

## **Lesotho Country Proposal to the Millennium Challenge Corporation (MCC)**

**A Programme for Improvement of Water Supply, Rehabilitation of Health Infrastructure and Promotion of Private Business Development**



**Maseru, July 2006**

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## EXECUTIVE SUMMARY

### 1. Introduction

The Government of Lesotho recognizes that the Millennium Challenge Corporation (MCC) offers an opportunity to mobilize additional resources to finance the implementation of its four major development programmes drawn up and adopted through an extensive national consultation process. This proposal, submitted by the Government of Lesotho, seeks financial assistance from the MCC amounting to US\$362,55 million, to support a five year strategic investments in Metolong Dam water resource development, health sector infrastructure including treatment and prevention of HIV/AIDS and intervention into private business development which, in turn, focuses on privates sector capacity building, civil legal reforms, automated payments, clearing and settlement system, improvement in land administration and the live-stock microchip project aimed at recovery of stolen stocks.

### Main Highlights

**Objectives:** The construction of Metolong Dam for water supply into the industrial sector; improvement in urban and rural household water supply and sanitation. Improved health sector infrastructure facilities for the treatment and prevention of HIV/AIDS. Promotion of private business development..

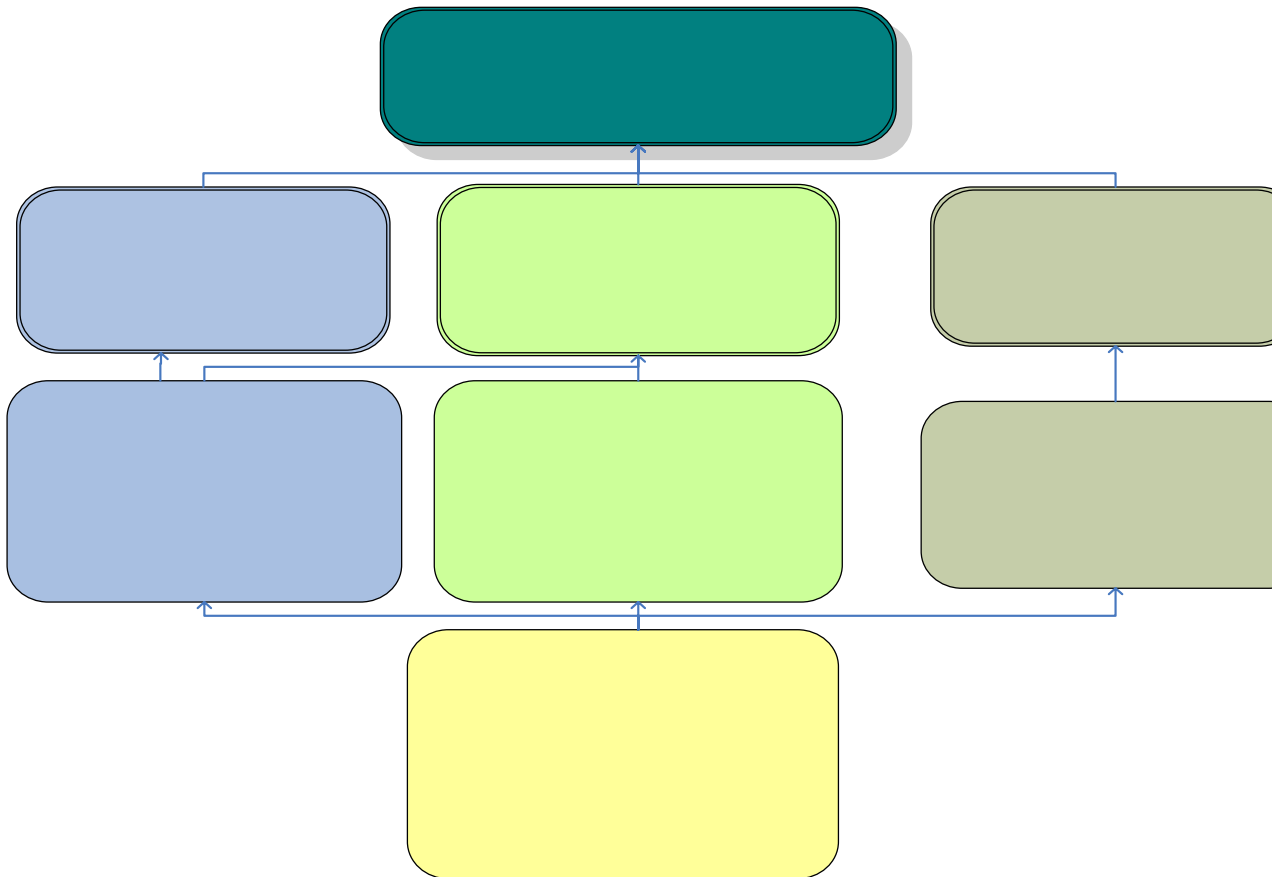
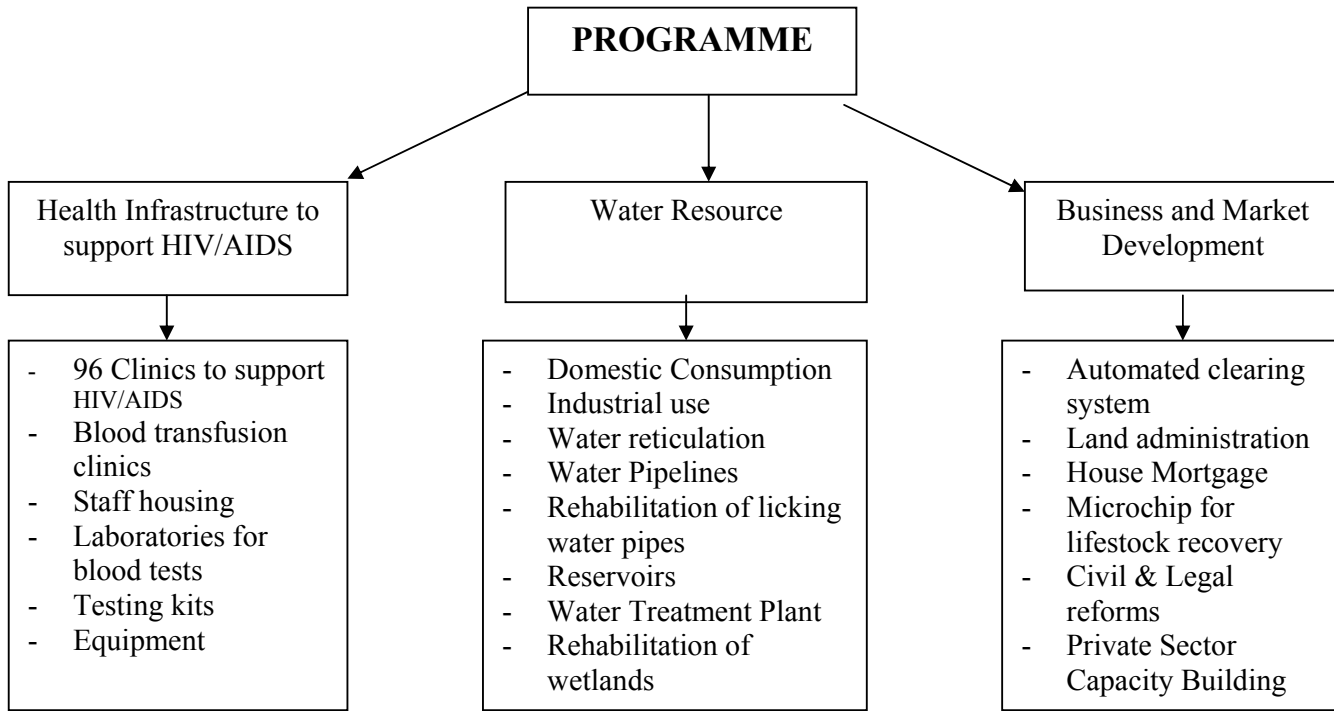
**MCC Funding:** US\$362.55

**Implementation:** 5 years

**Key Sectors:** Water sector, Health sector and Private sector

**Impact:** Poverty Reduction by 5%

## Diagrammatical Summary of the Programme



## Programme Justification

### 1.1 Background

Lesotho is a small country (the size of the State of Maryland) with limited known mineral resources except diamonds; and limited arable land for agricultural and life-stock production to ensure food security. About 66% of the country is mountainous and over 60% of the population lives in these high and rugged mountains and foothills. Although it has a narrow economic base, it has historically relied on remittances from migrant miners and other workers in the farms and industries of South Africa. From a factor endowment perspective, Lesotho has two resources that can be exploited: human resources and water. The proposed compact programme targets these two factors.

With regards to water resources development, it was not until in 1986 when the Lesotho Highlands Water Project was signed and implemented that water began to contribute to the economic growth of the country. Before this project came to fruition, large amounts of water were flowing to South Africa. Therefore, the development and exploitation of water resources has a great potential to increase productivity, economic growth and reduce poverty in Lesotho. Secondly, investment in human capital is yet another strategy for poverty reduction. The government of Lesotho recognize that employment opportunities in the South African gold and diamond mines are shrinking rapidly through retrenchment processes and, with it the migrant remittances. As a result, unemployment and poverty is increasing at an alarming rate. The third important factor which has the potential to reduce poverty is an improvement in health of the population in general, and more specifically elimination of HIV/AIDS. Thus, water supply cuts across all the three programmes components (Water supply and sanitation, health sector and private business development).

The primary objective of the proposed programme is three-fold; first, an improvement of the quality of life for the urban and rural communities through giving them more access to water and sanitation. Access to clean water for the poor households will have a variety of economic and health benefits such as reducing the cost of water, an increase in horticulture production in their backyard gardens, reducing time spend in search of water by women and girls leading to allocating more time for schooling and learning. The health benefits of clean water availability cannot be over-emphasized. They include cost-savings due to avoidance of water-borne diseases, avoidance of premature death and an increase in life-expectancy.

Water availability to the industrial sector will improve productivity, reduce cost of production and enhance competitiveness of the garment, textile and clothing industries (water-intensive products and wet-industries) in the export markets. Job creation and foreign exchange earnings will also be enhanced as well as diversification of products and markets.

Secondly, the proposed programme seeks to transform the investment climate by enacting legislation and regulations that will give women access to credit; improve land administration as a base for creating mortgage market; establish small claims commercial courts; introduce a modern and efficient banking payments clearance and settlement system; streamline the customs, immigration and licensing procedures. It

has been shown that an efficient business environment can unleash human initiative and innovation and therefore contribute sustainably to elimination of poverty. Countries like the United States, Korea, Ireland, and Singapore have shown the importance of legal and institutional transformation to high and sustainable economic growth.

Thirdly, the contribution of health to economic growth and development leading to poverty reduction cannot be ignored. The proposed programme aims to improve health infrastructure facilities such as health centers, construction clinics, laboratories and blood banks as well as new hospitals in the mountain areas. This will contribute significantly to the up-grading of HIV/AIDS in this country. However, the rehabilitation of health infrastructure is a necessary but not a sufficient condition for the improvement of health service delivery. It is important to ensure a sustainable supply of clean piped water into these clinics and hospitals. Most health centers and clinics in the remote rural areas are owned and managed by the private sector such as Christian Health Association of Lesotho (CHAL) and as such private sector capacity building under private business development programme will be very important in the health sector.

## **1.2 Economic Rational**

The proposal submitted to the MCC seeks financial resources in support of the country to achieve sustainable economic growth, job creation and poverty reduction strategy as articulated in the Poverty Reduction Strategy Papers of 2004-2008, assist the country in ensuring that the rural poor in the remote mountain areas benefit most in part fulfillment of the objective of reducing poverty by half by 2015 as stipulated in the Lesotho Vision 2020 and to support the country in the fight against HIV/AIDS because it is the most urgent and potentially devastating challenge facing the country.

The MCC funded consultancy study under 609(G) (2006) shows that access to improved water sources has increased from 52 percent of households in 1990 to 60 percent in 2002, although with a significant discrepancy between the better off urban and rural areas. Sanitation has also improved with Maseru having about 65 percent coverage. Another indication of relatively good sanitation is the absence of water-borne diseases in either the urban or rural areas. Despite these improvements, infant mortality rate is very high at 91 per 1000 live births and about a quarter of Lesotho's population is considered under-nourished.

## **1.3 Economic Context**

Lesotho is faced with a number of external factors which limits economic growth and therefore have to be addressed in order to achieve the goal of poverty reduction. First, the agricultural sector remains the main source of livelihood and income for the rural poor. The country is confronted with severe natural resources degradation and weak environmental conditions. The performance the rural economy continues to be highly affected by poor agricultural productivity, lack of infrastructure, prolonged drought for three consecutive years and a growing incidence of HIV/AIDS. Secondly, employment and labour force growth is one of the biggest impediments to economic growth. That is, if job recreation is not accelerated in the next decade, poverty is likely to rise to level leading to social tensions. Thirdly, the retrenchment of Basotho mine workers in the Republic of South Africa is not only a major challenge to the government in terms of job creation but is has multiple economic effects. It threatens

factor income from abroad (foreign exchange inflows), leading to Balance of Payments deficits, declining foreign reserves and more importantly it reduces cash injections into the rural economy causing further increases in poverty. The fourth economic problem facing this country is the high percentage of adults population infected with HIV/AIDS which is estimated at 24%. This pandemic deplete household income (through deaths, illness, medical expenses and loss of productivity) and has become the number one challenge to growth and poverty reduction. Finally, in order for this country to improve its competitiveness in the regional and global economy, it has to address its regional economic integration as a small landlocked country completely surrounded by the Republic of South Africa.

#### **1.4 Constraints to Economic Growth in Lesotho**

The Lesotho economic transformation over the past decade is marked by first, the garment and clothing industry (wet industries) which has been the major source of export earnings. The growth of this industry gained momentum as a result of a quota-free access to the U.S.A. market, provided under the 2000 African Growth and Opportunity Act (AGOA). This industry attracted significant levels of foreign direct investment from China. This sector has been the main source of economic growth over the last five years. Largely driven by FDI and the strong export performance of the garment and clothing sector, real GDP growth averaged about 3.5% per annum during the period 1991-2003.

During the 1980s over 50% of Lesotho national income was generated through migrant remittances from RSA mines which employed 60% of the male labor-force. Yet in 2003/04 the migrant remittances had fallen to below 20% of GNP due to retrenchment of Lesotho mine-workers from that country. Similarly, the share of agriculture in GDP has been falling significantly due to prolonged drought and the shrinking arable land together with declining productivity. On the other hand, the growing share of manufacturing sector and construction industries has compensated the decline in other sectors. Private investment in manufacturing and construction increased to 20% of GNP in the last decade.

The key constraints to economic growth in this country further include the following;

- Erosion of trade preferences through the phasing out of textile quota under the Uruguay Round Agreement on textiles and Clothing (ATC)
- The expected removal of the AGOA provision allowing the use of third country fabrics in 2007
- The anticipated decline in SACU tariff revenues due to trade liberalization
- The continuing retrenchment of Basotho mine workers resulting in the reduction of remittances into Lesotho
- The potentially devastating impact of HIV/AIDS which can have a serious effects on the economy. Preliminary cost estimates to the economy and the public sector of the HIV/AIDS pandemic are very high. The reduction in labour-force growth and lower savings rates due to high mortality rate, illness, funeral costs, loss of productivity and payments of fringe benefits are expected to reduce capital formation and lower output growth by an average of 0.4% per annum between 2005 and 2014.

#### **1.5 Lesotho Poverty Profile**

The long-term and over-arching objective of MCC intervention is to achieve poverty reduction through economic growth. In order to measure the impact of this

interventions over-time, it is important to highlight the state of poverty at the beginning of the programme. The 1994/95 household budget survey shows that two-thirds of the country's population live below the national poverty line and more than one-third are classified as ultra-poor (the poverty line is M146 per person per month).

Poverty in Lesotho is an over-whelming rural problem with variation to gender, household size and access to basic services. Unemployment is the major cause of poverty and income disparities. A key cause of the widespread rural poverty is the significant amount of labour devoted to low productive rain-fed crop farming and life-stock activities, which do not provide an adequate livelihood without the additional support from non-farm employment and remittances.

### **1.6 Objectives of the Programme**

Based on the Poverty Reduction Strategy (PRS), agreed with the multilateral organization and donor community, the Government aims to improve the welfare of the people of Lesotho. The PRS proposes an agenda which focuses on the following;

- Employment and income generation through higher economic growth
- Sharing the benefits of growth through improved health sector including the HIV/AIDS. HIV/AIDS, gender, children and youth are treated as cross cutting issues.
- Improved primary health care and social welfare
- Improvement of the physical infrastructure for urban and rural water supply and sanitation
- Improving governance and public sector performance;
- Better management of the country's environment resources including wetlands, forestry and range management.

The key strategic goals and objectives which this proposal attempt to address include the following;

Improvement in water resource infrastructure, rehabilitation of the existing old and dilapidated pipes and pumps for urban and rural water supply;

**Health infrastructure.** The programme seeks to rehabilitate health sector infrastructure that will address access by the poor to health services; and provision will be made to address the regional disparity in the delivery of health services by constructing health centers and clinics in the remote rural areas; training of nurses and nurse clinicians.

**Fight against HIV/AIDS.** The proposed MCC programme sets out to include HIV/AIDS component within the context of improvements in health infrastructure, rehabilitation of health centers and clinics, blood transfusion laboratories and construction of new hospitals. Efforts will be made to provide technical assistance for training of nurses and health workers and retain them in the remote rural areas. The population-based HIV prevalence survey conducted in 2004 shows that almost 25 percent of the adult population are HIV positive. Prevalence rates are found to be high for women 26% than for men 19% and higher in urban areas 29% than in rural areas 22%. The number of AIDS orphans is estimated at 100,000. if HIV/AIDS remains unchecked, it is projected that Lesotho's population will decline by 23% and life expectancy will decline to 35 years by 2015. the impact on households is severe, often

leading to depletion of assets to cover medical and burial costs, and a loss income as productive member of the household die.

**Business, Market and Institutional Development** The programme will be directed at achieving at least five essential area for the private business development and these include; private sector capacity building; creation of an enabling environment for private sector development and investment (foreign and domestic); alleviation of infrastructure bottlenecks for economic growth such as improving financial sector confidence required to provide credit extension to the poor through the use of land property and land lease; implementation of automated payments, clearing and settlement systems; establishment of commercial courts to deal with commercial cases and an introduction of life-stock microchip devise to enhance recovery of stolen stocks for farmers.

The garment and clothing industry is mostly foreign owned and well-connected to the global market where it exports all its output. It however has limited linkages to the rest of the economy particularly the local private sector. That is, the domestically owned private sector is comprised of micro and small enterprises engaged in trade, services, construction and sandstone quarrying. The local private sector is disconnected from the regional value chains. Accelerating employment creation for the labour force will only be possible through the expansion of private sector capacity building and government support through creating enabling environment.

## **2. Programmes**

The four programmes include first, the investment in Metolong dam required for water supply in the industrial sector, agricultural irrigation schemes and for household consumption. The industrial sector production such as garments, textile and clothing will productivity in the industrial sector, reduce the cost of production thereby making the industry competitive in the global markets, create jobs and improve export earnings. The urban and rural water supply and sanitation will improve health and free women and girls to undertake other activities thereby contributing to poverty reduction. Water resource development and an improvement in industrial sector productivity also needs complementary programmes to combat the prevalence of HIV/AIDS which can also be costly to the industry and the economy as a whole. The HIV/AIDS pandemic is not only prevalent in the industrial sector but will also be high amongst the people working at the dam construction due to the fact that most of them will be resident far from their families and wives. Hence the need for a complimentary programme designed for prevention and Anti-Retroviral Therapy (ART). The Lesotho Government decision to prioritize the health sector as part of the projects submitted to the MCC is to initiate this complementary programme.

The second programme submitted for MCC intervention is the improvement of health sector infrastructure facilities leading to the implementation of HIV/AIDS prevention measures and Antiretroviral treatment programmes. The improved infrastructure will reduce an increasing pressure and demand for health services resulting from the growing number of HIV/AIDS patients. This improvement in health sector will focus on four major investment expenditures; (i) construction of two rural mountain hospitals and blood transfusion laboratories, (ii) rehabilitation and renovation of 96 health centers and 18 ART clinics in 18 hospitals, (iii) procurement of health equipment and vehicles for transport and (iv) staff training and accommodation to

ensure retention of nurses and health workers in the remote rural areas. It will improve the quality of service, increase accessibility to health centers by the rural poor, facilitate the procurement of essential health equipment, transport vehicles and communication equipment for referral systems between hospitals and specialized doctors.

The third programme submitted for the MCC funding is the improvement in urban water supply aimed at rehabilitating the old and non-functioning pumps and pipes infrastructure, increase accessibility to water by the newly demarcated urban areas and reticulation extension to the National University Campus at Roma. Furthermore, this programme will undertake an investment to improve rural water supply and sanitation in order to extend the coverage to a wider population where poverty is concentrated most. Finally, within the context of national water supply programme, this intervention will consider the protection of Wetlands in order to ensure sustainability of river water flows in the country.

The fourth programme is the promotion of private business development which focuses on private sector capacity building, review of civil legal systems including establishment of commercial courts to improve confidence to the legal system, land administration and registration to facilitate land leasing and accessibility to financial instruments by the poor, the development of housing market and housing finance, establishment of automated payment, clearing and settlement systems and finally, the introduction of a microchip and life-stock tracking technology to improve police recovery of stolen stocks.

### **3. Millennium Challenge Account**

The Millennium Challenge Account (MCA) is a funding facility established by the United States Government and it is intended to assist qualifying eligible developing countries such as Lesotho in its endeavour to pursue the objective of poverty reduction through a sustainable economic growth and the implementation of its poverty reduction strategy. The MCA fund facility is effectively administered by the established body called Millennium Challenge Corporation (MCC). However, the primary objectives of the MCA are; to encourage and support policy reforms of the eligible countries; to foster sustainable economic growth; and, to promote partnership between the Government and non-governmental bodies, the private sector and civil societies,

The Millennium Challenge Account (MCA) is a new funding mechanism available from the US Government. The fundamental aim of the MCA is “Reducing Poverty through Growth”. As an eligible country, Lesotho is to propose a development programme to the MCC (which is the implementing body for the MCA in the US) based on the priorities of the country and which uses an intensive consultative approach that includes all sectors of civil society. Once accepted, this programme becomes a compact which will be signed between the GoL and the MCC.

## **4 Strategy, Objectives and Beneficiaries**

### **4.1 Government Action Programme**

The aforesaid four economic growth and development programmes have, in turn, been derived from the current Government documents, namely, Poverty Reduction Strategy Papers (PRSP), the Lesotho Millennium Development Goals (MDGs) and

the Lesotho Vision 2020. The Lesotho PRSP envisages sustainable economic growth through private business development and investment as one of its primary goals and objectives. The strategy has three major objectives; to fight against HIV/AIDS which is the most urgent, and potentially devastating challenge facing the country; to develop water resource infrastructure and reticulation; to achieve sustainable and job-creating growth through the private sector supported by the government which, in turn will create enabling environment such as private sector capacity building, review of civil legal systems and ensure that the poor benefit. The PRSP proposes the following priorities and agenda for the period 2007- 2015;

- To support the private sector led economic growth with the aim to improve the civil legal system and regulatory framework related to business climate, undertake the necessary administrative reforms and expand access to foreign markets through regional economic integration.
- Economic growth through the private sector. Employment creation is one of the major challenges facing the country in order to accelerate poverty reduction goal and avoid social tensions.
- Strengthening sustainable growth and job creation through the private sector, the government will direct resources towards achieving (i) creation of an enabling environment for the private sector development and promote foreign direct investment, (ii) provision of appropriate training for the private sector and investment climate;
- Agriculture remains the main source of livelihood and income, especially for the rural poor, the Government is committed to develop water resource infrastructure. With accessibility to irrigation water and rural water supply and sanitation, the rural economy will be enhanced, productivity will be improved and will avoid the negative impact of drought.
- Improving social and economic infrastructure requirements for growth and better management of the country's environment resources;
- HIV/AIDS; It is estimated that over 30 percent of the adult population is infected with HIV/AIDS and it is depleting household income through death, illness and loss of labour productivity.
- To maintain the macroeconomic and financial stability through public sector reforms and civil service reforms.
- Gender, children and youth are treated as cross cutting issues.

The programme will contribute to the achievement of the goals of the government action plan with its main focus on the development of the private sector as the engine of growth.

#### **4.2 Beneficiaries and Target Groups**

The intended beneficiaries of the Lesotho MCC proposal are multi-sectoral, namely job creation in the construction sector during the five year period of the MCC implementation programme. Jobs will be created during the construction of Metolong dam, construction of reservoirs, laying out of pumps and pipes for water reticulation from Metolong to Maseru, Thaba Khupa, Mazenod and Roma. Jobs will also be created in the construction of health infrastructure such as building of hospitals, laboratories and rehabilitation of clinics. Finally, jobs will be created when urban and rural water supply components are being implemented.

In addition to job creation benefits, water availability will have multiplier effects and multiple benefits. With regard to its multiplier effects, water availability will increase industrial and agricultural irrigation production and enhance the value chain through agro-industry processing activities. The cost of utility inputs will be reduced as the price of water and electricity will fall and this will improve the competitiveness of these goods in the regional markets. With regard to the multiple effect of rural water supply and sanitation, it is envisaged that water availability will relieve women and girls from walking long distances in search of water and this extra time can be utilized in other productive employment including time spent at school.

The health effect of clear and potable water and sanitation in the rural areas is the benefit which cannot be over-emphasized. It will ensure avoidance of diarrhoea and other water-borne diseases in the country and this has implications for an improved life expectancy, labour productivity and avoidance of hospital treatment costs. Nutrition in the rural areas is also likely to be improved as people produce vegetables in their backyard gardens.

The health infrastructure programme will benefit HIV/AIDS patients who constitute over 30% of adult population. It will provide an opportunity for government to divert funds, which would otherwise have been spent on infrastructure improvement, towards expenditure on Anti-retroviral Therapy and treatment. It will increase life expectancy of the sick people receiving quality treatment and medication in general but more specifically the HIV/AIDS patients whose death is concentrated on the young and working age group. The macroeconomic costs, fiscal impact, household miseries will be averted as a result of the MCC intervention in the health sector.

Private sector development and capacity building will benefit young entrepreneurs and enhance their participation in the economy. That is, private business development programme will be targeted at young and aspiring entrepreneurs who will then set up or expand their enterprises, create jobs and generate income through acquisition of skills and improved access to markets.

### **4.3 The Impact of MCC Programme and Strategy**

The overall impact of the Program on Melotong dam, health infrastructure development, urban and rural water supply and sanitation, the private business development and entrepreneurship will be a 10 percentage points increase in GDP growth generation of about 20,000 jobs and a resulting reduction in poverty. Moreover, the program will impact the structure of the economy, bringing about a qualitative change. Vibrant and competitive private firms producing high value-added products in the industrial sector such as garments, textile, clothing and other water-intensive products. The agricultural irrigation production will ensure food security and all of these will drive economic growth and reduce poverty.

Over 50 percent of Lesotho's population live under the poverty line. To lift these people out of poverty, to meet the goal to halve poverty would require creating the conditions where people have an opportunity to work their way out of poverty. Nurturing the spirit of *entrepreneurship* which will lead to economic growth – this is the essential principle of the proposed MCC program.

Economic growth will work if it is inclusive and benefits wide spectrums of the society. Therefore, the principle of private sector capacity building is equally important. Thus, the focus of the program is on private business development which will empower people to work for economic growth and poverty reduction rather than on making the government work for economic growth and poverty reduction.

In line with the principle of private business development, the programme has been developed as a result of repeated consultations with the general public and experts in related fields. The strategy for the proposed programme is to unleash the potential of entrepreneurs to accelerate economic growth and bring improvements in the living standards through:

- Improving the provision of health services in rural areas and urban areas
- Improving industrial and agricultural irrigation water availability, reduce the cost of production and enhance competitiveness in the global market
- Improving urban and rural water supply and sanitation
- Providing the necessary sources of finance for increased investment, building enterprising and business skills, facilitating higher quality of products and services in private firms of all sizes
- Improving technical skills and work attitudes of young people that would result in improved productivity. Facilitating access of people to information and improving their ability to communicate with businesses and government.
- Building infrastructure to improve the opportunities for entrepreneurship in rural areas and to reduce the costs of doing business in a large, sparsely populated country

#### **5. Total Investment Costs per Programme Component**

In summary therefore, the Lesotho Millennium Challenge Account Program will channel investment resources into the development of metolong dam, construction of hospitals, blood transfusion laboratories, rehabilitation of ART clinics within the health sector and strengthen treatment in the health sector including reduction or prevention of HIV/AIDS. It will create an opportunity to improve water supply and sanitation in urban and remote rural areas. It will improve private business developments at the national level through private sector capacity building, civil legal reforms, financial sector reforms. In aggregate, it will improve the livelihood of poor urban and rural communities where poverty is most acute. The total value of Lesotho’s MCA proposal is US\$362,55 million to be invested over a period of five years. Figure 1a and 1b below shows the distribution of the budget by components and implementation costs respectively. Through this investment, Lesotho will create new jobs and contribute to poverty reduction.

**Figure 1a**  
**Distribution of budget by proposed projects**

		<b>Estimated Funding</b>	<b>% of Total</b>
Component A:	Metolong Dam Project	US\$45 million	
	15%		
Component B:	Health Sector - HIV/AIDS	US\$144	million
	47%		

Component C1:	Urban Water Supply	US\$33.3	million
11%			
Component C2	Rural Water Supply and Sanitation	US\$ 30	million
9%			
Component C3	Protection of Wetlands	US\$ 4	million
1%			
Component D1	Private Sector Capacity Building	US\$16million	
5%			
Component D2	Civil and Legal Reforms	US\$0.85 million	0
%			
Component D3	Land Administration	US\$17	million
6%			
Component D4	Payment and Settlement System	US\$1 million	
0%			
Component D5	Live-Stock Theft Microchip	<u>US\$17.4</u>	million
6%			
<b>100%</b>	<b>TOTAL COSTS FOR ALL COMPONENTS</b>	<b><u>US\$ 308.55</u></b>	<b>million</b>

## 6. Implementation Costs

**Figure 1b**

	<b>Year 1</b>	<b>Year 2</b>	<b>Year 3</b>	<b>Year 4</b>	<b>Year 5</b>	<b>Total</b>
<b>Total Project cost</b>	<b>61,710,000.</b>	<b>61,710,000.</b>	<b>61,710,000.</b>	<b>61,710,000.</b>	<b>61,710,000.</b>	<b>308,550,000</b>
Procurement Agent	2,159,850.	2,159,850.	2,159,850.	2,159,850.	2,159,850.	10,799,250.
Fiscal Agent	1,851,300.	1,851,300.	1,851,300.	1,851,300.	1,851,300.	9,256,500.
Monitoring Evaluation	3,085,500.0	3,085,500.	3,085,500.	3,085,500.	3,085,500.	15,427,500.
Audit MCA Lesotho	617,100.	617,100.	617,100.	617,100	617,100.00	3,085,500.
Operating costs	3,085,500.	3,085,500.	3,085,500.	3,085,500.	3,085,500.	15,427,500.
<b>Total operating cost</b>	<b>10,799,250.</b>	<b>10,799,250.</b>	<b>10,799,250.</b>	<b>10,799,250.</b>	<b>10,799,250.</b>	<b>53,996,250.</b>
<b>Overall Total costs</b>	<b>72,509,250.</b>	<b>72,509,250.</b>	<b>72,509,250.</b>	<b>72,509,250.</b>	<b>72,509,250.</b>	<b>362,546,250</b>

## **PART I THE MAIN PROPOSAL**

### **1. Background and Justification**

Lesotho is a landlocked country with 2.2 million people, (1996 population census) spread over 30 thousand square kilometers of land. Though uniquely landlocked and surrounded by a single country, it is strategically located within the rapidly growing markets of the Republic of South Africa, the Southern Africa Customs Union (SACU) and the Southern African Development Community (SADC). Accessibility to the USA and European markets is also guaranteed. Garment, textile and clothing are amongst the main export processing industries which earn foreign exchange for this country. Almost three quarter of Lesotho territory is occupied by extensive mountain areas where Lesotho farmers herd millions of livestock (cattle, horses, sheep and goats). Maseru, the capital, is the largest and the fastest growing city in the country, home to a third of the population.

#### **1.1. Conducive Political Environment**

In the past fourteen years (1994-2006) Lesotho made a rapid transition from a dictatorial one-party state system to a multi-party democracy. The Kingdom enjoys a dual system of a constitutional monarchy with the King as the Head of State and the Prime Minister who is the Head of Government and is directly elected by people. During the 1990s the country experienced political upheavals. After the 1993 elections, a new constitution was introduced, but the lopsided victory of the ruling party led to tensions between the newly elected government and the military. In the May 1998 parliamentary elections, the results were challenged and considerable civil unrest ensued, resulting in widespread destruction of property. The current electoral framework, based on a blend of the first past the post system and the proportional representation of all parties seem to offer the best compromise for the maintenance of political stability.

Lesotho has consolidated its achievements in democratic governance, accountability and civil liberty through parliamentary elections, all recognized as free and fair by the international community and domestic political parties. The succession of power after each election has been peaceful and orderly. Democratic values are inseparable part of both the political system and the social fabric. The political stability is further complemented by macroeconomic stability and policy reforms to create enabling environment for the private sector. For instance, the implementation of the privatization programme to transfer public owned enterprises to the private sector.

#### **1.2. Economic Stability and Growth Prospects**

With a population of 2.2 million people and Gross National Income of US\$740 per capita, Lesotho is a small, poor land-locked country, completely surrounded by the Republic of South Africa. Over two-thirds of its land area is comprised of mountains and small valleys, with less than 10 per cent arable land suitable for crop cultivation. The economy is largely limited to agricultural and pastoral production, and light manufacturing of clothing, textile and garments. About 70 percent of the population live in the rural mountain areas where income is generated from the traditional, largely subsistence, low value-added agriculture and live stock herding. Only two-

thirds of households have access to arable land, and 70 percent farming are sharecropping.

Given this narrow economic base, the country's economic potential would primarily be achieved through the development of water resources, labour-intensive production, better investment climate for the private sector including foreign direct investments. Lesotho is a small open economy in a classical sense in that the smallness of its market cannot sustain an industry and is therefore a price taker in the regional and international market. That is, within SACU regional market, the country has zero tariffs and non-tariff barriers and no exchange controls. There are no protection policies for infant industries against unfair competition from the Republic of South Africa. During the early years of the new democratic dispensation, the government of Lesotho has firmly pursued the policy of market liberalization, deregulation, privatization and macroeconomic stabilization. As a result, macroeconomic stability was restored during the second half of 1990s .

Inflation was brought to a single digit numbers since 1998. The budget deficit as a ratio of GNP has been brought down to 4% in line with the World Bank and IMF bench marks. The budget deficit as a ratio of GDP has been sustained at less than 2% and the balance of payments (BOP) is under control. After the severe decline in GDP, economic growth resumed since 1994. In 2003, GDP growth was 4.5 percent. Economic growth is expected to exceed 5% percent in 2006. However, economic growth has been extremely volatile due to confluence of several factors such as fluctuation of prices of key export commodities and external shocks, such as repeated droughts. The growth failed to benefit the people equitably, as evidenced by the absence of positive change in poverty indicators. Economic growth has also relied excessively on the exploitation of water resources in the Lesotho Highlands Project and natural resources including the use of land and agricultural resources without much capturing of value added and retaining the generated wealth in the country. The trade sector and agricultural sector are currently the largest contributors to GDP, producing 29 percent and 20 percent of GDP, respectively.

The openness of the economy cannot be over-emphasized with practically zero import and export tariffs within the SACU regional markets. During the AGOA system the country's exports enjoyed significant growth. The trade deficit was about 12 percent of GDP. Exports are dominated by textile clothing and garments goods to the US markets. Imports are more diversified, although there is a high dependency on the import of oil products, food products and equipment from the Republic of South Africa. Lesotho remains a poor country with US\$740 per capita income and with more than 50% of the population living under the poverty line.

**TABLE 1. LESOTHO: SELECTED ECONOMIC AND FINANCIAL INDICATORS, 2002/03-2009/10**

	2002	2003	2004	2005	2006	2007	2008	2009/10
National income and prices								
Real GDP	3.6	3.2	2.6	1.3	2.5	1.4	1.4	2.6
Real GNP	3.9	3.5	2.0	0.4	2.8	0.9	1.2	2.2
Consumer price index	12.2	6.4	4.7	3.6	4.5	4.8	4.5	4.5
Consumer price index	7.9	5.2	3.6	4.8	5.2	5.2	5.1	4.5
External sector								
Exports, f.o.b.	29.8	32.0	36.9	-5.2	9.6	3.6	6.1	4.3
Imports, F.o.b.	21.9	28.0	25.8	-2.1	14.3	1.9	3.3	3.5

(Percent of GDP, unless otherwise indicated)

Investment and saving								
Investment	43.0	43.9	30.4	27.1	30.0	30.0	30.1	30.0
Public	11.5	7.8	7.1	8.1	11.0	11.0	11.1	11.0
Private	24.1	30.4	20.0	19.0	19.0	19.0	19.0	19.0
Gross national savings								
(including remittances)	25.0	33.1	27.3	25.2	26.2	32.1	29.0	25.6
Public	9.2	11.0	18.0	13.1	15.5	21.5	14.7	9.7
Private	15.8	22.1	9.3	12.2	10.7	10.6	14.2	15.9

### **1.3. Strategy for Economic Growth and Poverty Reduction**

This proposal was developed at the time of formulation of three major Government Action Programmes, namely, the Poverty Reduction Strategy (PRS), the Lesotho Millennium Development Goals (MDGs) and the Lesotho Vision 2020. These programmes are a joint product of the Government, private sector, civil societies, donor community or international cooperating partners (ICP) and other stakeholders. These programmes set five principal goals for the Government in the coming four years.

First the private sector; The consultative process and the Government is convinced that a significant economic growth and poverty reduction will come largely from private sector participation and exploitation of business opportunities in the country. These opportunities will be enhanced by a supportive and internationally competitive policy, financial sector reforms, legal and regulatory framework. The consensus from the consultative process is that the private sector should be the primary engine of economic growth and that the private sector is prepared to share responsibility of carrying out a Millennium Challenge Corporation program that will deliver a positive rate of return on investment.

Secondly coordinated donor assistance: The Lesotho Millennium Challenge Corporation Programmes will be based on coordinated Overseas Development Assistance in order to maximize the benefits of such efforts and cooperation. The objective is to ensure complementarity between such donor assistance rather than substitution or duplication of efforts.

Thirdly identification and minimization of risk to ensure success: The Lesotho Millennium Challenge Corporation Program will benefit from the lessons of past and present projects successes and failures and, based on such lessons, risks can be identified and managed effectively and efficiently. Therefore, the proposed MCC Programme will build on past successful efforts of the private sector, government and donor projects in order to lower the risk of implementing the programme.

Fourth focused on selected strategic high return sectors: The Lesotho Millennium Challenge Programme recognizes that poverty reduction process is a multi-sectoral phenomenon, but in order to ensure maximum success by achieving significant and measurable goals and objectives, the Programme will focus on selected sound activities. The choice of these activities will be based on sound economic rational.

Fifth popular participation and action-oriented approach: The consultative process has analyzed and assessed virtually every aspect of Lesotho's economic development strategies, programs and projects. The emerging consensus is that Lesotho's economic development challenges lie more in the aggressive implementation of projects, exploitation of "lessons learned" from past experiences and an appreciation of limited resource based rather than additional assessments.

#### **1.4. Poverty Reduction Strategy and National Priorities**

The Lesotho Government has already articulated its priorities in the Poverty Reduction Strategy Papers which fundamentally identify a number of essential goals and objectives. Within the context of this proposal, the PRSP stipulate the following;

- The development of human capacity and human capital in the private sector with the aim to accelerate sustainable economic growth. Private business development programme which include private sector capacity building, civil legal reforms, efficiency in land administration and registration, financial sector reforms through automated payment, clearing and settlement system and an introduction of life-stock microchip to improve the recovery of stolen life-stock.
- Macroeconomic stability
- The development of health infrastructure facility, training and retention of health staff and upgrading of health equipment, transport and treatment in order to address the high prevalence of HIV/AIDS.
- Improvement of water resource developments through construction of metolong dam, increase accessibility to urban and rural water supply and sanitation.
- The exercise of good governance, compliance with the law, and the proper functioning of the legal system.

The Poverty reduction strategy (PRS) aims at maintaining the macroeconomic and financial stability through public sector reforms in treasury management, budgeting, accounting, reporting, performance-based management and auditing. It intends to support the development of the private sector led economic growth. Under this objective, the government aims to build private sector capacity, reduce commercial banks credit risk through the establishment of commercial courts, improve the legal and regulatory framework related to business climate, promote foreign direct investment and expand access to foreign markets.

## **2. Lesotho Millennium Development Goals Objectives**

In addition to the Poverty Reduction Strategy concluded between the Lesotho Government and the World Bank/IMF, the country has also developed a Lesotho Vision 2020 as part of its overall strategy for economic growth. Vision 2020 advocates for the development of water resource infrastructure to supply the industries, agricultural irrigation production and strengthening of health sector including the HIV/AIDS. The third strategy document is the Millennium Development Goals (MDGs). That is, in 2004 the Government of Lesotho pledged, together with other states, to achieve the Millennium Development Goals by the year 2015. The Government established specific national targets within the MDGs. The proposed MCC programme will make a direct contribution toward achievement of these goals to reduce poverty and develop a global partnership for the development of the economy.

### **2.1. Specific MCC Objectives and Programmes**

Based on the national development priorities established by Lesotho government and the outcome of public consultation process that were focused on the development of the PRS, the Ministerial Committee (Board of Directors) on MCA identified the following areas inter-alia, as priorities for the MCC intervention:

- Metolong Dam project aimed at water supply for industrial sector, irrigation and value chain in agricultural sector and household water consumption.
- Health, Infrastructure Rehabilitation, Building of new Hospitals and Up-scaling of HIV/AIDS
- Improvement in Urban and Rural Water Supply including protection of wetlands to sustain river flows. The improvement in urban water supply will involve first, rehabilitation of existing infrastructure to reduce loss of water and activate non-functioning pumps and pipelines. Secondly, extension of water supply to new urban areas. Thirdly, the intervention will involve water reticulation to the National University town as well as other Districts.
- Private Business Development (PBD). The MCC intervention in this area will focus on
  - (i) Private sector capacity building,
  - (ii) Civil legal reforms aimed at the establishment of commercial courts to expedite resolution of business disputes, reduce credit risk, improve the confidence of business communities and enhance participation of foreign banks in the national economy.
  - (iii) Land administration.
  - (iv) Housing mortgage
  - (v) Automated payments, clearing and settlement systems
  - (vi) Life-stock microchip aimed at prevention of stock theft and to improve recovery of stolen animals. This will reduce the risk of life-stock keeping, enhance the wealth and economic value of cattle herders.

### **Project Component A**

#### **3. Metolong Dam infrastructure Development**

The primary objective of the proposed metolong dam is to harness water resources to support industrialization in the production of garments, textile, and clothing for exports, to supply water for agricultural irrigation development. The small scale farmers downstream of the dam will benefit from the water released at the dam which



pumping station, located at the treatment plant pumps water to the Sefikeng reservoir, from which water flows by gravity to Teyateyaneng.

The fourth component is treatment plant which will comprise chemical dosing followed by a single stage of clarification to reduce the water turbidity to below 10 NTU. This would be followed by rapid gravity filtration and final disinfection and pH adjustment.

The final component is a series of transmission lines made of ductible iron pipes. The first line will be a 300m line of 800mm diameter pipes, from the dam to the treatment works. A 6800m line will leave the treatment plant and take water to the Ha Nchela reservoir and the Thaba Khupa Reservoir. An 11 km, 300mm diameter line will leave the Ha Nchela Reservoir for the High South Reservoir. From this line two lines will branch. A 350mm diameter, 6.5km branch which will take water to Mazenod and the international airport, and a 250mm diameter 13k line to Roma. A pumping station will pump from the Sefikeng reservoir along a 300mm diameter 27.2km line to Teyateyaneng.

There will also be four reservoirs. The command reservoir will be at Ha Nchela, distributing to Maseru, Mazenod and the airport, and the High South reservoir will serve Maseru. A small reservoir at Thaba Khupa will serve Roma, and the Sefikeng reservoir will serve Teyateyaneng. This project component will cost **US\$45 Million (see Details on Part II)**

## **Project Component B**

### **4. Health Infrastructure Rehabilitation and Up-scaling of HIV/AIDS**

The proposed investment in health sector will focus on four main activities, namely, rehabilitation of 96 health centers, 18 ART clinics in 18 hospitals, urban and rural based clinics, construction of at least three District hospitals, procurement of high standard health equipment including blood transfusion laboratories, transport vehicles, waste management or disposal and finally training and retention on nurses and nurse-clinicians in the remote rural areas. The Health and HIV/AIDS Project aims to strengthen treatment capacity of clinics and hospitals in Lesotho and this will improve the health of the population by providing client friendly, prompt and treatment services of high international standards, drawing on the modern technology progress.

Health centres serve mainly rural population which is in majority. Given the fact that most of the ART Clinics in all the 18 hospitals are old with dilapidated facilities, 96

clinics and health centres will be renovated, or where renovation is not a good option, new ones will be built. These clinics are no longer able to provide a comprehensive quality health service to the grass-roots poor communities they are meant to serve. The comprehensive quality health service include HIV/AIDS preventive and treatment services and by so doing significantly improve access to the health and social services to the rural community. Improved access to health care will be further improved and strengthened through renovation, extension and/or construction, of health centres and filter clinics.

The existing hospitals do not have adequate facilities because they were not built to cope with the increasing workloads due to HIV/AIDS. ART clinics will be constructed at each of the 18 hospitals to take care of prevention and treatment services for HIV/AIDS patients. Access to clinic services will be scaled up through the construction of ART units at all the 18 hospitals.

Construction of the adult and paediatric infectious diseases hospital at Botšabelo will ensure country wide access to the ART. A primary hospital will also be constructed to serve the rural and underserved Semonkong catchment area catering for some of the least served rural mountain areas of Maseru, Mohale's Hoek, Thaba Tseka and Qacha's Nek, which are located far off from their district capitals. Furthermore, the MCC intervention will upgrade the Paray Hospital to a regional referral level and this, in turn, will further enhance access to the areas that will be served by Semonkong Hospital as well as the additional mountain areas of Mokhotlong and Thaba Tseka districts. These facilities will also be equipped to meet the minimum standards for quality service delivery. Their power source, water and communications will concurrently be improved, facilitating universal precautions and referrals

The intervention will address problems of inadequate laboratory, blood transfusion and pharmaceutical services and systems for support. The current Ministry of Health central laboratory which also serves as the referral and quality control centre, falls far short of standards for a laboratory. The Lesotho Blood Transfusion Services (LBTS) are also constrained by lack of space and they are currently operating from rented property not designed for such a service. The construction of a new central laboratory and upgrading the hospital laboratories as well as construction of the LBTS will therefore enhance support services for the ART and other medical services. Construction of two other regional LBTS centres will decentralize the services, rendering them more accessible to the population.

Adequate laboratory support for the hospitals is essential and will be enhanced through construction of a central laboratory which is also the referral centre for the hospital laboratories, as well as construction and equipping at least one district hospital, currently without a laboratory facility. These will also be supported through improved access to blood transfusion services, where required, through construction and provision of equipment to a decentralized system.

The three mountain and Senqu River valley hospitals (Mokhotlong, Qacha's Nek, Thaba Tseka and Quthing) will also be equipped to standard. Thus improved service access for the most disadvantaged mountain and rural population. The procurement of 18 four-by-four vehicles and provision of transport will not only ease referrals but will strengthen supervisory support for these facilities. Such service access will be

further extended through provision of transport for all the 18 ART units to facilitate referrals as well as supervision of health centre services. With the improvement of facilities' utilities (reticulated solar power, running water, sanitary facilities), and communications (2 way radios), the working environment will be further improved upon. This project component will cost **US\$144 Million. (see Details on Part II)**

### **Project Component C1**

#### **5. Improvement in Urban Water Supply**

The rehabilitation of existing infrastructure is a process that ensures that ageing infrastructure will at least be brought back to a functional state. The water treatment works identified are in a poor state and require rehabilitation. These treatment plants are running below their design capacities, maintenance and chemical costs are high and the quality of water produced is questionable. A high percentage of water losses are caused from the excessive leakage from supply reservoirs. As a result of this, their effective storage is reduced leading to supply problems or bottlenecks.

Water reticulation extensions are necessitated by the fact that several of the towns falling under the jurisdiction of WASA have outgrown the areas covered by existing water reticulations this is because over the years, the urban areas have grown due to population growth, rural-urban migration and government demarcation of new urban areas, hence the need for water reticulation extensions.

Finally, it has become necessary to construct new pipelines in order to supply water to the National University of Lesotho campus and the surrounding town. Roma is situated approximately 35 km south east of Maseru and houses the National University of Lesotho (NUL) with more than 5 000 students. For this reason the town forms a very important part of the local economy. WASA recently constructed a new water pipeline from Maseru to supply Mazenod and Masianokeng with water. This

pipeline could possibly supply the remaining requirements of Roma in the medium term.

### **5.1. Economic Benefits of an Improved Urban Water Supply**

At present Semonkong has a water supply system utilising springs. This current infrastructure is not capable of supplying the needs of the people. The 1997 Water Supply Investigation Report indicated then already that the water situation needs serious attention. The infrastructure has not been augmented and has been managed by the community until recently, when it was incorporated under the jurisdiction of WASA.

There are several benefits regarding the rehabilitation of the proposed improvement in urban water supply and these may be summarised as follows: reduction in the volume of unaccounted water which, in turn, will reduce the cost to the consumers and production sectors. There are significant benefits estimated on the basis of avoidance of health costs. These health related costs are calculated using hospital treatment unit costs and household expenditures on diarrhoea diseases. Further to the health related costs, economic benefits are also estimated for life saving and prolonged life expectancy at birth. Increasing the revenue generation, reduction of the operation costs as a result of chemical and energy savings and increasing the life expectancy of pumping stations and water treatment works

### **5.2. Impact of an Improvement in Urban Water Supply**

A sufficient supply of clean water for drinking and other household uses is essential for fighting poverty and hunger. Water is also an important factor for production in a variety of industries crucial to economic development and poverty reduction; it is also central for the livelihood of the communities. Potable water is central to the communities sense of well being, empowerment and control over their own lives. It affects the ability to choose jobs and livelihoods, to assert cultural and religious values, to find adequate time for education and leisure, to cope with crisis, and to enjoy freedom from violence, exploitation and fear.

Direct and indirect employment opportunities will be created through the rehabilitation of the proposed works. The direct employment opportunities will result from employing people for the construction phase and the need to employ staff to effectively manage and maintain the infrastructure, such as the water treatment works and the pumping stations. Additional operation and maintenance staff will be required due to the larger service area and increased maintenance activities that will be required to properly maintain the water supply systems.

Some parts of the project could be implemented using labour intensive construction methods. This will provide jobs for a number of community members. In addition, skills transfer will take place that could provide employment opportunities within the teams. Indirect employment opportunities will be as a result of increased commercial and industrial development taking place. Water is the key factor for most commercial

and industrial developments and with a reliable and good quality of water supply, it will aid this growth. The growth in these sectors will then also lead to an increase in employment opportunities. There are many health benefits resulting from an increase in the amount and quality of water for human consumption, as water controls virtually every aspect of a person's health. Not just the water used for drinking but all water such as for cooking and hygiene. Water which is contaminant free will improve the overall health of the communities and will reduce the incidents of water borne diseases. It is reported that 80% of all illnesses are caused by water borne diseases, with diarrhoea being the leading cause of childhood deaths. This project component will cost **US\$33.3 Million (see Details on Part II)**

## **Project Component C2**

### **6. Improvements in Rural Water Supply and Sanitation**

The priority areas for the rural water and sanitation program include rehabilitating and expansion of existing water supply infrastructure in the rural areas that are no longer providing adequate service and increasing coverage in previously un-served communities in the remote rural mountain areas of the country. There are a number of reasons why some of the existing water systems in the densely populated rural areas are in need of rehabilitation. Many of these systems were built in the 1980s and have now out-lived their economic life of at least 25 years and have critical components that must be replaced. Furthermore, high population growth in the rural villages (sometimes in excess of 5% per annum) has resulted in inadequate capacity of the systems both in terms of the quantity of water provided per capita and the extent of the pipe network resulting in people having to walk well beyond the design standard of 150 metres.

In addition to the old infrastructure, one of the contributing factors to the inadequacy of water supply is that a significant proportion of lowland villages were served by hand pumps in the 1980s, but these no longer provide an adequate level of service for the growing population. Increased population pressure has resulted in the reliable hand pumps being overused and suffering damage. As they are expensive and difficult to maintain at community level the ratio of population served to operating hand pumps has risen rapidly. They are also unpopular as they discriminate against women, children, the aged and the disabled who find them difficult to operate.

The majority of villages in Lesotho are served by gravity water systems based on spring sources. In many parts of the lowlands the yields of the springs have also been affected negatively by reduced recharge of ground water resources. The decline in

spring yields coupled with population growth means these systems no longer meet the required standard of 30 liters per capita per day (l/c/d) and will require augmentation from additional springs or from new pumped boreholes.

The livelihood in the rural areas is based on agriculture and livestock and attention to the development of services in these remote areas can thus contribute to improvements in food security in addition to the other benefits from improved hygiene and access to water. DRWS has experience in implementation in remote areas with projects managed directly by the district teams and through cooperation with NGOs.

The support from MCC will contribute to the achievement of the MDG goal for the rural water supply and sanitation in Lesotho. That is, by the year 2020, all households in rural areas should have improved hygienic practices and have access to functioning water supplies and sanitation facilities with a service level according to their need and demand. Specifically the support from MCC will provide sustainable water supply and sanitation facilities and improve the quality of life for 150,000 people in rural areas of Lesotho.

The MCC funding is expected to be utilized equally for the two priority areas so that approximately 75,000 people will benefit from the rehabilitation of existing water systems and 75,000 people in remote areas will benefit from new water and sanitation facilities. This will be achieved through the implementation of 250 projects serving, on average, 600 people each, and the construction of 15,000 household latrines targeting poorer households.

#### **6.1. Impact of Improvement in Rural Water Supply and Sanitation**

The PRSP underlines the need for investment in rural infrastructure to help create the conditions under which the economy can grow. The goals of improving access to potable water and sanitation facilities and improved personal and environmental hygiene relate strongly to economic growth and poverty eradication in the following aspects:

Access to water is a pre-requisite for many other productive and income-generating activities. In the rural areas of Lesotho these typically include: vegetable gardening, poultry production, food processing, block making, etc. Research shows that when households have a tap on site they are able to generate, on average, M930 per annum from informal business. Those depending on communal taps generate less (M140), although more than those using unprotected springs (M88). The importance of having water on site has been recognized and DRWS has adjusted its policies to accommodate this need. This project component will cost **US\$30 Million (see Details on Part II)**

#### **Project Component C3**

##### **7. Protection of Wetlands in the Highlands of Lesotho**

The aim of this component of the project is to manage, conserve and rehabilitate wetlands located in the highlands of Lesotho for the sustained water supply and sustainable harvesting of wetland resources to reduce poverty level using conservation as a mechanism to support the livelihoods of the rural communities hit hard by poverty. These objectives can be achieved by producing a catalogue of degraded and threatened wetlands; developing appropriate conservation and rehabilitation

strategies; creating public awareness and increase public participation in wetlands issues and establishing clear communication channels.

A number of threats to wetlands in the highlands are known and are mainly associated with overgrazing and trampling by animals and invasion by ice rates. However, their spatial extent is not known and has to be determined. There is a need for identification of degraded and threatened wetlands through a baseline study, for a rapid assessment of identified sites in order to understand the sources of degradation, and threats, for mapping of degraded and threatened wetlands and for production of a report on wetlands that need special attention. Having determined the status quo of wetland destruction, the strategies to conserve and rehabilitate degraded wetlands should reflect on, among others, the means to empower local communities and special interest groups to minimise pressures on the wetlands by applying sound management practices and wisely using the wetlands resources; and the means to promote local employment.

The basic strategy to conserve and rehabilitate wetlands in the highlands of Lesotho is to involve local people as primary users and potential caretakers of wetland resources. This strategy is meant to promote ownership of the work done. It is understood that because employment is generally non-existent in the project target areas, one of the strategies would be to use labour intensive methods. That is, local people will be employed to do most of the activities of the proposed project. The concept of ‘turning a crisis into an opportunity’ will be applied. MFLR is already practising this strategy of combining conservation and employment whereby it engages casual labourers for a period of three months, after which they rotate so that the casual employment is able to benefit more people. The project will thus give all residents equal opportunities for employment, without consideration of gender and age

Special common interest groups or resource users groups targeted under this project comprise livestock farmers, herd boys and handcrafts makers or weavers who use sedges. Livestock farmers are particularly important stakeholders as owners of animals that cause major destruction in the wetlands. Therefore, the farmers’ involvement in the formulation of the strategies is essential. The farmers also need to be trained to ensure proper management of the wetlands, thus leading to increased production and productivity.

Herders are also particularly the most important of all stakeholders as people who come in contact with wetlands on regular basis. The involvement of herders in soil conservation and range management initiatives has proven to yield positive results. Herders, including those residing in the cattle posts will also be invited to participate during development of the strategies. Otherwise, the herders will also be engaged during construction of gabions, planting of grass and other activities.

Handcrafts makers are important role players in terms of conserving wetlands. According to Rogerson and Sithole (2001), handcrafts making is one of the globally known sustainable uses of wetlands. If properly linked to tourism development, handcrafts making is an important income generating opportunity for rural households, particularly for women. At present, the weavers in the project target area are scattered all over the place and do not have areas where they can sit and sell their products as done in South African Tourism Corridors. Planned activities targeting

handcrafts makers include: mobilisation of handcrafts makers to form associations and establish tourists' attraction centres, training of handcrafts makers in marketing and quality control to ensure sustainability of the initiatives, empowering of handcrafts makers with skills to manage the revenues generated from the sale of handcrafts.

This project component will cost **US\$4 Million (see Details on Part II)**

### **Project Component D1-5**

#### **8. Private Business Development and Capacity Building**

The proposed intervention in private business development aims to make the private sector an engine of economic growth through capacity building through the support of local entrepreneurs. To create favourable legislative environment, business infrastructure, as well as financial and credit environment to enable the private sector to save, own and use immovable property such as land and housing to acquire investment credit. Specifically, the program will allow for greater access to financing, increase value-added production and nurture entrepreneurship. It will also provide greater opportunities for employment to Lesotho youth by building skills. The goal of the private business development programme is to generate private sector driven economic growth that benefits all, leading to poverty reduction in the country. The goal of the programme will be achieved through:

- (i) Private sector capacity building,
- (ii) Civil legal reforms aimed at the establishment of commercial courts to expedite resolution of business disputes, reduce credit risk, improve the confidence of business communities and enhance participation of foreign banks in the national economy.
- (iii) Land administration.
- (iv) Housing mortgage
- (v) Payments, clearing and settlement systems
- (vi) Life-stock microchip aimed at prevention of stock theft

In line with the principle of the private sector development, the program was developed as a result of repeated consultations with the general public and experts in related fields. The strategy for the proposed program is to unleash the potential of entrepreneurs to accelerate economic growth and bring improvements in the living standards through:

- Providing the necessary sources of finance for increased investment
- Building enterprising and business skills, facilitating higher quality of products and services in private firms of all sizes
- Improving the supply disparity in the labor market

- Improving the provision of health services in rural areas and urban areas

### **8.1. The Impact of Private Business Development**

The overall impact of the Program on Private Business Development, Capacity Building and Policy, Civil and Legal Reforms will be a 3 percentage points increase in GDP growth generation of about 20,000 jobs and a resulting reduction in poverty. Moreover, the program will impact the structure of the economy, bringing about a qualitative change. Vibrant and competitive private firms producing high value-added products and services will drive economic growth and reduce poverty. Over 50% per cent of Lesotho's population live under the poverty line. To lift these people out of poverty, to meet the goal to halve poverty would require creating the conditions where people have an opportunity to work their way out of poverty. Nurturing the spirit of private sector development and capacity building will lead to economic growth – this is the essential principle of the proposed MCC program.

Economic growth will work if it is inclusive and benefits a wide spectrum of the society. Therefore, the principle of private sector development and capacity building is equally important. Thus, the focus of the program is on empowering people to work for economic growth and poverty reduction rather than on making the government work for economic growth and poverty reduction. This project component will cost **US\$16 Million** (see Details on Part II)

## **Project Component D6**

### **9. Life-Stock Microchip Project**

Livestock ownership forms an intrinsic and sacrosanct aspect of the Basotho culture and as such it is an indispensable part of the fabric of life in Lesotho. Likewise, it performs a well-recognised vital function in the economic stability of the country. For generations (since the arrival of the British Colonials in 1871), Basotho men have gone to the RSA mines to raise capital to supplement for their needs in Lesotho, acquiring RSA livestock in the process. Livestock rearing have been acknowledged as the most suitable and profitable means of maintaining wealth in rural Lesotho, making the most out of the mountainous grassland, abundantly available in the highlands. Progressively, livestock became the distinctive “rural investment” and a “household income”, and to present day is central to rural life in Lesotho. The livestock role in rural development has been succinctly described as no livestock, no wealth, no Lesotho.

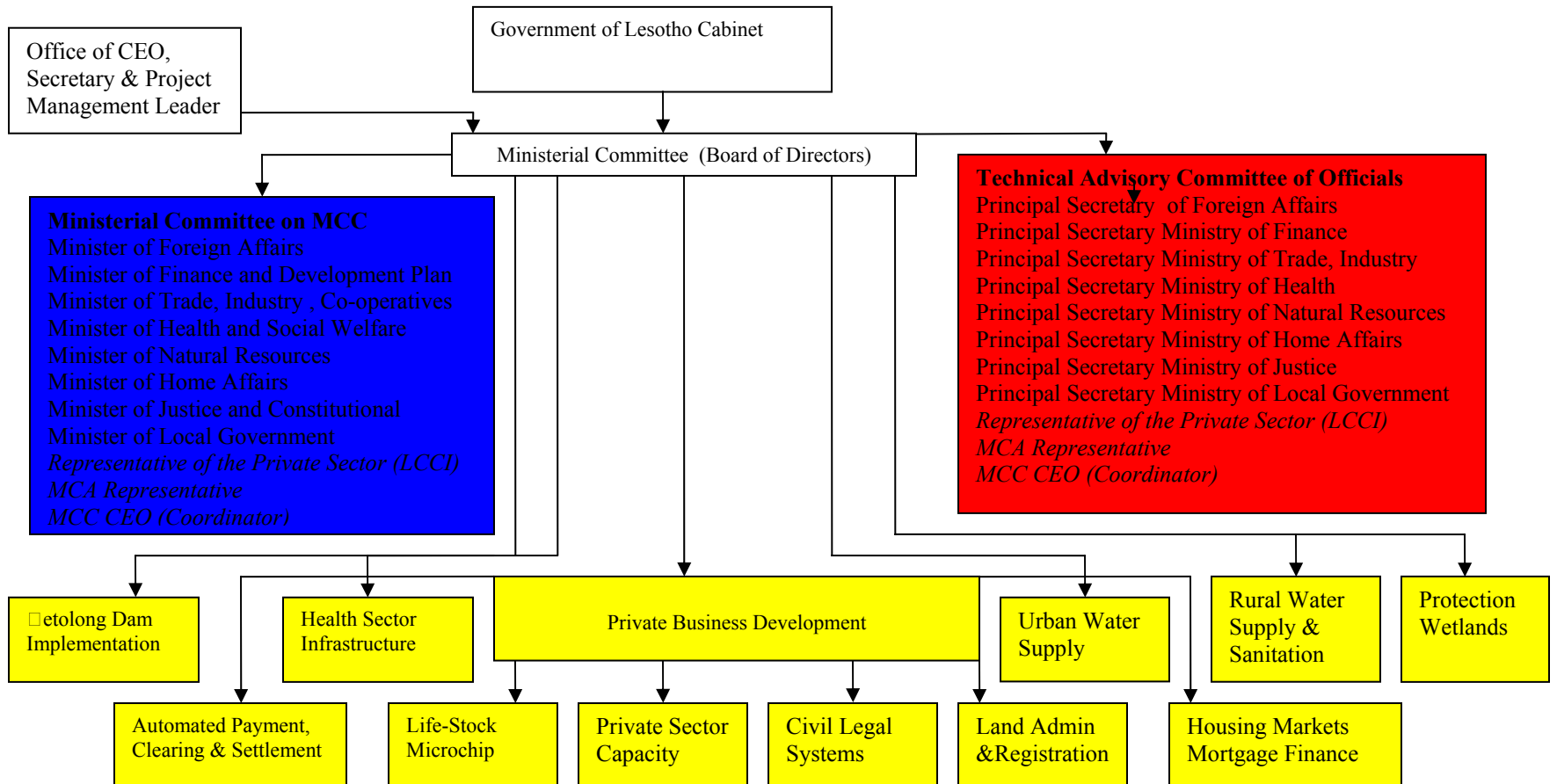
Presently, rural Lesotho is under perpetual economic pressure and instability, bred by violence and poverty. This insecurity is founded on the fact that livestock in Lesotho in monetary terms, is neither quantified nor identified, and consequently livestock ownership and assets do not form, nor feature as part of Lesotho's economy, nor its GDP!

Acceptably, there are some 2.5 – 3.1 million animals in Lesotho, worth some M2.5 billion; a massive resource that, using modern technology, could be identified and microchipped and would consequently facilitate a collateralization process that would in-turn, enable the rural community to utilize its own existing assets as a source and access to finance. It was therefore proposed that livestock identification and production and its primary high value cash products such as wool and mohair, skins and hides, etc, owned and driven by the farming rural community, along proven

farming methodologies, is a far better paradigm to a sustainable and growing national economic development and poverty alleviation, as envisioned in the Poverty Reduction Strategy paradigm and Vision 2020 than the urbanised and declining production-line that provides transitory employment.

This proposed food and livestock production above, and the value chain that will arise out of that production, when properly addressed on a commercial basis, will bring about a positive collateral effect on the national economy and the private sector in particular, and shall in turn cause an upturn economic growth, improve livestock resource management, resistance to poverty and economic regeneration of Lesotho. This project component will cost **US\$17.4 Million (see Details on Part II)**

## Lesotho Millennium Challenge Corporation Management Structures



## **10. National Management Institutional Structures**

The Ministerial Committee on MCA was established by the decree of the Prime Minister of Lesotho in September of 2005. The Ministerial Committee has seven members, namely:

- Minister of Foreign Affairs
- Minister of Finance and Development Planning
- Minister of Health and Social Welfare
- Minister of Natural Resources
- Minister of Home Affairs
- Minister of Justice and Constitutional
- Minister of Local Government

### **10.1 The National Coordinator**

The Ministerial Committee is supported by two full-time staff, comprising the Private Sector Development and Financial Affairs (Mr. Khethisa and the Chief Executive Officer (CEO) (Mrs S. Mohapi). These two officials have the responsibility to organize the national consultation, draft the proposal, submit it to the MCC and negotiate the Compact with the MCC. They are however supported by a technical committee of officials which is also the Board or Ministerial advisory committee drawn from the following Ministries which have the MCC funded projects and stakeholders, namely;

- Principal Secretary of Foreign Affairs
- Principal Secretary Ministry of Finance
- Principal Secretary Ministry of Health
- Principal Secretary Ministry of Natural Resources
- Principal Secretary Ministry of Home Affairs
- Principal Secretary Ministry of Justice
- Principal Secretary Ministry of Local Government.
- Observers
- *Representative of the Private Sector (LCCI)*
- *MCA Representative*
- *MCC CEO (Coordinator and Secretary)*

## **10.2 Monitoring and Accountability**

In implementing this programme, Lesotho will follow the specific guidelines and requirements established by the MCC. The country has developed capabilities and experience in monitoring and evaluation of donor funded projects and programmes in almost every sector of the economy. The Government is confident and committed to meet the standards for fiscal accountability including anti-corruption, and for the independent monitoring and evaluation, to make sure that results are achieved and documented in an accurate and timely manner.

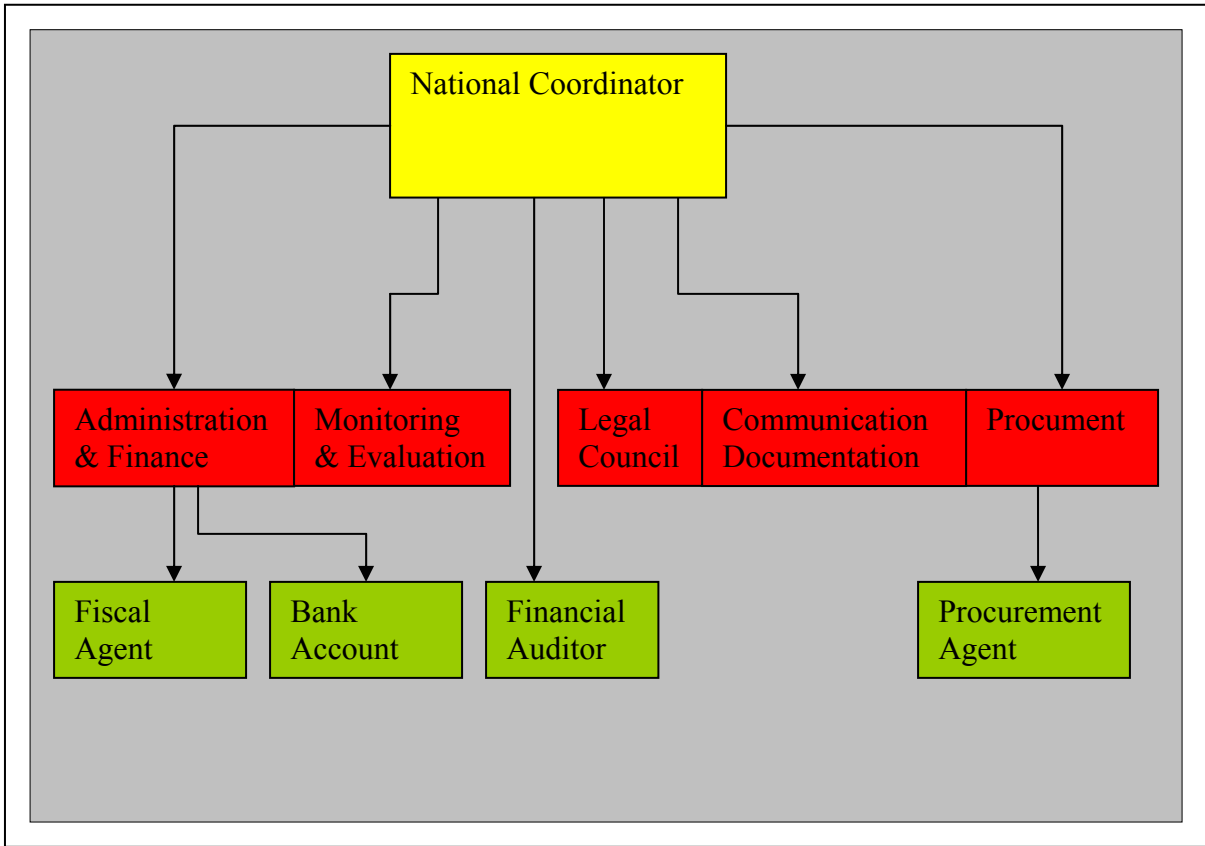
## **11. Implementation Mechanism and Sustainability**

The overall responsibility for the implementation of the program will rest with the Ministerial Committee (Board of Directors) on MCA. The members and chairman of this committee have been appointed by the Government of Lesotho in consultation with MCC. It will be supported by a Secretariat managed by the Chief Executive Officer and will consist of five members, representing the government, civil society and business community. The different project components of the proposal require different implementation mechanisms that are tailored to the specifics of the proposed programmes and the capacity of existing institutions. The modality of implementation proposed in this proposal is the Project Implementation Units procured through a competitive bidding from internationally recognized companies. The key features of this modality is discussed below, although they are discussed in greater detail in the separate project proposals.

**11.1 Accountability and transparency:** Public oversight and accountability will be ensured by including representatives of the civil society and international organizations in the Board of Directors; Regular performance and financial auditing will be done by internationally recognized auditing and consulting companies; The auditing company will present its findings to the Advisory Committee on MCA; Regular public disclosure of operational and financial results of the program, result of audits and evaluations will be carried out. Funds will be set aside for this purpose; MCC and the Government of Lesotho can undertake evaluation as necessary; The Advisory Committee will report to the Government of Lesotho the progress of the program implementation annually, together with the reports of external performance and financial auditing results

## **11.2 Fiscal Accountability Plan**

Lesotho Government has a World reputation with respect to anti-corruption efforts and as such, the safeguards and accountability mechanisms will be built into the programme. The Government has considered several alternatives for institutional arrangements to ensure fiscal accountability, and a final decision will be made in consultation with the MCC if this proposal is approved. However, pending the final outcome of the aforesaid consultation, the Government is proposing to engage an internationally recognised financial or accounting institution that would be responsible for auditing the programme as is being implemented. The Advisory Committee of officials or the Ministerial advisory committee will be charged with the responsibility of procurement of such an auditing firm.



### 11.3 Administration and Finance

With regard to the management of funds, it is envisaged that the flow of funds from the MCC will be channelled through an appropriate institution, funds will be deposited directly into a local bank (Nedbank Lesotho) which will be responsible for managing payments to the executing bodies and contractors directly. The fiscal agency will be responsive to the MCC requirements for financial accountability and will be expected to make every effort to satisfy these requirements.

### 11.4 Procurement

It is expected that implementation management of all project components will be supervised by responsible Ministries with the assistance of out-sourced agents in order to supplement the internal capacity. However, procurement process for all these project components will be the responsibility of a procurement agent appointed through a competitive bidding to ensure transparency and efficiency.

## 12. Monitoring and Evaluation Process

Lesotho will satisfy the MCC requirement for monitoring and evaluation utilizing the existing local capacity built over the years and, given the magnitude of large project components such as the Health infrastructure and Metolong Dam, to complement this local capacity with the international monitoring and evaluation “best practices” It is proposed that an internationally recognised company be contracted to work with a local

non-government organization for monitoring and evaluation, and for capacity building in this area. Best practices related to data should be implemented where possible to ensure sound monitoring and evaluation practices as well as the availability of information relevant to strategic decision making concerning project implementation.

This will focus on data collection, economic analysis and social research to verify that the expected impact of the MCC interventions are being achieved. To this end, project and programme level monitoring and evaluation systems will be established to ensure that results are quantified and reported on objectively, accurately and on a timely basis. With regard to the programme indicators, the monitoring and evaluation exercise will include;

- (i) Economic growth shown by Gross National Product (GNP) and Gross Domestic Product (GDP). These will be used as indicators of welfare changes in pursue of poverty reduction through economic growth.
- (ii) An increase in per capita income growth
- (iii) Changes in poverty index

The project component indicators will be selected among the following;

- The increase in industrial production as a result of Metolong Dam water supply;
- Increased employment in export industries
- Improvement in urban and rural water supply and sanitation;
- Reduction in water born-diseases such as diarrhoea resulting in the provision of clean tap water and sanitation facilities;
- Improvement of time spent at schooling by girls resulting from convenient accessibility to water at the back-yard
- Improvement in health indicators including the incidence and treatment of HIV/AIDS

With regard to policy reform programmes the monitoring and evaluation team will focus on the implementation of policy reforms such as

- The review of civil legal reforms including establishment of commercial courts;
- Improvements in land administration and registration;
- Beneficiary satisfaction with possessing of land lease;
- Infrastructure project completed within the first four years of MCC
- Adherence to budget and time schedule of project implementation

The private business development programme will include;

- Business confidence index to measure private sector satisfaction with capacity building;
- A national grievance procedure similar to ombudsman function to measure the extent to which reforms are being translated into improved administrative process.
- Private sector capacity improvement to compete for supply of services
- Private sector competition in export markets
- Private sector participation in clothing, textile industries
- Participation in tourist markets
- Participation in construction industry/sector

### **13. Sustainability Strategy**

In order to ensure sustainability, the Government of Lesotho will put in place the mechanisms to monitor and evaluate the project components and policy reform programmes. The Board of Directors (currently the Ministerial Committee) is already in place, while the Executive Director and Deputy Director will be appointed within 60 days of the start of the MCA programme. Specific targets will be set prior to programme start-up consistent with the exact projects and agreed investment levels.

In order to elicit, prioritize and reflect the view of the public, the technical committee of officials on MCA respectively (within their own projects consultation process) adopted an approach of openness and inclusion by organizing extensive public discussions and public information events. The purpose of public discussions was to elicit the views of the public on “What are the most pressing issues that limit Lesotho’s economic growth and how the can the MCA funding address these issues in order to spur and sustain the country’s economic growth so that it benefits all people. The public has been given an opportunity to prioritize their needs in the order of importance that the public attaches to them and have them reflected in the programme proposal to be submitted. The public consultation process was undertaken through the following activities:

**Regional discussions:** The first round of public consultations was focused on eliciting the views of public on the question: “What are the most pressing issues that limit Lesotho’s economic growth? How the MCA funding can address those issues?”. The outcomes of the regional consultations are detailed in each of the project identification documents that analyses specific project components.

Representatives from government Ministries, department and institutions were invited and the rest of the participants were informed and registered through announcement on daily national and local newspapers and radio. Most pressing issues along with the proposed solutions were identified by the participants as an outcome of plenary and group discussions which used participatory approach. The participants identified 10 and more critical problems which are hindering the economic growth and discussed possible ways to overcome those problems.

**Sectoral discussions:** The priority areas were discussed during sectoral discussions more in-depth. The health Sector, water and Natural resource Sector, urban and rural water sectors and water resource infrastructure development were the most important areas for economic growth. The sectoral meetings addressed particular areas that needed to be addressed in the program proposal. In addition to the sectoral sector consultation process, efforts were made to elicit information for the private sector and this also emphasized the need for private sector capacity building, financial sector reforms, review of civil legal systems, land administration and registration to expedite the processing of land leases and enable the poor to access credit using land property as collateral.

Representatives from government, civil society, private sector and citizens from all districts and the capital city Maseru, had the opportunity to provide their input by participating in sectoral consultations.

**Media:** The national coordinating office on MCA used radio and newspapers to provide information on requirements on MCA proposal, processes and outcomes of public consultation, as well as to directly organise interactive consultation events. Public information products, including newspaper articles, interview, announcements and radio programs were issued in the media. It is estimated that 30 percent of Basotho population had the opportunity to obtain information about the MCA proposal and the associated processes.

**Website:** Website was used for three purposes. First, it was used as the only official source of information issued by Lesotho/MCA. Second, it was used to disseminate information. Third, it aided in the process of eliciting and prioritizing the views of the public. The website helped to reach particularly the young segment of the urban population, including in major regional centers.

In summary, in the course of detailed discussions participants expressed the view that in order to spur economic growth, issues of assisting private business development and creating necessary hard and soft infrastructure for its development. During the discussions, though the infrastructure, education, science, health and agricultural sectors were prioritized, it was stated that these sectors shall be the foundation of ensuring business opportunities for citizens, private entities and organizations.

Drafting of the proposals based on the outcomes of two-staged public discussions was done by a technical committee of officials working as a group. The group was comprised of officials from relevant Ministries and agencies, namely, the Ministry of Finance and Development Planning, Ministry of Natural resources, Ministry of Health and private sector and business representatives such as, Lesotho Chamber of Commerce and Industry, All members of the working group were Lesotho nationals, working on a voluntary basis mainly in their private capacity.

#### **14. Project Management Unit:**

Programs or projects that will be implemented through this modality are the Metolong dam and part of the health sector project that will be outsourced will also be implemented by the PMU. In fact both the WASA and DRWS do not have adequate internal capacity to implement their respective programmes and will therefore require the assistance to the PMU. The Project management Units will have Project Steering Committees that will assume overall responsibility for implementation of respective project components; This responsibility will be delegated to Project Coordinators. The Project Steering Committees will select and appoint Project Coordinators who will then recruit the staff of the Project management Units; Implementation of activities will be outsourced.

**Accountability and transparency:** Public oversight and accountability will be ensured by including representatives of the civil society and international organizations in the

Steering Committees; Regular performance and financial auditing will be done by internationally recognized auditing and consulting companies; The auditing company will present its findings to the Board of Directors (Ministerial Committee) on MCA; Regular public disclosure of operational and financial results of the program, result of audits and evaluations will be carried out. Funds will be set aside for this purpose; MCC and the Government of Lesotho can undertake evaluation as necessary; The Board of Directors will report to the Government of Lesotho on the progress of the program implementation annually, together with the reports of external performance and financial auditing results. A set of documentation will be developed before program implementation starts. These documents will serve as the basis for operations of all components of the proposed program both modalities .



One of the components of the project is the construction of an infrastructure to enable both project implementation and operation and maintenance of the project. The infrastructure that makes part of the project cover the following; the extension of the existing road to reach the project site as this will be the primary access to the project site. Also gravel feeder roads to enable movement around the project areas will be constructed. There will be need to construct a permanent camp which will house permanent staff, accommodation and office blocks which will require power supply and water supply. Power supply is required during construction of the project and for the life span of the project.

The second component is the construction of the dam. The dam project involves the construction of a 68m high Roller Compacted Concrete dam, water treatment works, transmission pipelines, reservoirs and pumping stations, as well as advance infrastructure and ancillary developments. The dam is proposed to have a crest length of 210m with an estimated yield of 80 ML day. The storage capacity of the dam at a full capacity of 1658m will be 52 million cubic meters. The proposed water treatment works is for a capacity of 90 ML day at peak capacity and 70 ML day on average. The project is intended to supply water to several towns namely Maseru, Mazenod, Roma, Teyateyaneng and Morija. The proposal being submitted to the MCA consists of specific components, namely transmission lines; three reservoirs and, water treatment system.

The third component of the dam is pump stations. There will be four pumping stations, with all the pipe-work and valves, surge vessels, switchboards and all other electrical works needed in a pumping station. The first one will be at the dam, pumping raw water to the treatment plant. From the treatment plant a second pumping station will pump water to a balancing reservoir at Ha Nchela, from where the water flows to Master and branches to Roma and Mazenod. The Roma pumping station will booster pumps water to Roma from a low level at Mahlabatheng. The Sefiking pumping station, located at the treatment plant pumps water to the Sefiking reservoir, from which water flows by gravity to Teyateyaneng.

The fourth component is treatment plan which will comprise chemical dosing followed by a single stage of clarification to reduce the water turbidity to below 10 NTU. This would be followed by rapid gravity filtration and final disinfection and pH adjustment.

The final component is a series of transmission line made of ductible iron pipes. The fist line will be a 300m line of 800mm diameter pipes, from the dam to the treatment works. A 6800m line will leave the treatment plan and take water to the Ha Nchela reservoir and the Thaba Khupa Reservoir. An 11 km, 300mm diameter line wil leave the Ha Nchila Reservoir for the \high South Reservoir. From this line two lines will branch. A 350mm diameter, 6.5km branch which will take water to Mazenod and the international airport, and a 250mm diameter 13k line to Roma. A pumping station will pump from the Sefikeng reservoir along a 300mm diameter 27.2km line to Teyateyaning.

There will also be four reservoirs. The command reservoir will be at Ha Nchila, distributing to Maseru, Mazenod and the airport, and the High South reservoir will serve

Maseru. A small reservoir at Thaba Khupa will serve Roma, and the Sefikeng reservoir will serve Teyateyaneng

## **Project Component B**

### **HEALTH SECTOR AND HIV/AIDS**

#### **1 Introduction**

Poverty reduction is an over-arching priority of Lesotho Government economic policies and programmes. Strengthening of the health sector Anti-retroviral Therapy (ART) and treatment of HIV/AIDS pandemic have been designed and are being implemented as major intervention areas to achieve this single most important objective. It is however recognised that pursuing economic growth is a long-term process and is not sufficient to address short-term emergency problems such as health and HIV/AIDS pandemic. The Poverty Reduction Strategy Papers (PRSP2004/05-2006/07) indicate that HIV/AIDS prevalence rates amongst adults of 15-49 years have risen from approximately 4% in 1993 to 30% in 2002. The prevalence rate for HIV/AIDS has been calibrated to be 23,2% after the demographic and health survey of 2004.

The Government recognizes that HIV/AIDS is not only a health problem but a multi-sectoral development issue that has social, economic and cultural implications. The National Policy on HIV/AIDS Prevention, Control and Management (2000) provides a framework for the formulation of plans to fight against the HIV/AIDS epidemic, by both governmental and non-governmental organizations. Through this policy framework, the Government has attempted to create an environment that is conducive to the prevention of HIV/AIDS and to mitigate the adverse impact on the infected and affected individuals, families and communities. Specific interventions by Government include:

- a commitment of 2% of recurrent Government budget allocations towards HIV/AIDS prevention and impact mitigation programmes which is about M60 million (an equivalent of US\$10 million) or 0.7% of GDP;
- establishment of various structures to manage the national response to the epidemic including the Lesotho AIDS Programme Coordinating Authority (LAPCA) now called the National AIDS Commission (NAC);
- development of a National Strategic Plan (2002/2003 – 2004/2005).

Government commitment is also emphasized in the National Vision, the Millennium Development Goals (2003) and the 2003/2004 budget. During the financial year 2003/2004, Government laid plans to “arrest the spread of HIV/AIDS infections through prevention and education campaigns; give support to people living with HIV/AIDS; implement the use of anti-retroviral drugs and give support to the increasing number of orphans”.

#### **2 Objectives of Health Sector Project Component**

The Millennium Challenge Corporation assistance and intervention in the Lesotho health sector is justified on both economic and health grounds. At the economic level, the negative impact of HIV/AIDS cannot be over-emphasized, particularly on the households, microeconomic or business/firms and the macroeconomic sectors. With regard to the macroeconomic impact of HIV/AIDS on the economy of Lesotho, it is

likely to suffer loss of skilled workers and labour productivity, savings and investments leading to poor growth prospects and the fiscal expenditures. The high HIV prevalence and AIDS morbidity as well as mortality, both in urban and rural areas, necessitates that Anti-retroviral Therapy and treatment (ART) and services be extended and scaled up to reach all those who warrant such care at hospital and health centre levels. To this end, the MCC interventions will focus on four main aspects within the health sector. These will be rehabilitation and construction of 96 clinics/health centres at community level to incorporate ART services, construction of blood transfusion laboratories, construction of at least two hospitals, procurement of equipment and transport vehicles and staff training and accommodation for nurses.

At the macroeconomic level, the Lesotho PRSP indicates that “HIV/AIDS is deepening poverty, reversing human development achievements, worsening gender inequalities, eroding the ability of governments to maintain essential services, reducing labour productivity and supply, and putting a brake on economic growth. These worsening conditions, in turn, make people and households even more at risk of, or vulnerable to, the epidemic”

The macroeconomic impact analysis in the literature show that HIV/AIDS pandemic will have a large negative impact on economic performance as illness, absenteeism and loss of key personnel take their toll. As a result, HIV/AIDS will reduce or halt economic growth and increase levels of poverty and income disparities. The World Bank study (2003) has estimated that, by 2015, the GDP of Lesotho will be reduced by almost a third as a result of HIV/AIDS if strong measures to arrest the spread of the disease are not put into place soon.

### **3 The Impact of MCC Intervention**

The World Bank Country Assistance Strategy for Lesotho ( 2005) indicates that high HIV prevalence in Lesotho has already had the effect and poses disastrous development challenges unless prevention and mitigating interventions are implemented. The Bank has therefore identified HIV/AIDS as a cross cutting theme to be mainstreamed for all PRSP projects. Through the proposed MCC funded infrastructure development, together with strategies that address the deficiencies in human resources, the Ministry of Health will progressively improve service delivery towards attaining universal access to prevention, care, treatment and support for HIV/AIDS. With improved access to Antiretroviral Treatment (ART) a large number of economically active and parental aged people (15-49) will avoid premature death and the macroeconomic costs of HIV/AIDS will be averted. They will continue to be economically active and there will be a reduced number of orphaned children..

As households are forced to divert an increasing proportion of their savings towards medical care expenditure, the negative impact on economic growth will become larger. There will be a corresponding reduction in the creation of new jobs. The HIV/AIDS pandemic could also negatively impact on foreign direct investment through loss of productive labour, perpetual absenteeism thereby reducing future growth and jobs. In short, Lesotho’s current poverty situation has a direct linkage with the escalating rates of

HIV/AIDS prevalence rates and unless both are combated hand-in-hand no progress will be made on either front.

#### **4 Objectives of MCC intervention in the Health Sector**

While the health infrastructure exists throughout the country, there are serious problems that need to be addressed through the MCC intervention scheme in order to meet increased demands for health services and to implement HIV/AIDS prevention and treatment programmes.

- The first problem is that the distribution of such facilities is not adequate in terms of population coverage and due to physical distance given the national objective that such services should be within a distance of 10 kilometres or 2 hours walking distance.
- Secondly, most of these infrastructure facilities such as clinics and hospitals are very old and therefore are not conducive to an efficient service delivery especially under increased demand resulting from HIV/AIDS patients. Hence the need for rehabilitation and renovations of most clinics and hospitals.
- Thirdly, the inadequacy of space/rooms currently used for delivery of all the essential services is such that patients' privacy is seriously compromised.
- The fourth problem is shortage of the requisite equipment and supplies. These health centres not only require upgrading and renovation but also need to be equipped. In addition to the inadequacy of equipment, their utilities are also rudimentary and do not facilitate maintenance of universal precautions. There is, therefore a need for procurement of new and standard health equipment.
- The fifth problem is that Mophemi Hospital is the only referral centre with expertise for mental health care. This hospital will have staff accommodation built to retain essential human resources. The physical infrastructure at this facility is old and was not designed in line with the updated quality mental health care service delivery for all cadres of patients that require hospitalization. The rural communities are the most disadvantaged. The Ministry of Health, through renovation, extension, and/or upgrading of the existent facilities, as well as constructing new ones where necessary, will enhance service delivery and care to rural communities.
- The sixth problem is that most of these facilities, particularly in the rural mountains, are not supplied with reliable public utilities. Through provision of adequate public utilities (reticulated solar power or electricity, running water, sewage system) the centres will be able to deliver quality care. This will be further improved upon through strengthening the referral system by provision of adequate communications, logistics and transport.

The seventh health problem is that the Ministry of Health is currently faced with a high health human resources (HHR) attrition. It is worse in the rural areas which are being served by the health centres. In addition to shortage of human resources, the Ministry is unable to retain even the existing nurses due to the fact that staff housing is inadequate in size, layout and numbers, for the full complement of HHR deployed in these rural based centres. These, coupled with the inadequate health facility infrastructure and the shortage of equipment and supplies, contribute to poor working conditions and therefore HHR

attrition. The improvement of the infrastructure, including supplies and equipment, communications and logistics, appropriate utilities, and dignified staff housing will therefore counter one of the push factors for HHR attrition, staff hence retention.

The high HIV prevalence and AIDS morbidity as well as mortality, both in urban and rural areas, necessitates that ART services be extended and scaled up to reach all those who warrant such care at hospital and health centre levels. To this end, the MCC interventions will focus on the following;

#### **4.1 Renovation of Antiretroviral Therapy and Treatment Clinics**

Health centres serve mainly rural population which is in majority. Given the fact that most of the ART Clinics in all the 18 hospitals are old with dilapidated facilities, 96 clinics and health centres will be renovated, or where renovation is not a good option, new ones will be built. These clinics are not longer able to provide a comprehensive quality health service to the grass-roots poor communities they are meant to serve. The comprehensive quality health service include HIV/AIDS preventive and treatment services and by so doing significantly improve access to the health and social services to the rural community. Improved access to health care will be further improved and strengthened through renovation, extension and/or construction, of health centres and filter clinics.

#### **4.2 Construction of ART Clinics at 18 Hospitals**

The existing hospitals do not have adequate facilities because they were not built to cope with the increasing workloads due to HIV/AIDS. ART clinics will be constructed at each of the 18 hospitals to take care of prevention and treatment services for HIV/AIDS patients. Access to clinic services will be scaled up through the construction of ART units at all the 18 hospitals.

Construction of the adult and paediatric infectious diseases hospital at Botšabelo will ensure country wide access to the ART. A primary hospital will also be constructed to serve the rural and underserved Semonkong catchment area catering for some of the least served rural mountain areas of Maseru, Mohale's Hoek, Thaba Tseka and Qacha's Nek, which are located far off from their district capitals. Furthermore, the MCC intervention will upgrade the Paray Hospital to a regional referral level and this, in turn, will further enhance access to the areas that will be served by Semonkong Hospital as well as the additional mountain areas of Mokhotlong and Thaba Tseka districts. These facilities will also be equipped to meet the minimum standards for quality service delivery. Their power source, water and communications will concurrently be improved, facilitating universal precautions and referrals

#### **4.3 Construction of New Laboratories**

The intervention will address problems of inadequate laboratory, blood transfusion and pharmaceutical services and systems for support. The current Ministry of Health central laboratory which also serves as the referral and quality control centre, falls far short of standards for a laboratory. The Lesotho Blood Transfusion Services (LBTS) are also constrained by lack of space and they are currently operating from rented property not

designed for such a service. The construction of a new central laboratory and upgrading the hospital laboratories as well as construction of the LBTS will therefore enhance support services for the ART and other medical services. Construction of two other regional LBTS centres will decentralize the services, rendering them more accessible to the population.

Adequate laboratory support for the hospitals is essential and will be enhanced through construction of a central laboratory which is also the referral centre for the hospital laboratories, as well as construction and equipping at least one district hospital, currently without a laboratory facility. These will also be supported through improved access to blood transfusion services, where required, through construction and provision of equipment to a decentralized system.

#### **4.4 Procurement of Health Equipment**

The three mountain and Senqu River valley hospitals (Mokhotlong, Qacha's Nek, Thaba Tseka and Quthing) will also be equipped to standard. Thus improved service access for the most disadvantaged mountain and rural population. The procurement of 18 four-by-four vehicles and provision of transport will not only ease referrals but will strengthen supervisory support for these facilities. Such service access will be further extended through provision of transport for all the 18 ART units to facilitate referrals as well as supervision of health centre services. With the improvement of facilities' utilities (reticulated solar power, running water, sanitary facilities), and communications (2 way radios), the working environment will be further improved upon

#### **4.5 Training and Staff Housing**

The provision of staff housing, adequate in number, size and with appropriate utilities will further ensure access through retention of requisite cadres and skills. The Ministry of Health will also address the problem of staff dissatisfaction with the working environment and ensure universal precautionary measures. The draft Infection Prevention and Control (IPC) Policy is undergoing review for adoption. Through the construction and equipping of the three regional Continuing Education (CE) centers the Ministry of Health will regularly update the skills of retained workers and recognize good performance. Through supervisory support and on the job training quality control, including infection prevention and control, will be reinforced and monitored.

This will be further enhanced by ensuring that all requisite staff, primarily at health centre level, but also at hospital level, is afforded acceptable standards of accommodation for themselves and their families, through constructing additional as well as extending staff houses at health centre and some hospitals levels.

Adequate data based planning, programme monitoring, and decision making, are essential for service delivery and a functional referral system. The institution of computer laboratories at health training institutions will ensure computer literacy of the health workers from the stage of basic training. This coupled with the establishment of a country wide network and an integrated health management information system (HMIS), will

facilitate the decentralized data management and decision making to the district level. The skills of in-service workers will also be improved through the CE facility.

The clear transparent career ladder for professionals has also been proposed and awaits endorsement and adoption. The Ministry has also decided to expand the training of less marketable cadres such as nursing assistants. In-service training and improved competency of all critical cadres of health workers including medical doctors, in priority areas such as HIV/AIDS prevention and control, is also to be ensured.

With the MCC support the working environment (rehabilitated and upgraded physical structure, equipment, and housing) of these workers will be improved and attrition therefore reduced. At the same time the requisite services will be satisfactorily delivered.

For most patients, health care services are obtained at the health centre level. The nurses, nursing assistants and health assistants therefore cater for the needs of a major proportion of the population. Through the improved health centre infrastructure and provision of adequate housing, this level of workers will be better motivated and retained to deliver services. This will be reinforced through the improved referral system to the ART units added at hospital level, and further facilitated by provision of logistics and communications for referrals as well as technical back up support.

## **5 Co-ordination and Sustainability of the Programmes**

The USG is already supporting the health sector in HIV/AIDS through a series of projects that cover policy development and planning, prevention and Behaviour Change Communication (BCC), home based and clinical care, impact mitigation, and human resources capacity building (basic and in-service training). The partner implementing organizations, part of the civil society and widespread across the country, include Non-governmental Organizations (NGOs), Faith Based Organizations (FBOs), Community Based Organizations (CBOs), youth and other high risk groups, all partners to government sector agencies that should play the overall leadership role. The Ministry of health is pivotal to the success of these projects and should facilitate the availability of essential resources, especially human. The proposed MCC support will address one of the key push factors for health human resource (HHR) attrition, the working environment. The varied programme implementation will therefore be enhanced, and coordinated by the Ministry of health.

The MOHSW is soon to finalize the standards for health care service delivery by all levels of care. All implementing agencies, NGOs and other civil society, as well as private facilities, will be expected to meet these minimum standards set. The status of the physical infrastructure and its lay out, the status of its utilities, the reliable availability of adequate supplies and equipment, and the skilled human resources to deliver such services, all contribute to meeting the standards set. The support by MCC will primarily benefit the MOHSW and CHAL. If the MOHSW is able to meet its own standards, ensures that its key partner is also able to meet the standards, their credibility will be enhanced. The partnership with CHAL will therefore be reinforced. Such credibility and

through accreditation, will also facilitate the reinforcement and ensuring compliance with standards, by the MOHSW.

## **Project Component C1**

### **Improvement in Urban Water Supply**

#### **1. Objectives**

While the Government takes great pride in what has been achieved much remains to be done. Two massive challenges loom that will have to be tackled head on if the gains of the past are to yield benefits for the poor. These are equally important but require very different approaches and strategies. First, relevant infrastructure – especially water, must be provided as fast as is feasibly possible to the urban. If this is not achieved within a reasonable time, potential investors will turn their backs on Lesotho and tens of thousands of job opportunities will be lost.

In order to fulfill the goal of water delivery in urban areas in the next medium term of three years, Lesotho Government has agreed to undertake investment in water resource infrastructure development with the aim to increase access to water. Over the next four years Government will increase its efforts to improve water supply to the urban areas through a variety of projects such as rehabilitation of water supply infrastructure, extension of water supply to new urban areas and supply to the National University town at Roma. Implementation of ongoing and new projects will be done in a co-ordinated manner under the leadership of the Water and Sewerage Authority (WASA). The key strategies and projects are mentioned below.

#### **Monitor, refine and formulate water policies and legislation.**

The sustainable provision of water for various purposes cannot take place without a supporting policy and legal environment. For this reason, in 1999, a Water Resources Management Policy was adopted by Government. While useful in many ways, some key areas that relate to water resource development are not adequately dealt with in the Policy. In particular, policies will be formulated that deal with resettlement, sanitation, water pricing, water resources development and water conservation. This process will contribute to the drafting a new Water and Sanitation Act that is intended to bring the Water Resources Act of 1978 into line with international agreements and developments in the sector. Another important revision to the legislation will consist of amending the Water and Sewerage Authority Order of 1992 to support new policies. In addition, Government will amend the law to require an annual review of tariffs. To ensure that the poor are adequately protected, Government will maintain a stepped tariff structure whereby poorer consumers are subsidised by those who are better off. To ensure that various pieces of legislation are enforced, Government will increase the capacity of the Department of Water Affairs to regulate and enforce water sector legislation.

Improve institutional capacity to assess and monitor water resources. With numerous water sector projects due to be implemented in the next few years it is important that the institutional capacity to manage critical data and inventories is developed and maintained. Government will seek additional support for key institutions, including the Office of the

Commissioner of Water, Department of Water Affairs (DWA) and the Department of Rural Water Supply (DRWS).

The rehabilitation of existing infrastructure is a process that ensures that ageing infrastructure will at least be brought back to a functional state. The water treatment works identified are in a poor state and require rehabilitation. These treatment plants are running below their design capacities, maintenance and chemical costs are high and the quality of water produced is questionable. A high percentage of water losses are caused from the excessive leakage from supply reservoirs. As a result of this, their effective storage is reduced leading to supply problems or bottlenecks.

Water reticulation extensions are necessitated by the fact that several of the towns falling under the jurisdiction of WASA have outgrown the areas covered by existing water reticulations this is because over the years, the urban areas have grown due to population growth, rural-urban migration and government demarcation of new urban areas, hence the need for water reticulation extensions.

Finally, it has become necessary to construction new pipelines in order to supply water to the National University of Lesotho campus and the surrounding town. Roma is situated approximately 35 km south east of Maseru and houses the National University of Lesotho (NUL) with more than 5 000 students. For this reason the town forms a very important part of the local economy. WASA recently constructed a new water pipeline from Maseru to supply Mazenod and Masianokeng with water. This pipeline could possibly supply the remaining requirements of Roma in the medium term.

## **2 Economic Benefits of an Improved Urban Water Supply**

At present Semonkong has a water supply system utilising springs. This current infrastructure is not capable of supplying the needs of the people. The 1997 Water Supply Investigation Report indicated then already that the water situation needs serious attention. The infrastructure has not been augmented and has been managed by the community until recently, when it was incorporated under the jurisdiction of WASA.

There are several benefits regarding the rehabilitation of the proposed improvement in urban water supply and these may be summarised as follows: reduction in the volume of unaccounted water which, in turn, will reduce the cost to the consumers and production sectors. There are significant benefits estimated on the basis of avoidance of health costs. These health related costs are calculated using hospital treatment unit costs and household expenditures on diarrhoea diseases. Further to the health related costs, economic benefits are also estimated for life saving and prolonged life expectancy at birth. Increasing the revenue generation, reduction of the operation costs as a result of chemical and energy savings and increasing the life expectancy of pumping stations and water treatment works

## **3. Impact of an Improvement in Urban Water Supply**

A sufficient supply of clean water for drinking and other household uses is essential for fighting poverty and hunger. Water is also an important factor for production in a variety of industries crucial to economic development and poverty reduction; it is also central for

the livelihood of the communities. Potable water is central to the communities sense of well being, empowerment and control over their own lives. It affects the ability to choose jobs and livelihoods, to assert cultural and religious values, to find adequate time for education and leisure, to cope with crisis, and to enjoy freedom from violence, exploitation and fear.

Direct and indirect employment opportunities will be created through the rehabilitation of the proposed works. The direct employment opportunities will result from employing people for the construction phase and the need to employ staff to effectively manage and maintain the infrastructure, such as the water treatment works and the pumping stations. Additional operation and maintenance staff will be required due to the larger service area and increased maintenance activities that will be required to properly maintain the water supply systems.

Some parts of the project could be implemented using labour intensive construction methods. This will provide jobs for a number of community members. In addition, skills transfer will take place that could provide employment opportunities within the teams. Indirect employment opportunities will be as a result of increased commercial and industrial development taking place. Water is the key factor for most commercial and industrial developments and with a reliable and good quality of water supply, it will aid this growth. The growth in these sectors will then also lead to an increase in employment opportunities.

There are many health benefits resulting from an increase in the amount and quality of water for human consumption, as water controls virtually every aspect of a person's health. Not just the water used for drinking but all water such as for cooking and hygiene. Water which is contaminant free will improve the overall health of the communities and will reduce the incidents of water borne diseases. It is reported that 80% of all illnesses are caused by water borne diseases, with diarrhoea being the leading cause of childhood deaths.

## **Project Component C2**

### **1. Improvement in Rural Water Supply and Sanitation**

Since Independence Lesotho has made enormous strides in developing its infrastructure. Despite the challenges posed by a difficult terrain, the country has been transformed by continuously expanding infrastructure of all kinds. Rural water supply has made equally impressive strides, with approximately 62% of the population now able to access 30 litres per capita per day within 150 metres of their homes (a standard higher than that of many African countries).

The priority areas for the rural water and sanitation program include rehabilitating and expansion of existing water supply infrastructure in the rural areas that are no longer providing adequate service and increasing coverage in previously un-served communities in the remote rural mountain areas of the country. There are a number of reasons why some of the existing water systems in the densely populated rural areas are in need of rehabilitation. Many of these systems were built in the 1980s and have now out-lived their economic life of at least 25 years and have critical components that must be replaced. Furthermore, high population growth in the rural villages (sometimes in excess of 5% per annum) has resulted in inadequate capacity of the systems both in terms of the quantity of water provided per capita and the extent of the pipe network resulting in people having to walk well beyond the design standard of 150 metres.

In addition to the old infrastructure, one of the contributing factors to the inadequacy of water supply is that a significant proportion of lowland villages were served by hand pumps in the 1980s, but these no longer provide an adequate level of service for the growing population. Increased population pressure has resulted in the reliable hand pumps being overused and suffering damage. As they are expensive and difficult to maintain at community level the ratio of population served to operating hand pumps has risen rapidly. They are also unpopular as they discriminate against women, children, the aged and the disabled who find them difficult to operate.

The majority of villages in Lesotho are served by gravity water systems based on spring sources. In many parts of the lowlands the yields of the springs have also been affected negatively by reduced recharge of ground water resources. The decline in spring yields coupled with population growth means these systems no longer meet the required standard of 30 liters per capita per day (l/c/d) and will require augmentation from additional springs or from new pumped boreholes.

The livelihood in the rural areas is based on agriculture and livestock and attention to the development of services in these remote areas can thus contribute to improvements in food security in addition to the other benefits from improved hygiene and access to water. DRWS has experience in implementation in remote areas with projects managed directly by the district teams and through cooperation with NGOs.

The support from MCC will contribute to the achievement of the MDG goal for the rural water supply and sanitation in Lesotho. That is, by the year 2020, all households in rural areas should have improved hygienic practices and have access to functioning water

supplies and sanitation facilities with a service level according to their need and demand. Specifically the support from MCC will provide sustainable water supply and sanitation facilities and improve the quality of life for 150,000 people in rural areas of Lesotho.

The MCC funding is expected to be utilized equally for the two priority areas so that approximately 75,000 people will benefit from the rehabilitation of existing water systems and 75,000 people in remote areas will benefit from new water and sanitation facilities. This will be achieved through the implementation of 250 projects serving, on average, 600 people each, and the construction of 15,000 household latrines targeting poorer households.

### **Impact of Improvement in Rural Water Supply and Sanitation**

The PRSP underlines the need for investment in rural infrastructure to help create the conditions under which the economy can grow. The goals of improving access to potable water and sanitation facilities and improved personal and environmental hygiene relate strongly to economic growth and poverty eradication in the following aspects:

Access to water is a pre-requisite for many other productive and income-generating activities. In the rural areas of Lesotho these typically include: vegetable gardening, poultry production, food processing, block making, etc. Research shows that when households have a tap on site they are able to generate, on average, M930 per annum from informal business. Those depending on communal taps generate less (M140), although more than those using unprotected springs (M88). The importance of having water on site has been recognized and DRWS has adjusted its policies to accommodate this need

## **Project Component C3**

### **Investment in Protection of Wetlands**

#### **1 Benefits of the Project**

The aim of this component of the project is to conserve the rich biological diversity found within Letšeng-la-Letsie. The objective is to improve the management of Letšeng-la-Letsie to the level expected of a Ramsar site. Specific activities are to undertake consultative processes through holding public awareness campaigns and improving public participation in the management of the wetland site, developing the wetland management plan, develop appropriate management strategies, implement the identified strategies and reviving grazing associations.

The most common direct benefits include pasture, crop farming, fishery, recreation, wildlife, medicinal plants and water supply. Indirect benefits include water purification, base-flow augmentation, nutrient retention, erosion control, flood attenuation, groundwater recharge, ecosystem support, habitat provision, sediment trapping and microclimate maintenance. Option values include potential future use and research sites.

Rivers originating from wetlands located in the highlands of Lesotho supply clean freshwater for human consumption and livestock watering. “Of all the products provided by wetlands in Lesotho, clean water is the most important product derived from wetlands in the country” There are about 30 000 people living around the project target wetlands. These people are benefiting from the freshwater supply. Once in the lowlands, water flowing from rivers originating from wetlands in the highlands acquires additional values such as supply for domestic use, industries, factories, irrigation schemes and other economic activities.

Highlands’ water supply to South Africa presently generates an average of M15 million per month. This is one of the largest sources of foreign exchange to Lesotho. Highlands wetlands provide grazing for livestock during the dry and beginning of the growing season. Cattle, sheep and goat rely on wetlands for forage and water during the dry season. In the year 2003, there were a total of 87059 cattle, 228056 sheep, 127762 goats, 13148 horses and 18589 donkeys recorded in Mokhotlong, the highlands of Butha-Buthe and Leribe. These animals are grazed on the wetlands in question as well as dryland grasslands. Thus, the proper management of highlands wetlands is important as parts of the rangelands that support these large herds of animals, which sustain the livelihoods of local communities.

Wetlands in the highlands of Lesotho support wildlife – herons, cormorants, bald ibis, yellow billed ducks, river frogs and ice rats. Tourists, especially those coming from overseas, like to visit the highlands to see and enjoy wildlife. The potential for eco-tourism related business in the highlands cannot be overemphasised. The Maloti Drakensberg Transfrontier Project is already promoting eco-tourism related enterprises in the highland region. According to DWA (2005), fishing in the highlands is done on a very small scale. However, those who fish catch trout fish for household consumption. The fast flowing rivers are very good breeding ground for trout fish.

Presently, sedges harvested in the highlands wetlands are used for weaving. Handcrafts production, linked to tourism development, is an important income generating opportunity for rural households, particularly for women, and one that is globally known to be sustainable. The production is recognised for its employment in rural areas, contribution to foreign exchange and sustainable livelihoods for rural women. Under organised market, a full-time weaver can generate over M400 per month. Wetlands in the highlands also support some medicinal plants not found on terrestrial land. Examples of medical plants are shown in the plate below.

Wetlands located in the highlands of Lesotho are able to purify water and store it. They regulate stream flow, recharge groundwater and retain nutrients. According to the Lesotho National Wetlands Management Programme (2005), studies carried out on the highlands wetlands indicate that water entering wetlands from groundwater discharge is stored within the organic and clay soils before being released over a long period of time. The storage and slow release of water into the streams maintains the perennial flow in rivers. Another study by Marneweck and Grundling (1999) has given an inferred potential water storage capacity and water storage loss based on peat thickness. The

potential maximum inferred water storage is 817 845m<sup>3</sup> whereas the current is 522 470m<sup>3</sup>. Thus, the average water loss due to degradation of wetlands is put at 36%.

The mat-forming vegetation and tussock grasses found within the wetlands and tall vegetation (sedges) found along the margins of the wetlands dissipate and slow down runoff entering the wetlands from the surrounding slopes (Schwabe 1995). Some water is absorbed by the wetland system, while the rest is released as sheet-flow, often with a lower velocity than when it entered the wetland. These functions of the wetlands contribute towards flood reduction.

The wetlands in the highlands regulate the water flow in the upper reaches of the rivers and streams of Lesotho. The wetlands store water during wet seasons and release it during dry seasons each year thereby maintaining the river flows. The sponges soak up rainwater and water flowing from the catchments and store it within the organic and clay soils before releasing it over a long time. Water from the saturated sponges is released either into the ground water or into the streams. The storage and slow release of water from the wetlands maintains the perennial flow of rivers.

## **2 Economic Analysis and Assessment of the Project**

The economic value of environmental goods and services including the wetlands is measured by the communities' willingness to pay for them. In turn this willingness to pay (WTP) reflects individuals choice for the goods and services in question. Therefore, economic valuation of wetlands will be measured in the context of preferences or choices of people for a wetland benefit or against its degradation. The use of these economic values will permit the comparison that is required between 'environment' and 'developmental' values. The values are an "estimate price, usually subjective, of worth, merit, quality, or importance". Therefore, direct uses of wetlands could involve both commercial (market value) and non-commercial activities.

The economic value of these wetlands will be determined by comparing costs and benefits in conserving the natural wetland functions, products and attributes over a three-year period, which is the duration of this project. As naturally occurring assets, wetlands provide most of their benefits at little or no cost to society and therefore tend to have high net values. In the case of this project, the total cost is M9, 053,500. The amount comprises of all the project activities in the conservation and rehabilitation of wetlands in the highlands.

A framework that will be adopted for distinguishing and grouping the values of these wetlands is 'the total economic value (TEV)' and there is an increasing consensus that this is the most appropriate one to use. Use values will be grouped according to whether they are direct or indirect. Direct uses of wetlands will involve both commercial and non-commercial activities being uses, which are most familiar to us, with some of the latter activities often being important for the subsistence needs of local societies in the highlands. Commercial uses are important for both domestic and international markets. In general, the value of marketed products (and services) of wetlands is easier to measure

than the value of non-marketed subsistence and informal uses of wetlands in many development decisions.

The TEV can be expressed as:

TEV= Direct Use Value + Indirect Use Value + Option Value + Existence Value.

Simply put, TEV distinguishes between use values and non-use values. To address the project objectives, the TEV framework will be slightly modified so as to attach values to the benefits. Information from local communities, census data and reports will be used in calculating the wetland resources.

Various valuation techniques will be used for quantifying economic values. Techniques such as market prices method and travel cost approach whereby the former uses the prevailing prices for goods and services traded in domestic or international markets when quantifying wetland benefit. While the travel costs approach derives willingness to pay for environmental benefits (e.g. eco-tourism).

Finally, to evaluate benefits and costs, a cost- benefit analysis will be used. Then the discount rate will be used to weight benefits and costs occurring in different time periods. Weighting a series of benefits and costs, summing these, yields the present value. Once the present values of benefits and costs are calculated, the difference between the two, the net present value is determined, as an indicator of a project's viability or worth. In finding the proportion of benefits as compared to costs a benefit – cost ratio will be used.

In order to appreciate the value of freshwater supply to local people, the cost of water supply incurred by urban residents has been used to demonstrate the saving that residents in the highlands make as a result of having access to clean natural water. A household with 5 members is able to save an estimated M300 in terms of domestic use and a much higher figure for livestock drinking per annum.

All the water sources in Lesotho are provided by the wetlands. Lesotho gets fixed and variable royalties from the transfer of water to RSA. As stated by LHDA on average the royalties come to M15million/month. Up to July 2002, Lesotho received about M937million from South Africa. LHDA supports community development projects through the Lesotho Fund for Community Development (LFCD). Since the inception of the project 2000/01 until 2005/06, LHDA's financial support amounts to M175million. In addition to M180 million, there are other benefits associated with LHWP such as generation of hydropower.

Supply of water is also very crucial for industrial uses especially the manufacturing sector, which is the fastest growing sector within the economy of Lesotho. The sector provides jobs for about **40,000** Basotho and majority of them migrants from the highlands to the lowlands. The average basic salary for employees is **M800** and this adds up to M32million per month. As stated by the LNDC export report 2004/05 the manufacturing exports amounted to M1, 594,931,445. Wetlands are sources of fibre (sedges) for

handcrafts. Handcrafts are very popular among Basotho and tourists. The street vendors of handicrafts estimate their returns at M550. Their total number is estimated at 35; therefore, the total sales can be estimated at M19, 250/ year.

Wetlands provide pastures and drinking water for livestock particularly during the dry season. In the year 2003, there were a total of 87059 cattle, 228056 sheep, 127762 goats, 13148 horses and 18589 donkeys recorded in Mokhotlong, the mountains and foothills of Butha-Buthe and the mountains of Leribe. Under current prices; i.e. M2000 per ox, M400 per sheep, M200 per goat, M1000 per horse and M600 per donkey, the net total value add up to

M315, 194,200. The products that are enjoyed from livestock are mohair and wool from goats and sheep respectively. The average price of mohair/goat is estimated at M15/goat and wool/sheep is M16 (Department of Livestock: 2004/2005). Therefore, based on the available statistics the value of wool is M3, 916,430 and for mohair

M1, 916,430. The added value is the nutrient value from milk. The total value of pastures through livestock is M321, 027,060. Some plants from the wetlands are harvested for their medical value. The estimate average value of earnings as given by traditional doctors is M10, 000/year/doctor.

Recreational values will be estimated by working out the travel costs from the lowlands to the highlands where the wetlands are found. The wetlands are found in Butha-Buthe, Mokhotlong, and Leribe districts. The total travel cost is roughly M150 and the number of tourists (local and international) that visit these places per year is estimated at 37 532, which gives a total benefit of M412, 852/ year. The willingness to pay to recreate at the wetland site may increase due to development of the wetland area.

Fishing in the highlands is done on a very small scale and mainly for household consumption (Department of Water Affairs: National Wetlands Programme March 2005). Wetlands maintain surface and ground water quality. In monetary terms, calculating the benefit of staying healthy and not going to the hospital for treatment of water-related diseases can value this function. The potential water storage capacity for wetlands in the highlands is 817 845 m<sup>3</sup> but due to degradation its been lowered to 522 470m<sup>3</sup> According to Water and Sewerage Authority (WASA) the prevailing market rate for water above 23 kilolitres is M8.00 per 1000 litres where 1000litres = m<sup>3</sup> therefore, the storage value of wetlands is **M6, 542, 760**. The demand for additional water during the dry season is great; availability of alternative water supply during the dry season is the benefit derived by the community, livestock and LHDA project

Wetlands remove sediment and toxic substances and remove or filter excess nutrients. The largest cost substitute for these wetlands benefits would be a water treatment plant. An example will be a water treatment plant that is used at Roma village in Maseru, it has a capacity of 1.5 mega litres per day and its value is **M736, 000**. Again additional money would be needed to operate and maintain the plant and this is usually estimated at **M73, 600**. The replacement cost of the filtration benefit is **M809, 600**.

Evaluation of flood control benefits requires estimating flood damages without the wetland's flood control capacity. These benefits can be determined by establishing the relationships between wetland flood storage capacity and flood damages downstream, and the costs of providing alternative flood control structures or provisions for flood control. The benefit derived from this function is land development through reduction of soil erosion. Due to high unemployment in the highlands the best alternative means of survival is agriculture, which is mostly dependent on proper terrain suitable for crop production, and therefore the communities attach a very high value to land development as their source of living in eradication of poverty..

### 3 Project Appraisal

Cost- benefit analysis will be the basis for comparing benefits and costs in conserving the natural wetland functions, products and attributes over three years. The annual project benefits and costs indicating the project's cash flow will also be shown in a table format.

Table 6: Projected monetary benefits of the project

Type of the Benefit	1 <sup>st</sup> Year 2006	2 <sup>nd</sup> year 2007	3 <sup>rd</sup> Year 2008	Total
Water Supply:				
• Royalties from SA	180,000,000	189,000,000	198,000,000	<b>567 000 000</b>
• Manufacturing exports	1,594,931,445	1,834,171,162	2109,269,836	<b>5 538 400 043</b>
• Gross Earnings for Basotho working in manufacturing sector.	384,000,000	384,000,000	384,000,000	<b>1 152 000 000</b>
Harvesting of Sedges	19,250	20,213	21 224	<b>60 686</b>
Pasture	321,027,060	337, 078 413	353, 932, 335	<b>1 012 037 807</b>
Harvesting of medical plants	10,000	10,500	11,025	<b>31 525</b>
Recreational activities	412, 852	433,495	455,170	<b>1 301 517</b>
Ground water storage, recharge	6,542,760	6,869,898	7,213,393	<b>20 626 051</b>
Water filtration	809.600	850,080	892,584	<b>2 552 264</b>
<b>Total</b>	<b>2,486,531,325</b>	<b>2,752,433,761</b>	<b>3,053,795,567</b>	<b>8 294 459 893</b>

The benefit is increasing over the years from M2,486,531,325 to M3,053,795,567, adding up to M8,294,459,893.

Table7: Total project costs

Type of cost	1 <sup>st</sup> year	2 <sup>nd</sup> year	3 <sup>rd</sup> year	Total
Project management and administration	4,217,775	3,098,014	3,179,114	<b>10,494,903</b>
Public awareness & communication	700,000	400,000	420,000	<b>1,520,000</b>
Production of catalogue of threatened wetlands	700,000	—	—	<b>4, 123, 060</b>
Implementation of rehabilitation strategy	2,852,060	2,736,800	2,873,640	<b>8,462,500</b>
Programme monitoring and evaluation	345,000	120,000	140,000	<b>1,411,913</b>
Contingency	881 484	635 481	661 275	<b>2 190 240</b>
<b>Total</b>	<b>8,818,435</b>	<b>6990295</b>		<b>24 092 644</b>

The initial investment capital of the project is M8, 818,435 and decreases in the next two years. The initial investment costs require more money as they are fixed costs incurred at the beginning of the project's life. The bulk of the money is mainly concentrated in the implementation strategy and management and administration. Basotho nationals will gain employment opportunities and these will contribute towards eradication of poverty.

Table The scheduled benefits and costs

Criterion	Discount rate 14%		
	Benefits in the 2 <sup>nd</sup> year and all Costs	Benefits in the 3 <sup>rd</sup> year and all Costs	All benefits and all costs
Net Present Value	<b>7 428 901 250</b>	<b>9 630 804 415</b>	<b>9 630 804 415</b>
Benefit cost -ratio	<b>1:13</b>	<b>1:47</b>	<b>1:47</b>
Internal rate of return	<b>10221</b>		

Note: The net present value of Costs is 6 566 853 499

By merely looking at the table, benefits outweigh costs by a huge amount (millions). This is further verified by the by the benefit cost ratio of 47 to 1 that indicates that benefits are 346 times more than the costs. The evaluation therefore indicates that the project is viable and can be a good investment with a lot of returns. The viability of the project is further proven by the positive internal rate of return, which shows that the project is highly viable and can be considered among others as a good investment project.

#### 4 Project beneficiaries

As shown in the previous sections, the project beneficiaries comprise local residents (individuals) and their communities and the Basotho nation as a whole. The population of people living around the targeted highlands wetlands and having access to the direct benefits plus that of people living within 40 km and 16 km distances of the downstream service area of the wetlands who respectively benefit from freshwater (potable water) supply and flood attenuation is estimated at 30 000 people. [According to Kotze *et al.* (1994), if the wetland catchment area is greater than 5000 ha, the service distance for water quality ends 40 km downstream of the wetland and 16 km for flood attenuation.]

In terms of employment, (which lack of is a key factor contributing to poverty,) the project will provide casual jobs and on-the-job-training to 210 people. The casual labourers will be paid M800 per month. This amount could be used towards paying for food and many other basic needs such as clothing and school fees, which are difficult to satisfy under such high unemployment rate. Note that the national figure for unemployment is estimated at 40% of the Glabour force (National Vision 2020), while unemployment and poverty are highest in the highlands or mountains and the vulnerable rural households are estimated at 55% of the country's total population.

The casual labourers will rotate after every three months so that the jobs and trainings could benefit more people. In three years, the project would have benefited 210 people multiplied by 11 quarters of the project's lifespan and making the total number of beneficiaries 2 310. Because the average household size is 5 members in Lesotho, the spin-offs are likely to positively impact on 12 000 people. The limited employment offered by the project will greatly benefit the local communities hit hard by poverty.

The other special groups that will benefit from the project include livestock farmers, weavers (sedge harvesters), traditional healers (herbalists) and fishers. The benefits have already been discussed in Section 4.1 and 4.2.

Local transport operators (seven (7) minibus and two (2) truck operators) will also benefit from offering transport services during rehabilitation measures of the project. Fifteen seater minibuses will be hired to transport labourers from their home villages to the work sites in the morning and afternoon. The trucks will be hired to haul stones to the work site when and where needed.

## **Project Component D**

### **Private Business Development**

With regard to the private business development (PBD), the MCC intervention in this will focus on at least five activities namely (i) private sector capacity building, (ii) civil legal reforms aimed at the establishment of commercial courts to expedite resolution of business disputes, reduce credit risk, improve the confidence of business communities and enhance participation of foreign banks in the national economy, (iii) land administration, (iv) housing mortgage, (v) automated payments, clearing and settlement systems and (vi) life-stock microchip aimed at prevention of stock theft

## **Project Component D1**

### **Private Sector Capacity Building**

#### **1 Introduction**

The primary purpose of the Lesotho Poverty Reduction Strategy and Vision 2020 are to achieve rapid economic growth with the ultimate objective to reduce poverty through private sector investment. It is envisaged that the effective participation of the private sector requires Government support in the form of creating enabling environment. To this end therefore, private sector capacity constraint has been identified as the priority. The argument is premised on the generally accepted notion that the private sector is the most efficient and effective vehicle for implementation of economically and financially viable projects relative to government performance. It is further emphasized that the most effective and sustainable capacity building is facilitated and provided for by the private sector itself. The role of government, though, is to create a conducive climate for private investment and activities. In pursuit of this objective, the Government of Lesotho has identified private sector capacity building as one of the key constraints and has decided to address this problem. To this end, the Government has requested the Millennium Challenge Corporation (MCC) to provide financial assistance for improvement in private sector capacity building.

## **2 Private Sector Capacity Constraints**

It is observed/recognized that capacity in the private sector is weak for a number of reasons including lack of access to information in the market and lack of access to opportunities in the market. Lack of capacity is defined as follows:

- Lack of access to information (both business and market information)
- Lack of access to market opportunities (e.g. to transact with the market)
- Lack of access to capital
- Lack of competitiveness of enterprises based on the inability to access relevant and affordable business development services (BDS) which will enhance the competitiveness of an enterprise (e.g. through skills development, access to technical assistance / technology) and therefore its ability to win business
- The inability to mobilize resources and actors (institutional and sectoral constraint).
- The inability to leverage resources (public or private) in order to effect deals.

The purpose of this project component is to develop a capacity-building action plan for the private sector and this is being carried out through the process of an extensive consultation with the public sector (government ministries and agencies) and the private sector in Lesotho. This is to ensure that the action plan reflects the real needs of the country and has buy-in from the key stakeholders

The development and competitiveness of the private sector in Lesotho will require viable markets for the sector to capture and a supporting environment conducive to economic growth. This means a supportive policy and regulatory framework within which the private sector can undertake investments and participate in the economy. It also requires a reliable institutional framework for supporting the private sector that must cover three major points:

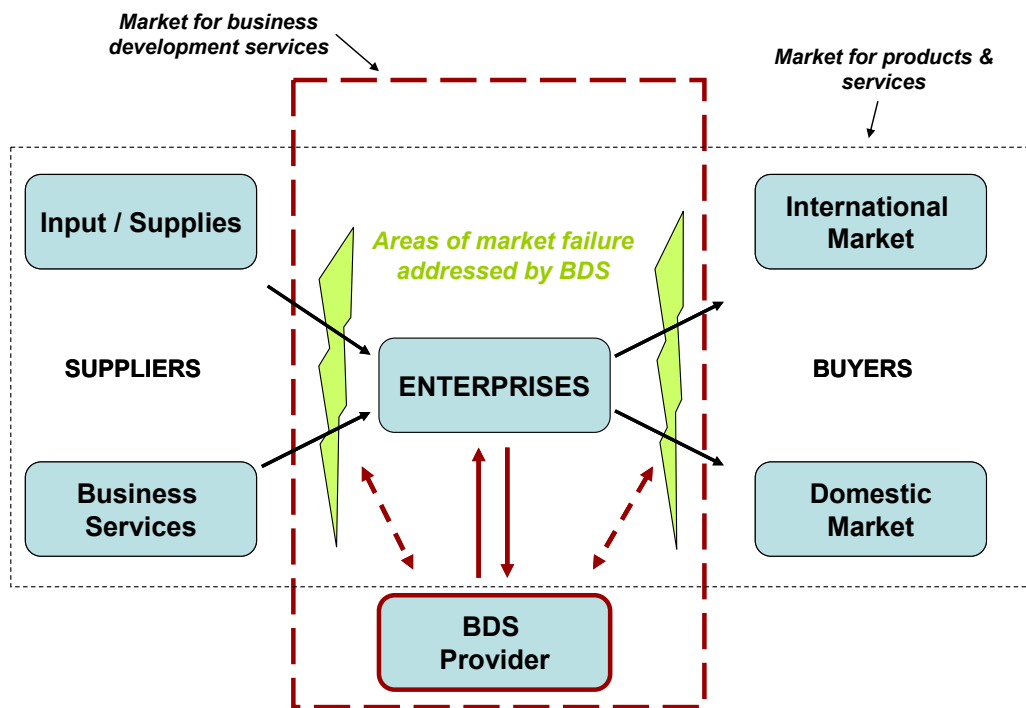
- To provide business development services (BDS) to private enterprises, to provide them with adequate training and access to market and business information;
- To facilitate access to financial services that can fund investment and working capital; and
- To engage the Government of Lesotho in dialogue to ensure that the interests of the private sector are heard.
- Local firms must access other markets such as domestic, regional and global for both suppliers and buyers of goods and services; and
- Local firms must be able to access and use BDS, including training, market and business information, that enable them to compete in the market more effectively.

The Government of Lesotho (GoL) is developing a Private Sector Capacity Building Action Plan to serve as the foundation of a programme for private business development. Efforts have been made to determine the major capacity constraints of firms in the country as well as a review of the institutional support services for the private sector to identify the needs and establish a gap analysis between the supply and demand. The ultimate goal of this exercise is to develop a private sector that is able to employ more people and increase the average household income in Lesotho. It is therefore, envisaged

that any private sector capacity building must target growth opportunities where the return on investment will be greatest.

Effective growth for the private sector in Lesotho is grounded in the principles of market development. This means that the development of a vibrant private sector will depend on the ability of i) the private sector to integrate effectively with domestic, regional and global markets; ii) capacity building services to enable firms to engage with the market more competitively; and iii) there are appropriate roles for government and the private sector: government should focus on creating a facilitating enabling environment while the private sector should focus on service delivery.

The figure below provides a visual framework for identifying the market failures for products and services.



Failure in the market for products and services occur at two levels;

- The constraints that prevent enterprises from accessing the buyer or end market; and
- The constraints that prevent enterprises accessing the appropriate supply of inputs and business services.

### 3 Problems of Market size

The Lesotho private sector is small and largely dominated by micro and small firms, at least 85% of the firms in the country. This presents a situation where the market for services is very thin and, to a large extent, the private sector firms do not fully appreciate their needs for capacity building. Service provider capacity is limited to a few service providers in Lesotho and these are largely still emerging and offer limited services.

Firms have variable, but generally weak demand for services. While they are presently utilizing some traditional business services, such as finance and accounting, they consume few services that address the major constraints cited by the firms as blockage points to their growth and development. This highlights the low solvent demand for services and the weak supply of appropriate services.

The GoL is working both as a service provider and facilitator through institutions such as BEDCO and others. While these institutions do not seem to be displacing private sector service providers, the orientation of the government service provision and facilitation is focused on supply-leading demand.

The biggest constraint facing the private sector, overall, is an understanding of how to identify and capture market opportunities. This includes domestic opportunities to sell to the large foreign companies, which tend to be self servicing rather than purchasing inputs and services locally; opportunities from import substitution; developing product for the local markets; identifying and selling existing products into the regional markets; and maximizing the opportunities to sell to government, which are currently not being awarded to the Lesotho private sector.

Failure of enterprises to identify and access markets because they lack: information and understanding about the markets they are seeking to serve; competitive products and services to offer the market; specifications and standards to guide the quantity, quality and delivery of the product offerings; contacts and links to other players in the market; and opportunities to transact deals (to “do” business) with suppliers and buyers.

Lack of access to skills development in sector specific technical skill and expertise; business management skills, including human resource management, financial management, operations management, marketing and market development skills; and tendering, including preparation of business plans, pricing proposals, presentation skills.

The **vision** for the programme is to develop a private sector able to compete in domestic, regional and global markets in order to drive growth and create jobs in Lesotho. This will emanate from a sound understanding of market opportunities supported by a sustainable supply of local and international capacity building services, improved access to market/business information, and improved dialogue with government. To this end, the underlying principles of the capacity building action plan are to target the sectors with demonstrated growth potential to serve as catalysts; facilitate market driven demand for capacity building services and facilitate private sector service provision by experienced business development specialists;

**Target sources of market growth** which emanate primarily from domestic growth fuelled by business opportunities to serve the exporting companies, taking advantage of government and donor spend in order to provide markets for Basotho firms, and looking to serve the local market that is growing from the earnings to workers from exports.

**Service the exporting companies by:**

- The multinational companies in Lesotho purchase few services from local firms. Increasing this purchase by identifying their needs for local business services, identifying and addressing the constraints preventing those services from being provided will lead to greater demand for Basotho firms;
- Leverage services provided to the multinationals in Lesotho into the South African market; and
- Increase the spending on Basotho staff by increasing their levels of responsibility which will, in turn, enhance the competitiveness of the multinational firms in Lesotho.

**Take advantage of government and donor spend by:**

Establishing a structure to help the government and donors to apply preferential procurement processes to actively increase its contracting of services from Basotho owned firms. This should target the construction sector.

#### **4 Structure of the proposed programme**

The overall programme comprises four main elements: three sectoral projects and one cross cutting project. They will provide the necessary framework to facilitate market opportunities for Basotho firms, which will stimulate the demand for capacity building services, leading to a growth responsive capacity building action plan.

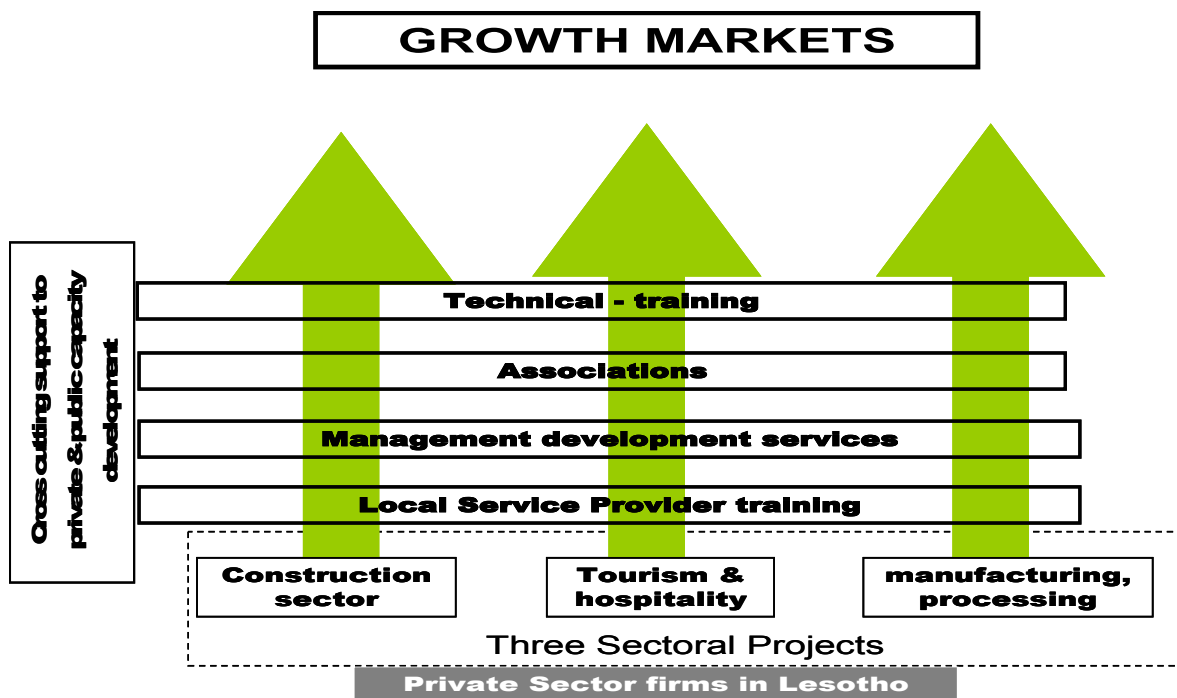
The sectoral projects target the three sectors with the greatest growth potential for Basotho firms: construction sector, the tourism and hospitality sector, and the manufacturing processing sector. Each of the three sectoral projects focuses on working directly with the private firms in their sectors. They will collect sectoral information, analyse and understand the sectoral dynamics and identify the main growth opportunities for the sector. They will then focus on the issues of facilitating access to markets by linking suppliers to potential buyers, conducting firm level diagnostics to understand constraints and developing firm level capacity building action plans. The sectoral team will identify and address the constraints at all levels of the value chains they are serving.

The cross cutting Service Supply team will focus on the support to the capacity building firms and institutions. These will include the full range of BDS suppliers, and the associations. The cross cutting component will be staffed with Trainers of Trainers with expert skills in BDS assistance, Association development experience, and the market development approach. This latter is critical for helping firms to understand their offer to the market (their value proposition).

The cross cutting team will coordinate very closely with the three sectoral teams as they identify the major constraints facing the firms in the three main sectors. The sectoral

teams will then use the services of the Service Supply team to build the supply capacity to respond to the specific needs of the firms.

Each of the sectoral teams and the cross cutting team will have access to special training and technical assistance funds (TTAF). These funds are available to the firms and associations to cost share their investments in buying capacity building services as well as the costs of seeking out new markets.



Private sector capacity building exercise will focus essentially on three components, namely,

- Development or validation of an export sector based investment strategy. That is, development of a strategy for accessing the export market including the determination of the potential size of market, which market is the most feasible for product, how to access the market;
- Enhancement of private sector products and services through stimulation of demand and supply for relevant and affordable business development services (BDS).
- Strengthening of relevant structures and institutions such as government agencies (where applicable), service facilitators (associations, business chambers), service providers (mostly private sector suppliers);

- There is significant scope for a programme which will provide hands-on assistance to SMMEs in helping them identify the support services they need to increase their business and assisting them to access these services. Such a programme would facilitate the delivery of cross-cutting services to the SMME sector and could potentially play the role of linkage coordination, facilitation of BDS and management of a technical assistance fund.

The outputs from this capacity building program should result in an increase in sales and income. In close coordination with the sector strategy, there is an overarching program that should be centered around developing a “linkages facilitation activity” that will provide more direct assistance to existing small businesses in Lesotho to help them establish business linkages into the larger market operators. This linkages facilitation activity will provide specific business opportunities to firms that will allow them to develop targeted capacity building needs to respond to those opportunities.

## **5 Action Plan for Private Sector Capacity Building**

Since the purpose of the MCC’s grant to the Government of Lesotho is to stimulate the economic growth of the country, the focus of a capacity building action plan for the private sector must lead most directly to increased economic growth in the country. The approach to this capacity building action plan is predicated on three important principles that lead to economic growth.

First, effective market growth is grounded in the principles of market development. The growth of the private sector in Lesotho will depend on its ability to integrate effectively with domestic, regional and global markets as a source of growth. In order to achieve these objective;

- Local firms must access other markets such as domestic, regional and global for both suppliers and buyers of goods and services; and
- Local firms must be able to access and use BDS, including training, market and business information, that enable them to compete in the market more effectively.

The Lesotho market is segmented into sector that demonstrate growth potential. A sectoral approach to market development is predicated on the fact that each sector is located within its own value chain, serves its own markets, and has its own constraints which need to be specifically identified and for which specific interventions need to be designed.

Second, the framework for analysing the capacity-building needs of various economic sectors must address the following;

- The capacity needs of the firm versus capacity needs of the employee;
- Market and business information; and
- BDS and business services.

The third principle to market development involves the role played by various public and private institutions in the delivery or facilitation of BDS to the market. Private businesses must deliver services at a profit and so must cover all their costs.

This action plan is premised on the recognition that there is a need for capacity building for small firms in Lesotho as well as for developing strategies to ensure the provision of relevant information. It is further premised on the grounds that there is a significant scope for a programme which will provide hands-on assistance to SMMEs in helping them identify the support services they need to increase their business and assist them to access these services. Such a programme would facilitate the delivery of cross-cutting services to the SMME sector and could potentially play the role of linkage coordination, facilitation of BDS, and management of a technical assistance fund.

The application of the MCC investment for the development of private sector capacity building will focus on four main economic sectors which will require skills and private sector participation. These are construction sector, garment and textiles industry, tourism and hospitality sector, construction and health sector services.

### Construction

With regard to the construction industry, the primary market failure is due to lack of information and exploitation of *regional* market opportunities (e.g. in Botswana and South Africa) leading to weak demand and supply for product. The construction sector is poorly organized and limited application and enforcement of standards. However an opportunity exists to facilitate degree of organization and setting of standards It is noted that the procurement legislation is under review and will lead to more transparent and streamlined (accessible) process

<b>Construction linkages project</b>						
Cost of a programme	year 1	year 2	year 3	year 4	year 5	Total
construction engineer	\$200,000	\$210,000	\$220,500	\$55,125	\$57,881	\$743,506
technical specialist	\$120,000	\$126,000	\$132,300	\$138,915	\$145,861	\$663,076
technical specialist			\$80,000	\$84,000	\$88,200	\$252,200
Administrative support	\$80,000	\$84,000	\$88,200	\$92,610	\$97,241	\$442,051
subtotal core salaries	\$400,000	\$420,000	\$521,000	\$370,650	\$389,183	\$2,100,833
technical assistance 4	\$112,000	\$117,600	\$123,480	\$64,827	\$68,068	\$485,975
Operating expenses	\$100,000	\$105,000	\$130,250	\$92,663	\$97,296	\$525,208
TTAF	\$100,000	\$150,000	\$200,000	\$200,000	\$100,000	\$750,000
<b>Total</b>	<b>\$712,000</b>	<b>\$792,600</b>	<b>\$974,730</b>	<b>\$728,140</b>	<b>\$654,546</b>	<b>\$3,862,016</b>

### results

increased sales	\$1,000,000	\$3,000,0	\$5,000,0	\$7,500,0	\$9,000,0	\$25,500,000
net increase in employment (\$3000 per job)	333	1,000	1,667	2,500	3,000	3,000

### **Garment and Textiles sector**

Garment and Textiles sector tend to purchase general supplies and in source general services based on economies of scale. That is, it is not feasible to outsource general services as there is limited supply of artisan skills in Lesotho and whatever supply exists needs to be offered on a cost and quality competitive basis (i.e. reliable, dependable, efficient and effective service delivery)

It is generally accepted that demand for local services in Lesotho is limited or non-existent because of lack of awareness or availability of skills and service. The overall market for these services is too small to justify an investment in upgrading of artisan skills. It is however reasonable to stimulate uptake of services i.e. get garment and textile companies to recognize economic benefit of outsourcing; this in turn will act as a catalyst to facilitate the demand for capacity-building BDS by service providers. The general services used by the garment and textile sector are similar to those used in health services, construction, etc. so that growing a cadre of general service providers has significant leverage potential.

### **Tourism and Hospitality sector**

With regards to the tourism and hospitality sector, it is acknowledged that there is no integration between Lesotho tourism and the regional tourism economy. This has lead to a weak demand for and supply of tourism products, lack of integration of tourism product and services, lack of understanding and information about the tourism market, weak demand and supply of information and business development services.

- Tourism and hospitality sector in Lesotho needs to be integrated both at domestic level and with the region. Primary source of growth within the tourism sector has to be linked to the South African market rather than international and global market.
- The objective of a tourism market development strategy is to increase the number of arrivals to the country, increase the duration of stay in a country, increase the amount of spend per day in the country
- Capacity building of the sector presupposes the existence of a robust and competitive tourism product.

<b>Tourism Enterprise Development</b>						
Cost of a programme	year 1	year 2	year 3	year 4	year 5	Total
Team leader/tourism specialist	180,000	189,000	198,450	104,186	54,698	726,334
technical tourism specialist	100,000	105,000	110,250	115,763	121,551	552,563
Administrative support	40,000	42,000	44,100	46,305	48,620	221,025
subtotal core salaries	320,000	336,000	352,800	266,254	224,869	1,499,922
Technical assistance	103,360	108,528	113,954	59,826	31,409	417,077
Operating expenses	80,000	84,000	88,200	66,563	56,217	374,981
TTAF	100,000	150,000	150,000	100,000	100,000	600,000
<b>Total</b>	<b>603,360</b>	<b>678,528</b>	<b>704,954</b>	<b>492,643</b>	<b>412,495</b>	<b>2,891,980</b>
<b>results</b>						
increased sales	500,000	1,000,000	2,000,000	3,000,000	4,500,000	11,000,000
net increase in employment (\$2000 per job)	250	500	1,000	1,500	2,250	2,250

## Health Services

It is envisaged that the health sector recognizes requirement and has projects in place to develop and improve hospital, laboratories, clinics and training of staff. There is a need for data collection especially for prevalence of HIV/AIDS and management of information systems;

In order to harness this opportunities it is important for the private sector to develop capacity and provide services to the health sector. To this end, capacity building of service providers, streamlining and transparency of procurement procedures and possible organization of the sector is needed. In addition, the Ministry of Health has a budget for institutional upkeep which will inform how large the potential market is for outsourced services.

Private sector services used by the health sector tend to be cross-cutting and also need to be customized to specifically private sector and include, *inter alia*, landscaping, cleaning services, laundry (though usually in-sourced), catering, IT services, construction services (including repairs and maintenance, refurbishments, building and construction), ambulance services (for patients).

Market failure is primarily around the lack of information of services required by the hospitals and the inaccessibility of procurement procedures and potential lack of “market readiness” of service providers interventions should therefore address the market constraint

### Summary of Costs for Participating Sectors

<b>Sector</b>	<b>Programme costs</b>	<b>Increased sales</b>	<b>5 year cumulative increase in sales</b>	<b>increased employment</b>	<b>net increase employment firms</b>
Programme Management	2,622,251				
manufacturing	3,567,628	19,000,000	19,000,000	2,500	2,500
Cross Cutting	2,162,774		0		0
tourism	2,891,980	11,000,000	11,000,000	2,250	2,250
construction	3,862,016	25,500,000	25,500,000	3,000	3,000
Equipment and furniture	301,427				
Totals	15,408,076	55,500,000	55,500,000	7,750	7,750

## **Project Component D2**

### **Review of Civil Legal Systems**

#### **1 Introduction**

It is observed that commercial banks and financial institutions in the country do not participate in the national economy through extension of credit for investment. Instead they mobilize deposits and transfer them into the Republic of South Africa. This reluctance of foreign owned financial institutions to provide lending to the national investors is explained by a high risk due to lack of commercial courts which can expedite non-payment and resolve financial claims in the event of disputes. It is argued that the justice system is faced with a large backlog of court cases and it often give priority to criminals cases at the expense of commercial disputes. Consequently the risk of banks lending money to the local investors has become very high, hence their reluctance to participate in the economy. Furthermore, the risk of bank participation is due to lack of customer registration system which can be used to identify good debtors. The financial cost of doing business in this country is therefore very high, thereby leading to high interest rate charges by banks as risk premium.

#### **2 Objectives the Review of Civil Legal Systems**

Lesotho's Vision 2020 also reflected a desire to reform the judicial process as part of the goal of establishing a stable and democratic governance. It commended considerable respect for the rule of law but pointed towards disconcerting delays in the dispensation of justice. The Poverty Reduction Strategy is a three year medium term development framework to be implemented between 2004 and 2007. It outlines national priorities and strategies for promoting economic growth and reducing poverty. One of the objects of the strategy is to deepen democracy, governance, safety and security. As part of that objective, it is proposed to improve efficiency of the justice system. This objective is aimed at all parts of the justice system both civil and criminal. This project relates only to the civil justice system and in relation to that the Poverty Reduction Strategy highlighted needs.

The business community lacks confidence in civil procedure and its ability to resolve disputes. Civil proceedings take a long time to be completed and the delivery and poor execution of judgments exacerbates the position. Case management is seriously deficient. There is no ADR process to deal with small claims. Property cannot be used by private individuals, especially the poor, to raise money by way of security. There is no provision for obtaining a mortgage. Married women do not have any autonomy in relation to property ownership although there is a Bill (The Gender Equity Bill) in front of Parliament at the moment.

Life-stock property cannot be used as collateral for bank loans partly because of high theft rates and lack of identification. This is being addressed in a practical way but remains a problem through a microchip tacking and recovery system. Investment in Lesotho is impaired because entrepreneurs have no confidence in the justice system to enforce contractual obligations.

The role of government in a liberalized market economy is to provide the enabling environment for the private sector. In pursue of this objective, the government will focus on the improvement of the efficiency of the justice system. The key strategy is to improve case management. This is essential to maintain human rights and promote confidence in

- The justice system. Specific actions to be implemented during the first PRS period include the development of case management policy and implementation of the Speedy Court Trials Act 2002.
- To improve operational efficiency of the commercial court through separation of the administrative functions of the commercial court from the high court.
- To train the judiciary - lawyers and judges - on handling commercial cases for successful operation of the commercial court.
- To speed up commercial cases e.g. non-repayment of loans in commercial court and to establish a small claims court.

The Commercial Court does not function and has been abandoned. It is foreseen that with the right levels of consultation, training, policy directives and commitment of resources, it would be relatively easy to establish a viable commercial court in Lesotho.

### **3 Action to improve operational efficiency of the Commercial Court**

- Review legislation and procedures relating to business and commercial law to determine their constraining and facilitating features (identifying quantified indicators if possible);
- Review relevance and propriety of the existing court processes, including case management systems, in relation to the above;
- Make recommendations for improvements to the above, including consideration of development of commercial courts and/or small claims courts to hear civil claims;
- Separating the administrative functions of the Commercial Court from the High Court
- Training the judiciary – lawyers and judges – on handling commercial cases for successful operation of the Commercial Court
- Speeding up commercial cases, e.g. non-repayment of loans in Commercial Court
- Revising the current Legal Aid Act and increasing trained personnel within the Legal Aid Office and exploring the possibility of opening offices in the districts
- Drafting legislation to provide legal protection to vulnerable groups including persons with disabilities, children and people living with HIV and AIDS
- Establishing child, juvenile and family courts with child friendly environments

#### **4 Facilitation of Credit Extension**

This specific area of reforms targets improvement in the efficiency of the justice system. It is intended to facilitate speedy settlement of trade and commercial disputes, and therefore, increase people's confidence in the justice system. In addition, the authorities intend to design and implement legal and judiciary sector reforms aimed at improving credit discipline. Among others, these measures involve capacitation of lawyers and judges on handling commercial cases; and separation of the administrative function of the Commercial Court from the High Court. This would improve the functioning of the Commercial Court and thereby enhance access to credit by facilitating litigation in cases of default. In this manner, the authorities would reinforce other structural measures to promote credit extension such as the establishment of a credit bureau, reforms to allow for use of property as collateral to secure credit, and plans to implement the National Identification System.

The role and future of the Commercial Court has been particularly identified in the PRS as a vital part of the reform process to ensure that commercial transactions can be effectively enforced. If that can be achieved it is foreseen that business persons in all sectors will have greater confidence to invest and enter into transactions knowing that they can be enforced. The business people have absolutely no trust in the court process to fulfill that expectation.

Lesotho needs a commercial court in order to fulfill the urgent need for a fast and effective process for all commercial disputes. Commercial Courts have been established in various jurisdictions in sub-Saharan Africa to deal with common problems. These are to provide an effective, efficient and speedy procedure for commercial contract disputes. Like many other countries the primary reason that Lesotho needs a Commercial Court is because of the problems in the system generally.

The Commercial Court is affected like other civil justice process by the lack of availability of judges – not simply specialist judges but any judge at all. This partly arises from the priority given to criminal cases by Section 11(2) of the High Court Act 1978. That section reflects the general view that criminal justice takes precedence to civil justice. This must be correct bearing in mind the effect on human rights of the criminal justice system. The problem affecting the “Commercial Court” as much as any other court is that judges are dealing with both civil and criminal cases at the same time.

One of the important requirement of the MCC guidelines is that the proposal should be based on the participation of relevant stakeholders. The consultative process should be carried out as part of the decision making process. The Lesotho Justice Sector Conference took place over five days between 26 and 30 July 2004. The conference was organised by the LJSDP. Over 110 delegates attended from every institution and department in the justice sector along with representatives of other Ministries, civil society and NGO.

Subsequent to the conference, a full report of proceedings and recommendations was published. This document records various contributions from speakers and commentators that provide a useful reference for some aspects of the justice sector. The organisation of

the document does not, however, assist the exercise of identifying the specific areas for development.

The document, reflecting conference proceedings, relates mainly to the criminal justice sector although there are useful references to certain aspects of the civil justice sector. Although not recorded in the conference report, it is understood that a substantial number of recommendations were made as the result of workshops taking place at the conference. These have been carried forward into the National Vision and Strategy for the Justice Sector. During the course of our work we held a stakeholder meeting on Tuesday 28 February 2006. In addition, individual interviews were held with various stakeholders. The stakeholders participating in the conference and/or seen individually are listed in Annex A to this report.

## **5 Donor Coordination**

A reform programme for both the criminal and civil justice system in Lesotho is jointly funded by the Government of Lesotho and by the UK's Department for International Development. This programme is called the Lesotho Justice Sector Development Programme ("LJSDP"). The purpose of the LJSDP is to support the development of an effective and accountable Lesotho justice sector capable of developing and implementing pro poor policies, specifically to:-

- Assist Government departments in civil society to collaborate more closely on priority safety and security and justice initiatives;
- Establish linkages and working structures connecting the programme to the implementation of the Lesotho Poverty Reduction Strategy Paper ("PRSP"); and
- Strengthen civil society involvement in the justice sector.

### **Recommendations**

- The concept of the Commercial Court should be developed further
- The Rules should define the nature of actions allotted to the Court which will have to include a monetary level of jurisdiction
- All actions falling within that definition would have to be commenced in that Court
- The Commercial Court should have one or more designated judges
- The Commercial Court should have a designated Registrar and administrative staff
- The Rules relating to the Commercial Court should be amended to ensure an effective and efficient process related to the resources available
- Judges and lawyers should be sensitised by to the benefits of the procedure; from this process a Commercial Court Users Group should be formed
- In the light of the difficulties in enforcement of judgments consideration should be given to establishing a special enforcement process for the Commercial Court

**Total Estimated Costs of Civil Legal Reforms in UD Dollars<sup>1</sup>**

Activities	Actions	Costs US\$
Studies	Rules relating to commercial courts	75,000
	Civil jurisdiction of local and central courts	75,000
	Review of Legislation and modernization of insolvency,	50,000
	Review the arbitration legislation, reduce role of courts	50,000
	Needs assessment study on small claims	75,000
	The Directorate of dispute prevention and resolution	50,000
	Survey of current legal aid provisions and areas of need	75,000
	Needs assessment on Information technology needs	75,000
	Training	Implementation of IT training programme for judges
Training programme on arbitration and mediation		75,000
IT programmes	Rolling out IT equipment provision programme in courts	75,000

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<sup>1</sup> The background study did not estimate benefits for ERR calculations

## Project Component D3

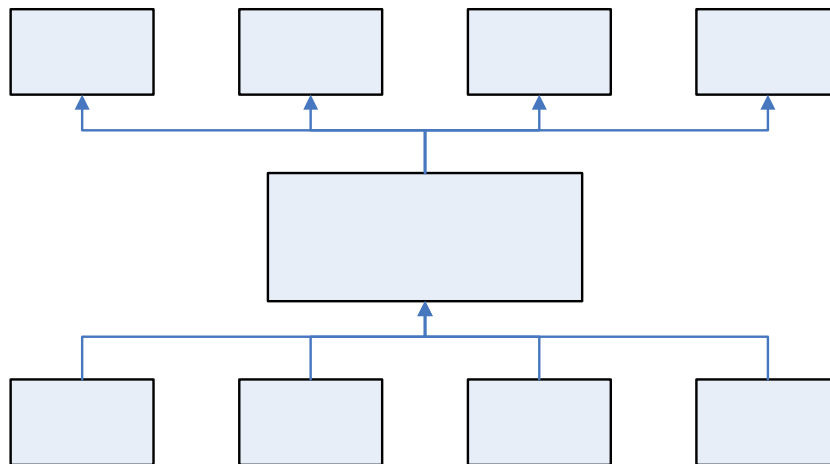
# Land Administration and Registration

### 1 Main Features

The Lesotho Government is committed to an aggressive land reforms as outlined in the three year medium term Poverty Reduction Strategy Papers (PRSP 2004/05-2006/07). The Government and private sector will work together to implement the high-priority land reforms and, this in turn, is expected to increase accessibility to land, improve the process of land registration initiative, computerized system necessary for save record keeping, enhance the confidence of financial institutions with regard to the use of land property for credit extension to the poor. It is expected to reduce uncertainty and provide security for loan capital from the financial institutions. It is observed that the existing situation with regard to land administration, legal and technical systems for processing leases and other rights to land is characterised by serious bottle-necks and constraints

The PRSP indicates that in over 60% of the communities involved in the consultation process identified a number of problems in land administration, the highest being formal land tenure system and its administration. As a result of this it is concluded that the formal land rights are not provided to the majority of the people, investments are hampered, government revenue is not collected and land markets are dysfunctional. The formal legal land tenure systems and its administration do not meet the needs of the Lesotho society. The stakeholders and the public perceive it as expensive, slow and inefficient, restrictive and not transparent. As a result the registered land rights are not provided to those who want it. This hampers investments and creates dysfunctional land markets.

This “problem tree” illustrates the situation:



The system is too costly for most landholders and these include;

- Cadastral survey. Land surveyors in Lesotho have comparatively low prices for their services, but are still perceived as expensive.
- Cost of legal practitioners, which are compulsory when dealing in land lease.
- Cost of transfers is extremely high, between 10-15% of value for a plot worth M50 – 100,000. This includes stamp duty, transfer duty, valuation and conveyances fees.
- The ground rent is rather high and not affordable.

Reasons behind the slowness of the lease preparation and consent processes can be divided into legal, technical, organizational and human resource issues. However, the slow process is caused by a number of factors first, many old titles (from before 1980) have still not been converted to leases. That is, they are not included in the formal system. Procedures to validate old titles are lengthy. Secondly, there is a backlog of applications for lease. Many have stalled because the applicants want to avoid paying for surveys or lease preparation. Thirdly, consenting transfers, sub-leases, mortgages often takes long, as do granting of leases for plots “sold” by developers.

With regard to technical constraints, there is very little information technology (IT) support in land administration, only some in mapping. Ground rent is difficult to collect without IT-support. All information for the processes must be found in files that are often difficult to locate. Information in files and registers is not safe, as archive premises are poor and databases not subject to regular backups. Operations in the districts are difficult to control because of “shared responsibilities”; All information on land (except maps) is on paper. This makes information difficult to access to those who need it and the system less transparent. Legal land allocations are not properly recorded and publicized.

Assessment of human resources indicates that LSPP is suffering from staff shortage and a constant loss of qualified staff. Lawyers, IT-experts, surveyors, etc. are difficult to retain on low government salaries.

The legal framework is perceived as restrictive because most stakeholders find the need for consents to deal in land as a severe restriction. Only registered land use rights can be transferred and foreigners cannot lease land, which restricts foreign investment in the country

## **2 Proposals for Improvements in Land Administration**

The first proposal relates to technical solutions and these include work processes and information technology (IT) development to support these processes. Computerization is proposed for the Cadastre (survey and map information),

### **2.1 The IT-support System**

The objective with an IT-supported Land Administration System in Lesotho is to:

- Support all land processes at central and district levels with relevant data, in the form of on-line data access or print-outs of maps and written information. All

relevant information on central level should be accessible in the districts and vice versa.

- Provide safe storage of land related information.
- Facilitate monitoring and analyzing of the progress of land related business on a national level.
- Give publicity on land information, i.e. the division of land into surveyed plots and the related land rights.

The system should be a hub for land information and disseminate relevant information to all bodies involved in land management activities, with the aim to increase land related business activities for income-generating development.

It is suggested that the system development is done in the following components:

- Cadastral Registration
- Land Registration
- Revenue Calculation
- Lease Management
- Land Allocation
- Land Information Dissemination
- Valuation and Mass-appraisal for Rates

## **2.2 Legal Improvements**

The second set of proposals for land administration relates to legal issues and these includes a transition from a Deeds Registration System to a Title Registration System, which gives better security and is less costly for the landholders. In either case the law should allow for digital registers and for lay persons to deal in land without using conveyances. Also proposed is to abolish some consents in favour of administrative rules, and allow District Councillors to decide on change-of-use.

It is envisaged that the Land Bill 2004 which is still being debated in parliament, will incorporate proposals such as exchanging the consent processes for administrative procedures and giving legal power to computerized land registration systems. The Land Bill also proposes strengthening of the judicial system which will speed up the resolution of land conflicts. Improvements in administrative information systems will assist to lower the number of fraudulent deals. The proposal in the Land Bill on land administration functions generally moving to the district councils is not supported. Land administration is a qualified business, and would be better placed in a national organization with branch offices in the districts.

## **2.3 Title Registration VS Deeds Registration**

Actors on the land market (lawyers, real estate agents) mean that the Deeds Registry functions well, while the lease preparation process and the need for consents for various dealings in land has to be changed. Lesotho's land registration system is based on the Deeds Registry Act 1967. Recording of granted leases and other land transactions are made in ledgers in the order they occur. However, the lease numbers are the same as the plot numbers and the Deeds Registry organizes the leases in the archive in plot (lease) number order. The clear connection between the lease, and thus all the dispositions

related to that lease, and a surveyed plot is an advantage for computerization. It is proposed that the land registration system in the Deeds Registry be computerized.

In spite of a well functioning Deeds Registry it is recommended that the land registration system is changed to a title registration system, and to enter that process (which is both legal and technical) concurrently to the computerization of current deeds registration system. A Title Registration system will cost less for the public and give better security of title. It will also be easier for a layperson to understand, as the connection between land and registration is clear.

The Land Act 1979 gives the responsible Minister the power to make final decisions (give consent) to a number of transactions, e.g. to transfer, mortgage, sub-let, change use and to grant servitude on land. The consent procedures are time consuming. The Land Bill 2004 proposes that consent should not be needed if the value of the plot or the right is less than M 500,000. Few real properties have a value higher than 500,000, and therefore the majority of the real property transactions would not need consent. This would shorten the land transfer process.

#### **2.4 Land Administration Authority**

The third proposal for land administration improvements relate to institutional reform to transform the current LSPP and Deeds Registry into a Land Administration Authority, focusing on the processes of recording and disseminating information about land plots, land rights and land use. This institution must be able to hire and maintain qualified technical and legal staff.

The Directorate of Lands, Surveys and Physical Planning is a department of the Ministry for Local Government. This means that the organization depends on Government grants for its operations. It also means that it can only pay salaries according to Government salary scales. The consequence of this is that the organization is under-funded and that qualified staff usually does not stay long. Additionally, LSPP cannot retain any of the income it generates, and thus has little incentives to put strong effort into collecting ground rent, process lease applications rapidly or to sell information.

This is not a good environment for efficient and transparent land administration. The introduction of necessary IT-support requires IT-staff with various specializations, such as database administrators, network experts, programmers, etc., and the current shortage of surveyors for examination work must be remedied.

## Financing of the Land Administration Programme/Project

The estimated total costs of a Land Administration Project is approximately 17 million USD. The amount consists of the following parts:

1. IT Support and Data Collection	15 360 400
2. Legal developments	144 600
3. Institutional reform	1 526 000

### Land Administration with IT-support<sup>2</sup>

Project Manager – 5 years	1 122 000
Business Analyst – 4 years	901 600
Land Administration Expert – 3 years	683 200
Assistant Project Manager – 5 years	300 000
National Business Analyst – 5 years	300 000
National Land Administration	300 000
Cadastral Component	188 000
Land Register Component	367 200
Revenue Calculation Component	126 200
Land Allocation Component	621 200
Lease Management Component	9 091 200
Valuation and Mass-appraisal	508 400
Land Information Dissemination Component	266 400
System Support and Maintenance	585 000
<b>Legal Improvements<sup>3</sup></b>	
National Legal Expert	99 600
National Legal Expert	45 000
<b>Institutional Reform</b>	
Management and Organization Expert	226 500
Economist	226 500
Premises and transport	700 000
Establishment of a Training Center	86 000
National and international courses	287 000

<sup>2</sup> The recommendations for making land administration more efficient in Lesotho are technical improvements. These include the development of IT-support and administrative processes

<sup>3</sup> Assistance is required for drafting a new Land Registration Law or amendments to the current Acts. For that purpose, a short term legal international and national experts should be engaged.

## **Project Component D4**

### **Automated Clearing House Strategy**

#### **1 Automated Payments, Clearing and Settlement System.**

The Lesotho Government is committed to an aggressive policy reform agenda as outlined in the PRSP (2004/05-2006/07). In this context, the government and the private sector will work together to implement the high priority reforms. It is envisaged that policy reforms will lower costs and risk of doing business in the country. The first area of reforms, which relates to the financial sector, is partly intended to lay a foundation for competition within the financial intermediation. These reforms involve the overall review and development of the legal and regulatory framework in a manner that is expected to promote participation by different institutions in banking business. This would, in turn, improve credit extension to various sectors of the economy such as agriculture, tourism, industries and small, medium and micro enterprises (SMMEs). It is also envisaged that reforms would attract foreign direct investment in the sector.

The proposed financial sector reforms will address modernisation of Lesotho's payments, clearing and settlement system. This would facilitate speedy, secure and reliable transfer of funds that is critical to ensure timely settlement of economic transactions, and thus improve the country's investment climate. Payments system's reforms are also expected to facilitate the development of a market for government securities and foreign exchange. Modernization of payment system will facilitate the following:

- Introduce a robust legal and regulatory framework that supports a modern payment system.
- Introduce new electronic payment instruments and reduce cash usage and paper-based instruments
- Automate the Clearing House
- Implement a Real Time Gross Settlement System

The work carried out on the development of the correct strategy for the automated clearinghouse in Lesotho highlighted a number of key factors which must be addressed in parallel with the implementation of the clearinghouse infrastructure. One factor affecting the initiative at every level is the potential conflict in the aspirations of two key stakeholders. This include;

- The banking community looks to reduce costs by employing a 'cooperate to compete' philosophy and, perhaps more grudgingly recognises the benefits of a shared facility for value transfer.
- The government seeks to see the objectives noted above achieved and looks to the use of the Automated Clearinghouse as a platform for the ongoing development of the retail or low-value payments systems infrastructure.

The situation in Lesotho is complicated by the following basic issues; the lack of awareness and benefits of automated payment systems on the part of the population for the use of non-cash based payment methods. The limited outreach of the financial

institutions requiring significant travel on the part of a large section of the population to the nearest point of representation.

Therefore a strategy has been developed that addresses the clearinghouse initiative in five strongly linked work-streams. These are:

- The development of retail payment strategy specifically addressing the problems noted above and creating a more ‘ACH-friendly’ environment within Lesotho.
- The implementation of the actual clearinghouse infrastructure initially focused on cheque processing but created to provide the platform for future payments systems.
- The strengthening of the payments project structure bringing more expertise to bear on the development of the retail payments infrastructure and service development.
- The harnessing of more support from the Kingdom’s government for the overall payments initiative in general and the ACH in particular.
- The implementation of a ‘future payments’ strategy based upon the development of payments services addressing the population at large, the retail sector and the large volume payment generator.

It is important to demonstrate that only by addressing these five key areas in parallel and in a structured method can the ACH hope to achieve the significant success that is expected of it.

The companion document outlining the business, operational and technical models has specified a ‘fit for purpose’ ACH facility that meets the requirements set out above and does provide a basis for future development. Subject to the final calculation of the figures it is estimated that an initial outlay to cover the capital and operational costs of **1m USD or 6.2m** should be allowed.

## **2 The Automated Clearing House Requirements**

The discussion on the basic issue of the need for an automated clearinghouse highlighted two key points, namely, the lack of penetration by the Banks in marketing financial services to the community at large within Lesotho and the inherent differences between the ambitions of the Government and the banking community and their impact on the approach to clearinghouse implementation.

There is a strong preference for the use of cash by the public in Lesotho. There are a number of strong, understandable reasons for this. Of these the primary issues are probably: tradition and culture; low understanding of the benefits of using non-cash based payment methods; there are a relatively low number of ‘points of representation’ within the country; the population struggles to identify financial services that meet their specific needs; the use of financial services is considered expensive.

Overcoming these barriers is the key to a successful implementation of the Lesotho

automated clearinghouse. However, the retail and public utility groups express significant support for the concept of an automated clearinghouse. There are three reasons that are most commonly quoted for this support:

- The handling of cash is expensive.
- The handling of cash is dangerous.
- Cashless transactions offer economies of scale with the potential to develop 'normal' credit management and receivables processing and procedures.

Discussions with the Commercial Banks indicate that there is a strong support for the automated clearinghouse. It is clear that the financial sector recognises the value of a shared facility and will work to ensure its success. Banks are responsible to shareholders for the efficient handling of their investment resulting in some return. Their responsibility to the community is a by-product of the business they are in and consequently investment in cooperative payments systems is strongly supported. The Banks primary motivation for participation in the ACH initiative is to better support the current market for payments systems in Lesotho i.e cheques. This support is influenced by the responsibility to shareholders as noted above; the 'risk adverse' nature of the industry and as a consequence they will not invest in the development of dubious or unproven markets and the low experience in cooperative exercises within the banking community in Lesotho itself; the need to reduce costs and control risk within the current cheque payment processing operations.

As a consequence the Banks equate the clearinghouse with a facility to reduce costs by sharing the infrastructure associated with cheque processing. They are willing to support the clearinghouse as a method of introducing new products to the market. Equally significant, as institutions the Banks are oriented to servicing the high value clients and this tends to mitigate against their involvement in high volume, low value payments services.

The requirement to develop, implement and operate a clearinghouse is an overwhelming one. Today the national payments system is recognised as a national asset albeit one largely owned and operated by commercial organisations. As a result it is common to see major payment reform exercises such as that currently underway in Lesotho being spearheaded by the central monetary authority. The Government wants to see payments systems that reflect the business practices common in the twenty-first century and it expects to realise significant benefits for the community from such developments.

- There will be a decrease in the use of cash.
- Risks inherent in the payments system from the slow movement of funds will be significantly reduced.
- Funds moving more quickly through the system will be available for reuse more quickly. The use of payments based upon paper or 'documents' will be progressively eliminated. The ability to collect taxes will be enhanced. Faster funds movement helps control inflation.

Therefore the benefits in the short term will accrue to the Banks as cheque processing costs are reduced and enhanced risk management results from the faster clearing of

cheques. The longer term and more strategic benefits will only accrue if the recommendation on future payments is developed and this will require effort by all of the stakeholders. The question is how the government could better support the national payments systems reform. However, there are also benefits from the implementation of electronic funds transfer service to the commercial sector and their support should be sought in order to ensure a truly national payments reform project.

#### Summary

In summary therefore, there is a convergence of interest, which if managed correctly, will result in the successful implementation of the Lesotho clearinghouse. Resolving this key issue almost certainly rests on addressing the population's propensity for the use of cash. This is the potential bridge between the conflicting ambitions of the two key stakeholders, the government and the commercial banking community. The bridge has to be created and the conflict of interests resolved because the importance of the clearinghouse within the national infrastructure cannot be overstated. Without a significant enhancement to the processing of low value, large volume payments the economic development of Lesotho will be seriously affected. Therefore in the following there is a key recommendation that is to implement an initial 'fit for purpose' clearinghouse implemented to address the current cheque flows. The recommendation is to address in parallel the development and implementation of new electronic funds transfer based services targeted at the majority of the population and responding to the very real needs of the retail sector and the large service providers.

## **Project Component D5**

### **Housing Finance Market**

#### **1 Introduction**

The purpose of this project component is to improve the state of the housing and housing finance markets, determine the capacity of the country to deliver on housing and mortgage loans in an effort to develop a conducive environment for the market to function.

The housing sector plays a critical role in both developed and undeveloped economies. It contributes to employment, the development of commercial banking and ultimately to the development of capital markets. Most importantly, an efficient housing sector increases the well-being of households and therefore contributes towards poverty reduction strategy. It does this by providing superior shelter and helping accumulate personal wealth; wealth that can be leveraged for creation of more wealth. In short, a home in a country with a functional and efficient housing market can be a household's biggest asset and a source of wealth. It is estimated that housing contributes between 15% and 25% of GDP in developed economies. This is because home construction and sales not only directly support developers but also many related industries from banking and law to manufacturers of household goods and even domestic labour.

Currently Lesotho is losing out on these economic benefits because it has virtually no housing finance market. The primary cause of this situation is the poor state of the mortgage bond and land title registration systems. These systems or constraints can delay an estate transaction by more than six years while a similar transactions in the neighbouring South Africa, can take less than 30 days. The result is that relatively few homes are produced and few mortgage loans are granted.

In an effort to address these problems the Government has identified housing as one of the key sectors for reforms. As a long term strategy the Government will focus on developing the legal and institutional infrastructure for mortgage lending. The Government will also focus on a number of steps that will need to be taken in order to develop a functional housing and housing finance market. These include:

- Physically secured mortgage bond and deeds registries. All official documentation must be placed in secure from theft and accidental loss, fire proof and flood proof storage. This will prevent the disaster of losing most, if not all the national land title records.
- Streamline the mortgage bond and title registry system. The average time for registering a mortgage bond and land title should be reduced from an average of two to six years down to less than 30 days.
- Focus on the provision of affordable housing. As a matter of public policy the Government will develop market-based solutions that help get housing to lower income households. The GoL will achieve this objective by 1) supporting the development of formal financial savings and loan products for lower income households aimed at progressively built housing and 2) providing incentives to the private sector to undertake development and management of affordable rental housing.

## 2 Lesotho's Housing Sector

The common view is that the country is experiencing a shortage of housing, particularly in the urban areas. According to the 2001 Census, Lesotho boasts a high rate of home ownership. Over half of the nation lives in substandard housing. Most homes are overcrowded, lack basic amenities such as public utilities and are in disrepair. Crowding is a characteristic of housing in Lesotho. While the average household size in the country is 4.9 people, 48.9% of the housing units consist of only one room. In urban areas the average household size is 3.7 persons per household and in rural areas it is 5.2. Based on an assumption of a need to replace 10% of the housing stock per year and a .8% annual population growth rate, it is observed that Lesotho needs to produce approximately 55,000 units per year. The demand for housing is very high.

Table 1 presents cost estimate for outstanding housing needs. Assuming a basic construction cost of \$15,000, the cost of new home construction would be approximately \$780 million or M5 billion. Assuming a 50% rehabilitation rate and \$500 per unit, the cost for rehabilitation of existing housing stock would be \$120 million or M764 million. The total cost for addressing the housing situation would be approximately \$901 million or M5.7 billion which is roughly 64.12% of GDP.

**Table 1 Cost of Required New Housing and Home Rehabilitation**

	Costs of new construction	Cost of rehabilitation	Total cost of housing	% GDP
Rural Areas	\$558,900,000	\$88,250,000	\$645,825,000	45.92%
Urban Area	\$221,545,946	\$34,189,189	\$255,735,135	18.20%
Total	\$780,445,948	\$120,439,189	\$900,885,135	64%

Most housing in Lesotho is self-built since purchasing new housing is out of the reach of most Basotho. Therefore, progressively built housing and rehabilitation of existing housing may be the best solution for improving housing stock, especially in rural areas. Construction activity in this area could provide a significant boost to the economy. However, housing construction and rehabilitation can not take place until the current land acquisition and titling system is fixed. This is described in the next section.

## 3 Land Acquisition and Titling System

The cornerstone of a functional housing and housing finance market is a functional land title system. The main purposes of a land title system are to protect property rights, to facilitate transactions in land, and to enable land to be used as collateral for a loan. A system of land title registration identifies each individual land parcel and provides confirmation by the state that the person named in the register has specified property rights in that parcel. Lesotho has clearly articulated laws, contained in the 1979 Land Act, outlining all facets of property rights. The legal system gives individuals the right to sell and pledge land. It lays out clear procedures to regularize informal tenure. It also includes requisite litigation resolution for issues such as foreclosure, eviction, property subdivision and condominium law.

Registration of land is required for any transaction that requires a change of ownership. A change of ownership can involve a trade of land, a cash transaction, sub-leasing, inheritance or posting land as collateral in transactions such as mortgage loans. Registration includes four major steps. These are: (1) conversion of land from a fee simple ownership structure to that of 99 year lease hold (per the 1979 Land Act), (2) Land survey to add to the national land cadastre, (3) registration of the mortgage bond and (4) registration in the deeds registry.

Estimates of the time to close a transaction were consistent. Specifically the time range given was 2 to 6 years. This time frame was also verified by the Commissioner of Lands well as the Registrar of Deeds. Compared to other countries this is a particularly long period of time. For example, it takes less than thirty days in South Africa to register a mortgage bond and a deed. The result is that it is difficult, if not impossible for commercial developers to build and/or sell housing in Lesotho. Two to six year holding costs make transactions extremely costly. There appear to be at least three major bottle necks:

- Lack of computer information systems. All sets in the recording of both the mortgage bond and the deed are done manually in paper book entry journals.
- Lack of a complete land cadastre. In many cases the process gets held up because the Commissioner of Lands must wait for a survey team to complete a land survey.
- Administrative delays in final approval of mortgage bonds and to a much lesser extent land deeds. Ministerial level approval is needed for the registration of mortgage bonds and land deeds. This can lead to delays due to the number of applications that must be reviewed and approved.

The basic process for registering a mortgage and land deed is as follows:

- The 1979 land act eliminated freehold and replaced all land as 99 year leasehold. If the land is still registered as freehold it must be converted, administratively, to leasehold (certification of allocation). This process can take years particularly if the land is referred to a surveying team.
- Once the certification of allocation is obtained the mortgage bond registration gets processed. This requires physical processing and updating of paper files in the Ministry of Lands (Office of the Commissioner of Lands) and then referral to the Minister of Local Governments for approval. This process can take years also.
- Once the mortgage bond has been registered the deed can be recorded. The registrar of deeds receives a copy of the mortgage bond file from the Commissioner of Lands. The registrar then records the deed in a paper deeds registry. Once the mortgage bond is registered and the deed entered a real estate transaction can be completed. In the case of a home with a mortgage, a bank can fund the mortgage loan once the process is completed.

In order to address the land title system, the Government of Lesotho will concentrate on two things; Streamline the procedure for land registration. Automation of both the mortgage registration process as well as the deeds registry. There are two major steps to this process. First is the digitization of the current paper files and then proper archival of

the original files. The second part is to install an electronic process management system. There are many vendors of turnkey solutions that can be installed in Lesotho. Any solution should include: (1) Process analysis and design; (2) Digitization; (3) Software installation and (4) extensive training of staff.

#### **4 Housing Finance System**

The housing finance sector of Lesotho is extremely small. The formal banking system produces less than 100 mortgages per year.<sup>4</sup> The outstanding mortgage loans in the entire housing finance system are around 500. While the banks have liquidity and a strong desire to originate residential mortgages, they are unable to do so primarily because of an inability to register mortgage bonds (mortgages) and register leases and deeds; the average time to complete the registration process is between two and six years.

This is due primarily to the fact that it is very difficult to register a mortgage and secure land title (described above) and also due to the relatively small number of households that can afford formal mortgage finance. Nevertheless, Lesotho has some of the basic prerequisites for a functional housing market such as: (1) a relatively stable interest rate environment, (2) commercial bank appetite for mortgage lending (3) pent-up demand for housing and (4) a basic legal framework that allows collateralized lending as well as foreclosure and in some cases eviction.

Banks are extremely interested in mortgage lending. Once the land title problem is fixed banks will most likely begin lending in earnest. Bankers believe that if a functional mortgage market existed, many expatriates currently living in South Africa would resettle in Maseru contributing to a potential mini-boon for the local economy.

As a matter of national security the GOL will first develop a secure facility for its deeds registry in order to directly address its critical housing shortage. Subsequently, the GOL will embark on a program that begins first with shortening the time to register a mortgage bond and the corresponding deed. On the land titling and registration issue have been addressed, the country will succeed in providing an adequate level of housing for any income demographic. After this situation has been adequately addressed the GOL will embark on a program to address the provision of affordable housing rather than formal mortgage finance. The reason is that the average household can not afford a typical mortgage. Furthermore, it is highly likely that once the mortgage bond/deed registration system is fixed, the private sector will naturally begin originating construction loans mortgages to those who can afford them.

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<sup>4</sup> Interview with NedBank 9/28/05.

## **Project Component D6**

### **The Life-Stock Microchip Project**

#### **1 Background**

Livestock ownership forms an intrinsic and sacrosanct aspect of the Basotho culture and as such it is an indispensable part of the fabric of life in Lesotho. Likewise, it performs a well-recognised vital function in the economic stability of the country. For generations (since the arrival of the British Colonials in 1871), Basotho men have gone to the RSA mines to raise capital to supplement for their needs in Lesotho, acquiring RSA livestock in the process. Livestock rearing have been acknowledged as the most suitable and profitable means of maintaining wealth in rural Lesotho, making the most out of the mountainous grassland, abundantly available in the highlands. Progressively, livestock became the distinctive “rural investment” and a “household income”, and to present day is central to rural life in Lesotho. The livestock role in rural development has been succinctly described as no livestock, no wealth, no Lesotho.

Presently, rural Lesotho is under perpetual economic pressure and instability, bred by violence and poverty. This insecurity is founded on the fact that livestock in Lesotho in monetary terms, is neither quantified nor identified, and consequently livestock ownership and assets do not form, nor feature as part of Lesotho’s economy, nor its GDP!

Acceptably, there are some 2.5 – 3.1 million animals in Lesotho, worth some M2.5 billion; a massive resource that, using modern technology, could be identified and microchipped and would consequently facilitate a collateralization process that would in-turn, enable the rural community to utilize its own existing assets as a source and access to finance. It was therefore proposed that livestock identification and production and its primary high value cash products such as wool and mohair, skins and hides, etc, owned and driven by the farming rural community, along proven farming methodologies, is a far better paradigm to a sustainable and growing national economic development and poverty alleviation, as envisioned in the Poverty Reduction Strategy paradigm and Vision 2020 than the urbanised and declining production-line that provides transitory employment.

This proposed food and livestock production above, and the value chain that will arise out of that production, when properly addressed on a commercial basis, will bring about a positive collateral affect on the national economy and the private sector in particular, and shall in turn cause an upturn economic growth, improve livestock resource management, resistance to poverty and economic regeneration of Lesotho.

Moreover, with the continuous retrenchment of Basotho miners in the RSA, remuneration that sustained the rural community for generations had been drying up, and livestock, being the only (visible) wealth in the mountains had been stolen at an alarming rate. It is estimated that over the past 15 years, stock worth some M250 million had been stolen, and while many animals had been recovered and impounded by the Lesotho Police, lack of proper identification resulted in these animals being impounded for life – resulting in death. This has undoubtedly been contributing to the downwards economic spiralling

knock-on effect that saw rural life being impoverished, agricultural and livestock productivity diminished and rural to urban migration that resulted in homelessness, crime and pressure on urban infrastructure.

Clearly, in an impoverished country lacking a well-developed indigenous private sector - where urban-based, transitory, large-scale foreign industries employ insignificant numbers of Basotho, at meagre salaries - there must be a fundamental search for a better and clearer sense of development that can have an impact on the lives of rural Basotho in their own communities. Thus, we found ourselves searching, in order to embrace new innovative economic restructuring that will alleviate poverty and advance the cause and life of Basotho people in their own country.

## **2 Objectives of the Project**

The overall objective of the project is to secure and identify livestock that will in turn, facilitate many subsequent activities, resulting in poverty reduction and alleviation, generate and improve income, wealth, and the quality of life for individuals, households and the community. The specific objectives which will arise from the main objective include; to facilitate and make a deep, broad and lasting contribution to the national goal of sustainable socio-economic growth and poverty alleviation, to facilitate self-reliance and self-sufficiency, and the development of sustainable economic activities, to facilitate grass-root training and strengthening, to facilitate asset recognition that will create an 'accountable' asset that can be used as collateral for loans, to facilitate secured livestock ownership, to coordinate wool-shed development programme such that farmers and livestock are better off, to guide and facilitate development in ways that do not impact negatively on the environment and, enhance the status of vulnerable groups, especially women and children and those affected by the HIV,

## **3 Economic Benefits**

The Economic benefits that will result with the micro-chipping project will be the facilitation self-reliance and self-sufficiency, and the development of sustainable economic activities, to re-introduce secure livestock activity in the country, identification and registration data-network will establish ownership and Suppress stock theft, to secure livelihood of small holders, women and youth, to improve food security support poverty alleviation, to facilitate rural financing schemes, positive knock-on effect on the rural economy, improve market beneficiation and Stock control, to optimize Ministry of Agriculture (MOA) services - health/planning, range management carrying capacity,

## **.4 Expected Economic Output**

The basic means for verifying whether these objectives will be accomplished include looking at the following indicators: reduction in stock theft, an increased income, wealth, increased security and identification of livestock increased size of herd and value chain out-put, increased social welfare nutritional status, education, health and literacy, recognizable local human resource capable of managing their assets, financial self-sufficiency, investments in profitable activities, insignificant physical environment degradation, measurable improvements in economic status,

## **5 Activities for Implementation,**

As promoters for the microchip, Camelot (PTY) Ltd calls for a suitable agricultural private sector initiative to coordinate and facilitate the required transformation essential for the upgrading of farmers' livelihood and assets. The upgrading methodology will entail the physical and financial participation and commitment of the community; the provision of hands-on expertise, the parting and managing of the transfer of theoretical and practical knowledge and proficiency to the emerging farmers, in the various sectors. The process of knowledge transfer would be participatory and consultative under a suitable teaching and practical environment. A register of properly identified livestock, recognised by the banking system, will facilitate the incorporation of these farming assets, in monetary terms, into the national economy.

Develop and implement a rural financial service program, assuming the feasibility study so finds such a program appropriate, establish a comprehensive database of livestock and ownership through the implanting of microchip in all animals, obtain the required documentation demonstrating ownership of the above, establish a marketing intelligence system; this is to acquire the information necessary and the target group to know what potential and opportunities exist, establish a network of resources with other development institutions and universities, re-orient all skill transfer programs with the objective of trainees obtaining marketable competencies for employment and business,

“In the districts of Qacha's Nek and Mokhotlong, the social cohesion and 70% of the rural economy are based on livestock rearing, the cycle of poverty has spiralled out of control, because of an epidemic of stock-theft and corruption”. “Suspicious of corruption and collaboration between perpetrators, chiefs and local break down trust between functionaries, individuals and groups. The difficulty of irrefutably identifying stock prevents successful recovery and prosecution, and leads to helplessness and deepening poverty. Lawlessness escalates as victims resort to illegal means of restitution and revenge; people are killed. “Supported by DFID (UK), with the cooperation of the Lesotho Mounted Police Service (LMPS), a micro-chipping pilot project was set up in the Qacha's Nek and Mokhotlong districts in October 2004. Based on extensive consultation and wide ranging workshops in 20 villages involving 197 respondents, it was established that 4 out of 10 animals get stolen, and less than 1 out of 10 stolen animals ever gets back to its rightful owner. Nationally the recovery rate is some 35%, but only 20% of these animals are identifiable, and then not always conclusively because branding and tattoos can be tampered with or even totally obliterated, as a result the pounds are full of unidentifiable and unproductive animals that have effectively been removed from the economy. This does not only deal with cattle, but also with sheep, goats, donkeys and horses as well. As a result of the project, 99% of respondents demonstrated clear enthusiasm for using microchip technology as the best sustainable solution to prevent or reduce stock theft, with 87% stating that - despite their impoverishment - they would be willing to sell one or more of their animals in order to pay for microchips in the rest. Moreover, 98% of Respondents thought it would help the LMPS recover stolen animals. Most respondents, from both Districts, did however express the view that they expected Government support with the cost of inserting microchips into existing herds, but would be happy to pay for doing their new-borns thereafter on an ongoing basis”.

