Developed Country
LEC	Lesotho Evangelical Church
LHDA	Lesotho Highlands Development Authority
LHWP	Lesotho Highlands Water Project
LJSDP	Lesotho Justice Sector Development Programme
LNDC	Lesotho National Development Corporation
LPPA	Lesotho Planned Parenthood Association
LRA	Lesotho Revenue Authority
LSL	Lesotho Maloti (national currency)
LSPP	Land Survey & Physical Planning Department
LVAC	Lesotho Vulnerability Assessment Committee
MCC	Millennium Challenge Corporation

MDG	Millennium Development Goals
MFA	Multi-Fibre Agreement
MoAFS	Ministry of Agriculture & Food Security
MoET	Ministry of Education & Training
MoFDP	Ministry of Finance & Development Planning
MoHSW	Ministry of Health & Social Welfare
MoLE	Ministry of Labour & Employment
MoLG	Ministry of Local Government
MoPS	Ministry of Public Service
MoPWT	Ministry of Public Works & Transport (MoPWT)
MoTIMC	Ministry of Trade, Industry, Marketing & Co-operatives
MPP	Micro-projects Programme
mt	metric ton
MTEF	Medium-Term Expenditure Framework
MWWP	Maseru Wastewater Project
NAC	National AIDS Commission
NAO	National Authorising Officer (EDF)
NEP	National Environment Policy
NES	National Environment Secretariat
NGO	Non-Governmental Organisation
NIP	National Indicative Programme (EDF)
NSA	non-state actor/s
O&M	operation and maintenance
OAU	Organisation of African Unity
ONAO	Office of the NAO
ORASECOM	Orange-Senqu Basin Commission
OVC	Orphans & Vulnerable Children
PAC	Public Accounts Committee
PFM	Public Financial Management
PI	Project Implementation
PPP	Public-Private Partnership
PRBSP	Poverty Reduction Budgetary Support Programme
PRGF	Poverty Reduction & Growth Facility
PRS	Poverty Reduction Strategy
PRS-FP	Poverty Reduction Strategy – Foundation Programme (DfID)
PRSP	Poverty Reduction Strategy Paper
PRS-PSP	Poverty Reduction Strategy – Priority Support Programme (DfID)
PSC	Peace & Security Council (of the African Union)
PSIRP	Public Sector Improvement & Reform Programme
PTA	Preferential Trade Agreement
REPA	Regional Economic Partnership Agreement (Cotonou provision)
RIP	Regional Indicative Programme (EDF)
RISDP	Regional Indicative Strategic Development Plan (SADC)
RoO	Rules of Origin
RSA	Republic of South Africa
RTIP	Road Transport Infrastructure Programme
SACU	Southern African Customs Union (Botswana, Lesotho, Namibia, RSA and Swaziland)
SADC	Southern African Development Community (Angola, Botswana, DR Congo, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, RSA, Swaziland, Tanzania, Zambia and Zimbabwe)
SEA	Sectoral Environmental Assessment
SME	small and medium-sized enterprise

STABEX	Stabilisation of Exports Scheme (agriculture)
SWAp	Sector-wide Approach
SYSMIN	Système de Stabilisation des Recettes d'Exportation (minerals)
TA	Technical Assistance
TC	Technical Co-operation
TDCA	Trade, Development & Co-operation Agreement (EU-RSA)
UC	Urban Council
UN	United Nations
UNAIDS	United Nations HIV & AIDS Secretariat
UNDP	United Nations Development Programme
UNFPA	United Nations Fund for Population Activities
UNICEF	United Nations Children's Fund
USAID	US Agency for International Development
USD	United States Dollar
VAT	Value Added Tax
WASA	Water & Sanitation Authority
WB	World Bank (UN)
WFP	World Food Programme (UN)
WHO	World Health Organisation (UN)
WTO	World Trade Organisation
SAR	Rand (RSA currency)

Exchange rates

Average foreign exchange rates for selected periods (LSL = ZAR)

Period	EUR (€)	USD (\$)
2000	LSL 6.40	LSL 6.94
2004	LSL 8.03	LSL 6.46
2005	LSL 7.93	LSL 6.38
2006	LSL 8.46	LSL 6.77
Change 2000 – 2006	32.2%	-2.4%
01/02/2007	LSL 9.52	LSL 7.34

Source: InforEuro

Annex 16: Map of Lesotho

