Evaluation of the European Union's Cooperation with Lesotho 2008-2013

Final report

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The opinions expressed in this document represent the authors' point of view, which is not necessarily shared by the European Commission or by the authorities of the concerned countries.

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List of acronyms

ACP	Africa, Caribbean, Pacific
AGOA	African Growth and Opportunity Act
BS	Budget Support
BoS	Bureau of Statistics
CB	Capacity building
CGP	Child Grant Program
CMA	Common Monetary Area
COP	Cash Community of Practice
CRIS	Common RELEX Information System
CSP	Country Strategy Paper
DCI	Development Cooperation Instrument
DDNSASP	Deepening Decentralisation and Non-State Actors Support Programme
DEVCO	EuropeAid Development and Cooperation
DFID	Department for International Development
DG	Directorate General
DP	Development Partner
DMA	Disaster Management Authority
DSW	Department of Social Work
DWH	Data warehouse
DRWS	Department of Rural Water Supply
EAMR	External Assistance Management Reports
EBA	Everything But Arms
EC	European Commission
ECHO	Humanitarian Aid and Civil Protection department of the European Commission.
EDAL	European Development Association in Lesotho
EDF	European Development Fund
EEAS	European External Action Service
EIB	European Investment Bank
EIDHR	European Instrument for Democracy and Human Rights
EPA	Economic Partnership Agreement
EQ	Evaluation Question
ETR	End-term reviews
EU	European Union

EUD	European Union Delegation
FA	Financing Agreement
FT	Fixed Tranche
GBS	General budget support
GDP	Gross domestic product
GNI	Gross national income
HDI	Human Development Index
HIV/AIDS	Human immunodeficiency virus infection / acquired immunodeficiency syndrome
HQ	Head quarter
I	Indicator
IL	Intervention Logic
IMF	International Monetary Fund
IRSC	Improvement Reform Steering Committee
JAR	Joint Annual Review
JC	Judgment Criterion
LGNSP	Local Governance & Non-State Actors Support Programme
LNSPS	Lesotho National Social Protection Strategy
LRA	Lesotho Revenue Authority
LWSIS	Lesotho Water Sector Information System
LWSSP	Lesotho Water and Sanitation Sector Project (EU funded)
LWSSPSP	Lesotho Water and Sanitation Sector Policy Support Programme (EU funded)
MCC	Millennium Challenge Corporation
MDG	Millennium Development Goals
MEMWA	Ministry of Energy, Meteorology and Water Affairs
MoLGC	Ministry of Local Government and Chieftainship
MoSD	Ministry of Social Development
MTEF	Medium Term Expenditure Framework
MTR	Mid-Term Review
NIP	National Indicative Programmes
NISSA	National Information System on Social Support
NSA	Non State Actors
NSDP	National Strategic Development Plan
ODA	Official Development Aid
OECD-DAC	Organisation for Economic Cooperation and Development/Development Assistance Committee
O&M	Organisation and Management

OVC	Orphans and Vulnerable Children
PAF	Performance Assessment Framework
PFM	Public Financial Management
PMT	Proxy Means Test
PRBS	Poverty Reduction Budget Support
PRS	Poverty Reduction Strategy
PRSP	Poverty Reduction Strategy Paper
PSD	Private Sector Development
PSIP	Public Sector Investment Programme
RG	Reference Group
RIDSP	Regional Indicative Strategic Development Plan
ROM	Results-Oriented Monitoring
RSP	Regional Strategy Paper
SACU	Southern African Customs Union
SADC	Southern African Development Community
SBS	Sector budget support
SOP	Standard Operating Procedures
SSA	Sub- Saharan Africa
TA	Technical assistance
TDCA	Trade Development and Cooperation Agreement
TOR	Terms of Reference
TRC	Transformation Resource Centre
UNICEF	United Nations Children's Fund

Executive summary

Purpose

The European Union (EU) has commissioned ADE to conduct an independent evaluation of its cooperation with Lesotho between 2008-2013. The main objective is to provide the EU with information on the results of its engagement in Lesotho and the lessons to be learned to improve its current and future cooperation. With this purpose in mind, the evaluation mainly focused on the relevance and the efficiency of the strategy, the effectiveness and impacts of cooperation, and on key issues of cooperation including regional leverage, support to social protection, water supply and sanitation, and budget support. It also addressed matters of coordination, the mix of instruments and types of aid, as well as the effect of institutional changes within the EU.

Methodology

The evaluation used a rigorous methodology following specific steps over a 12-month period. A large number of documents and data were studied in order to cross-reference information and provide a solid basis for analysis. Over 120 people were consulted via interviews in Brussels, Maseru, South Africa, Botswana and Namibia. The evaluation process has been followed by a Reference Group consisting of representatives of various EU services and the Embassy of Lesotho in Brussels.

Context

National context

Lesotho, a small mountainous Kingdom forming an enclave within South Africa, is a lower income country (GDP/capita of US$1504 in 2012) of just under 2 million. It heavily depends on its much larger and fivefold richer neighbour, South Africa. Lesotho's macro-economic performance over 2008-2013 has been good (4.8% average annual growth) but falling short of levels aimed for in the national Poverty Reduction Strategy. Its public policies had no impact on poverty reduction (57% of the population was poor in 2011) or improving social outcomes which have been overshadowed by the continued spread of HIV/AIDS (affecting 23% of the population and 58.6% of women). Over the last decade, many of Lesotho's social indicators in education and health, its human development index, poverty levels and income inequalities have deteriorated. Progress towards Millennium Development Goals has been limited.

The country is dominated by its public sector (public expenditure represents 63% of GDP in 2011), of which more than half is financed by Southern African Custom Unions revenues. It is highly dependent on South Africa in all matters ranging from monetary, budgetary or trade policies to social aspects. With very limited domestic resources beyond its labour force, water and, to some extent, diamonds, Lesotho's development is firmly anchored to that of South Africa and its development prospects are highly dependent on its relations with this much larger neighbour.

International cooperation

Lesotho received a total of one billion dollars in official development aid over the period 2008-2012 (1 071M US$). Donors mainly intervened in social infrastructure and services, including water supply and sanitation, and education. The two main donors over that period were the USA and the Global fund. The cooperation of the European Union and its Member States, Ireland and Germany in particular, amounted to one-third of total aid (34%) during the 2008-2012 period. Ireland maintained strong bilateral cooperation with Lesotho, although the Irish Aid office closed down in 2014 and announced that it would drastically reduce its aid portfolio following an external evaluation of its cooperation with Lesotho in 2013. Germany and the UK are also active in the country, although only Germany maintained a physical presence on the ground in 2014 (GIZ Office Lesotho will also be closed down in 2015).

The engagement of the EU amounted to 218 M € over the six year period under review (20% of total Official Development Aid disbursed over the period). EU support was directed towards general budget support and macro-economic support (41%), water and sanitation (30%), road transport (11%) and human development (6.5%).

Overall assessment

For the past two decades, the EU's engagement has been focusing on the country (vs. regional) level and on development cooperation only, thereby reflecting the geo-political context of Lesotho in the post-apartheid era. However, this strategic approach took insufficient account of Lesotho's very specific development challenges linked to it being an enclave within South Africa and being highly dependent on South Africa. Possibilities of EU funding of regional cooperation and bilateral Lesotho-South Africa initiatives are limited: Protocol 3 of the Cotonou Agreement made special provisions for South Africa, giving both countries differentiated access to regional envelopes, different trade agreements were made (with a specific one for South Africa, whereas Lesotho fell under the all-ACP category) and different EPA arrangements were negotiated for South Africa and Lesotho. There was thus no easy mechanism by which the EU could support initiatives benefiting both countries with the same instrument. This led to country-only cooperation as a default choice, even though the achievements of this cooperation were found by this evaluation to be mixed in terms of effectiveness and sustainability.

Projects (such as the support to the expansion of water and sanitation or to orphaned and vulnerable children following HIV/AIDS in the family) delivered positive results, and a contribution albeit limited was made to improvements in these areas. Being projects, however, such contributions came at considerable management costs for a very small EUD with limited staffing resources. Budget support was also used in Lesotho, effectively amounting to just over half the EU's contracted cooperation portfolio over the period 2008-2013. Budget Support reflected the EU's confidence in the Government's own systems, organisation and policies by providing additional resources for the implementation of the Government's Poverty Reduction Strategy; however, budget support failed to trigger improvements in public policies, institutions, spending and service delivery, and Lesotho's Poverty Reduction Strategy remained poorly implemented and did not deliver improved social and poverty outcomes. On the contrary, Lesotho experienced increased discrepancies between rich and poor people, and many social indicators in health and education deteriorated during the period. The evaluation found that the main constraints to the achievement of results were the lack of progress in essential reforms and the weaknesses of the public administration, both stemming from a weak government commitment to reform.

In the face of mixed cooperation results and with the knowledge that Lesotho's development challenges are found both in the Government's commitment to reform and beyond the border in the links between Lesotho and South Africa, the strategic direction of EU cooperation should be reconsidered: there is a call to change EU engagement with Lesotho from a solely country-based development cooperation, to a wider view of cooperation including the consideration of Lesotho in its regional context and widening cooperation to the political, diplomatic, trade and other areas. However, ensuring that EU support effectively reaches the poor in Lesotho will be very difficult considering the limited capacities of NSA and the very limited staffing of the EU Delegation at present. Opening the regional window and enlarging the scope of cooperation will be equally difficult: in addition to the above mentioned severe staffing limitations of the EUD, other constraints will need to be overcome, such as the uncertain political relations between Lesotho and South Africa and the lack of appropriate EU financing instruments accessible to both countries. Given these constraints, the evaluation has drawn the following conclusions and proposes the following recommendations.

Conclusions

The evaluation distinguishes ten conclusions pertaining to the relevance of the cooperation strategy; the contextual factors of importance; the outcomes, impact and sustainability of EU cooperation; and the efficiency of implementation and financing modalities of EU aid.

Conclusions on strategy relevance:

The evaluation concluded that the **European Community's engagement with Lesotho was appropriate to the geopolitical, post apartheid, context of the mid 1990s** when relations between Lesotho and South Africa were difficult: the EU followed Lesotho's 'isolationist' stand and adopted a purely country-based development cooperation approach. **More recently, in the mid 2010s, the changed context provides a unique opportunity to set a new direction for EU engagement**:

- shifts are perceived in the regional political economy, in particular with the renewed dynamism of the Joint Bilateral Commission of Cooperation between Lesotho and South Africa, the strategic interest of South Africa in Lesotho (South Africa depends on Lesotho for water), South Africa's mediation to keep peace in Lesotho, and interest expressed at administrative levels to undertake joint initiatives;
- the donor landscape in Lesotho is favourable with the EU Delegation being one of the few donors present in Lesotho and the only EU representative as from 2015, thus making the EU Delegation's voice better heard;
- since the Treaty of Lisbon (2009) and the establishment of the External Action Service, the European Union has a new political role and new responsibilities.

In the absence of a suitable regional cooperation instrument, the **EU's current approach to support Lesotho via the national envelope has not been able to adequately address Lesotho's specific developmental challenges, nor take into account its unique position within the region, or the relationship with South Africa**. The EU's regional programme supported economic and trade integration that could but yield very limited benefits to Lesotho, whilst support to other areas of regional cooperation (such as regional approaches to the HIV pandemic, the youth unemployment problem, food security) might have been of more interest to Lesotho. What is more, the EU's country programme did not address the challenges of private sector development and trade, which, if unlocked, carry great potential for Lesotho to spur its development with the very large South African market easily accessible. **There is keen awareness within South Africa,**

Southern African Custom Union and the EU Delegations of existing constraints and a willingness to find appropriate solutions.

The programming of country cooperation responded to needs but could have taken better account of local and sector priorities, constraints and experience: Government priorities and capacities, sector developments, Delegation resources, local conditions for aid effectiveness, lessons from past cooperation experience had little influence over the choice of aid modalities and instruments. **The choice of sectors and instruments was heavily influenced by policy directions from headquarters**.

Conclusions on outcomes, impacts and sustainability:

The weaknesses of public administration in Lesotho have overshadowed the potential effectiveness and sustainability of EU aid. The Government has been the main vehicle for EU aid implementation but has been challenged to implement its own policies and reach its own targets. The main constraint to effective policy implementation has been the inability of the public service to function in an efficient and effective manner due to its high degree of politicisation. Lesotho suffers from the fact that neither the Parliament, nor the civil society organisations nor the general population are able to hold the Government accountable for its actions: **the overall lack of accountability of the public service undermines the effectiveness of the services it delivers.**

Regarding social protection, EU support has been instrumental in shaping the national social protection system, which was built on the experience of the Child Grant Programme, then taken over by the Government and expanded to national level. **The effectiveness and sustainability of the Child Grant Programme were not entirely ensured when it was transferred to the Government,** as key decisions still needed to be taken regarding issues such as the coverage (census or targeted form) and frequency of updating of the NISSA, the introduction of checks and balances, cash transfer delivery mechanisms and the choice of supply-side measures to ensure effectiveness**. Altogether, the Child Grant Program has been an excellent source of learning, and contributed to the development of good practice both within the OECD/DAC countries and the Cash Community of Practice.**

The EU played a key role in the water sector through its long-term involvement. **Through the 9th European Development Fund (EDF) projects, the EU contributed to improved water service delivery and environmental protection. The effectiveness of its budget support was limited** in terms of improved planning, monitoring and service delivery, but contributed strongly **to better sector coordination.**

The implementation of budget support was triggered by the macro-fiscal framework (sudden temporary deterioration in Lesotho's otherwise structurally sound fiscal position). **The provision of budget support took insufficient account of the weaknesses of public administration which jeopardised the successful implementation of public policy, and thus of budget support** as illustrated by the steady deterioration of Government performance in reaching its development targets over the period (with a slight improvement in 2013). Similarly, **the effectiveness and sustainability of technical assistance support in public financial management (part of budget support) were undermined by the weakness of public administration in general and the management of public human resources in particular.**

The important role of the non-state actors, both as service providers and as vehicles for improved accountability and governance, **has been recognised by the EU and support to strengthen their capacities has been provided. However, the sustainability of non-State actors as service providers has not yet been ensured.**

Conclusion on Efficiency of implementation and financing modalities:

The evaluation concluded that **staffing levels and expertise of the Delegation were not attuned to the management requirements of its workload and the extent of its involvement,** and this worsened with the added responsibility for political dialogue. Nevertheless, current circumstances could turn the Lesotho Delegation into an example of what the EU could contribute with its new political weight if the Delegation were to be properly staffed.

Recommendations

On the basis of these conclusions, the study provides the EU with a series of recommendations for improving its engagement with the country. They aim at offering useful strategic and operational approaches for the implementation of the new planning, as well as to inform future reflections regarding EU engagement. They are structured around three clusters: strategy; sectors; and management.

Recommendations at the strategic level:

The first recommendation is that **future EU cooperation approach should combine national and sub-regional development cooperation, with a proactive political dialogue, including with South Africa, and facilitation of private sector investment and trade with South Africa**. To facilitate this reorientation of EU engagement, the following could be contemplated: the recruitment of a political officer or a political economist with knowledge of the region at the Delegation in order for political dialogue to assume a dynamic role in cooperation relations; the possibility of developing a new financing instrument that could be accessed by both countries and would not require passing through a regional body; potential cooperation with existing institutions (governments, donors, development banks, civil society organisations) and participation in existing initiatives that span across the Lesotho-South Africa border; use political and policy dialogue, trade agreements/advice/promotion and funding of activities to develop and strengthen Lesotho's competitiveness with a view to help it tap the huge potential of the South African market. The way forward should take account of the limited Delegation staffing and the constraint of only three focal sectors for EU-Lesotho cooperation.

The EU should make use of the momentum created by the changing political context in Lesotho, the new political role conferred to the EU by the Lisbon Treaty and its unique position as sole EU donor representation in Lesotho to **place political dialogue on civil service reform at the forefront of cooperation, and reassess the priorities of the cooperation portfolio**. The Delegation should define a long-term strategy for political dialogue with clear objectives and achievements; it should also streamline its cooperation to operations which have proven to be most effective.

The continuation and future use of budget support in Lesotho should be reconsidered in light of the Government's past lack of progress in implementing its own policies. A critical review of the eligibility of Lesotho for budget support is recommended as well as a revival of dynamic policy dialogue with the authorities, and the recruitment of a PFM expert to strengthen the Delegation's team on budget and PFM aspects. If Lesotho is found eligible for further budget support, then it is advised to provide it with a **focus on sector-level support and on sector performance in order to** incentivise the implementation of sector policy reforms and sector improvements.

Recommendations at the sector level:

First, **supporting the fight against the spread of HIV/AIDS in Lesotho through lobbying for better prevention** is recommended. *Lesotho has the second highest number of new infections of HIV/AIDS per capita worldwide.* HIV/AIDS continues to be the single largest threat to Lesotho's future development and requires immediate attention and concerted and renewed support from the donor community, the Government and the population. Actions to be undertaken could include advocacy for increased Government and community attention to, and support for, HIV prevention and care, in the communities and at the workplace, as well as advocacy to couple social protection with prevention measures such as using the Child Grant Program to mobilize communities, the media and decentralised governance systems for prevention.

Regarding social protection, measures ought to be put in place to **ensure that the social protection system which the EU helped set up**, then transferred to Government of Lesotho, **is effective and sustainable**. The EU started an important initiative that has long-term financial and social implications. It should ensure that its conditions for success are present.

The EU should **continue supporting the water sector with both project and, should conditions be right, sector-wide funding** and should encourage inclusion of water & sanitation sciences in the high school curriculum and, if practical, at tertiary level. Funding a part of the Lowlands Water Supply Scheme should be considered. If a sector budget support is to be provided to the sector, then it should be tightly linked to sector performance, thus requiring an operational sector information system.

The EU should **assess the added value of continuing technical assistance provision** in a context where the civil service lacks a human resource management strategy and where the public administration is extremely weak due to politicisation: evaluations of previous technical assistance programmes in the field of governance had identified these causes as having negatively affected the effectiveness of technical assistance in Lesotho.

Regarding support to non-State actors, it is recommended that the EU **continues to fund non-state actors** in Lesotho, whilst continuing to gradually build their capacity. NSA have limited capacity, but also play a valuable role in advocacy, in holding the Government accountable, and in service delivery. The withdrawal of some international non-State actors from Lesotho and the dependence of some non-State actors on limited donor funding highlights their fragility, and the need for mentoring and support.

Cross-cutting recommendations on management:

The final recommendation concerns the **staffing resources in the Delegation. These should be better aligned to meet the challenges of Lesotho and the EU's ambition in Lesotho.** Staffing resources are based on worldwide benchmarks and amounts disbursed and number/type of contracts. They need to take into account the Delegation's unique position and its ambition to deepen sub-regional cooperation.

1. Introduction

This evaluation of the European Commission's cooperation with Lesotho has been commissioned by the Directorate-General for Development and Cooperation – EuropeAid Evaluation Unit. The evaluation focuses on the 2008-2013 period, covering the 10th EDF. It was undertaken over the period May 2014 to June 2015 with the draft final report being produced in January 2015. The main field work was carried out in November 2014, following the *alleged attempted* coup d'Etat of 30th August 2014, in a period of political uncertainty before anticipated elections were due to be held in February 2015.

This introduction summarises the objectives, scope, process and methodology of the evaluation. It also presents the context in which EU-Lesotho cooperation took place. The report then provides the response to the Evaluation Questions (EQs) along the following lines:

- Section 2 presents the EU's rationale and logic for intervening in Lesotho (EQs 1 to 3);
- Section 3 discusses the effectiveness of EU cooperation and the sustainability of its results (EQs 4 to 7);
- Section 4 analyses the efficiency of EU cooperation implementation (EQs 8 and 9);
- Section 5 presents an overall assessment and the conclusions of the evaluation; and,
- Section 6 presents the recommendations.

1.1 Objectives and scope of the evaluation

The purposes of the current evaluation of the European Union's (EU) cooperation strategy with Lesotho over the period of 2008-2013 and its implementation are (see terms of reference - TOR in Annex 1):

- To ensure accountability over the use of development cooperation funding, the relevance of the strategy, the effectiveness and impacts of cooperation (financial or not), and its efficiency.
- To provide recommendations on the basis of this assessment, so as to inform EU decision-making on current and future strategies and programming. In addition, attention is paid to facilitating learning and lesson sharing with key parties involved at EU and country level.

The evaluation scope comprises overall EU engagement with Lesotho, while focusing on cooperation strategy and implementation:

- In institutional terms, within the EU, all DG DEVCO engagement, the political and policy dialogue led by EEAS; the interface of DEVCO's engagement with DG ECHO and with the EIB; and any other key EU engagements;
- Both spending and non-spending engagements (i.e. projects; programmes; initiatives; dialogue, both policy development and political; national; regional…);
- Strategic direction and objectives and their relevance, complementarity, coordination, coherence; strategic resources and their management to deliver pursued objectives; strategic effectiveness of engagement;
- Sustainability and impact of changes supported and the EU's added value.

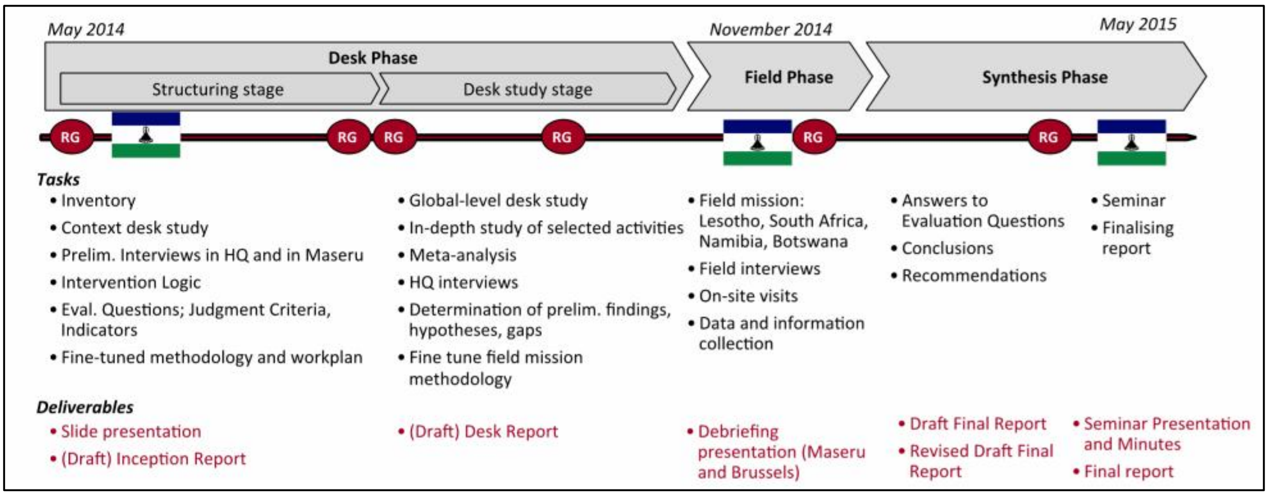
The time scope of the evaluation is the period 2008-2013. The main focus of the evaluation was the 10th EDF Country Strategy Programme (CSP 2008-2013); projects from the earlier 2000-2007 CSP still under implementation during 2008-2013 and the strategic choices made for the upcoming 2014-2020 CSP were also considered. This provided understanding of strategic directions of EU-Lesotho cooperation and of the rationale and relevance of the programmes, projects and activities implemented during the period under review (see also inception and desk reports of this evaluation).

Over 2008-2013, EU support to Lesotho amounted to €218 million (contract basis), of which 80% was contracted in three years (2010, 2012 and 2013) and was linked to budget support (BS) disbursements. EDF accounted for 98% of disbursements with more than two thirds linked to EDF 10. Other specific budget lines used in Lesotho include those supporting non-State actors (DCI/NSAPVD), food aid (DCI-Food), health (DCI-Santé) and democracy and human rights (EIDHR). Annex 3 provides the inventory of EU interventions over the period.

1.2 Evaluation process

The evaluation process followed the three phases described in the TOR, illustrated in the figure below with the main activities, deliverables, Reference Group (RG) meetings, and field work in Lesotho.

Figure 1 – The evaluation process

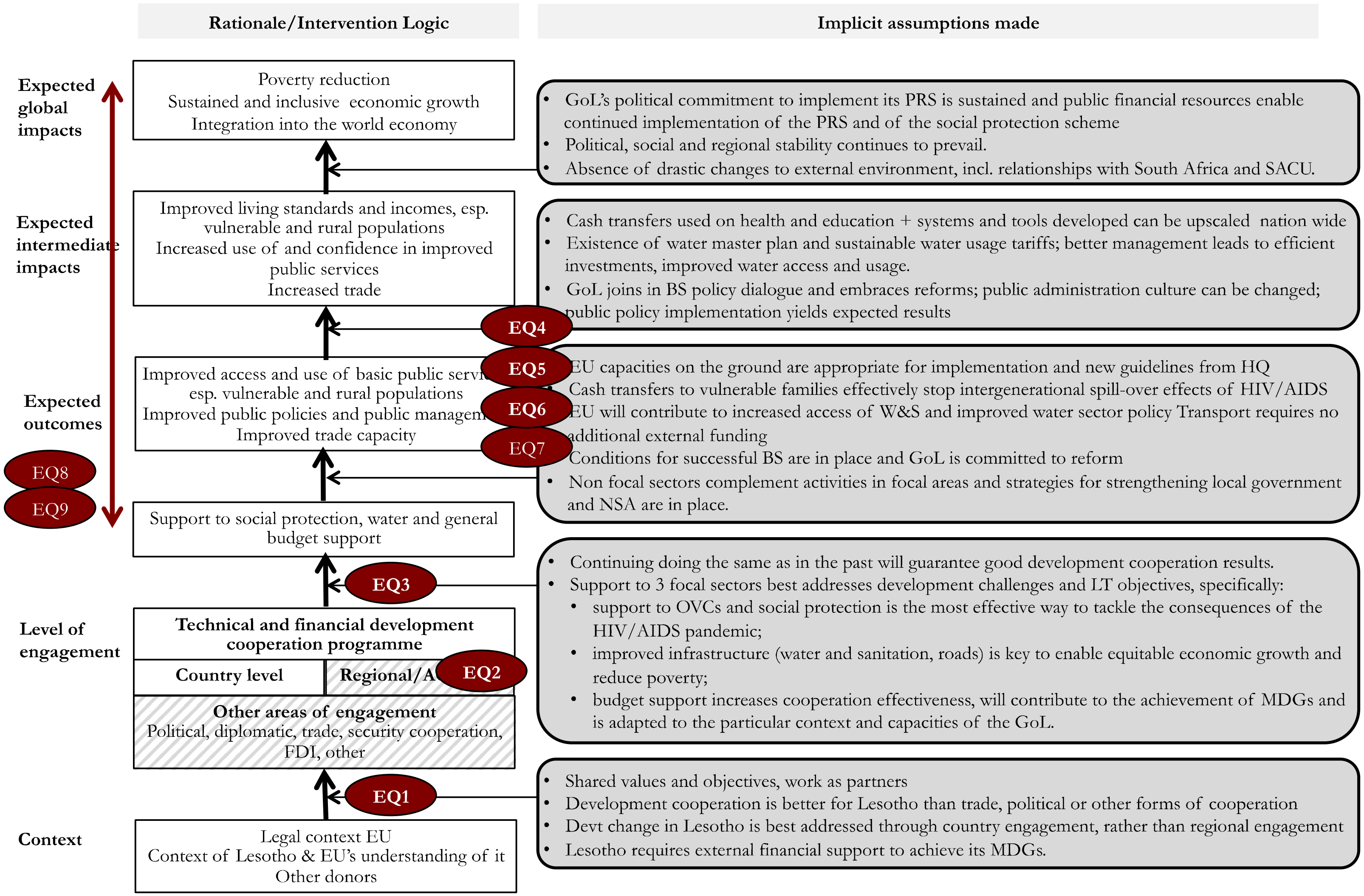


1.3 Evaluation methodology

The methodology used for the evaluation follows EuropeAid methodological guidelines and is based on ADE good practices developed for country-level evaluations. The evaluation of the BS component of the cooperation programme followed the first step of the OECD/DAC methodology for evaluating BS. The evaluation methodology is presented in detail in Annex 2; its main features are as follows. The evaluation framework relies on two building blocks developed during the structuring stage and refined during the desk stage:

- the rationale and the Intervention Logic of the EU strategy with Lesotho for the period 2008-2013 (see Figure 2): it provided the framework for the formulation of the EQs, and,
- the inventory of EU cooperation with Lesotho (presented in Annex 3): it provided the scope of EU cooperation for all the financial instruments and was the basis for the selection of areas and interventions analysed during the evaluation.

Figure 2 – Evaluation Questions and the Intervention Logic



Source: ADE

The EQs cover the traditional DAC criteria as well as Commission added value and the 3Cs. The nine EQs are presented above (Figure 2) at the different levels of the reconstructed intervention logic and are summarised in Table 1. The full set of EQs with their judgment criteria (JC) and quantitative or qualitative indicators (I) are presented in Annex 2.

The EQs were formulated taking account of the main issues mentioned in the TOR and by the different stakeholders met during the first phase of the evaluation. To reflect the strategic nature of this evaluation, considerable attention was given to questioning the level and type of EU engagement with Lesotho:

- was it reasonable, given Lesotho's context, to assume that development challenges could best be addressed through a focus on development cooperation rather than on other forms of cooperation?
- was country level cooperation, rather than regional engagement, the best lever for development change in Lesotho?
- were Lesotho's development objectives best served by concentrating development cooperation on social protection, water and sanitation, and public governance?

Table 1 – The Evaluation questions

EQ1 on the rationale of EU involvement in Lesotho
To what extent has the EU's involvement in Lesotho been appropriate considering the EU's policies and comparative advantage and Lesotho's context and performance?
EQ2 on Regional Leverage
Could a stronger regional approach provide the EU with greater leverage for sustainable development change in Lesotho and if so, to what extent?
EQ3 on relevance and coherence of sector choices
To what extent were the choices of focal sectors and the projects and programmes under the 10th and 11th EDF an appropriate response to Lesotho's priorities and challenges?
EQ4 on social protection
To what extent has the EU contributed to human development through supporting the development of appropriate social protection measures in Lesotho?
EQ5 on water and sanitation
To what extent did the EU's support to the water and sanitation sector contribute to improved sector management resulting in better service delivery, increased usage and ultimately reduced poverty and improved health?
EQ6 on budget support
To what extent has budget support contributed to improved public policies and spending?
EQ7 on Non State Actors
To what extent were Non-State Actors an effective channel of the EU's cooperation programme for achieving development change?
EQ8 on management of the cooperation programme
To what extent was support by the EU to Lesotho timely, predictable and delivered in a cost-effective manner?
EQ9 on aid modalities and aid instruments
To what extent have the EU's different aid modalities been combined to facilitate the reaching of anticipated outcomes of the EU's cooperation programme with Lesotho?

This first level of investigation is undertaken in EQs 1, 2 and 3. A second level of investigation (EQs 4 to 7) concerns the effectiveness and the sustainability of development cooperation in the focal areas of cooperation (social protection, water and sanitation), in BS, and in one of the non-focal areas of cooperation (Non State Actors - NSA). A third and final level of investigation focuses on the cross-sectoral issues of cooperation efficiency and choice of aid modalities (EQs 8 and 9).

A sample of 14 interventions was chosen to analyse EU cooperation in the specific sectors. The sample of programmes, listed in Table 2 below, provides a representative picture of the cooperation over the 2008-2013 period in terms of amounts engaged (80% of total) and disbursed (95% of total) and features a variety of project sizes, financial instruments and aid modalities as well as both closed and on-going interventions.

Table 2 – List of selected interventions

Sector	Decision Title	Amounts (M€)		Instru-ment
		Engaged	Paid	
Macro-economic support	Capacity Building in Economic Planning, Phase II (CBEP II)	4.64	4.26	EDF 9
	Poverty Reduction Budget Support phase II	48.15	22.33	EDF 10
	Poverty Reduction Budget Support I	47.00	43.68	EDF 10
Social protection and emergency response	Food Facility Support to households affected by HIV/AIDS	0.54	0.54	DCI-Food
	Support to Lesotho HIV/AIDS response: Empowerment of Orphans and Vulnerable Children (OVC)	0.18	0.18	EDF 9
	Support Programme to Orphans and Vulnerable Children - Phase 2	10.00	7.87	EDF 10
	Humanitarian food assistance for populations affected by floods in Lesotho	1.50	1.49	EDF 10
Support to Non State Actors	ALAFA, Development and implementation of medical monitoring system	0.50	0.40	EDF 9
	Deepening Decentralisation and NSA Support Programmes (DDNSP)	13.36	4.23	EDF 10
	Local governance and Non-State Actors support programme	4.40	4.05	EDF 9
	Global commitment for in-country and multi-country calls for proposals - Objective 1 - PVD projects - Non State Actors - AAP 2009	0.52	0.42	DCI-NSAPVD
Water and Sanitation	Lesotho Water and Sanitation Sector Policy Support Programme	38.80	25.08	EDF 10
	Lesotho Water and Sanitation Sector Programme (LWSSP)	26.17	23.17	EDF 9
	Non State Actors (NSA): Objective Nr. 1 - In-country + multi-regional/country	0.36	0.18	DCI-NSAPVD
Total		196.12	137.88	
Total in Lesotho, all sectors, all instruments		240.10	172.34	
Percentage		82%	80%	

Source: ADE, based on EuropeAid database (CRIS)

The evaluation report is based on the analysis of key documents and on interviews held related to each of the programmes and areas outlined above. The documents analysed include (see Annex 8): EU programming and reporting documents (CSP, NIP, individual interventions identification fiches, action fiches and financing agreements, disbursement reports, monitoring reports and notes to file); existing evaluations of EU programmes and other donors' programmes; country, sector and thematic studies; and national and international reviews and statistics.

Interviews were held with Lesotho civil servants, local and international Civil Society Organisations (CSOs), bilateral and multilateral development partners (DPs), staff of the European Commission in Lesotho, South Africa, Botswana and Brussels, regional organisations based in Botswana and Namibia, a regional development bank based in South Africa and South African Government representatives. Considering the specific political and administrative context at the time of the evaluation (just after the *alleged coup d'Etat*), the availability for interviews of Lesotho civil servants (especially at strategic level) was more limited than wished for, thus impacting on data triangulation and quality of findings (see Annex 2, Table 1). Annex 9 provides the list of persons met or interviewed by telephone.

The information collected is presented in the annexes in the form of a data grid structured around EQ, JC, and I (Annex 5) and of intervention fiches for selected programmes where sufficiently detailed information was available (Annex 6). This evaluation framework forms the basis of the analysis presented below per EQ and the reader can refer back to these two annexes (5 and 6) to obtain the detailed information on which the analysis is based. In addition, Annex 7 sets out a detailed analysis of EU support to Social Protection.

1.4 Context of EU-Lesotho cooperation

Main structural characteristics of Lesotho[1]

Lesotho is a very small country, entirely surrounded by and highly dependent on South Africa. Its development potential is limited; with limited resources and domestic productive activities, the economy relies heavily on the public sector (half of which is funded by transfers from the SACU revenue pool) and on remittances from miners and other migrant workers.

The Kingdom of Lesotho is a small, high altitude country which is a mountainous enclave within South Africa. In 2013, more than half of its population (57% in 2011) of just under 2 million people still lived in poverty and a majority still relied or depended on subsistence farming for food and for income, despite very unfavourable geographic, environmental and climatic conditions. In 2013/14, Lesotho, a structurally food deficit country, imported about two thirds of its cereal requirements (mainly from South Africa) and more than 12% of its total population was food insecure[2]. Lesotho ranked as a lower income country in 2013 with a GNI per capita (in 2005 PPP $) of US$1879, slightly lower than the average in Sub-Saharan Africa (US$2010) and just under five times lower than that of South Africa (US$9,594). Lesotho's GDP per capita was US$1504 in 2012 (the difference with the GNI reflecting mostly the significance of net remittances). Lesotho's development potential is heavily constrained by its very limited and fragile resource base; its people, abundant water resources and diamonds constitute its main 'natural' assets.

The most notable feature of Lesotho's economy is its dependency towards South Africa in all matters ranging from trade, budgetary and monetary policies and performance, banking and finance, private investment and employment, to social aspects such as access to health services. Lesotho's economy underwent important structural transformations over the past 25 years. Its high dependency on migrant workers' remittances declined in line with employment opportunities in the South African gold mines whilst domestic activity developed based on services, textiles and the export of water resources (supported by the EU) and more recently, diamonds[3]. Still, Lesotho's development potential remains strongly dependent on that of its much richer and larger neighbour with which it shares membership of the Southern African Development Community (SADC), the Southern Africa Customs Union (SACU) and the Common Monetary Area (CMA)[4]. Lesotho's fiscal and trade policy is heavily influenced by its SADC and SACU memberships, whilst

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1 See IMF Article IV 2012 and 2008, Central Bank Annual report 2011, Lesotho Central Bureau of Statistics, HDR Report 2013.

2 In June 2013, the Lesotho Vulnerability Assessment Committee (LVAC) reported 223,000 people to be food insecure.

3 Services represented 53% of GDP in 2012. Textiles increased to 15.4% of GDP in 2004 but shrank to 6.1% of GDP in 2012 with the phasing out of the multi-fibre agreement and the decline of the American demand, Lesotho's main garment export market beyond South Africa. Mining increased to 6.6% of GDP in 2012.

4 See tables 3 and 4 in EQ2 for the list of countries in each of the regional groupings.

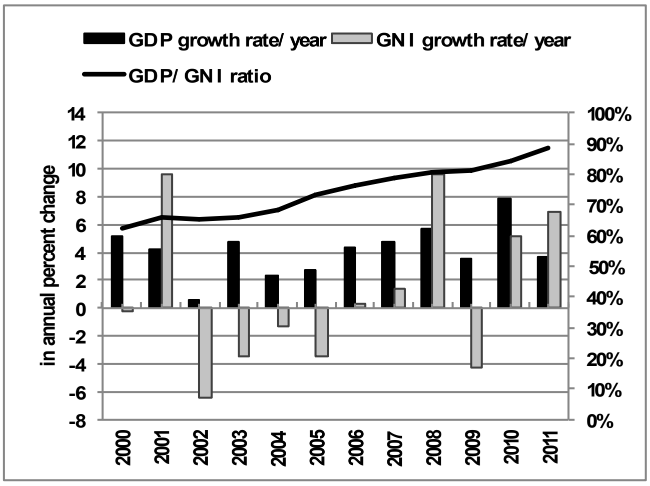
monetary policy reflects its currency peg (the Loti) to the South African Rand. South Africa is Lesotho's natural market for goods, services, employment, financing, investment, etc. and its export potential for the near future lies in the South African market for water, textiles and possibly energy. Lesotho's public sector is also strongly dependent upon the SACU arrangement: SACU revenues represented more than 50% of Lesotho's total public revenues over the period under review, except in 2010/11 and 2011/2012 when custom receipts were hit by the economic slowdown in the region (and particularly in South Africa, the main source of custom revenues in the sub-region).

The important size of the public sector is another characterising feature of Lesotho's economy. Due to the small size of GDP relative to GNI, comparative measures of the weight of the public sector in GDP terms are rather meaningless, especially when looking at the past (when GNI was treble the size of the GDP). Nevertheless, to give an idea of the importance of the public sector, Government final consumption expenditure was 41.7% of GDP in 2000 (against 15.9% in SSA on average) and 32.6% in 2011 (against 16.9% for SSA on average). With regards to public finances, Lesotho's government wage bill at just over 20% of GDP is by far the highest in Sub-Saharan Africa (SSA) and public expenditure is equivalent to 63% of GDP (55.2% in 2007/08), one of the highest ratios in the world[5].

Lesotho's economic performance over the 2008-2013 period[6]

Economic performance in Lesotho has been good although rates of economic growth have been lower than aimed for in the Poverty Reduction Strategy. Socio-economic performance has remained poor: poverty levels and income inequalities increased and strategies in the education and health sectors have been biased to benefit richer rather than poorer households, thus strengthening social outcomes' imbalances.

Figure 3 – GDP and GNI annual real growth rates and the GDP/GNI ratio in Lesotho, 2000-2011



Note: Left axis measures change in GDP and GNI; the right axis measures the GDP/GNI ratio.
Source: LBS, National Accounts of Lesotho 2003-2012.

Lesotho's average real economic growth over the past decade (see Figure 3) has been an annual 4.4% with a marked acceleration over 2004-2008, then a slowdown in 2009 as the economy was hit by the global financial crisis. The rapid recovery of economic growth in 2010 (+7.9%) proved temporary as floods in 2011 caused a collapse of the agricultural production with negative effect on the economy's growth rate (3.7% in 2011). Provisional figures (from the Central Bank of Lesotho) indicate that growth picked up again in 2012 (+6.5%) and 2013 (+3%), driven by a boom in the

[5] Figures cited are from IMF and World Bank, 2014.

[6] See IMF Article IV 2012 and 2008, Central Bank Annual report 2011, Lesotho Central Bureau of Statistics, HDR Report 2013.

construction industry.

Lesotho's macro-economic and fiscal management has been considered satisfactory by the IMF's Article IV reviews. Since 2003/04, Lesotho has been running increasing budgetary surpluses (up to a peak of 15.2% of GDP in 2006/07) despite a strongly expansionary fiscal policy (with public spending following an upward trend and peaking at 63% of GDP in 2011/12) whilst also improving its external debt situation. In 2009/10-2011/12 the sharp deterioration in trade performance between the SACU region and the rest of the world resulted in a temporary budget deficit related to the steep decline in the SACU customs revenue pool. Overall and from a fiscal perspective, Lesotho has not been constrained during the period under scrutiny, with the exception of crisis years.

The strong and steady growth of public expenditure since 2003/04 (first in the public wage bill, then on goods and services and only since 2007/08 on capital expenditure in transport and education) has, however, only yielded modest results. Macro-economic performance improved (GDP growth rates increased from an average of 2.5% per year over the period 2000-2006 to an average of 4.8% per year over 2007-2013) but performance fell short of the 7% per annum economic growth aimed for in Lesotho's Poverty Reduction Strategy (PRS) which was to be fuelled by the promotion of private sector activity and the exploitation of export market opportunities and advantageous trading arrangements. As a result, socio-economic performance has remained poor, deteriorating further because of the HIV/AIDS pandemic that affects 58.6% of Basotho women aged 15 and above and 23.1% of the total population. The proportion of poor households increased from 56% in 2002/03 to 57% in 2010/11 whilst that of the very poor increased to 34% in 2010/11 (29% in 2002/03) and the disparity between the rich and the poor, as measured by the Gini coefficient, increased from 51.54 in 2003 to 54.17 in 2010. Education and health indicators have worsened in recent years: primary education enrolment rates were no higher in 2012 than in 2000. Health outcomes are mixed: 39% of children under the age of five suffer from chronic malnutrition with stunting, 4% from acute malnutrition with high mortality rates after treatment, possibly because of underlying HIV-related complications; maternal mortality deteriorated sharply; but, many other health indicators improved after 2006. Lesotho's Human Development Index (HDI) is correspondingly low, ranking 158 out of 187 countries in 2013, and Lesotho was one of the only two countries which had a lower HDI in 2012 than in 1990 (the other one being Zimbabwe). Lesotho's progress towards the reaching of MDGs is uneven (see figure 4).

Figure 4 – Lesotho performance in reaching MDGs

MDG	Indicators	2005	2010	2012	Status
MDG1	Poverty headcount at national poverty line (% of population)	..	57.1	..	off track
MDG2	School enrollment, primary (% gross)	117.1	110.5	111.0	on track
MDG3	Primary education (girls/100 boys)	101.0			on track
MDG4	Mortality rate, under-5 (per 1,000 live births)	123.3	108.6	99.6	off track
MDG5	Maternal mortality ratio (/100,000 live births, 2010)	..	1200	..	off track
MDG6	Prevalence of HIV, total (% of population ages 15-49)	22.0	22.7	22.9	slow progress
MDG6	Life expectancy at birth, total (years)	43.7	47.5	48.8	
MDG7	Improved sanitation facilities (% of population with access)	26.3	28.7	29.6	slow progress
MDG7	Improved water source (% of population with access)	80.0	81.0	81.3	
MDG8	Develop a hglobal partnership for development	..	..	..	slow progress

Source: Data from database: World Development Indicators; Assessment: UNDP Lesotho, 2013.

2 The rationale of EU cooperation with Lesotho

2.1 EQ1 on the rationale of EU involvement with Lesotho

EQ1: To what extent has the EU's involvement in Lesotho been appropriate considering the EU's policies, priorities and comparative advantages and Lesotho's context and performance?

Reflecting a geopolitical reality marked by tense relations between Lesotho and post apartheid South Africa, the EU confined its engagement with Lesotho in the 9th and 10th EDF to country-based development cooperation, despite the fact that Lesotho's future development cannot be conceived without referring to its ties with South Africa. In the meantime, the EU's operating modalities proved to severely curtail the potential for a future wider response to Lesotho's challenges: the EU, partly through Protocol 3 of the Cotonou Agreement, (i) introduced differentiated access to regional programmes, (ii) elaborated different trade agreements and (iii) negotiated different Economic Partnership Agreements (EPAs) for Lesotho and South Africa, thus limiting its scope of action for supporting Lesotho's regional and world integration. These constraints on the use of its cooperation instruments *de facto* justified the EU's continued focus on 'country development cooperation only'. This stance was maintained despite the EU's overarching aid objective of increasing countries' insertion into world trade, the new political responsibilities entrusted to it by the Lisbon Treaty (2009) and Lesotho's more favourable geopolitical context towards working with South Africa. The opportunities brought about by these developments were not used by the EU to reassess the relevance of its country-only development cooperation approach.

The EU's engagement response

Lesotho's geopolitical context of high dependency on South Africa but weak political ties with its larger neighbour led the EU to limit its engagement with Lesotho to country development cooperation exclusively rather than considering Lesotho's wider sub-regional context. This strategic direction of engagement was not in line with the Commission's policies which would have called for a stronger focus on developing Lesotho's insertion in the world economy.

Lesotho's structural characteristics depict a country with few natural assets beyond its people and water resources, and high dependency on South Africa for all matters, financial, economic or social, whether pertaining to the private or public sectors. Its future development cannot be conceived without considering its links to South Africa. However, past EU engagement with Lesotho showed no signs of having taken these geographical, economic and social specificities into account. The socio-economic analysis of the country performed by the EU to contextualise the programming of its cooperation (as reported in the CSP) correctly identified Lesotho's main constraints (see also EQ3) and recognised the importance of the regional perspective and the relations with South Africa for Lesotho's development. However, in its programming and in the choice of its engagement, only the domestic angle was tackled. EU engagement was purely focused on supporting two or three of Lesotho's levers for growth and poverty reduction (primarily infrastructure and macro-economic and related public policy management, and, more recently, social protection) without acknowledging the essential role of South Africa in Lesotho's development. This insular approach made sense in the geopolitical context then characterised by poor Lesotho-South Africa political relations during and after the apartheid era, which were not conducive to a joined approach for developing mutually beneficial approaches to development. Nevertheless, conflicting with its own policy, as laid down in the Cotonou agreement which aims to support countries to 'enter into the world economy', the EU did not analyse the particular challenges this would pose for Lesotho and the conditions that would need to be put into place for Lesotho to be able to benefit from 'entering into the world economy'.

The EU's approach thus strongly contrasted with other donors such as USAID, which worked with Lesotho in a two-pronged approach, both with development cooperation and with trade agreement: support to private sector development and the African Growth and Opportunity Act (AGOA) trade agreement boosted Lesotho's manufacturing base (from 12.8% of GDP in 2000 to 20.1% in 2004) due to the important growth of the textile industry and exports. Such an approach could not be replicated by the EU whose trade agreement with Lesotho fell under that of the whole ACP grouping without consideration of the particular conditions that would have been required to enable Lesotho to benefit from the EU-ACP trade agreements.

In addition to limiting its engagement with Lesotho to country development cooperation only, the Commission's own instruments also constrained its ability to support Lesotho's regional integration: Protocol 3 of the Cotonou Agreement made special provisions for South Africa, giving differentiated access to regional envelopes for the two countries, different trade agreements were made (one for South Africa whilst Lesotho fell under that of all ACPs) and different EPA arrangements were negotiated for South Africa and Lesotho.

Whereas the end of the apartheid regime in South Africa in 1994 could and should have triggered a strategic response from the EU taking full account of the particularities of Lesotho, the EU's operating modes represented three constraints to supporting Lesotho's regional integration and the development of bilateral Lesotho-South Africa relationships: (i) a hindrance to cooperation at regional level with the EU providing Lesotho with access to EDF regional funding whilst South Africa as a middle income country (MIC) has no access and should pay its own way into any regional programmes (or use its DCI allocation), (ii) a barrier to trade with Lesotho being granted the ACP trade status (including Everything but Arms – EBA access to European markets) whilst a separate cooperation and trade agreement was negotiated with South Africa (TDCI) and (iii) an impediment to regional integration with the negotiation of different EPAs with each of the two countries[7] (see EQ2).

Accessing EU support through two different aid instruments excluded both countries from accessing funding for potentially mutually beneficial programmes; having separate trade agreements imposed on Lesotho the trade conditions for South Africa, since Lesotho has no independent trade routes. On both counts, and since South Africa has little incentive to ease Lesotho's development constraints, Lesotho has been losing out. The effects of the separate EPAs (signed by South Africa in July 2014) are not yet clear and the effect of South Africa's signature of the EPA on SACU revenues has not yet been analysed. With

[7] The EPAs are regional free trade agreements negotiated between the EU and regions within the ACP grouping. In Southern Africa, two EPAs were negotiated, one with the Eastern and Southern Africa configuration and the other with remaining SADC member states.

hindsight, whilst the 'country cooperation only' approach was thus justified by the lack of appetite from Basotho and South African politicians for the building of closer ties, it also demonstrated a lack of understanding of Lesotho's geopolitical and economic constraints which led it to forego the use of its normal array of instruments of trade, economic partnership, promotion of FDI, and regional political dialogue.

During the period, the EU did not question the relevance of its 'country development cooperation only' approach even when the context changed with a new political role for the Commission (2009 Lisbon Treaty) and changed South Africa-Lesotho relations. At end-2014, EU engagement with Lesotho evolved with political dialogue becoming more prominent and the Delegation actively endorsing the role of single representative EU donor office in Lesotho.

Analysis of programming documents (CSPs but also MTR and ETR) shows that the EU did not question the relevance of the 'only development cooperation' path, not in the light of what other donors did, nor of what 'worked', of changes in Lesotho's economic structure, or of constraints and challenges that may have called for a new cooperation approach, not in the light of perceived benefits of EU support, nor of changes to EU conditions. Illustrating the latter, the 'regional integration' focus introduced by the Cotonou agreement and the more recent integration of the 'political' aspects of cooperation with the creation of the EEAS, do not seem to have affected cooperation with Lesotho. Instead, the EU approach to development in Lesotho has shown no major changes from the 7th EDF (1991) to the 11th EDF, with only an adjustment of the focal areas supported by development cooperation (see EQ3).

The perception of Lesotho by the EU as a 'non priority' country with limited diplomatic, political and security interests, the inertia of the Basotho public administration (see Box 1, section 3), including with regards to donor cooperation, the relative importance of donor funding compared to SACU receipts, might explain the lack of active political engagement between the EU and Lesotho. Still, the creation of the EEAS and altered circumstances in Lesotho and in the South Africa-Lesotho relations with in particular the creation of a Joint Bilateral Cooperation Commission (JBCC) between South Africa and Lesotho in 2001, have modified the context for EU engagement. The end of apartheid and the ensuing changed regional political dynamics, the creation of the JBCC and its second renewal in October 2012 for a further 5 years, opened the door to a wider perspective on cooperation, but the opportunity was not taken up by the EU. The EU's approach to its cooperation strategy still did not consider Lesotho's particular challenges vis-à-vis long term development and regional integration. A tangible shift was noted in the EU's approach from 2010 onwards concerning more active political dialogue. However, the advent of Lesotho's coalition Government in 2012 considerably slowed down political and policy decision-making in the country, thus limiting the opportunities for dialogue in number and quality of partners. Despite this, the political dialogue was quite vibrant at the end of 2014 thanks to the Delegation's proactive stance and its grasping of the opportunity to make the most of its status as sole EU donor. Efforts still need to be made by the EU to anchor such changes in a well-defined strategy for political and policy dialogue, dialogue which currently bears the weight of a small Delegation staff (and notably the absence of a political officer), a lack of modus operandi with neighbouring Delegations, the lack of appropriate financial and trade cooperation instruments, and, until the election of a new government in 2015, the lack of dialogue leadership and partners.

Coordination and complementarity of EU engagement with other donors

Very few donors were present in Lesotho; donor coordination was strong in general budget support (where it declined gradually) and in the water sector (through a SWAp); in the social sector the EU works with the UN as implementing agent.

The importance of SACU revenues overshadowed the financial contributions of ODA during the period (see Annex 4). Donor grants represented at best one tenth of SACU revenues between 2003/04 and 2009/10 and remained lower than SACU revenues in 2010/11 although SACU revenues dropped and ODA increased dramatically (from US$ 143 million in 2008 to US$ 283 million in 2012) to assist Lesotho in facing the international crisis. Low contributions to overall public revenues were thought by donors to have had a detrimental effect on the leverage their assistance had on Lesotho policies. However, evaluations of BS in other countries have demonstrated[8] that the size of assistance is not necessarily commensurate with leverage, especially when reform objectives between the donor and the recipient government converge. Over 2008-2013, the EU's financial development cooperation programme represented an average of 11% of SACU revenues.

Cooperation between donors was influenced by the particular landscape of dwindling donor presence in Lesotho: over the 2008-2013 period, the EU, DFID, Irish Aid and GiZ were physically present in Lesotho but in 2014 the EU and GiZ were left as sole EU development partners on the ground, with GiZ leaving in 2015. Collaboration with multilateral agencies with regards to BS was more strained from 2013 onwards due to divergent interpretations of Lesotho's macro-economic and strategy implementation performance. Coordination in the water sector was very good, whilst in social protection information sharing was realised despite the lack of a formalised coordination mechanism. In several areas (decentralisation, social protection, transport) the EU benefited from agreements with other donors (GiZ, UN, WB) for the implementation of its financial and technical cooperation.

2.2 EQ2 on regional leverage

EQ2: Could a stronger regional approach provide the EU with greater leverage for sustainable development change in Lesotho and if so, to what extent?

The EU's working definition of regional integration has a specific focus on trade integration. In the context of Lesotho's development this definition could be broadened to include social areas such as health, education or water management. Under a broader definition and understanding of regional integration, the EU in Lesotho, South Africa and perhaps even Botswana could pursue cooperation between South Africa and Lesotho, which would ultimately be to the benefit of Basotho living in both countries.

Closer cooperation between the two countries would require Lesotho's buy-in which at this point is still hesitant of South Africa's dominant role and position within the region. In the meantime, EU instruments make it difficult to design and implement projects and programmes that can include both South Africa and Lesotho. Opportunities, like under the PanAf and the SA-EU Dialogue Facility under the SA-EU Strategic Partnership, could, however, help in opening the door for such cooperation.

8 See the evaluations of budget support in Tunisia, Morocco or South Africa

Regional integration in Southern Africa

Whilst the EU's strategic approach for cooperation with Lesotho relied on country-level operations only, the EU's regional development approach focused on trade and economic integration through support to the Southern African Development Community (SADC) dominated by South Africa, without addressing SADC's wider agenda of social integration, which is of more direct interest to Lesotho.

Implicitly, the EU's strategic cooperation approach assumed that *development change* in Lesotho is best addressed through country engagement, rather than regional or other forms of engagement (through regional institutions, Pan African initiatives, multilateral support for example), despite the critical importance for Lesotho's development of *regional integration* and of its links with South Africa. However, there are significant formal and informal barriers to closer integration in the region and in particular with South Africa (which have, as seen above, at least partially justified the EU's 'isolationist' stance in its cooperation approach). Politically closer integration is sensitive, and the closure of virtually all embassies in Lesotho, a trend that started with the ending of South Africa's apartheid era, has exacerbated a sense of isolation for Lesotho.

Given these challenges, *strengthening regional cooperation* should be a particular feature of EU support to Lesotho. However, there are several constraints, including a stalled SADC integration agenda and repetitive insinuations by South Africa that it will change the SACU revenue pool to a development fund. Both these agendas are dependent on political processes in South Africa over which Lesotho (and EU assistance) has little control. Indeed, South Africa is a key and critical actor within Southern Africa and to a certain extent dominates the regional agenda at both SACU and SADC. At the SACU secretariat, the agenda is focused on modernising the customs union, harmonising tax systems, industrialising its member states (MS) and very slowly taking over some sovereignty from the MS in favour of some regional authority, albeit still very limited at this point. SACU itself is very aware of Lesotho's dependence on the revenue pool. It foresees no change in the status quo. Instead it is more concerned about a drop in the revenue pool that could adversely affect Lesotho. At the SADC level, South Africa does not seem committed to the Customs Union agenda, but is very supportive of all the preparatory work that is addressing a number of nagging issues in the region, including the investment climate, the persistence of non-tariff barriers, customs modernisation and more.

Other challenges of regional integration concern Lesotho's ability to ensure its voice is heard in SADC. Lesotho is perceived to be South Africa's second-in-command at all regional meetings and Pretoria can rely on Maseru for support in all aspects. Table 3 below presents the position of Lesotho within the regional grouping.

The EU's regional approach has focused on supporting SADC in its economic and trade integration agenda[9] with the rationale that this will lead to increased economic activity and eventual impact on poverty alleviation. This reflects the EU's discourse and own experience where regional integration centres on economic and trade integration, progressing from establishing a preferential trade agreement, to a free trade agreement, a customs union, a monetary union and finally an economic and political union. The EU's approach to regional integration has thus been to offer support to regional organisations in their endeavour to follow this 'ladder of integration'.

[9] Apart from a contribution agreement to SADC of 2012, the EU is implementing the Regional Economic Integration Support Programme (REIS) since 2013 and it also assists SADC under the Cotonou Agreement through Political Dialogue (next Summit to take place in 2015), Trade for Development (support to the EPA negotiations) and development cooperation, of which 80% goes to regional economic integration.

Table 3 – Regional integration in Southern Africa

Regional Organisation / Authority	Member States	Objectives	Lesotho's position
Southern African Customs Union (SACU)	*Lesotho* *South Africa* Botswana Namibia Swaziland	• Customs Union • Sharing of tariff revenue • Industrialisation	• Member State • Of very high interest • Participates actively in all functions
Southern African Development Community (SADC)	***SACU** plus* Mozambique Angola DRC Zambia Zimbabwe Tanzania Mauritius Madagascar Malawi (Seychelles)	• Regional integration, ambition to establish an Economic Union • Strong history of regional cooperation in many other areas apart from economic, trade integration • Industrialisation	• Member state • Lesotho activity in SADC mainly supports positions taken by South Africa • Important to future trade arrangements in the region
SADC Economic Partnership Agreement (EPA)	Lesotho Botswana Namibia Swaziland Mozambique (South Africa)	• To replace the trade preferences granted under the Cotonou Agreement and which are now deemed WTO incompatible • Difficulty in accommodating South Africa as it already has a pre-existing trade agreement and is only a partial member of Cotonou	• As an LDC Lesotho could continue to trade under the Everything But Arms initiative, but as a member of SACU and SADC negotiated the EPA. EU support for negotiation capacity as well as for EPA implementation.
Common Monetary Area (CMA)	Lesotho South Africa Swaziland Namibia	• The currencies of the member states are pegged to the Rand. Rands are legal tender in the countries outside of South Africa. • Monetary policy determined predominantly by South Africa	• Lesotho has ceded sovereignty on monetary policy to South Africa

However, a broader lens on regional integration would start to focus on social areas of integration, including regional approaches to the HIV pandemic, the youth unemployment problem, water management for sustainable agriculture, the pursuit of the Millennium Development Goals and more. Indeed, historically, SADC has focused on such a much broader agenda, including all social areas as well as the management of regional public goods. It is under this agenda, which still exists in SADC and which is increasingly being advocated as a more realistic integration approach for Africa, rather than under the economic and trade agenda, that Lesotho stands to gain the most from regional cooperation and integration. Lesotho has a very small productive capacity and is already very open to trade from South Africa and beyond. Facilitating trade, decreasing border waiting times etc., can only have a small impact on the Lesotho economy and society. However, areas of collaboration on water management, health issues, migrant worker remittances, immigration, cross-border crimes, education and food security at the regional level could potentially have a significant impact as Lesotho is rich in migrant workers and water but poor in health and food security, which if addressed with South Africa or more broadly within SADC, could yield benefits for Lesotho's development. Consideration of this wider array of regional integration issues by the EU may lead the EUDs in Lesotho, South Africa and perhaps even Botswana to support cooperation initiatives between South Africa and Lesotho, with benefits for Basotho living in both countries.

Yet, over the evaluation period of 2008-2013, the EU confined all social aspects of cooperation with Lesotho to the national envelope, did not significantly engage South Africa on issues that are of specific interest to Lesotho, and, at the regional level, exclusively focused on regional economic and trade integration. Even though Lesotho benefited from this support[10], its impact cannot be expected to be significant to Lesotho, apart from a general more positive economic outlook for specifically the SACU region, which would result in a higher payment from the revenue pool, once off-set against the revenue losses due to tariff liberalisation.

Similarly, specific support to the Economic Partnership Agreement (EPA) negotiations (and future implementation) will yield little direct benefit to Lesotho as the country already had Everything But Arms access to the EU as an LDC and is not expected to increase its export capacity dramatically under the EPA.

South Africa and Lesotho

Recent initiatives, mainly led by South Africa, for greater integration with Lesotho, have not yielded much interest from Lesotho and have not yet led to concrete programmes; closer integration has to be driven by Lesotho and can be encouraged, but not pushed, by the EU, South Africa or even SADC.

South Africa's relationship with Lesotho does carry a weight of political baggage that originates in historical developments, where South Africa occupied and annexed vast areas of Basotho land into the Free State province, resulting in more Basotho living in South Africa than in Lesotho. The military intervention of 1998, which saw the death of several soldiers on both sides, did not improve the relationship between the two countries. As recent as 2011, there were very public spats between high-ranking officials of the two countries. South Africa led the SADC mediation after the *alleged attempted coup* in 2014, but closer to the Lesotho elections there were renewed clashes between the South African Deputy President and the Lesotho government.

In April 2001 a Joint Bilateral Commission of Cooperation (JBCC), was set up by the then President Thabo Mbeki, under his vision of the African Renaissance. It was conceived as a strategic partnership to assist Lesotho to accelerate its economic development and ease cross-border movement between Lesotho and South Africa. Mbeki insisted that South Africa should collaborate closely with Lesotho to ensure the country's continued development and even had a four-year horizon on how Lesotho would develop. Whereas there are many areas of shared concerns between South Africa and Lesotho and regular dialogue does take place, the JBCC has not yet delivered on it aspirations to implement development projects in the country, as discussions seem to falter at talks around immigration and border controls. With assistance from the Development Bank of Southern Africa (DBSA) a number of development projects were identified, discussions with local municipalities and the Maseru City Council did take place, but the projects never deepened into actual implementation. Whereas South Africa has much to offer in terms of lessons learned in the development of local municipalities and city councils, there was a definite lack of implementation will on the part of Lesotho.

10 For example, under its regional programme, the EU also supported regional Apex organisations, such as the Centre for the Development of Enterprise (CDE) based in Botswana or the EU-SADC Investment Promotion Programme working with the regional apex body ASCCI, in order to improve coordination and cooperation within the private sectors of the SADC countries towards joint positions and advocacy campaigns.

As seen above (EQ1) EU programming experienced a similar lack of demand from GoL for support to cross-border initiatives and led to a focus on national issues of concern. There were a few attempts by the EUD in Lesotho to encourage Lesotho to work more closely with South Africa, however, the combination of the lack of staff in Lesotho to further push for and pursue closer cooperation with South Africa, alongside the difficulty in overcoming the constraints imposed by the various funding mechanisms, meant that this was not pursued with much enthusiasm. In the water sector, it became very clear that the Lesotho middle-management had no interest in working with their South African counterparts due to complex historical reasons. They did, however, at the EUs suggestion, participate in some workshops at the SA Water Departments M&E Unit. There was also concern regarding the GoL's capacity to take any discussions around these topics and potential projects to a deeper level and further towards implementation.

Overall, during interviews it was evident that there is a general consensus amongst government administrations, regional organisations and donors that Lesotho has to be considered within the context of South Africa, SACU and SADC, but that GoL has to be an active agitator and promoter of a regional approach to its development. However, GoL still has concerns and reservations about collaborating or even integrating deeper with South Africa, given historical political tensions.

Prospects for greater leverage for development change through a stronger regional approach

Despite their limitations, some currently available cooperation instruments could be used by the EU to reinforce its regional approach with the specific objective of stimulating sustainable development in Lesotho: recognition of Lesotho's specific interests in the South Africa-EU Strategic Partnership, development of trilateral cooperation with South Africa under the Dialogue Facility, and the use of the PanAf for funding of cross-cutting issues of mutual benefit are some of the ways that could benefit Lesotho and South Africa's closer integration and thus Lesotho's development.

South Africa has a standalone Trade, Development and Cooperation Agreement (SA-EU TDCA) with the EU and also has a Strategic Partnership with the EU, established in 2007, which proposed a 'comprehensive, coherent and coordinated long-term framework for political cooperation with the Republic of South Africa (...) mindful (...) of its role as an anchor country in the region and of its unique position on the continent and on the global scene.'[11]

Evidence of South Africa's increasing role as a strategic actor on the continent is its active collaboration with various donors on trilateral projects, where donors provide the funds and South Africa provides the expertise and implementation capacity in third countries[12]. The establishment of a South Africa Development Partner Agency (SADPA) is a further step towards South Africa becoming an active donor on the African continent.
A Dialogue Facility exists to support the implementation of both the TDCA and the Strategic Partnership. This facility has had a M€7 envelope until February 2015, which has been fully committed and spent. Beginning of 2015, preparations were under way to

[11] Commission of the European Communities, 'Communication from the Commission to the Council and the European Parliament: Towards an EU-South Africa Strategic Partnership' COM (2006)347 final, Brussels, 28 June 2006.

[12] During the evaluation we came across two examples of trilateral cooperation. The one was with Irish Aid providing funds, South Africa providing expertise to implement a hybrid seed programme in Lesotho. The second example is under the Dialogue Facility where two EU MS provided funding for a tax reform programme in Rwanda and Malawi.

establish the Dialogue Facility II towards the end of 2015, with another significant envelope. It is a very opportune time for Lesotho to engage South Africa to put forward ideas of trilateral cooperation under this facility, as it would affirm the EU's special and strategic relationship with both Lesotho and South Africa.

Finally, the newly established Pan-African Programme (PanAf) (2014-2017) provides for another vehicle under which both Lesotho and South Africa can benefit. "The PanAf is in step with the conclusions of the Brussels Summit (April 2014), and with the overall Joint Africa EU Strategy (JAES) adopted at the Lisbon Summit (2007), where Africa and the EU established the Partnership at the highest political level. The PanAf will be one of the instruments that will support the JAES and the first EU programme treating Africa as a whole. (…) A major innovation of the PanAf is that it addresses Africa as a whole and allows the EU to link up its cooperation with North- and South Africa, with sub-Saharan Africa. The PanAf will not replace but complement other actions within the Africa-EU Partnership that are better addressed at another geographic (11th EDF national, regional and intra-ACP programmes, DCI South Africa and ENI) or thematic level (thematic instruments and external dimension of other budget lines). …[13]" The strategic areas include peace and stability; democracy, good governance and human rights; human development; sustainable and inclusive development and growth and continental integration; and global and cross-cutting issues.

The table below sets out the various EU financial instruments, which are available either to Lesotho, or South Africa, or both, in order to show where entry points might exist for closer collaboration between the EU Delegations in Maseru and in Pretoria.

13 EU. Pan-African Programme 2014-2020. Multiannual Indicative Programme 2014-2017.

Table 4 – EU instruments and Lesotho

Member States	Objectives / Raison d'être	Impact on Lesotho
Cotonou Agreement		
All African, Caribbean and Pacific former colonies of EU MS, South Africa only a partial member	• Reduction of ACP poverty, economic development, gradual integration into the global economy	• Lesotho a full member • Provides national and regional assistance on a five-year programming basis (NIPs and RIPs) • South Africa, as specified under Protocol 3 of the Cotonou Agreement, does participate in the political dialogue of the Cotonou framework but does not benefit from the financial envelope which means that Lesotho is unable to engage in regional programmes with its neighbour
EU support to SADC		
EU and SADC MS	• The EU has a contribution agreement with SADC to support its regional integration agenda • Apart from the contribution agreement the EU is also implementing other projects and programmes to promote and further regional integration • There will be a new Regional Indicative Programme out of the 11th EDF to support regional integration, which should be approved in 2015	• Lesotho, as a MS of SADC, benefits like all the other MS from the EU's contribution and programmes • No special case is made out of Lesotho
SADC Trade Related Facility (TRF)		
EU and SADC MS	• This is a Euro 32 million fund from the 10th EDF • It is an incentive mechanism to assist SADC Member States achieve their commitments in terms of the SADC Trade Protocol and the EPA	• Lesotho, as a MS of SADC, benefits like all the other MS from the EU's contribution and programmes • No special case is made out of Lesotho
SA-EU Trade, Development and Cooperation Agreement		
South Africa European Union	• This is a comprehensive free trade and cooperation agreement with South Africa	• Having different trading arrangements with the EU has an impact on the SACU
SA-EU Strategic Partnership		
South Africa European Union	• South Africa is one of eleven countries in the world to have a SP with the EU • It is supposed to be a vehicle for deep and mutual strategic dialogue on global issues	• Thus far the SP has not had a Lesotho focus
Dialogue Facility		
South Africa European Union	• This instrument exists in order to facilitate the implementation of the SP • First phase is about to close after having spent M€7	• Preparatory work now being done for the next Dialogue Facility • Opportune time for Lesotho and South Africa to suggest some trilateral initiatives

2.3 EQ3 on relevance and coherence

EQ3: To what extent were the choices of focal sectors and the projects and programmes under the 10th and 11th EDF an appropriate response to Lesotho's priorities and challenges?

The choice of focal sectors in the 10th and 11th EDF reflected the EU's perspective on overall engagement: focus on the non traded goods and services sectors (water, energy, social protection, public finance management/governance) rather than on the productive and trade sectors. This choice was based on an analysis of the context and challenges facing Lesotho and, in a pragmatic manner, it took into account identified needs, prior knowledge of the sectors on the part of the EU, and, most importantly, policy and management directions from headquarters. Faced with Lesotho's very wide and far-reaching needs, EU's choice of sectors was appropriate within the confines of the 'country-based' engagement, and it was aligned to Government development plans even if it did not entirely respond to the medium-term challenges identified for Lesotho.

The extent to which the challenges were appropriately addressed within the focal sectors has been uneven and could, for the macro-economic and water support, have been improved by a more in-depth analysis of sector institutional dynamics and integration of lessons learned from previous experience.

The choice of focal sectors in the recent past (9th, 10th and 11th EDF) has illustrated that for a small Delegation, prior knowledge of a sector and pragmatism whilst accommodating headquarter policy directives, are important drivers for choosing sectors to support. Learning from past experience and the provision of value added seem to have weighed less in the selection process.

In Lesotho the choice of focal sectors for EU development cooperation has shown remarkable consistency over time: from the 6th EDF onwards, well before it became a requirement with the 9th EDF, the EU in Lesotho started focusing its cooperation on a limited number of sectors only: agriculture, natural resources (including hydropower and water), and roads infrastructure (see also Annex 3). Water, roads and macro-economic support dominated the 9th and 10th EDF with human development being added in 2004 in response to the HIV/AIDS crisis and its important repercussions on Lesotho's development potential. Support to roads was dropped at the end of the project and funds transferred to the water sector as road transport required no additional external funding. The 11th EDF proposes to introduce support to the energy sector alongside the continuation of support to water and governance. The great continuity in the choice of focal sectors of support has enabled the EU to take a long-term perspective on Lesotho's development in those sectors of sustained involvement such as water or governance.

Although the CSP never explicitly states the reasons for choosing such or such a focal sector, the following criteria have, according to the CSP, enabled the EU to set its cooperation priorities for the 10th EDF:

- response to the medium-term challenge;
- relevance to good governance, poverty reduction and employment creation;
- existence of an ongoing, structured sector policy dialogue and capacity within the relevant government agencies;
- complementarity with other external funding agencies;
- lessons from past experience;

- capacity of National Authorising Officer (NAO) and EC Delegation to manage and monitor interventions; and
- potential capacity of NSA to participate in the areas of cooperation.

Interestingly the added value of EU interventions has not been listed and seems indeed to have played no role in the decision-making process. Whereas the EU was recognised by interviewees as having been instrumental in advancing the social protection agenda in Lesotho, its added value in the other sectors was less clear: improved coordination in the water sector and improved monitoring of policy implementation in Lesotho were highlighted as positive results but, overall, no specific EU added value or comparative advantage specific to EU cooperation were identified.

Lessons from past experience, listed as a factor for selecting focal sectors, actually seem to have played a limited role. The EU's formal mechanisms for learning from its own experience include: the monitoring and evaluation of its projects and programmes (ROM and evaluation reports), the evaluation of the country strategy, and medium-term and end-of-term reviews (MTR and ETR) of individual projects and of the NIP (MTR) [14]. In Lesotho, ROM reports were produced for only 39% of interventions (representing 33% of contracted amounts), three final programme evaluations were realised (Local governance and NSA support programme, LWSSP and CBEP2), MTRs were realised for two programmes (support to OVC and LWSSP) and the CSP, and one programme and the CSP benefited from an ETR. Overall, available evidence for learning from EU interventions implementation was thus relatively limited. The following observations can be drawn from the available evidence:

- The documents did not help the EU to periodically take a step back to reassess the evolving context, needs and priorities and to adapt its support accordingly. Where distinct changes of direction in focal areas of support were made (stopping of BS, switching support from transport to water, introducing energy), these were recorded rather than brought about and/or justified by the preparation of MTR, ETR or CSP/NIPs: the rationale behind the changes made was partly brought about by the CSP evaluation of 2004, but remained partly undocumented.
- Evaluations generally provided useful information for future programme design and implementation, but were not systematically taken into consideration: the case of the CBEP evaluation is illustrative of three successive programmes attempting to tackle the same issues but without taking into account the conditions for success identified in the evaluation (see EQ6). The evaluation of the country strategy in 2004 also made recommendations that were not taken into consideration but remain valid for the current evaluation[15].
- Lastly, ROM and project MTR reports provided opportunities to reassess the changing context of project/programme implementation and to adapt the project/programme design accordingly. For example, recommendations on human resources deployment and capacity building from the MTR of the first phase of OVC were reported to have led to a revision of the project design.

More generally, looking at the EU's portfolio profile over time, the logic of programming choices for the 10th and 11th EDFs were driven by a combination of logical responses to identified needs, knowledge of the areas (based on past experience, especially in the social

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14 EAMR reports, thematic annual reports and the RMF should, in theory, also provide opportunities to 'step back and assess changes' but, as they are produced by the Delegation staff, they demonstrate less detachment, are experienced as a reporting requirement to headquarters and rarely provide opportunities for a concerted and exhaustive analysis.

15 The recommendations in 2004 include inter alia the need for a more proactive EU role in regional economic integration, especially with regard to private sector development, or in public service reform, to name but two.

protection and water sectors), policy and management direction from headquarters (notably in BS and energy and in limiting the number of sectors of support) and pragmatism. Pragmatism was driven by factors such as: the very limited staffing and expertise within the EU Delegation, a lack of proactive behaviour and responsiveness of the GoL in terms of its management of foreign aid, existing relationships with some sectors (such as water and sanitation). Other factors such as the presence of other donors in some sectors may have played a role[16].

The EU adequately identified Lesotho's medium-term challenges in the CSP and yet its choice of sectors could have been more responsive to these, notably with regards to private sector development. The EU concentrated its support in water, an essential social sector but only indirectly relevant to the productive sector, on budget support as directed by headquarters despite Lesotho boosting a healthy structural fiscal surplus, and on mitigating the effects of HIV/AIDS. Government plans provided a loose framework for these cooperation choices but Government did not articulate its priorities for cooperation in a manner which could have helped to improve the relevance of EU choices.

The cooperation choices in the 10th EDF responded to identified medium-term challenges for Lesotho. The country diagnosis presented in the 10th CSP highlights the critical position and prospects of Lesotho with regards to its size, localisation and limited export potential, its economic vulnerability and the effects of HIV/AIDS on social progress. It also mentions the lack of GoL's technical and managerial expertise to create a business-enabling environment for private sector development (PSD) and stresses that small business growth is expected to pass mainly through the export market. On Lesotho's macroeconomic and fiscal policy and performance, the CSP acknowledges Lesotho's low external debt and positive fiscal and external balances but also points out that SACU revenues are expected to suffer a structural decline due to changing regional and international trade arrangements whilst its ties with South Africa are expected to become increasingly strong. Lastly, civil society, non-State actors, including community-based organisations (CBOs), and decentralised administration are seen as important in providing better service delivery.

This description, except the decline of SACU revenues (which materialised in 2009/10 due to the economic crisis temporarily affecting South African trade and not due to structural changes in the revenue pool), reflected reality and still broadly corresponded to the situation in 2013/14 when the 11th EDF was being prepared. The EU's strategic response was to concentrate support on three sectors:

(i) Support to orphans and vulnerable children (OVCs) justified by the very real and immediate threat to Lesotho's human capital, a pilot program that later provided the basis for Lesotho's social protection programme.

(ii) infrastructure (water and roads), to improve the conditions for economic growth and contribute directly to the attainment of the MDGs. The choice of supporting the energy sector has not been documented and appeared as a surprise both to the GoL and the Delegation. And,

(iii) BS and capacity building to support GoL's strategy implementation and improve the decentralised delivery of public services and its Public Finance Management (PFM) and public sector reform whilst responding to the potential threat of a drop in SACU revenues.

16 For example, the EU gave limited TA in its first programmes of budget support because other donors (notably DFID, Irish Aid, the IMF and WB) were already heavily involved there. Similarly, it is plausible, although not documented, that the EU decided not to support Private Sector Development (PSD) partly because other donors (USAID, WB) were already involved there and the EU had no particular experience and/or expertise in that area.

These choices were aligned to Government policy[17] even though the ways in which they were expected to contribute to GoL's development goals of (i) economic growth through improved agricultural production, food security and infrastructure development, (ii) improved health and education, and, (iii) improved governance and public sector performance, were not analysed. Similarly the way the choices were made to further attainment of the EU's objective of contribution to good governance, poverty reduction and employment creation was not documented in the CSP.

Whilst relevant with regards to the situation and the Government and EU objectives, the choice of focal sectors seems not entirely appropriate on three counts. Firstly, support to private sector development and trade (PSDT) was ruled out whereas, as underlined in EQ1, the EU, in recognition of the identified weaknesses in this area, could have helped Lesotho develop its private sector in order to be able to gain from regional and international trade. Secondly, in the 10th EDF, the EU focused on mitigating the impact of HIV/Aids leaving prevention to other actors (Global Fund in particular to which the EU is also a main contributor) and no longer integrating this aspect in its approach[18], even though Lesotho's record in new infections per capita did not improve (in 2014, Lesotho had the second highest number of new infections per capita worldwide). Thirdly, BS was prepared whilst Lesotho sported a structural fiscal surplus, and was provided despite Lesotho's limited absorptive capacity characterized by low public investment levels and the lack of Government commitment to addressing the issue of its large and ineffective civil service.

The choice of sectors could have been improved if GoL had defined its priority areas for support and if wider cooperation mapping had optimised the division of labour between donors. In this instance, consultations held with the GoL produced no usable results due to a lack of strategic vision within the sectors and a lack of unified leadership and responsiveness at the highest levels of government. In this context, and after consultation with other donors, the choice of focal sectors of intervention was realised solely by the EU in Brussels, within the loose boundaries set by GoL's strategy and priorities.

Within each of the focal sectors, the EU's identification of challenges faced by the GoL and its response to these challenges has been variable. Concerning macro-economic and water sector support, the design of operations underestimated the difficulties of implementing BS and capacity-strengthening programmes in Lesotho and took insufficient account of previous experience in this field. Support to social protection evolved from an earlier programme focused on support to OVCs and kept a focus, which, in retrospect, might have benefited from a wider consideration of social protection. More generally, opportunities for learning from past lessons were limited and insufficiently harnessed.

EU's cooperation has increasingly used BS as financing instrument: introduced in the 8th EDF, temporary halted in 2004, it became the preferred modality in the 10th EDF, with both general BS and sector BS in water (BS was 79.6% of the 10th EDF portfolio's programmed value after the MTR). The eligibility criteria for BS were deemed to be satisfied over the period, thus enabling the EU to confirm its support to the objectives of

17 Three successive national development strategies were designed and implemented to operationalise the Government's long term strategy (Vision 2020): the Poverty Reduction Strategy (PRS, July 2005) spanning 2004/05-2007/08, which prevailed at the time of the programming of the 10th CSP; the Interim National Development Framework (INDF) 2009/10-2010/11; and, the National Strategic Development Plan (NSDP) 2012/13-2016/17.

18 Under the first phase of support to OVCs, a prevention component had reportedly been included but its implementation was stopped after the MTR. Similarly the ALAFA project (see EQ4) also contained a preventive angle.

the GOL. However, evidence from joint annual reviews shows that the GoL did not, in practice, achieve all the targets it set itself as indicated in the annual performance assessment framework (PAF) and performed in fact quite poorly over the period thus questioning the effectiveness of the EU and other donors assistance in addressing GoL's policy implementation challenges. The MTR and ETR of the 9th EDF had previously highlighted the critical role of governance for a successful BS: the lack of Government's progress in monitoring the implementation of its strategy and improving its PFM (which eventually led to the stopping of BS in 2004) was shown to be directly linked to the weaknesses of the public administration. Nevertheless, the EU resumed BS and major support to capacity strengthening under the 10th EDF in an unchanged context with similar results.[19]

In the water sector, the approach built upon previous experience with the sector. The Commission interventions had a demonstrable impact on poverty alleviation mainly through the water supply (three towns) and environment protection projects (MWWTP); the ongoing activities such as the Metolong project also demonstrated potential for very high impact. The Lowland programme, in progress in 2014 and financed by a panel of agencies of which EIB and EU, will contribute towards a long-term solution of the national management of drinking water; it has the potential to alleviate the needs of all types of consumers (domestic, urban, industrial) and provides an opportunity to practice a comprehensive water resource management and development plan. The EU was well placed as a main donor to fulfil the role of developing and assisting in the implementation of the water sector policy and make a significant contribution to meeting the overall development objectives of Lesotho. Its long-term involvement, its knowledge of the sector and the positive results obtained were important deciding factors in the choice of this focal sector.

Although the EU's overall choices and strategies were thus relevant to the country context and the priorities of the GoL to reform and strengthen the administrative systems for their long-term development objectives, the choice of BS in the 10th EDF to implement support to the water sector was not appropriate to the context at the time. The approach was not understood by officials in the sector and the EU did not grasp the difficulties in launching BS in a very weak PFM context, notably with regards to the budget arbitrage process (where links were missing between the budget and GoL policy priorities). The support to the on-going sector reform and the strategy implementation was linked to progress obtained in improved water supply and urban and rural sanitation service delivery; however difficulties were experienced by the sector in obtaining the required funding for these additional investments targeting the poor and in producing the data required by the EU to report on progress made. For the sector to benefit from the support provided, the design should have been based on a more in-depth analysis of the Government's capacity and commitment to implement the necessary reforms and of the sector's institutional responsibilities and constraints with regards to budgeting and to the production of data necessary for monitoring its own performance. Using BS for the sector did not enable GoL sector stakeholders to strengthen their technical and managerial capacities in the design and implementation of sector investment facilities and their running operations to achieve the W&S targeted results. Although the EU thus capitalised on its previous experience in the

[19] See Box 1 in Chapter 3 and EQ6 the lessons that could have been learned from previous experience in budget support. The MTR of 2004 called for the EU to place governance at the center of its cooperation underlining its critical role in ensuring effectiveness of EU support. When major capacity strengthening projects were launched in the area of PFM and monitoring in 2006-2008 without any demonstrated successful results, the EU launched even bigger projects without addressing the root causes for earlier lack of results: CPEB1 was followed by CPEB2, itself followed by an even larger effort, now, in 2015, amounting to M€13.4 to support PFM, the NAO and the Bureau of Statistics.

sector, it did not sufficiently discuss, during preparation time, the workings of BS and the ways that the sector could benefit from it (or not).

In the area of social protection, the EU had no prior experience in Lesotho. The support provided in the 10th EDF was initially the continuation/upscaling of the Child Grant Programme (CGP), a pilot project of support to OVCs launched in 2007 under EDF9 funding, which had barely started at the time of 10th EDF programming; there was thus hardly any past experience to rely on. The initial project covered one third of OVCs and the 10th EDF funding would strengthen and expand this support; as events unfolded, the EU later (2013) switched part of its planned support to BS so that the Government could take over the cash transfer programme and start funding the scheme itself with a view to make this social protection system sustainable. The EU adopted an approach (based on non- contributory safety nets) which overlooked other possibilities (and in particular contributory productive safety nets, focusing on elderly rather than children, etc.[20]). In retrospect, and in the light of recent studies by the World Bank (not available at the time of design of the EU's programme), a more unified approach combining different entry points (cash grants, public works programme and agricultural inputs) has shown to be more effective and might thus have been a more appropriate response to the challenges posed by Lesotho's social problems (see also EQ4 and Annex 7). There is no evidence that resilience was considered a priority, and this would appear to be a limitation with respect to the potential sustainability of interventions.

20 The exploration of alternative sectors which would have rather placed a cash grant pilot in another scheme than for the OVC (for example to strengthen the Pension Fund scheme) has not been documented, most likely due to political sensitivity around specific schemes such as pensions, and because the WB only issued their report in 2013 and the OVC represent the traditional target group for UNICEF. It is likely that because UNICEF, which has a mandate for children, was retained as technical partner amongst the limited pool of humanitarian and development actors in Lesotho, the CGP was selected as a pilot.

3 The effectiveness of EU development cooperation and the sustainability of its results

The results of EU cooperation with Lesotho and their sustainability should be considered against the wider background of government effectiveness. Indeed, development cooperation provides support to Government programmes, it aligns to public policies and strategies, and is implemented very largely by public servants, especially in a context where BS represented a predominant share of the EU's cooperation portfolio over the period. Box 1 comments on the effectiveness of public service in Lesotho.

Box 1 - Lesotho's public service and aid effectiveness

Despite high levels of professionalism at technical and lower levels, the overall capacity of Lesotho's public service is extremely weak: over the period, the politicisation of the civil service has been a major constraint to efficient and effective management of public affairs, implementation of policies and delivery of public services. The Lesotho civil service has a tradition of political vetting of staff at higher echelons; with the coalition Government following the 2012 elections came also increased instability of staffing[21], difficulties in reaching consensus and thus in decision-making and weaker overall implementation capacities. The lack of motivation, commitment and capacity of the civil service are repeatedly underlined by donors in their reports; politicisation of the civil service, dispirited and lethargic staff, lack of leadership, inertia, brain drain to South Africa, weak human resource management, overstaffing and ghost workers, working in silos of different Government departments, are some of the characteristics noted during meetings with civil servants and highlighted in reports[22]. All agree on the negative effects of the politicisation of the civil service on the efficiency and effectiveness with which the GoL can deliver its public services: there is confusion and a shortage of decision-making on key issues, implementation, strategic engagement, commitment to the NSDP, ownership and leadership to manage aid resources. In addition the accountability of the public service and the GoL has weakened as the role of the Parliament is undermined by its lack of independence. The reform of public service, which was talked about in the early 2000s, has remained unheeded.

These weaknesses of public administration, coupled to those of public finance management, the low productivity of public investment and the low absorption capacity of the public sector, seriously undermine the delivery of public services and thus the effectiveness of development cooperation supporting public action. The decreasing effectiveness of GoL's actions has been captured both in the low and worsening performance against its own targets set out in the PRS and PAF, and in the world governance indices where Lesotho scored not only relatively low (-0.38 on a scale from -2.5 -weak government effectiveness- to +2.5 -strong effectiveness-) but also worsened both its score and its percentile ranking among all countries (from 52.2 in 1996 to 42.58 in 2013 on a scale from 0 –lowest- to 100 –highest-).

[21] The instability is linked to replacement of senior ministerial staff after the elections, and to members of the Parliament and Ministers being prone to switching political groupings quite easily. In 2013, there were 18 political parties in Lesotho for a population of less than 2 million.

[22] See for example: Commonwealth Commission reports (Prasad 2013 and Prasad 2014), the Irish Aid CSP evaluation (2013), the project evaluations of CPEB I and II, the WB CAS reports or the IMF Art.IV reports.

3.1 EQ4 on social protection[23]

EQ4: To what extent has the EU contributed to human development through supporting the development of appropriate social protection measures in Lesotho?

The EU has supported the GoL's move forward from standalone projects, addressing specific needs of those affected by HIV/AIDS and those vulnerable to seasonal food shortages, to a more systematic approach to social protection. The EU played a positive role in improving the consequence of the HIV/AIDS epidemic for thousands of orphaned children. The Child Grant Program (CGP) was executed in support of GoL in partnership with UNICEF. It responded to the needs of orphans and vulnerable children (OVC) in nutrition, education and food security. It also provided the stepping stones on which the recent National Social Protection Strategy was built, leading to the potential development of a comprehensive national social protection system.

The selection of priorities and form of delivery has been somewhat uneven across the different instruments. Further work will be required to strengthen areas such as resilience and targeting, delivery mechanisms, exit & graduation, and sustainability.

Significant progress has been made with developing the National Information System for Social Assistance (NISSA). It has been successfully taken over by the Ministry of Social Development (MoSD) with technical support from UNICEF. NISSA is not sustainable in its current form. Key decisions must be taken regarding its coverage (census or targeted) and frequency of updating.

The programme was instrumental in raising the status of MoSD and enhancing GoL ownership of the CGP and Social Protection as a whole. World Bank projections indicate that the CGP is potentially financially sustainable. A functioning social protection package should be achievable if appropriate decisions are taken to define its scope, PFM safeguards are adopted, the old age pension (currently managed by MoF) is included, tertiary education grant costs are contained, and the NISSA is completed.

EU role in creating a Social Protection System

The EU successfully moved from a standalone initiative addressing OVC to the support for the inception of a national social protection strategy and system where the EU (through UNICEF) played a key role in shaping the policies, building evidence, providing technical support to GoL and designing necessary tools.

The Child Grant Program (CGP) was conceived in the light of the HIV/AIDs epidemic primarily to address the needs of children orphaned as a result. The socio-economic focus on poverty led to the development of the concept of supporting Orphaned and Vulnerable Children (OVC).

The GoL had been providing cash allowances and benefits for some years, predating EU support. An Old Age Pension started in 2005 and became a universal programme. Not being especially generous, it only catered for people aged 70 and above, e.g. approximately 80-85,000 beneficiaries nationally, including apparent "ghost" pensioners. Other schemes

[23] Annex 7 presents a more detailed analysis of the EU's support to Social Protection.

included the Public Assistance (for the destitute), the School Feeding Program, National Fertilizer and Input Subsidy, Public Works Program and Tertiary Bursary Scheme. These targeted different groups in a standalone manner and some, notably the Tertiary Bursary Scheme, particularly benefited the better-off. As these schemes evolved separately they did not function in a coherent manner. The concept of Social Protection sought to address this. It had a solid legal basis for the assistance to specific vulnerable groups through the Lesotho National Strategic Plan for Orphaned & Vulnerable Children (2005), the National OVC Strategic plan 2006-2009, and the National HIV & AIDS Strategic Plan 2006-2011 (NSP)[24].

The EU hired UNICEF to develop the CGP pilot. This enabled exploration of a viable programme with a strong learning focus on efficiency and effectiveness. It provided a platform to review a range of key technical issues such as needs-based targeting; cash transfer delivery, financial sustainability and impact measurement. The advocacy, capacity-building support, evidence-based programming of the CGP, combined with its adoption by the community councils, created visibility regarding the potential of social protection. It also helped to build an enabling environment for the creation of a separate government entity in charge of Social Protection, the Ministry of Social Development (MoSD), which had formerly been part of the Health Ministry.

Preparation of the National Social Development Policy (NSDP) and subsequent development of the Lesotho National Social Protection Strategy (NSPS - 2014) was supported through the CGP project. It is a considerable achievement, supported by EU/UNICEF working alongside MOSD. It demonstrates that the GoL embraced a National Social Protection System. It was followed by a cost simulation exercise in 2014 to identify the most cost-efficient options. The CGP demonstrated a more cost-efficient and pro-poor model than other existing social protection schemes. UNICEF reached out to the World Bank, which became an important player in 2013 in the review of the most efficient ways to deliver financially sustainable social protection assistance. The additional leverage the WB provided with the government was perceived as a further success factor.

Thus, the CGP became a key contributor to the national social protection model. EU/UNICEF successfully handed this over to MoSD, backed up by technical support from UNICEF. Another sign of government ownership was that the CGP was expressly mentioned in the budget speeches in 2013/14 and discussed in Parliament. The NSPS recognises the role played by productive safety nets with its vision on a life-course approach. It foresees a universal infant grant, the CGP, public works, disability grant and public assistance as its core programmes (although the WB proposed packages are less inclusive).

The development of identification and targeting systems

The development of NISSA was a prerequisite to move towards a national targeting system in support of harmonisation of social protection programmes, providing a unified database to enhance coordination and coverage. Its implementation is highly dependent on the public sector capacity itself (in terms of decentralisation, coordination, referral mechanisms, fiduciary controls, and technical skills) and sustainability of resources.

[24] The Lesotho experience with social protection to date has been subject to several reviews and reports. The WB report "a Safety Net to End Extreme Poverty" 2013 makes a case for social protection in Lesotho, recognising the high level of inequality for which safety nets can contribute to protect the consumption of the poorest at the food poverty line.

Prior to NISSA there were no visible efforts to link different social protection interventions nor to identify common criteria or to develop referral mechanisms. The absence of a common database often meant duplication and gaps in programming.

NISSA was launched in 2009, under the CGP pilot, to collect and manage socio-economic information at the household and individual level in the districts that had the highest percentage of poor population: poor and very poor households with children were targeted using a mix of proxy means tests (PMT) and community validation (please see annex 7). The "inclusion error" of 26% for the CGP was significantly lower than in the other social protection schemes.

Phase I of the CGP enabled the design of necessary tools such as Standard Operating Procedures (SOPs), MIS and M&E. Up to 2012, the program operated in 5 of the 10 districts and reached almost 10,000 households. Phase II of the program enabled the expansion to cover all 10 districts. As of October 2014, the CGP reached 25,000 households and provided benefits for approximately 65,000 children across 10 districts in Lesotho, to which it was providing payments.

The NISSA collected data on 102,000 households in 37 Community Councils in Lesotho, representing 25% of the total population of Lesotho. Its potential to be used for other programmes than the CGP was demonstrated early 2013 when it was used to disburse a Food Emergency Grant provided as an emergency response to the food shortages linked to the poor harvest. It was, at the end of 2014, the only example demonstrating that referral systems between programmes could be put in place. Wider use of the system would require SOP to be developed with the Disaster Management Authority (DMA) and institutional arrangements to be made with the MoSP.

Using the NISSA for a more systemic approach has been investigated by a consultancy (OPM) in 2014, considering the integration of multiple systems, harmonising targeting approaches and using the system with the triple purpose of coordination, registry and integration (see also Annex 7). It would entail mapping of vulnerable people, participation of district administrations, and linkages to the national registry and Identity system. However, the sustainability of the approach developed with EU support, which worked very well on pilot basis, is at risk due to the cost of a census-based, elaborate targeting approach. Targeting those in need in accordance with clear eligibility criteria lies at the heart of social protection, taking account of financial sustainability criteria.

Benefits of support to OVCs

Support to the CGP has had a positive impact on nutrition levels, expenditure on schooling, clothing and footwear for children, and primary school enrolment (especially for boys). No effects were evidenced on usage of health facilities. The effects of the programme were severely limited by supply side constraints. Complementary initiatives to ensure maximum effectiveness and impact, were not systematically built into the programme. Exit strategies from the programme (graduation out of CGP) were not envisaged and improved resilience was not addressed even though NISSA simulations showed that CGP, in combination with other social programmes, could considerably reduce the level of poverty in Lesotho.

In 2013 the FAO commissioned an impact evaluation entitled the Local Economy-Wide Impact Evaluation (LEWIE) of Lesotho's Child Grants Programme. This has been a robust source of measurement and learning regarding the impact of the CGP in poverty reduction. The CGP improved food security for children by reducing the number of months during which households experienced extreme food shortages. It showed that higher spending immediately transmitted benefits from beneficiary to non-beneficiary households inside and outside the recipient villages. Cash transfers helped by stimulating demand for locally supplied goods and services found primarily in households ineligible for the transfers. Eligibility criteria for the CGP favoured asset and labour-poor households.

The CGP simulations indicated total benefits significantly exceeded the amounts transferred under the programme. The Monte Carlo methods used in the LEWIE analysis estimated a multiplier of 1.3 to 1.5, meaning that for every dollar invested in the transfer, 1.3-1.5 dollars is injected in the economy.

The LEWIE evaluation underlined the importance of a high local supply response in generating positive spillovers. The simulations suggested that interventions to strengthen the local supply response were likely to be critical in order to avoid inflationary effects and maximise the real impact of transfers in the treated village clusters. Given the dominance of ineligible households in local production, complementary interventions (e.g., micro-credit) to target these are necessary. For example, FAO experimented with a top-up approach to the CGP, providing support for agriculture and home-gardening; an improvement of agricultural production was recorded a year later. Further impact attribution analysis of cash grants versus in-kind support could help future combined use of different tools: training, seed, nutritional education and cash grants. Thus CGP alone may not be enough to reduce malnutrition, but it could contribute greatly as part of a combined approach. To maximise these complementarities, the EU favoured the implementation of the CGP in areas where other livelihood initiatives were also operating but did so in an informal, non-structured manner.

Some operational factors inhibited effectiveness of the CGP. Payments were made quarterly but irregularities of payment reduced the effectiveness of the transfers, particularly food security as the gains on dietary diversity were mainly concentrated around pay dates. This problem of payment irregularity was not solved by UNICEF; possible complementarities with micro-finance institutions or coordination with partners using other approaches, such as Cash and Voucher or mobile phone systems, were being explored.

The CGP contributed to an increased level of expenditures on schooling, clothing (including school uniforms) and footwear for children, which is important for psychosocial dimension and was aligned with the messages of using cash for education. However, opportunities were not taken to associate the messaging with information packages on HIV, nutrition and influencing strategies on the demand side to create a different attitude towards public service provision.

The programme had a large impact on children's enrolment in primary school, particularly for boys who have been identified as more at risk of dropping out in Lesotho (many to herd livestock). Paradoxically, the scheme retained older boys in primary school longer but failed to support enrolment of younger children. The possibility of imposing penalties for households not sending their children to school was discussed with government, but could not be implemented given the poor capacity for service provision in the education sector. For the cash grants (or conditional cash transfers such as piloted by UNICEF in 2014) to be effective, investment is required on the education supply side to ensure sufficient school places. The OPM study showed that conditional cash transfers are not effective in Lesotho because of the poor state of public service provision and the limited financial sustainability of systems requiring verification mechanisms to monitor conditionalities (costs would outweigh the benefits generated by additional impact).

There was no evidence that CGP had an impact on the reduction of the level of child employment but occasional/irregular job engagements were reduced and as noted above school enrolment increased, especially for boys thus reducing their potential time in informal employment. The CGP Phase II did not have an effect on access to health facilities although it did contribute to a reduction of morbidity for children 0-5 years old, supposedly as an effect of increased access to non-food items such as blankets, rather than through increased health service attendance (except for birth registrations).

The lack of non-cash accompanying measures to support public services or to condition their use by the beneficiaries was a shortcoming in the initial phases of CGP that was later tackled by the NSPS and the Conditioned Pilot Proposal. The strengthening of public service delivery remained a key constraint for the success of social protection interventions and could not be lifted only by increased community mobilization.

Phase I of the CGP considered provision of capacity building interventions in the services supply side, but the project faced key constraints such as the lack of involvement of the MoHSW [25].

Exit strategies (and graduation) were not considered in the CGP. Support was extended until the child reaches the age of 18, an excessively generous (and potentially unaffordable) system and inconsistent with similar programs in the continent. Households that benefited from the CGP seemed more resilient and less prone to negative coping mechanisms. However, the grant did not enable productive investment in asset accumulation, nor was there any detectable pattern of saving behaviour. The NSPS process for 2014 and beyond included some micro‐simulation modelling to assess the impacts of the different possible intervention scenarios on the poverty rate and poverty gap. It was calculated that the set of core social protection interventions promoted (CGP, pension fund, 0-2 years old child coverage, …) would reduce Lesotho's poverty rate by nearly 15% to 51.3% and the poverty gap by an impressive 40% to 14.0% (from the current 59.9% and 23.8% without social protection respectively).

Sustainability of the Social Protection Measures

With limited agriculture and other income-generating activities, GoL has for the past 30 years adopted a redistributive public policy: in 2011 it was estimated that about 10% to 16% of the population was dependent on public support measures. In a context of both high public expenditure and high reliance on SACU receipts, the sustainability of any social protection programme depends on its cost-effectiveness.

The main factors determining whether social protection becomes sustainable in Lesotho are as follows:

- i) Are the institutional arrangements effective and will public sector stakeholders work together to make it a success?
- ii) Is there sufficient GoL financial commitment to make it sustainable?
- iii) Is there sufficient political will to contain the costs of the expensive and not pro-poor "social protection" elements including the tertiary education grants?

[25] OPM phase I evaluation p 24.

iv) Can the support be effectively targeted through NISSA, and will the NISSA database be expanded and updated on a sustainable basis?
v) Can efficient and cost effective cash transfer mechanisms be developed?
vi) Will supply side measures be implemented to enhance the impact and sustainability of support?
vii) Can fiduciary risks be contained in order to ensure that the scheme retains credibility and affordability?

From an **institutional** perspective when the Department of Social Work (DSW) was given an enhanced status and became a standalone entity as the Ministry of Social Development (MoSD) it developed a deeper sense of ownership of the CGP and its vision as a pilot towards a NSPS rather than a standalone project. The MoSD gained a solid reputation relayed by the media for its relative dynamism and was the only ministry able to decentralize to some extent and gain support from the community counsellors. That created some competition compared to other ministries or DMA. The transfers of skills and integration of project staff was a problem at the end of CGP Phase I. Frictions between institutions made it more difficult to deliver an integrated social protection programme.

Despite the institutional tensions and the political instability in Lesotho, it is reasonable to think that MoSD is there to stay and GoL investment in Social Protection will retain sufficient priority. A comprehensive transfer plan from EU contributions to GoL ownership and funding was set up for the second phase, successfully implemented, and aimed to be completed by 2014. At this stage, however, the CGP represents but a small element of total social protection spending; some serious commitments have been initiated with insufficient consideration for their sustainability, including the provision of child grants until beneficiaries reach the age of 18.

The WB calculated that Lesotho spent approximately 16% of its public expenditure on various transfer programs, but less than a quarter went to the very poor. While this mainly results from inefficient targeting criteria, the criticism does not apply for the CGP which rates much better, although further targeting improvements are proposed. In 2010/2011, CGP spending amounted to 1.3% of total transfers (compared to 29% for the pension fund, 18.5% for the school feeding program and 45% for the tertiary bursary scheme). The direct operating cost for the CGP, at 13.7%, is considered relatively low, particularly given the small size of the program, its pilot status and the fact that operational costs are expected to decrease with time. However, substantial expenditures on TA would need to be budgeted for years to come.

Effective social protection has the best chance of success if fiduciary risks can be contained. As identified in EQ6, Lesotho is high risk from a PFM perspective. Reconciling the development of large scale cash transfer mechanisms, with all the opportunities for fraud, with the weak accountability identified in other parts of the public sector, is difficult.

Finally, questions surrounding the sustainability of the social protection system arise on the coverage (census or targeted identification of beneficiaries) and frequency of update of the NISSA, on the methods of grant payment (in kind, in cash) and on the provision of key services (education and health) and use of cash transfers.

3.2 EQ5 on water and sanitation

EQ5: To what extent did the EU's support to the water and sanitation sector strengthen the management of the sector to become more effective and efficient in its service delivery to alleviate poverty and improve health?

Since the mid 1980s, the EU played a key and relevant role in Lesotho's Water and Sanitation (W&S) sector through a continuous support that evolved progressively to a sector budget support approach, showing recognition of the improvement of the national institutions. The national W&S sector is now equipped with the necessary tools for policy and better coordination capacities within a more streamlined sector structure, except for the M&E aspects where data availability constrains the sound planning of social services development within the financing constraints.

Interventions through the 9th EDF project approach suffered from difficulties and delays but demonstrated good impact on water service delivery and environment protection. The feeling of stakeholders on SBS approach of the 10th EDF is mixed, recognising positive effects on the sector's coordination but adding to the workload without providing additional funding to achieve the set targets and to produce the cumbersome number of reports. The SBS challenge was not really understood by officials and led to much confusion and misunderstanding. The acting stakeholders preferred the project approach.

Although the country is likely to be on track towards achieving the MDG 7c as far as access to water is concerned, Government is progressing at a slower pace than expected in relation to its own goals in water and sanitation coverage.

The sector's reform process and changes in its policy, strategic, organisational, managerial and/or regulatory framework

The water sector reform's progress initiated by the GoL has been strengthened by EU support and allowed for better sector policy and coordination. Strategic and managerial capacities still need to be improved due to the lack of regular and reliable data; strong administrative commitments, essential to achieve the targets of the W&S strategies, are still insufficient.

A study commissioned by the GoL concluded in 1996 upon recommendations for a "Water Resources Management: Policy and Strategies". The study led to the development and adoption of the "National Water Resources Management Policy" (NWRMP) in 1999. The policy framework for water supply is provided by this NWRMP, which in addition to the development of secure long-term sources of supply, emphasises the need for cost recovery through an appropriate tariff structure, institutional reform, greater involvement of private firms in water distribution, regional cooperation, and the systematic treatment of wastewater. Moreover, the GoL development goals are reflected in its "Vision 2020" and the "National Strategic Development Plan" (NSDP) approved in March 2012.

Out of five main items of the 1999 NWRMP, only points 1 and 2 have been implemented: i) the position of a Commissioner of Water (CoW) has been created to co-ordinate water sector policy and planning and ii) a Policy, Planning and Strategies Unit (PPSU) has been established to provide technical support with respect to policy matters to the CoW.

The institutional arrangements have been completed with the establishment of the Lesotho Electricity and Water Authority (LEWA) and change of the Water and Sanitation Authority

(WASA) to a company, WASCO, both in 2011. Provision of potable bulk water supply to urban areas is undertaken by WASCO under the licence issued by LEWA.

The private sector and Local Government participation in the management of the distribution system are yet to be developed, the planning function is still scattered among various sector institutions and a sector MTEF does not really exist. There is evidence that sector coordination improved but capacity-building, institutional commitment and sector planning tools remain key issues.

Planning and management in the sector

Sector coordination meetings were held on a regular basis at appropriate levels and a water sector management information system has been developed. This information system is no longer operational: the availability of necessary data for proper planning and sustainable management at sector level has not been secured.

The quarterly sector coordination meetings were the main fora for interaction between water sector stakeholders, ranging from relevant line ministry departments, financiers, NGOs, community-based organisations to donors. Joint Annual Reports (JAR) chaired by MEMWA were edited each year around July to assess the progress made in the sector. Civil society participation to the JAR as well as to the sector co-ordination meetings increased and appeared constructive, but a more overarching policy and effective inter-institutional coordination mechanisms are still due for much improvement.

Activities foreseen under the EU-funded LWSSPSP (2011-2016) included improving, through TA, the provision of hardware/software and training, the effectiveness of a sector coordination, and regular feeding of data into a national Water Sector Information Management System (LWSIMS). The development of the LWSIMS has been a success in that it has created consensus among the water sector organizations on how to structure the information flow within each organisation and towards the public. Unfortunately the system crashed in 2012 and is no longer functional: it is not maintained and the equipment is now outdated. Hence data collection, reporting and information on the W&S sector remain a weak point.

The EU-funded LWSSP (2005-2012) provided a support to WASCO for maintenance activities, repair and replacement of faulty items, training of staff in effective and sustainable O&M of the water supply and sanitation systems, in leak detection and installation works, delivery of manuals, etc. It is difficult to judge the institution's capacity to look after the completed works as the results of staff training was reported mixed and raised some cause for concern. The institutions are seriously understaffed with experienced engineering personnel as there is a constant "brain drain" of qualified personnel to South Africa. Without future inputs of TA or a greater involvement of the private sector, the water institutions will continue to face major difficulties to fulfil their requirements. This is of particular concern for the large Metolong infrastructure and linked charges that will be passed over to WASCO in 2015.

A Tariff Policy Study was finalised in March 2007 and in 2008 WASCO adjusted its water and wastewater operation and maintenance (O&M) fees using a block structure. The O&M fee is assumed to cover O&M and some repayment of loans. WASCO sewerage customers are charged for wastewater treatment at a cost-covering fee that is directly linked to their drinking water bill. The necessary legal framework is in place and the tariffs can be adjusted to inflation on a yearly basis, which was done for the last time in the first half of 2014.

WASCO annual reports describe a cost recovery system that is efficient around 90%. Yet financial data show that there are insufficient funds to cover the operating and investment costs. Non-Revenue Water (NRW) records for 2012 were at 32%, which remained the same as 2011 and was below the target of 28%. At the end of 2012, WASCO posted a net loss of Maluti 12.4 million[26] although the amount of water sold increased from 67,1 Mm^3 (2011) to 84,4 Mm^3 (2012).

No tariff is charged by the Department of Rural Water Supply (DRWS) for water supply or maintenance in rural areas, only a contribution is sometimes made in kind by the beneficiaries. This lack of appropriate revenue collection will have implications for the long-term sustainability of the rural water and sanitation facilities, their maintenance and development.

Strengthening of sector institutions is still on-going but significant needs are not yet covered, as relates to WASCO's apparent insufficient technical and financial capacity to manage large new projects in the medium and long term. Furthermore, the rapidly deteriorating rural systems are an unresolved issue, which some specialised actors should take care of, especially concerning governance and maintenance aspects.

Coordination and complementarity of support initiatives in the sector

EU support initiatives were based on experiences gained from extended previous involvement in the sector with coordinated approaches between the different programmes. However, the 9th EDF programme approach, including five different and independent components, was too wide to ensure flexible management and suffered long delays, and the 10th EDF Sector Budget Support did not deliver the expected outputs to the beneficiaries, as its rationale was not really integrated by the MoF.

The 9th EDF LWSSP continuously monitored all activities of its five components, organising the management and implementation of the various projects. The Maseru WWT project was integrated with a main programme concerning wastewater in Maseru, coherent with similar activities funded by the EU and with the Water Sector Improvement Project funded by the World Bank. The execution of the programme components was much delayed from the FA timeframe. The FA proved to be unrealistic, considering the involvement of a large number of parties and activities. The Three Towns Water Supply & Sanitation Project was a complex project and the Maseru Waste Water Project took more than three years after completion of the feasibility study and the civil works.

The EU SBS weight in the sector budget was moderate, particularly as other donors such as MCC and IDA were heavily investing in it (mainly through the Metolong project). BS performance indicators were not yet fully harmonized across donors (WB was using different indicators for example). Formal coordination mechanisms existed and GoL made positive efforts towards coordination, but coordination was only partially working. Regular dialogue with WB was reported as less comprehensive than it should have been, and there was no dialogue with MCC which worked in an entirely independent fashion.

Main actors (such as CoW and WASCO) expressed the view that the EU SBS funding did not reach them: although SBS is, in principle, not earmarked to the sector (budget allocations remaining the responsibility of the Government), this was not understood by

[26] +- 900,000€

the sector and performance targets were set corresponding to a level of resources which did not, in the end, materialise since the expected SBS resources were not allocated to the sector. Instead, means to reach the targets set by the SBS indicators (and which served for release of the variable tranches) were covered with the help of the MCA funded programme, including a TA based at CoW office[27]. Insufficient attention was paid to a realistic assessment of SBS mechanisms at design stage, and to weaknesses in areas that were supposed to receive EU financial support. Efficiency was hampered by a lack of understanding of the SBS process, with an unchanged investment in the sector in spite of the increased demand and the weak capacity in planning and operating of water and wastewater systems.

Nevertheless, the process of SBS, with its demand for sector data to monitor progress in implementation, delivery, and use of services in the sector, encouraged coordination between the different stakeholders. SBS thus had a beneficial effect on sector coordination, it strengthened sector reforms, and enhanced exchanges between stakeholders for a better efficiency of W&S advocacy. In short, SBS increased the quality of the sector but not the quantity side, as there were no real significant improvements under SBS in terms of access to services during the period 2008-2013.

A MTEF for the sector is still needed. There is only one for the Ministry. CoW, DWA, DRWS and WASCO have no predictability regarding budgetary ceilings that should be provided by the MoF.

Efficiency and effectiveness of service delivery and access and quality of provision of water and sewerage

Although the country is likely to be on track towards achieving the MDG 7c as far as access to water is concerned, and despite progress in main service delivery indicators, Government is progressing at a slower pace than required in relation to the MDG goals.

Water supply

According to the results from the Bureau of Statistics (BoS) Continuous Multipurpose Survey (CMS), access to improved water services increased from 65.9% (2010) to 72.1% (2012) in urban areas, but decreased from 64.6% (2010) to 63.3% (2012) in rural areas.

Urban services: Ongoing investments in the sector were intense and were gradually producing substantial improvements of water and sanitation services; WASCO estimated an increase over the last two years of around 13,400 household connections or an estimated 67,090 persons served, thus 10% higher than the objective of 30,000 additional persons/year served.

Urban Water coverage	04/2012	04/2013	04/2014
Urban population estimate	490,137	500,051	509,808
Coverage (04/12 BoS CMS)	72.1%		
Additional households connections		6,218	7,200
Additional persons served		31,090	36,000
Persons served	352,389	384,479	420,479
Estimated coverage		76.9%	82.5%

[27] The comments from CoW team, WASCO team and field actors, mention that their requested additional resources to implement the given BS activities and strategy were not made available at expected levels.

Rural services: Improvements are lower in the rural areas because the gap to cover was (and remained) high, with lower investments, even if a considerable number of rural water schemes were constructed every year. DRWS carried out the studies and designs using its own personnel and tendered construction out to local contractors. Supervision was also DRWS's direct responsibility but as far as organising the beneficiary communities to operate and maintain the systems is concerned, training of local committees was quite brief and superficial, and follow-up was almost non-existent. This led to poor infrastructure management, service lower than expected by users, and local committees not working properly, particularly concerning O&M fee collection. These factors led to rapid infrastructure deterioration. Available data for rural water and sanitation coverage are unequal, but if one considers that DRWS investments in new and rehabilitated systems benefited 30 000 to 40 000 people each year, the annual increase in terms of properly served population would be approximately 6%, not high enough to reach the GoL targets.

Rural water coverage	04/2012	04/2013	04/2014
Rural population estimate	1,412,570	1,409,270	1,406,765
Coverage (04/12 BoS CMS)	63.3%		
Additional persons served		65,000	103,159
Systems out of service		35,766	36,936
Persons served	894,157	923,390	989,614
Estimated coverage		65.5%	70.3%

Sanitation

Data on access to sanitation depend on the definition of the standards that are regarded as acceptable. The April 2010 CMS data did not distinguish between sanitation facilities that are shared between households and households' own facilities. Access to sanitation was estimated as 92.8% in urban areas and 55.8% in rural areas. Shared latrines are currently no longer regarded as adequate hygienic sanitation facilities by WHO and the Ministry of Health. Hence the 2012 CMS data indicated that 38% of the urban population and 42% of the rural population were using improved sanitation facilities that were not shared with other households.

Rural services: The adopted policy was to implement rural water supply and sanitation facilities and hygiene education concurrently. The output targets for rural sanitation facilities implemented with subsidy from DRWS have been met.

Rural sanitation coverage	04/2012	04/2013	04/2014
Rural population estimate	1,412,570	1,409,270	1,406,765
Coverage (04/12 BoS CMS)	42.2%		
Persons served	595,907	656,743	743,603
N° of new VIPs		14,148	20,200
Additional persons served		60,836	86,860
Estimated coverage		46.6%	52.9%

Urban services: The Maseru WWTP project is the only EU major urban sanitation dedicated project. The reported benefits were good disinfection efficiency, compliant FC effluent concentrations, and the treatment of all connected domestic and industrial wastewater prior to discharge into river systems. Positive also was the general shift towards sensible low-cost sanitation systems, to better reflect the needs and financial capacities of poor population groups.

The MWWTP was prepared and implemented over a long period from 2004 to 2012, and during this time period the urbanisation of Maseru differed from what was originally anticipated. Hence, whereas the urban growth centres in the North-eastern part of the city were of priority in the initial project-planning stage, over time the growth centres in the southern part of the city had to be given more priority simply because this was where the new industrial centre was established and new housing quarters built. The consequence is that the now completely-implemented project was much less effective than assumed in the initial project in terms of sewerage services delivery and environmental improvements.

For the period 2008-2014 (excepting 2010/11 due to lack of data available on external financing), total GoL, grants and loans funds dedicated to the sector amounted 4,862 M€ of which 12% came from EU grants (total grants to the sector amounted 1,35 M€ of which 44% from EU grants). The funds made available by EU projects (Annex 3 fig.5 and Annex 5) contributed mainly to urban WS; BS contributed to improved sector management. The rural WS has been supported mainly by Irish Aid and only one urban sanitation project has been funded by the EU.

If the efforts made are valuable and prove worthy, the sector still suffers of weaknesses and its national actors expressed their hope for the continuation of external support.

The impact of W&S services on health, living standards and income

No data was available from the Bureau of Statistics (BoS) to link water service delivery to improved agricultural production and health, or to EU support.

The "State of Water Resources 2010/2011 report" prepared by the Office of the CoW and WRP Consulting Engineers (2012) indicates that the total arable land suitable for formal irrigation was estimated at about 36,000 ha and that the area under operational irrigation was only 1,100 ha. The areas under irrigation included areas irrigated by high-pressure sprinkler irrigation, low-pressure gravity-fed system and drip irrigation. At the end of 2012, an area of approximately 1,537 ha was developed for large-scale irrigation under donor funding, but, in 2014, these schemes were dormant and in need of rehabilitation. In 2013, the Department of Agriculture was planning a study to produce an inventory of existing schemes and set up a plan for future development, but results were not yet available at the time of the evaluation.

The "WHO 2013 report" and the "UN-Water Global Analysis and Assessment of Sanitation and Drinking-Water (GLAAS 2014)" on Lesotho show that health indicators for Lesotho have generally not been improving as some formidable challenges had to be addressed. Progress made on infant mortality (84/1000 in 2005 and 74/1000 in 2012) and under-five mortality rates (108 to 100/1000 over 2005-2012) remained extremely modest, especially when compared to regional performance, while the maternal mortality ratio was estimated to have increased from 2005 to 2012, a trend which is opposite to the expectations of the Millennium Development Goal 5. Diarrhoeal diseases were amongst the top ten diseases (4%).

3.3 EQ6 on budget support[28]

EQ6: To what extent has budget support contributed to improved public policies and spending?

Just over half of the EU's cooperation over the period 2008-2013 was in the form of general or sector budget support (contracted basis). It was resumed in 2010, at a time of pressure on Lesotho's fiscal situation due to the effects of the international crisis, where otherwise Lesotho's fiscal balance was structurally in surplus thanks to important SACU transfers. Budget support preparations and implementation created the opportunity to establish a dialogue with the authorities, both at general level (macro-economic and PFM issues, monitoring of PRS implementation) and in the water sector. Despite improved dialogue, better coordination and the introduction of new tools through the provision of technical expertise and training, public policies, institutions, spending and service delivery did not improve due to the overall lack of GoL commitment and capacity to reform. Progress in PFM and in PRS implementation were particularly poor and economic growth did not lead, over the period, to an improvement of the situation of poor people: on the contrary discrepancies between rich and poor increased in Lesotho.

Background to the provision of BS and BS inputs

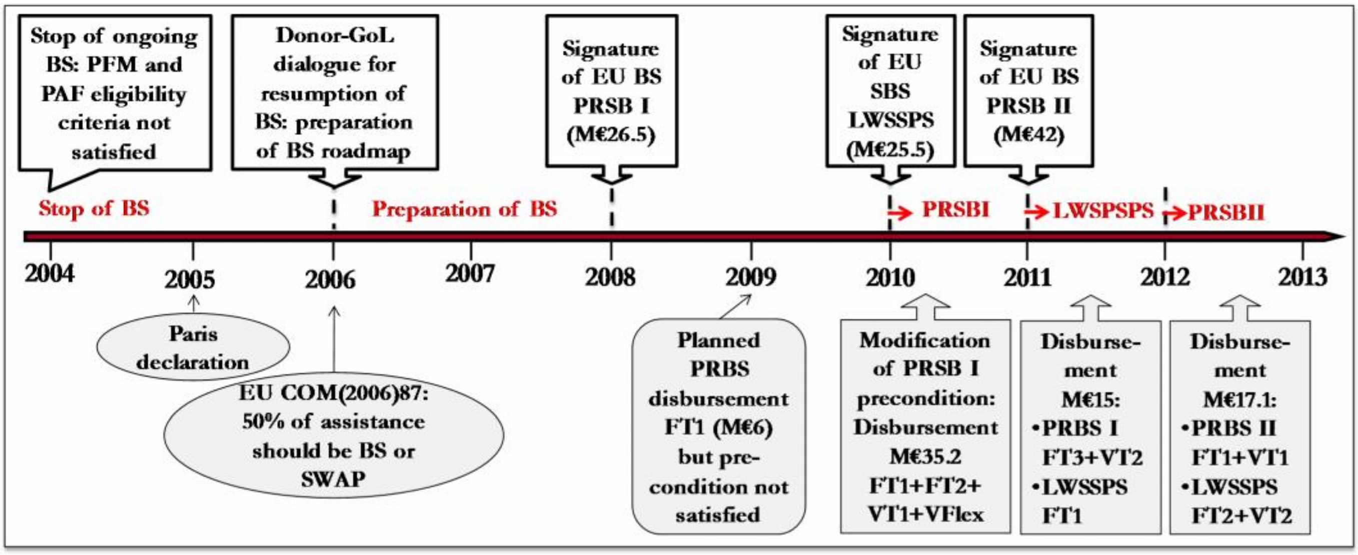
During the 2008-2013 period, the EU has provided GBS and SBS to the water sector. As seen above, BS was initially used under the 9th EDF; it was stopped in 2004 because two of three eligibility criteria relating to PFM and the ability of the Government to provide a credible performance assessment framework (PAF) were assessed as unsatisfactory. From 2006 onwards, stimulated by the EU headquarters' policy-level move towards BS, a 2-year phase of intense policy dialogue and preparation in the form of a BS roadmap to bring Lesotho back on a path of BS eligibility was launched in close coordination with other interested donors (WB, AfDB, DFID).

Following GoL's progress on the BS roadmap, GBS was resumed with the signature of the financing agreement for PRBS1 at end-2008 for a start in 2009/10 financial year and plans for a very substantial TA package to help on both issues of PFM and PRS monitoring. Concomitantly the WB and the AfDB also resumed their BS operations. However, it took another couple of years for the EU's PRBS1 to become effective: PRBS1's first disbursement at end-2010[29] was later followed by the granting of a second BS (PRBS2) and of support to the water sector in the form of a SBS. Figure 5 below illustrates the timeline of events. Furthermore, in order to increase sustainability of support to social protection and in line with the Communication on Social Protection in EU development cooperation of 2012, the support programmed for social protection was also, after an initial period of project implementation, partly transformed into a BS operation. **In total, over the period, Lesotho benefitted from BS to an amount of M€118.7.** The BS was accompanied by TA and by intense policy dialogue, especially at the beginning of the period during the preparation of EU BS.

[28] In this section it is assumed that the reader is totally familiar with the OECD/DAC budget support evaluation methodology in three steps. As required in the ToR for this evaluation, only Step 1 of the methodology has been applied here. It analyses the inputs, direct outputs and induced outputs of budget support.

[29] See also below: the delay in the first disbursement was linked to the non satisfaction of the BS pre-condition linked to the submission by GoL of accounts to the Parliament and the provision by the latter of a statement of affairs.

Figure 5 – Lesotho main events around Budget support



Dialogue

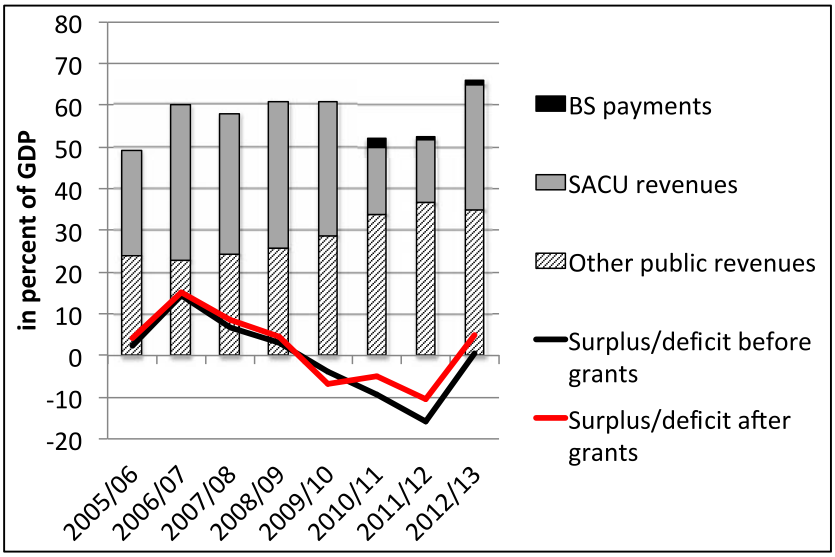
Policy dialogue started well before the launch of the BS programme, in 2006. Addressing the root causes of the previous discontinuation of BS, the dialogue aimed to find solutions to (i) the weaknesses of the PFM context and (ii) the absence of a performance assessment framework – PAF – required for the monitoring and evaluation of national policy implementation. The dialogue was characterised by a high level of coordination between the donors (WB, European Commission, GTZ, DFID and Irish Aid participated). A number of joint missions were undertaken between 2006 and 2008 focusing in particular on PFM (and in particular the need to solve the gap in the production of public accounts) and on the M&E framework for public policy implementation: a PFM roadmap (May 2006-December 2008) was developed which focused on setting the conditions for resuming BS and efforts were launched to develop a national strategy and accompanying PAF. The intense policy dialogue around the BS resumption set the tone for the future with yearly General Budget Support Joint Annual Reviews (GBS-JAR) held in November each year once BS resumed in 2008. The main interlocutor in these discussions was the Ministry of Finance (MoF – then Ministry of Finance and Economic Planning – MOFEP).

The quality of the dialogue with the MoF was very good and unaffected by the earlier stop of EU BS as the main interlocutors within the MoF (MOFEP at the time) had changed due to the elections and the appointment of a new Government (early 2007). The Aide-Mémoires from the joint missions reveal, however, a relative deterioration of the quality of dialogue over time, reflected in poorer attendance at later reviews (2011 and 2012) characterised both by decreased participation of the line ministries and by attendance of less senior staff thus jeopardising the potential for policy-level discussions. Nevertheless the Aide-mémoires also show that JARs provided a formal and regular occasion for strengthening GoL-DP dialogue at both policy level and more technical level (when discussing the PAF indicators) whilst spanning a broad spectrum of topics from macro-economics to PFM to the different sectoral pillars of the national strategy.

Funding

The initial PRBS 1 programme (M€26) to be implemented over 2008/2012 experienced major disbursement delays due to difficulties in satisfying the pre-condition relating to the approval by Parliament of a Statement of Affairs, which would effectively enable Government accounts to start over with a clean slate (approved opening financial balance). By end-2008, due to the economic and financial crisis hitting Lesotho in the last quarter of 2008 as well as the revision of earlier budgetary projections, Lesotho's budget situation suddenly worsened substantially and an appeal was made to the EU to rapidly remove the remaining obstacles to disbursement of BS (see Figure below). The EU's reaction was rather slow but eventually, in December 2010, it enabled the disbursement of M€43.6 instead of the M€15.5 initially foreseen by changing the wording and intent of the initial pre-condition, by allowing the first year's tranches to be paid with one year's delay, and by providing Lesotho with additional resources through the V-Flex mechanism[30].

Figure 6 – Lesotho: Fiscal balances and public revenues, SACU receipts and EU budget support disbursements, in percent of GDP, 2005/06-2012/13



Source: IMF Article IV reports, EU website (on exchange rates) and CRIS/ADE inventory (for BS amounts)

Thus, in an initial context of BS preparation where the country was enjoying a strong fiscal position, with sizeable budget surpluses and government savings in the period prior to 2008/09, BS funding started to be particularly relevant only from 2009/10 onwards when, due to plunging export and SACU revenues, fiscal deficits (before grants) reached 6.9% of GDP in 2009/2010, 9.3% of GDP in 2010/11 and 15.8% in 2011/12.

Technical assistance

Technical assistance has accompanied BS since its inception through built-in participation to pooled funding and through complementary custom designed TA projects implemented up to 2013. This TA was, however, both ineffective and unsustainable. From 2015 onwards, a new, very substantive TA project (M€13.4) to PFM in particular, was planned for. It is questionable whether its conditions for

[30] The pre-condition was changed by Addendum I to the FA, approved only on 30/03/2010, which changed the 'approval by Parliament' to the 'submission to Parliament'. In addition, in view of Lesotho's loss of revenues in 2009/10, a V-Flex tranche of M€21 was approved in December 2010 (to top up a total original BS programme of M€26). As a result, both the fixed tranches of years 1 and 2, the variable tranche of year 2 as well as the VFlex tranche were all paid in December 2010. The PRBS1 programme amount was thus increased by the provision of a VFlex tranche (M€21) in 2009 but also by the reallocation of funds after the MTR (M€17) and from Stabex (M€1.6).

success are satisfied as the main constraints that impeded the effectiveness of the previous TA programmes (the politicisation and general weakness of the civil service) are still in place. The main reasons for unsustainability of the TA having been understood by the EU, the design of the current operation should facilitate improvement on that particular score.

Initially, with the resumption of BS, an important capacity-strengthening programme (CBEP1) was launched to assist the Government in the areas of PFM reform and monitoring of the implementation of the national strategy. Little progress having been made by this project, a second phase (CBEP2 at a cost of M€4.94 under 9th EDF) was launched but started with much delay. A follow-on project (of M€3.4) was foreseen under the 10th EDF and was, in November 2013, increased to M€13.4[31] to fund activities on external assistance coordination and NSDP monitoring, and strengthening of PFM (including the Accountant's General Office), the NAO's office and the statistical office. Since the signature of the PRBS 2 FA's rider, the programme has been subdivided into smaller units and downscaled in cost. The support to PFM is envisaged in coordination with other donors so that the entire breadth of the PFM-Reform Action Plan 2012-2017/18 will be externally supported (the EU had launched the tender for support to three of the eight components of the PFM Reform Action Plan at end-2014). The effective implementation of what remains a very substantial support to PFM (M€4.2 to be implemented over a period of 3 years) has been made conditional upon the revival of the Improvement Reform Steering Committee (IRSC) which was appointed in 2005 to lead the reform at the highest level but stopped meeting in 2013.

Although this latest project (or series of projects) had not yet started at end-2014, further amounts had already been set aside under the 11th EDF NIP to continue funding these areas. A considerable effort has thus been foreseen to assist the GoL in addressing the challenges in PFM, SRP monitoring and related areas. The EU has realised that the old problems that caused the stoppage of budget support in 2004 have still not been appropriately addressed. However, the lessons learned from the evaluation of CBEP1 and 2 have not been taken into consideration.

Indeed, the limited effectiveness and sustainability of TA over the period 2007-2014 was partially linked to defective design of CBEP2, to cumbersome procurement procedures (and thus delayed start), to the provision of weak candidates and to the fact that TA was at least partially used to assisting the EUD, thus compensating for a lack of expertise in the EUD[32]. More fundamentally, however, it resulted from the general weakness of the civil service as described in Box 1 above, compounded by poor human resource management and the lack of incentives for staff to improve their performance (salaries are linked to the cost of living rather than to performance and results obtained). The weakness of the civil service, despite the good quality of technical staff at lower echelons, coupled with a lack of GoL commitment to improve this situation, already undermined the effectiveness and impact of CBEP1, it continued to undermine that of CBEP2 and will continue to undermine the effectiveness and sustainability of any potential future TA support to Lesotho's public sector; the question of civil service reform remains unresolved and will continue to jeopardise the success of the large TA package to be launched in 2015.

31 The supplementary M€10 were financed by reducing the PRBS2's (2012/13-2014/15) initial allocation from M€42 to M€34.7 and by an additional allocation of M€2.5

32 The slow start (3 years delay) of CBEP2 affected its continued relevance and its efficiency and effectiveness scored low in the ROM. The TA appears *ex post* to have been of more benefit to the Delegation than to the GoL since it performed line functions (in the MOFEP and in projects in the water sector) thus substituting for local staff rather than training them but providing a useful resource to the Delegation in terms of expertise and knowledge about fiscal and budget issues in Lesotho.

The direct outputs of Budget Support: links between the national budget and policy processes

Regarding the direct effects expected from the provision of BS, the main contribution made lies in the much improved coordination and dialogue with the authorities. BS enabled donors and the GoL to pursue in-depth policy and technical discussions and boosted the coordination of donors (through the undertaking of joint missions and other initiatives such as the PEFA, the elaboration of a PFM roadmap, the participation in joint reviews of PFM reform implementation[33], for example). It also greatly improved the coordination between different government agencies, especially those involved in the water sector. These developments created a favourable environment for the design, implementation and monitoring of GoL strategies. However, coordination and agreement of donors, in particular over macro-economic performance, progress of policy implementation and PFM issues, became increasingly challenged over the years with AfDB delaying programme approval (2010), Irish Aid pulling out (end 2013), WB suspending its BS programme (2014), and the EU continuing disbursement in an increasingly difficult context.

No other direct effects expected from the provision of BS (such as improved harmonisation, coordination and alignment of overall aid in Lesotho) were evidenced. Similarly, predictability of aid disbursements remained unaffected by BS. Due to the much delayed start of the programme, the many riders affecting the overall amounts of BS and the low rate of disbursement of variable tranches due to non-achievement of targets, predictability of BS disbursements itself was low, in terms of both timeliness and amounts, both in the medium and short terms, but better for the water SBS than for the GBS. Furthermore, aid transaction costs, which are also expected to decrease with the provision of BS, were found to be greater for BS than for traditional projects by the beneficiaries in the water sector who were asked to deliver results and report on these without receiving additional financial support[34]. This typical case of problematic principal-agent relationship[35] is illustrative of a lack of understanding by the authorities of the concept and operation of non earmarked SBS, and of the EU's insufficient consideration of the authorities' budget allocation mechanisms during BS design.

Finally the effect of BS on the size and share of budget available for discretionary spending has been positive in Lesotho since BS disbursements were greatest during the years of crisis (2009/10 and following) when budget deficits before grants appeared in public accounts. It should however be noted that BS was planned at a time of systematic budget surplus (2006-2008) when BS only contributed to increase excess liquidities in the economy; it was given on the expectation that Lesotho's main source of revenue (SACU transfers) would be subject to a structural decrease, which in fact has never materialised, and on the understanding that BS could provide a buffer to prepare for this, which was also not done.

33 The GoL (MoFEP now MoF) set up a PFM Improvement and Reform Steering Committee (IRSC) to manage, coordinate and monitor PFM reforms. This improved coordination and implementation of the PFM reform. It also enabled the development of a coordinated and structured approach to PFM reforms by elaborating a PFM Action Plan on the basis of a response to the PEFA.

34 EU's SBS to the water sector might even have had the perverse result of not only having no positive effect on the sector's budget allocations but also of having reduced foreign support as Irish Aid reportedly withdrew their support from the sector considering that EU SBS was replacing their historical contributions to rural water investments.

35 See an illustration of the principle as applied to budget support in Paul et Vandeninden, 2012, Foreign Aid Transaction Costs: What Are They and When Are They Minimised?

The induced outputs: public policies, institutions, spending and service delivery

Despite support to the development, training and use of appropriate technical tools (such as for macro-economic and fiscal planning) and the accent put in discussions with GoL on the need to use these tools and improve capacities, the extent to which BS has been able to significantly influence the GoL's planning and implementation capacities or to trigger progress on the PFM Reform agenda has been severely constrained by the overall weakness of public administration and political leadership.

BS and policy planning

Since policies for sectors such as education, health, water and social protection targeted by BS already existed prior to the start of BS, the contribution of BS to public policies has been less on the design of policies than on strengthening of links between policy and budget. Progress on public policy planning was made with the latest National Strategic Development Plan (2012/13-2016/17), which, for the first time, directly linked GoL strategic priorities to the budget framework. In addition, ministries prepared medium-term expenditure frameworks (MTEF) for their sectors[36] and programme budgeting has been introduced in several sectors. Despite these new tools, which theoretically link the national and sector strategies to the budget, ministries continued to submit budget requirements to the MoF without setting their spending priorities and the MoF continued to perform budget arbitrage on the basis of ministries' past budgetary performance (or more crudely absorption capacity) rather than on policy priorities or implementation outcomes. The yearly budget framework papers remained a poor reflection of policy priorities whilst often introducing new priorities outside the NSDP. In terms of execution, the budget is implemented and recorded according to traditional functional line item classification. Despite the availability of new PFM instruments and tools, the budget in Lesotho has yet to turn into a policy implementation tool, and the budget allocation process remains strongly in the hands of the MoF, without giving rise to a budget arbitrage process where budget hearings enable objectives, priorities and performances to be translated into budget allocations, and finally, budget execution remains line-based rather than programme-based.

BS and policy implementation monitoring

Improvement of PFM and of the monitoring of policy implementation had been identified, in 2004, as two areas requiring substantial progress before BS could be resumed. During the two-year preparation phase for BS (2006-2008), the GoL, with considerable guidance and technical support from DPs (WB, AfDB, EU, DFID, Irish Aid, GTZ), set up a Performance Assessment Framework (PAF) which was subsequently used for monitoring the national strategy implementation and for disbursing BS funds. The elaboration and use of the PAF have been important achievements; however, the use of the PAF has been systematically undermined by unavailability of timely data, difficulties in coordination and obtaining participation of different institutions (such as the Bureau of Statistics), lack of clarity about institutional responsibilities for the production of the data, and the continuous and systematic underperformance of GoL on realising PAF targets[37].

[36] Due to the fact that MTEFs are not used in practice, the MTEF is in reality totally rebuilt every year (it is not a three year rolling expenditure plan).

[37] Out of 20 indicators contained in the PAF, five relate to PFM performance.

Table 5 – Progress of policy implementation – PAF results 2008-2013

Year of review	2008	2009*	2010	2011**	2012	2013
Met	15	3	8	3	5	11
Substantially met	2	6		6	3	
Partially met	1	3	5	3	5	5
Not met	4	5	5	5	5	3
Awaiting data	1	3		3		1
Total	23	20	18	20	18	20
Share of totally or substantially met	**74%**	**45%**	**44%**	**45%**	**44%**	**55%**

Sources: GoL PAF reports and JAR (see Annex 5, I 6.3.3)

Indeed the extent to which the improved dialogue and coordination produced by BS have been conducive to improved implementation of government strategies has been very limited: over the 6 years for which data is available (2008 to 2013), GoL's performance in attaining the PAF targets has been poor: except in 2008 when three quarters of the performance targets had been met or substantially met, the four following years showed achievements of less than half the targets being fully or substantially met; in 2013 performance picked up with just over half the targets achieved. As a result, there was systematic under-disbursement of the EU's variable tranches: only 27% was disbursed in 2011 and 50% in 2012. Whilst, in the early years of PAF usage, the underperformance was explained by the lack of understanding of ministries with regards to BS and the lack of clarity of institutional responsibilities in the production of data and reports, the reasons for poor performance in later years related directly to the public administration not being able to implement the policies it committed to and to deliver the required public services. Nevertheless, as shown above, the EU still considered there to be sufficient progress overall for the eligibility criterion for BS to be satisfied (see above).

BS and PFM reform

Regarding PFM, DPs involved in BS (WB, AfDB, EU) as well as the other donors present on the ground (DFID, Irish Aid, GTZ) played a crucial role in facilitating the design, implementation and monitoring of Lesotho's PFM reform programme in the mid 2000s. However, progress in PFM was very slow, with different diagnostic studies (WB PEMFAR in 2006, PEFA 2009 and 2012 and PFM technical IMF missions since 2010) and the authorities attesting to the continued difficulties experienced despite important support having been provided by donors in developing new systems (IFMIS), providing new tools (MEFF, MTEF) and training staff. The PFM reforms were expected to be completed in 2011 instead of which, as seen above, progress was slow and, in some areas, PFM slid backwards. A new PFM Reform Action Plan (PFM-RAP) foresees reform activities to span at least up to 2017. However, considering that the IRSC has been dormant since 2012, that this RAP has been prepared by a TA, and that forthcoming elections are likely to effect changes in the MoF direction, it is questionable whether the PFM-RAP will receive the adequate political backing to be implemented.

Likewise to overall GoL performance, the weak performance of PFM has not systematically been reflected in the 'satisfactory' assessment of GBS-JAR. Furthermore, the quarterly PFM meetings with GoL under the auspice of the IRSC launched in 2005 evolved into a PFM reform monitoring committee and used to be the main forum for a dialogue on PFM reforms, technical follow-up and monitoring; it has however not met in 2013 and 2014 and all progress on PFM is stalled. As a result, support by donors to the implementation of the 2014-2017 PFM RAP (developed on the basis of weaknesses identified in the 2009 PEFA) has been made conditional (at least for EU funding) upon the resumption of the IRSC's activities. However, a more profound reform of the way civil service functions, management decisions are taken and implemented, and staff is incentivised, appears essential for any reforms (including that of PFM) to succeed in Lesotho.

BS and public spending

Two effects of BS on public spending can be distinguished. Firstly, regarding funding flows, as shown above, BS was very timely in cushioning the impact of the 2008/09 economic crisis on public expenditure and increased the GoL's margin of budgetary manoeuvre at a difficult time (even though drastic expenditure curtailing measures still had to be taken to accommodate the sharp fall of SACU revenues). Secondly, regarding the improvement of GoL's management capacity and the quality of its spending, the BS and associated TA efforts focused primarily on improving the accounting and expenditure information system (IFMIS) to facilitate the monitoring of expenditure allocations and executions but paid little attention to the quality of spending. Despite the donors attention to the systems, the IFMIS was found to fall short of expectations in improving the expenditure chain: the partial coverage of budget operations by the system and its continuous teething difficulties (linked to a lack of compliance and faulty or incomplete information being entered into the system thus producing reports that are never up-to-date) were blamed for weakening the performance of financial management compared to the old system and for undermining the work of the Auditor's General and Parliament by providing incomplete public accounts[38]. With regard to the quality of public spending, the GoL and DPs have paid little attention so far to the links between the quality of spending patterns and public policy priorities. No action has been taken by GoL concerning the systematic qualification of GoL accounts by the Auditor General: despite numerous references to the misuse of funds, no sanctions have been taken and no interest has been shown in changing the situation. Quoting from the latest PAC Report[39]: *'Although the Auditor General has always pointed out cases of corruption and misuse of government resources, there seems to be no political will to redress the situation. The good examples here are the cases of the present Principal Secretary for the Ministry of Public Works and Transport (name) who was indicted and remanded before the Maseru Magistrate Court on charges of corruption on the (date) and the present Principal Secretary for the Ministry of Finance (name) who was indicted and remanded of fraud and bribery on the (date). Both of them are still in their posts as though nothing has happened. (…) theft and fraud continue to be the order of the day. (…) There is laxity on the part of the Chief Accounting Officers in complying with the law.'*

On the whole, the GoL's accountability did not improve either over the period. Even though there has been impressive progress in catching up on the production of yearly accounts and their submission to Parliament, the capacity of the latter to scrutinise the accounts has remained feeble: closing accounts have routinely been looked at but the quality of spending and the budget allocations according to policy priorities have not been analysed for lack of capacities. In addition, when issues came up that required debate, the Parliament has depended on the Deputy Prime Minister to table these issues: independence of the Parliament has thus not been ensured. It is worthwhile to underline that the usual undermining of the concept of accountability of Government to the population and to

38 Apart from the lack of comprehensiveness of the system at this date in terms of type of expenditure covered (for example, expenditure funded by grants is not yet included in IFMIS), there is an added issue with regards to the unblocking of IFMIS's inbuilt locks: due to a systematic lack of compliance of fund managers to enter information pertaining to the justification of expenditure, the MoF has given orders that the period for reporting on expenditure should be left open-ended. The lock on the end-of-year closure of the accounts has been removed, enabling fund managers to enter information even after the year-end + 3 month complementary period. In practical terms this thus means that expenditures are still being entered and processed after the budget year has ended. As a result the accounts prepared and submitted to the Auditor General for yearly audit are not the final accounts since budget closure no longer applies.

39 Source: Report of the Public Accounts Committee of the Eighth Parliament on the Auditor General's Report for the financial year 2008/2009. Names and dates have been removed from the original text for the quotation.

Parliament by the political culture of vested interests, patronage and 'the sharing of spoils' is reinforced in Lesotho by the fact that those who can afford it turn towards South Africa whenever domestic service delivery is found wanting.

Finally, even though the current evaluation requires the OECD/DAC methodology to be applied only for Step 1, it is noteworthy that in preparation for a country diagnostic, the WB has, end-2014, analysed Lesotho's growth and social sector performance. The analysis shows that Lesotho's policy implementation has not improved and that it has not delivered. Worse than the fact that poverty levels have not been reduced is the finding that Lesotho has not been able to address the structural factors leading into poverty and has implemented policies that have led to increasing income disparities and unequal access to and use of public services.

3.4 EQ7 on non state actors

EQ7: To what extent were Non-State Actors an effective channel of the EU's cooperation programme for achieving development change?

The EU has funded NSA with three primary objectives: to strengthen public accountability and decentralisation; to promote better legislation and human rights and to provide services, especially for HIV-affected, poor and rural communities. The effectiveness of this support has varied by objective. Despite a national development vision that is in principle favourable to civil society/NSA, in practice the operating environment is not very positive. Rural and local NSA have limited capacity and international NSA find the environment unrewarding. The Lesotho Council of NGOs (LCN) has an important umbrella role but also has limited capacity. The EU has made the appropriate decision to continue to support LCN given its strategic role.

Support for decentralisation has shown disappointing progress, over many years. There is concern that fiduciary risks may not be effectively controlled following the earlier withdrawal of the World Bank. GIZ's withdrawal from Lesotho will also affect support to this sector. Decentralisation is challenging and resource intensive to support effectively. NSA have played a valuable role in legislative reforms. Although it has yet to be finalized, progress has been made, through NSA advocacy, towards establishing a Human Rights Commission. NSA have also contributed to inclusive processes to support legislation related to decentralisation and social protection. Support for service delivery through NSA shows mixed results. ALAFA delivered positive results in support of HIV/AIDS-affected workers but was discontinued. Support for sustainable livelihoods through NSA may also prove to be difficult to sustain once funding from the EU ceases.

In short, NSA have been an effective channel for development change, but the degree of success varies according to the purpose of the support. The scale and capacity of NSA would be insufficient to enable this channel to act as an alternative to funding through Government rather than a complementary channel of support.

Introduction

The EU has channelled resources to NSA[40] with three primary objectives:

- To strengthen public accountability and decentralisation;
- To promote better legislation and human rights;
- To act as a service provider, especially for HIV-affected, poor and rural communities.

There have been two consecutive major EU-funded programmes through NSA to strengthen **public accountability and decentralisation**, the Local Governance and Non State Actors Support programme (LGNSP) and Deepening Decentralisation and NSA Support programme (DDNSP). LGNSP worked through a large number of predominantly local CSOs at local level, with overall management using a PIU type model administered by a contractor. DDNSP entailed a call for proposals for consortia for CSOs that was administered by the EUD in-house. UNDP was meanwhile appointed as programme manager to engage with the public sector to support the GoL's decentralisation objectives, with the intention that Councils, once their management processes and controls were in place, would be able to manage EU funding channelled down to that level in support of local priorities.

With respect to promoting **better legislation and human rights**, funding was provided to the Transformation Resource Centre (TRC) to advocate the setting up of a Human Rights Commission. Support has also been provided to promote civic education. The EUD is looking to consolidate progress in this area drawing on experience gained in other SSA countries such as Malawi. Non-State Actors also participated in the development of Social Protection legislation, and are continuing to assist with development of the NISSA database.

Support for NSA in a **service delivery** role has, *inter alia*, included funding ALAFA, a public-private partnership formed to provide HIV/AIDS treatment and care services to garment workers in Lesotho. Other NSAs funded include Send-a-Cow, an international NGO undertaking sustainable livelihoods work. **Advocacy** is also being supported through a national NSA working with people with disabilities.

NSA Context and Capacity to Deliver

Lesotho's legislative framework creates, on paper, a very conducive environment for involvement of CSOs in national and local development processes. For example, CSOs reportedly participated in the drafting of national policies and development plans and the Vision 2020 document explicitly mentions the important role of civil society in national development, as well as the importance of promoting public-private partnerships for development. In practice however, the influence of civil society on national policy and development remains limited. Whilst most NSA report that they have good working relations with political parties and with government ministries, these are not yet translated into many tangible results. There is broad-based evidence, confirmed in interviews with donors and senior managers, that NSA find it is a challenging environment within which to operate. Indigenous NSA are comparatively weak.

[40] The term Civil Society Organisations (CSO) is favoured in Lesotho, for example in the EUD, as it is more positive than Non-State Actors (NSA). However as the ToR refer to NSA and the EQ uses this term, it has been retained for reporting purposes.

As noted in the institutional assessment work undertaken in 2009 as part of the DDNSP project preparation process[41]: *"An apparent lack of political will and institutional deficiencies within the GoL continue to hold back a more inclusive and transparent development process in which NSAs can play a formally recognized role in shaping and monitoring national development processes"*. At that time Lesotho was considered to be fragile in terms of its democratic processes, and this remains relevant from both development and governance perspectives. As is evident from recent media reporting, the 2009 findings are still applicable. One major actor, Care International, is withdrawing from Lesotho in March 2015 after a longstanding presence. Another observed that *"Implementing organisations and donors are getting fatigued with working in Lesotho. It is very difficult to justify [to sponsors] this is a reasonable return on investment"*.

Overall the EU's understanding of the strengths and limitations of Lesotho's NSA strengthened over the evaluation period, in part due to the comprehensive mapping study of NSA which was undertaken in 2009 and subsequently followed up with further mapping work. The bid evaluation coordinated by the EUD for funding of NSA under DDNSP demonstrated a very sound understanding of their capabilities. Prior to 2009 the EU made use of project experience such as the Micro-Projects programme. One finding of the 2009 mapping was that there was insufficient understanding of the differences between NSA working at local level and NSA with a Maseru presence. Local organisations working at district level typically lack a presence in Maseru, and can operate in a rather isolated manner. Furthermore follow-up of NSA who were provided with grants revealed that in some cases performance and accountability revealed shortcomings. Under the latest contracting arrangements, NSA have been encouraged to enter into consortia, with the lead organisation taking responsibility for coordinating reporting and financial accounting. Potential advantages include the sharing of best practice, mentoring and closer collaboration. This implies transaction costs for the lead organisation although there should be savings for the EU in its administrative burden.

To some extent the Commission has learned through hard experience that bottom-up approaches and reliance on local accountability, whilst desirable in theory, is difficult to implement in practice and is prone to delays as well as institutional management challenges. Poor initial take up, delays and capacity constraints, especially at local NSA level, highlighted the need for additional capacity-building. The limited capacity of NSA in Lesotho is an inhibitor in terms of scaling-up support through this channel, as a counterbalance to support through public sector channels.

Public Accountability and Decentralisation

The EU is supporting the Lesotho Council of NGOs (LCN), an umbrella organisation that is active in good governance, in supporting open budgets and in third party accountability. LCN does not have huge capacity, and has faced challenges, for example in handling Global Fund grants. Its major constraint in fulfilling its role of supporting third party accountability is the lack of access to budget data. Its observations on the budget process and allocations are solely based on the budget speech, as the detailed budget data remains unpublished. Despite this, interesting initiatives including (mock) community budget hearings, discussions and tracking are organised but there is scope to further support the LCN to deepen its maturity in order to reach international benchmarks for supporting public scrutiny of the budget through third party monitoring. There is also an opportunity here for the donor community to push for greater transparency with regards to the publication of budget data.

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41 DDNSP Identification Report, Contract EuropeAid/119860/C/SV/multi, dated 20th December 2009, doc 100720

ROM reports suggest that there has been some internal dissent in the LCN. This may have undermined overall capability in the current political environment. However, the EU's support for LCN has been appropriate because of its strategic mandate and broad membership. There also appears to be some tensions between international and local CSOs regarding access to project finance. However there has been progress in some areas such as moving towards creating a Human Rights Commission, and supporting the establishment of a National Social Development Policy that reflects the role of NSA.

The 9th EDF LGNSP was complex in design and probably overambitious in attempting to work through a large number (64) of predominantly local CSA with limited capabilities. LGNSP and DDNSP have been criticised because of the lack of SMART indicators and this has hampered effective monitoring and reporting, thus raising concerns for funders with regards to the ability to assess effectiveness in an evidence-based manner. In the face of these challenging circumstances, it appears both reasonable and appropriate that the EUD should play a direct role in managing the relationship and reporting requirements with NSA that the EU has contracted under DDNSP. Working through a European contractor, as previously happened under LGNSP, made management more complex and contributed to delays. The support focuses principally on institutions with known capacity, and ToR include further capacity-building as well as working on service delivery. However, as is clear from the most recent ROM reports and Notes to File, implementation slippages have occurred. The current political uncertainties are an impediment that constrains activities by NSA as well as other service delivery organisations.

Fiscal decentralisation requires tight management of fiduciary risks but delays have occurred in disbursement of funding by the GoL, and with the withdrawal of World Bank and GIZ support[42], there is less external scrutiny of the safeguards to be managed in this high-risk PFM environment. Decentralisation is challenging to implement in any environment: the very slow pace of progress in the 18 years since the legislation in Lesotho was passed in 1997 reflects the impediments faced.

Interviews conducted with the EUD and with NSA and a review of the EU's evaluation of tenders received in response to the DDNSP revealed that NSA were able to respond to calls for proposals. Response levels were high, although the quality of submissions varied greatly. NSA benefited from EU training and some had apparently benefitted from professional help in structuring proposals, whilst in other cases the final submissions did not meet the expectations raised at the prequalification stage.

It is appropriate to note that one interviewee [not a current grant recipient] observed that the EU is *"The most difficult funder to fulfil all the grant requirements as it has very elaborate conditions"*. The considerable transaction costs on the NGOs in responding to calls for proposals should not be underestimated, even though a two-step process was adopted. Conversely it may be argued that performance monitoring through ROM reports and audits does show that providing resources through NSA is not risk-free and therefore tight procedures and reporting requirements are necessary. One challenge that can be clearly identified in recent reports by NSA relates to the quality of reporting. Many find it difficult to report by output and outcome rather than simply by inputs (trainings completed etc.), highlighting the challenge of working through relatively immature national NSAs.

[42] The World Bank withdrew from supporting decentralisation some years ago. GIZ is refocusing onto fewer countries as a strategic policy choice by the German Government; it is expected to retain an involvement in Lesotho through regional programmes.

Better Legislation and Human Rights

The support to the TRC to advocate for a Human Rights Commission has been partially successful and good progress has been made, although this has taken longer than envisaged. The final legislation is not yet in place but the idea has gained traction. Similarly progress has been made as part of justice sector reforms, and the EU has been proactively supporting legal sector reforms. Other legislation supported in part through NSA concerns social protection (see EQ4) and decentralisation. Overall the avenue of support for reforms has therefore been promising although initiatives typically take time to bear fruit.

Pro-poor Service Delivery

One of the highest profile service delivery activities has been support to ALAFA, a public-private partnership formed to provide HIV/AIDS treatment and care services to garment workers in Lesotho. An estimated 43% of these workers are HIV positive, very high, even for a country with the second highest rate of *per capita* infections in the world. This programme worked with the collaboration of factory operators to provide *in situ* consultations, HIV testing and treatment[43]. The factory contributions were typically the consulting rooms and time-off from work for employees to attend clinics. EU support followed initial funding from DFID, and was complemented by a grant from GIZ.

The intention was that funding would be taken over by the private sector factory owners, but with notable exceptions, such as the South African-owned Springfield factory, this had not yet occurred in 2014. One reported inhibitor was that the majority of the factories have Asian ownership, and key decisions with financial implications are apparently taken at head-office level. The EUD lobbied hard and at the highest levels for the Government to take on responsibility, but despite assurances from the Minister of Finance and senior officials, this has not occurred. In late 2014 ALAFA had utterly stopped its operations and was in the process of being closed down, creating considerable uncertainty regarding continued service delivery to Lesotho's textile workers[44].

Other service delivery roles performed by CSOs have included participation in surveys to support the National Information System for Social Assistance (NISSA) database in support of the social protection initiative (see EQ4), and funding Send-a-Cow, an NGO providing support for sustainable livelihoods. It is appropriate to highlight the risk that this support will not be sustainable should EU funding cease. Send-a-Cow, for example advised that around 80% of its total funding in Lesotho came from the EU, although this does vary year-by-year.

The lack of SMART indicators means that it is difficult to work out who have been the main beneficiaries of the support through NSA. However, engagement in the establishment of social protection mechanisms is of undoubted potential, including the work on mapping the poor which is integral to the development of NISSA. The ALAFA support to HIV- positive garment industry workers, who are on very low wages of around 900 Maloti per month, is also pro-poor. However the systems and reporting mechanisms used lack sufficient granularity to report on beneficiaries by income. The lack of SMART indicators of the main NSA programmes (LGNSP and DGNSP) may reflect several factors. To some extent this is a product of the lack of good baseline data, the flexible

43 Using public sector HIV/AIDS antiretroviral drugs etc.

44 An announcement by the Ministry of Health that a USA-based NGO, the Elizabeth Glaser Paediatric AIDS Foundation (EGPAF), might become a partner but this has not been confirmed.

nature of the "call for proposals" tendering process which cannot specify precisely what should be achieved, and the blended objectives of supporting decentralisation whilst providing concrete service delivery and/or investing in small scale community schemes. In the case of ALAFA support there is good evidence that the programme was succeeding in helping HIV positive workers remain at work, with resulting economic and social benefits, but this was insufficient to persuade the majority of factory owners or the Government to contribute significantly from a financial perspective. This is clearly very disappointing from a social impact and sustainability perspective. It is important to note that the EU is also supporting OVCs and the development of pro-poor social protection systems (see EQ4).

There is evidence of improved service provision, e.g. with more and better local water provision, and better HIV/AIDS treatment in apparel factories. However it is not clear that the capacity-building effort was sufficiently embedded in community structures to create a sustainable impact.

The overall summary answer to this question therefore is that NSA have been an effective channel for development change, but the degree of success varies according to the purpose of the support. The relative weakness of NSA in Lesotho has acted as an inhibitor, although the EUD has sought to strengthen their capacity and is providing its support in a more strategic manner. Given their limitations the EU has done a commendable job in recent years in terms of identifying and supporting strategic opportunities to strengthen the capacity of NSA, supporting human rights objectives and for effective pro-poor service delivery. However progress with decentralisation, supported in part through NSA, has proved challenging amid unfavourable public governance circumstances.

4 The efficiency of EU development cooperation implementation

4.1 EQ8 on Management of the Programme

EQ8: To what extent was support by the EU to Lesotho timely, predictable and delivered in a cost-effective manner?

Support to Lesotho has generally been timely. In value terms, it has been focused on three areas: general budget support and macroeconomic support (41%), water and sanitation (30%), and road transport (11%). Over 2008-2013, payment performance has been high. Where delays occurred it was because preconditions were not met. Some slippage may also be attributable to the EUD's heavy workload. A move to project modalities would further increase the workload burden on the EUD.

EU systems and procedures create a heavy administrative burden, and absorb time that could be used for higher value-added policy dialogue. These reporting requirements create a major burden for a small Delegation. Metrics identified through the OPTIMUS resourcing model comparing workloads between Delegations indicates that the EUD may be over and not understaffed, but this finding seems unrealistic. OPTIMUS does not take into account policy discussion and other reporting requirements, in particular in the absence of an EEAS political officer which results in DEVCO staff also being used for EEAS reporting. Neither does it take account of the prominent role of the EUD in Lesotho where it is one of the very few remaining donors. With GIZ leaving in 2015, the EUD will remain the only EU representative present in Lesotho. This represents an opportunity for added value that is being grasped despite resourcing constraints. The willingness of the Ambassador and EUD to add value to EU MS engagement in Lesotho is very positive. Simplifying the programme, especially for non-focal sectors, would be beneficial and could contribute to focusing on high-priority aspects of policy dialogue.

Timeliness of Support

Annex 3 provides details of commitments and disbursements. The disbursement rate has been high. In terms of commitments made over the period 2008-2013 on EDF 10 for Lesotho (M€172), 87% of the committed amount had been contracted when the analysis was undertaken in May 2014. As a comparison, 94% of committed amounts on EDF 9 have been contracted (M€104 committed against and M€98 contracted). Regarding payments, respectively 73%, 95%, and 79% of contracted amounts have been paid for EDF 10, EDF 9, and other instruments.

In some cases where delays occurred it was because preconditions were not met e.g. regarding the Parliament's approval of public accounts, the passing of justice sector legislation, or the creation of appropriate conditions to disburse funds in support of decentralisation. Some slippage may be attributable to heavy workload at EUD level, with the governance areas (NSA, justice, decentralisation) being particularly demanding. Where delays have occurred they do not appear to relate to the creation of EEAS.

An overarching implication is that moving from BS to project modalities would have adverse implications for the potential timeliness of disbursement. Yet the EUD is barely staffed up adequately for its current mix of instruments. It is therefore vulnerable to a situation which is not conducive to BS. Yet such a situation could occur because of the uncertain political environment, the weak quality of PFM and other governance concerns.

Predictability of Support

EU support, together with that of other donors funding Lesotho, has actually been quite volatile when measured on an annual basis, as shown in Annex 3. The predictability of budget support is discussed in EQ6. Contracted amounts of EU support per sector varied significantly over the period. Because of SACU revenues Lesotho is less aid-dependent than many ACP countries so the date of funding releases is less crucial.

Staff in NAO's office complimented the EU on its predictability, and that reflected more than financial disbursements, reflecting also the continuity of support, regular progress meetings and early attention to potential problems. There have been some issues with meeting funding expectations, but these related to misunderstandings at sector level, because stakeholders (e.g. in water) anticipated that funding would be additional to Government budgetary allocations rather that channelled through as part of those budgetary allocations.

Resources to Manage the Programme

A dichotomy is apparent regarding management of the programme. It is evident that EUD staff has been under pressure from the heavy workload and challenging circumstances of engagement with the GoL, civil society etc. EUD staffing numbers have been and remain modest and in the past the poor staffing situation was exacerbated by lengthy EUD post vacancies and in the case of one staff member, absence due to an extended period of sickness. However there has been some improvement with the recruitment of two Local Agents in 2014 with expertise in key areas (water and NSA).

A contrasting picture regarding EUD staffing emerges from reviewing norms based on Brussels human resources establishment planning mechanisms. These are based on quantified country variables including the portfolio mix, contract numbers, type and values, and loadings to reflect national challenges and capacity. This OPTIMUS analysis indicates that the EUD in Lesotho is currently overstaffed as the number of contracts per OPS staff and the number of contracts per FCA staff is lower in Lesotho than the worldwide baseline. The analysis seeks to adapt staffing to workload acknowledging that the 11th EDF allocation has been increased by 9% whilst the staffing norms have been reduced by 10%. However, it may be argued that OPTIMUS does not take into account policy discussion and other reporting requirements in particular in the absence of an EEAS political officer which results in DEVCO staff also being used for EEAS reporting requirements.

Brussels anticipates the number of live contracts managed by the EUD to fall in the coming years. One key point is that framework contracts have been widely used in Lesotho representing a high 36% of all contracts. They represent considerable management effort but modest financial disbursements of only 2% of total spend. So from a disbursement efficiency perspective they represent very poor value in terms of workload/€ disbursed. However TA (whether or not provided through framework contracts) does have an important role to play in Lesotho due to the limited capacity of Government. Furthermore programming of the 11th EDF continues to include a very sizeable TA budget, especially for governance, and for this to be fully effective, it must be well managed, which will require adequate EUD resources.

Unique Lesotho Considerations with Resourcing Implications

The circumstances of Lesotho are unusual. EU presence in Lesotho is very significant because of the absence of MS embassies and diplomatic presence. The closure of the Irish Embassy in 2014 completed a process of withdrawal by MS that has been ongoing for some years. Whilst the UN Agencies retain a significant presence, their engagement in challenging issues, such as governance and democracy, appears to be more muted. The USA has a significant presence which is better resourced than the EUD. The EU, UN agencies and USAID meet very frequently to provide a joint and coherent message to Government.

Experience from fragile states (e.g. Sierra Leone, Kosovo, Cambodia) suggests that it is consistent with better outcomes to engage early in order to promote good governance and democracy. In short, prevention is better than cure. Yet organising effective support through steps such as joint in-country meetings is resource-intensive and requires well-honed diplomatic and logistics skills. Whilst the EUD certainly benefits from the former, the absence of a political officer is a constraint. The limited number of support staff is also a constraint with respect to secretarial and logistics work.

Even without the creation of EEAS, the EU would have an important role to play in discussing issues of democratic accountability with GoL. The principles of good governance and partnership are embedded in the Cotonou Agreement and provide a basis for dialogue that is mutually reinforcing between development cooperation and governance aims. The use of BS as an instrument further reinforces this linkage as the presence of appropriate policies is an eligibility criterion, and the latest reforms to the application of BS reinforce the importance of good governance.

Member States are positive about the contribution that the EUD can make. It therefore has something of a flagship role for EEAS, without the potential for competition that can occur in other countries. However, this high-profile role creates considerable workload challenges for the EUD. For instance, at the beginning of December 2014, fifteen Ambassadors and Heads of Mission from MS visited, predominantly from Pretoria, and the EUD took responsibility for the programme and associated logistics. At a crucial juncture for Lesotho's fragile democracy, it is essential that the EU should speak with a single, well-briefed and carefully articulated voice.

Lesotho is surrounded by South Africa, thus the regional dimension is especially important. EU MS find it difficult to engage effectively with South Africa at a political level and the challenges of effective regional policy dialogue should be acknowledged. However if the EU is to add value to this relationship, it needs adequate resources for effective dialogue with a range of stakeholders outside Lesotho itself. The practicality of this is inevitably undermined by resourcing constraints in the Lesotho EUD, as well as, potentially, the Delegations in Pretoria, Gaborone and Windhoek.

Inhibitors to Flexibility and Effectiveness

One countervailing factor that inhibits capacity is legal and relates to the allocation of EUD staff time, reflecting the different funding sources for political and development assistance budgets. EU officials can work on EEAS matters a maximum of 20% of their time, while it is illegal for contractual agents and local staff in the cooperation section to work on aspects other than cooperation. Whilst the logic of the limitation is understandable, it acts as an inhibitor in a context such as Lesotho given the small size of the EUD. Furthermore in Lesotho the focus of engagement regarding political matters relates to issues that are also important from a development effectiveness perspective such as good governance, accountability and pro-poor policies and service delivery. One apparent solution could be for the 20% cap on cross-working to be applied at a global level, but not at a country level. This would enhance flexibility and efficiency.

The workload mix should drive the staffing mix, but this has not always been apparent. The decision to move out of supporting the transport sector was partly down to insufficient resources and expertise to engage effectively at sector level. Yet the 11th EDF includes energy as a focal sector but the EUD does not have an energy specialist, nor are there plans at present to recruit one. Are former resourcing shortcomings at risk of being repeated?

EUD management would be easier if Brussels reporting requirements were streamlined. Although not unique to Lesotho, a common concern has been that frequent requests for information which involve a degree of duplication and overlap are made by different departments in Brussels. Requests are frequently made at short notice, making workload planning more challenging. Inefficiencies also occur at EUD level, and institutional memory is variable (and disproportionately held by the longer-serving local staff members). Document management makes it difficult to trace how and why decisions were made. For illustration, the current staff are not clear how energy came to be selected as a focal sector.

There is evidence that senior staff who should be engaged in policy dialogue are excessively burdened by administration, including rather low value-added work. In part this reflects a long administrative tail from previous projects including those implemented through TA, together with minor accounting errors (some originating in Brussels) that prevent files from being closed.

In terms of staff seniority and suitability for purpose, there are indications that improvements have taken place. Both EUD and Brussels capabilities have strengthened as familiarity with instruments (especially regarding BS) has improved. However, there are some significant caveats to this:

- The EUD is not properly staffed to address PFM issues, and since PFM is so weak in Lesotho (as evidenced by the change in preferred instruments between EDF programmes, poor PEFA scores and evidence that IFMIS checks and balances are not functioning effectively), the EU is overly dependent on advice from framework contractor consultants. This is not compatible with a sustained policy dialogue with the Government on PFM issues.

- The absence of a political officer is also a shortcoming, although it is understood from Brussels that in many countries this post has not been filled.

- There appears to be a shortage of national support staff at EUD level, and given that these can be recruited cost-effectively, this seems to be a false economy.

- In Brussels Lesotho has tended to have a rather low profile on both the DEVCO and EEAS sides. There are parallels here with the experience in managing Overseas Countries and Territories (OCT) and the evaluation of that programme found that capacity in Brussels was hampered by lack of staff continuity and seniority. In this case, a symptom has been that relatively few visits have been made by Brussels staff to Lesotho for management and familiarisation purposes.

The establishment of EEAS provided momentum for a broad-based dialogue and has the potential to reinforce the role of the EUD. In addition, a driver has been the highly proactive stance taken by the current Ambassador, who has gone to considerable lengths to engage with Member States, to support their needs in Lesotho and to strengthen collaboration. This willingness to engage can only be beneficial.

Areas of concern that justify reflection

Four areas of concern have been identified which are addressed in turn. They are:

- The return to BS in the 10^{th} EDF could have been managed more effectively;
- The EU is working in especially challenging non-focal sectors without having the depth of expertise to effectively contain risks;
- Information management is weak and in particular does not flow well from one generation of EUD staff to the next one;
- Some successor programmes, such as in PFM and in aspects of support to NSA, do not appear to have taken into consideration the lessons learned from previous programmes.

There are reports that the move to BS was not fully explained to national stakeholders, particularly in the water sector. It was reported that Delegation and Government staff had not been adequately sensitized and where appropriate trained and hence were not properly prepared. Using projects the EUD scrutinised funds being spent in a very micro manner with strong enforcement of checks and balances: if procedures were not followed the Government would have to repay the funds. By contrast BS relies on national systems yet as mentioned above the EUD has lacked in-house PFM expertise despite the risky PFM environment.

A further concern is that the EU has been working in especially challenging **non-focal sectors**. Both the justice sector and decentralisation programmes are resource-intensive, with multiple national stakeholders. Describing them as "non-focal sectors" implies that they can be supported with relatively little effort and this is clearly not the case. Justice as a sector is inherently sensitive and involves many cross-cutting aspects. The Justice Sector programme was highly (and probably unrealistically) ambitious and started very late when needs had already changed.

As noted in EQ7 decentralisation carries fiduciary risks and although it is GoL policy to support decentralisation, progress has been limited over the past 17 years since the policy was adopted. Fiduciary risks have had to be assessed through an assessment undertaken for each council. It is clear that the interpretation of risk requires both good analysis and unambiguous interpretation of the findings. The responsibility for this has been contracted to UNDP, a body which may have different rules and approaches to the treatment of risk than the EU. The World Bank, which might have been an obvious partner to lead on fiscal decentralisation, has withdrawn from the sector. GIZ, which is also to withdraw, acknowledges that it lacked expertise in fiscal decentralisation.

Putting it colloquially, has the EU bitten off more than it can chew in these difficult sectors given very constrained EUD resources? The case may be made that effort put into non-

focal sectors could detract from effective management of the focal sectors. Senior Delegation staff are aware of this risk.
It is apparent that **information and knowledge sharing** was uneven and did not flow well from one generation of EUD staff to the next. As in other Delegations, knowledge management relies to a degree on long-standing local agents and support personnel. As noted by a former Head of Delegation, Ambassadors are expected to implement programmes designed by their predecessors whilst supporting preparation for follow-on EU support that will be implemented by their successors. So it is very important to ensure a good understanding of what and why decisions have been made, and to ensure that coherent M&E processes are in place.

EU staff in both Brussels and the Delegation have had trouble explaining how the energy sector came to be identified as a focal sector for the 11th EDF. Also, knowledge management is poorly assisted by the rather user un-friendly nature of CRIS and the shortage of support staff which has inhibited establishment of an effective registry. Accounts coding did not even adequately allocate expenditures between Lesotho and Swaziland, requiring time-consuming manual reallocation. Despite these constraints current management holds regular internal meetings that strengthen vertical and horizontal knowledge sharing in the EUD.

Some challenges were not adequately addressed when successor programmes were developed. This appears to be the case for CPEB Phase I and II. However it should be noted that even if challenges have been identified, without a supportive enabling environment (e.g. on the part of Government), key issues and constraints may not be resolved. A similar concern applies to the NSA programmes: the development of appropriate SMART indicators for the two main programmes to support NSA may be very difficult when using a "call for proposals" type contracting method.

4.2 EQ9 on aid modalities and aid instruments

EQ9: To what extent have the EU's different aid modalities been combined to facilitate the reaching of anticipated outcomes of the EU's cooperation programme with Lesotho?

In Lesotho, the EU used different funding instruments and implementation modalities and policy and political dialogue. In both social protection and water sector support, mixes of funding and implementation modalities were used to good effect even if they were not applied in a joint up manner and synergies for more effective support could have been greater. No evidence pointed towards a relative greater efficiency and effectiveness of one or another funding instrument or implementation modality, the cooperation results being more significantly determined by the overall context for aid effectiveness. These general conditions were found particularly critical for the success of BS. As a result, it was found that, over the period, the project approach worked best to deliver results to the population but also created work overload for the EUD and could not contribute to reinforcing government systems and processes.

The use of different funding instruments and implementation modalities

In Lesotho, cooperation has been implemented via BS and projects funded from the EDF, three thematic budget lines and EIDHR, and via policy dialogue and, since 2010, political dialogue, with the authorities. Regional programmes are not considered here since Lesotho did not benefit individually as seen in EQ2. Overall, during the period, the EDF was the largest source of funding for Lesotho (98.1% of total contracted) with thematic budget lines (DCI) remaining relatively modest. More than half of the total contracted amounts concerned general or SBS; work contracts (in the water sector), programme estimates and projects each represented just over 10% of contracted amounts.

No evidence was found that the authorities, or even the Delegation itself, were consulted with regard to choice of funding sources: access to the thematic budget lines and to EIDHR was managed out of Brussels and generally not in a manner that facilitated complementarity with existing or planned EDF-funded initiatives, even though the specific guidelines to the thematic instruments' Annual Action Plan are drafted locally to reflect local realities within the general frame set by Brussels. The authorities and the Delegation had no say in the choice of BS as an implementation modality in the 10th EDF: it was imposed by Brussels and had to be managed by the Delegation, regardless of its human resource capacities and regardless of the very high risk involved in using this instrument in a country where it had already failed once. In contrast, in October 2013, once GBS had been going for a few years and SBS had been implemented in the water sector, the authorities requested that part of the resources devoted to the social protection project be moved to BS in order to integrate social protection entirely in the GoL's strategy and thus increase the sustainability of the programme. The appropriateness of this decision from a financial perspective (financial implications of the cost of the programme with regards to the identification of the target population) at this particular time remains open to question, as seen in the analysis of the support to social protection (EQ4) above.

No evidence was found that the modalities for aid implementation evolved over time to better adapt to GoL's needs and capacities: the main impetus for BS came in 2006 from a policy decision at headquarters without in-depth prior analysis of the local conditions for the effectiveness of this form of funding, although considerable efforts were made on the two issues of PFM and monitoring of the PRS implementation.

Effectiveness by instrument, aid modality and sector

It is worth noting that whereas 94% of EDF 9 commitments had been paid by May 2014, only 65% of EDF 10 commitments had been paid. There is thus, as was the case at the start of EDF 10 in 2007, a considerable overhang of EDF 10 activities to be implemented during the 11th EDF period. When looking at the outcomes of EU aid cooperation over the period 2008-2013, the evaluation therefore covers mostly the EDF 9 funded projects and the EDF 10 BS. Other budget lines (thematic or EIDHR) have been examined in complementarity to the EDF cooperation.

In Lesotho, implementation modalities have never been used exclusively for one sector and have always been used as a mix: even BS has been accompanied by large TA programmes. When looking at the range of financing sources and implementation modalities, none stood out as being more specifically timely and/or flexible than others. As seen above, considerable delays have affected the implementation of EDF 9 and, now again, EDF 10. Even in BS, which is supposed to be quick disbursing, the initial programme was launched with a 2-year delay and the FLEX tranche, meant to provide immediate relief in a crisis situation, arrived with a year's delay. Similarly, as seen above, CBEP 2, LGNSA and support to the justice sector suffered major delays (three years for CPEB). Currently, the institutional strengthening and PFM support programme that was supposed to be launched in 2011 is still awaiting implementation. These delays reduced the relevance of these projects due to a changed environment, and affected their effectiveness.

The sector which has experienced the largest mix of both funding and implementation modalities has been social protection: Food Aid, the Health budget line and EIDHR as well as EDF funds were directed towards this sector. However, the different initiatives were not applied jointly, and synergies for more effective support could have been greater. For example, EDF funds were directed towards the Cash Grant Programme targeting OVCs (a non-contributory form of safety net) whilst the ECHO funded the food emergency response in 2012 by supporting WFP's Cash for Assets Programme addressed to elders (a contributory form of safety net) and the ALAFA initiative targeted factory workers. Despite differences in approach, and different target populations, each support contributed in its own way to dealing with the aftermath of the HIV/AIDS pandemic. In terms of aid modalities, the support to social protection again demonstrated different approaches: projects, institutional strengthening, studies, cash grants, food for work, etc. The final switch from project support to the Cash Grant Programme to BS was found to be possibly premature in the sense that the EU could have further probed the conditions for upscaling the programme at national level, verifying the required financial management procedures and cash transfer modalities, and thus the financial sustainability and affordability of the programme under current population targeting methods.

In the water sector, there has also been a mixed use of two instruments and of different implementation modalities. In terms of outcomes, SBS did not deliver what was expected for the sector, although it did deliver a level of coordination that might not have been achieved through the project approach.

The case for budget support and sector budget support

In terms of funding, over half of the 10th EDF NIP was allocated to BS, and, in the 11th EDF, '*interventions will recur to Sector Reform Contracts when possible*', but no GBS is foreseen.

When BS was being programmed for the 10th EDF, Lesotho had been and was still running systematic and large budget surpluses (budget surplus before grants of 11.5% of GDP in 2006/07, 6.6% in 2007/08 and 3.1% in 2008/09) and was demonstrating strong macro-economic performance and stability. In contrast, it sported a weak PFM and a weak capacity to monitor the implementation of its national strategy. The provision of BS was justified, in EU programming documents, on the grounds that a structural decline was foreseen in the level of SACU revenues and BS would enable GoL to constitute a buffer for harder times to come. Starting up of BS was made conditional upon the provision of a clean slate for GoL's accounts, thus requiring the backlog of public accounts to be cleared, accounts to be produced, submitted to Parliament and approved so that Government operations could start with an agreed and legitimised opening balance. Continuation of BS was further made conditional upon the three standard eligibility criteria (GoL commitment to continued macro-economic stability, GoL commitment to PFM reform and progress of its implementation, and GoL demonstrated progress in PRS implementation).

In this instance, several developments were noted:

- firstly, the pre-condition for resumption of BS was never fulfilled and replaced after two years by an 'easier' option because of the urgency with which the GoL required fiscal support following the 2009 spill-over of the global crisis: the two fixed tranches, the first variable tranche and an additional FLEX tranche were all released in 2010 to assist GoL in facing its reduced revenues from the SACU transfers;

- progress on PFM and on PRS implementation, as seen above[45], remained very subdued if not absent: notwithstanding, progress in each of the two areas was systematically characterised as 'satisfactory';
- the macro-economic instability highlighted by the IMF in 2013/14 and which led the WB to stop its BS, did not affect the EU's BS: the Delegation still submitted the request for payment of the variable tranche for 2014;
- over the period, SACU revenues never suffered a structural decline nor has the GoL taken any steps to cope with such a possibility (no buffer has been created). However, the EU has continued to use the argument of a structural decline in SACU revenues in all subsequent BS operations.

The conditions for continued BS thus appeared very weak in the face of available evidence that eligibility criteria were no longer met. As seen above, the main stumbling block was the Government's demonstrated lack of commitment to the implementation of its policies coupled with a politicised administration. The main argument in favour of continued BS was linked to it creating a platform for policy dialogue, which was feared to be otherwise absent. With hindsight, the provision of BS did provide an opportunity for establishing a dialogue with the Government on issues concerning macro-economic and public finance management and a formal platform to discuss policy implementation and monitoring; this policy dialogue, however, did not lead to improved policies, nor implementation or delivery of services as seen above (EQ6). The tangible outcomes of BS in Lesotho include improved donor coordination and improved inter-government coordination in the water sector. The question then remains as to whether this could have been achieved by more effective means (BS represented a disbursement of M€118.7 over five years or M€23.7 per year on average).

During the period 2008-2013, the question of the Delegation's capacity to manage BS also arose. The decision to resume BS in 2006 was very risky, considering past experience. It required extensive dialogue with other donors and the authorities, and close monitoring of progress of the BS roadmap: staff from Brussels played an active role in this phase. Once BS started (on shaky grounds since the pre-condition had to be replaced under an addendum to the Financing Agreement), it was up to the Delegation to continue the dialogue, both with the MoF and the stakeholders in the water sector. However, capacities at the Delegation to manage BS seem to have been uneven, especially towards the tail end of the period. This would not have helped the need to redress a situation of lack of progress in PFM and in the implementation of the PRS, negative results obtained in social performance indicators, general unwillingness of the Government to reform, faltering dialogue and increasing rifts between the three main donors involved in BS.

Overall, cooperation results were not linked so much to the type of funding instrument or implementation modality used as to the general context for aid effectiveness in Lesotho. The weaknesses of public administration, the difficulties in finding partners in civil society, and the uncertainty created by first the coalition government and, at the end of the period, by the aftermath of the *alleged attempted* coup (with its repercussions on policy commitments, public decision making, policy and political dialogue, etc.) constituted the main obstacles to effective and efficient aid cooperation. Specific factors (such as the

[45] With regards to PFM, the implementation of the overall PFM reform programme was planned to be completed in 2011 but progress was slow in some areas and sliding backwards in others: the various diagnostics undertaken such as the WB PEMFAR in 2006, PEFA 2009 and 2012 and PFM technical IMF missions since 2010, all attest to worsening PFM indicators. A new PFM reform programme was to be launched with activities spanning 2014-2017 but the IRSC which is to oversee ites implementation has been dormant since 2013. With regards to PRS implementation, as shown in Table 5 in EQ6 above, progress of policy implementation during the period 2008-2013 was poor and deteriorating with 74% of targets reached in 2009, 45% in 2009 and 2011 and 44% in 2010 and 2012)

weakness of PFM, high inefficiencies in the civil service, difficulties in delivering public services and unequal access to them) represented further constraints that were particularly damageable to the effective use of budget support. Similarly, the weakness of public human resource management, the lack of leadership and the politicisation of higher level civil servants as well as the considerable brain drain to South Africa, strongly affected the potential effectiveness of capacity-strengthening programmes. In the end, the project approach worked best in this environment, delivering results to the population and, in the social protection area, reinforcing government capacities. However, this approach had its own problems, creating work overload for EUD staff and contributing little to reinforcing government systems and processes.

5 Overall assessment and conclusions

5.1 Overall assessment: time for a change of paradigm?

Lesotho is a low income country, geographically enclosed by South Africa, with few natural resources or other economic assets outside water (and recently diamonds), a small population, a small private sector and an inflated, largely ineffective and inefficient public administration weighed down by nepotism, politicisation and lack of incentives. It is also a country with deep and increasing social inequalities, a low HDI, crippling (and still increasing) HIV/AIDS prevalence, and where poverty affects 57.3% of the population. Progress towards MDGs is very uneven (only education and gender equality are on track). **Lesotho is thus a country that should benefit from the EU's attention under the EU's Cotonou Agreement and the EU has, appropriately, been providing continuous and consistent support to Lesotho** even when other donors have pulled out of, or reduced their engagement in, the country.

The bleak picture of Lesotho is counterbalanced somewhat by Lesotho also being a country with opportunities for change: thanks in part to its water exports to South Africa and to the SACU arrangements favouring smaller member countries, it benefits from disproportionately large SACU revenues, thus providing public resources that allow low domestic tax pressure while offering generous scope for funding public initiatives; it has access to the huge South African market at near to no extra costs for its domestic products; in the very near future, it will have lifted the constraint of domestic access to water in the Lowlands with the upcoming Metolong bulk water scheme. More generally, Lesotho's high dependency towards South Africa remains embedded in all spheres of Basotho life, but, with the end of apartheid, regional political dynamics have changed, and opportunities for joint cooperation have emerged.

This evaluation of EU engagement in Lesotho has shown that, for the past two decades, EU's engagement was country-based and focused on development cooperation only, thereby aligning with the geopolitical position of Lesotho in the post apartheid era. It has however also shown that this strategic approach took insufficient account of Lesotho's very specific development challenges linked to it being an enclave within South Africa and depending heavily on South Africa. The evaluation further found that achievements of this cooperation have been very mixed in terms of effectiveness and sustainability. Where the EU supported Lesotho with the implementation of projects, such as the support to the expansion of water and sanitation (9th EDF) or the CGP in favour of OVCs, results were obtained and a contribution, albeit limited, was made to improvements in the areas and sectors concerned. However, BS, which reflected the EU's confidence in the Government's own systems, organisation and policies, failed to trigger improvements in public policies, institutions, spending and service delivery; furthermore, over the period, PRS implementation was particularly poor, social and poverty outcomes did not improve and, on the contrary, economic growth led to increased discrepancies between rich and poor people. Achievement of results was undermined by the lack of progress in essential reforms and by the weaknesses of the public administration.

The mixed results obtained by EU aid, the need to tackle a difficult administrative reform and the fact that a response to Lesotho's very particular challenges will require closer collaboration with South Africa despite the uncertain political context, call for changing the direction of the EU's engagement with Lesotho, from a country-based development cooperation only, to a wider view of cooperation including the consideration of Lesotho in its regional context and widening the cooperation to the political, diplomatic, trade and other areas. However, so far, EU response has been constrained by: (i) Protocol 3 of the Cotonou Agreement with its different development cooperation instruments for Lesotho and South Africa, which undermine potential funding of joined Lesotho/South Africa initiatives and *de facto* limit Lesotho's access to regional funding; (ii) the different trade agreements negotiated with each country; and (iii) the Delegation's human resources, and notably the absence of a political officer, which have not enabled it to endorse its new political responsibilities as fully as it wished in the current favourable geopolitical environment when the closure of the few remaining MS representations in Lesotho had granted the EU Delegation potentially more voice, more visibility and greater weight in discussions with the Government.

The findings of this evaluation thus place current and future EU engagement in Lesotho in a very difficult spot: business can clearly no longer continue as usual when the context has changed and the effectiveness and sustainability of results achieved with past cooperation have been shown to be very mixed, but an alternative strategic approach in the current environment is difficult to perceive. The differentiated access for South Africa and Lesotho to EU instruments is a limiting factor. The willingness of both countries to work together on joint bilateral projects and the willingness of the EUDs in both countries to work together needs to be further ascertained. Regarding in-country cooperation, conditions have not been favourable to the use of BS, but, despite its limited effectiveness in triggering or accompanying reforms, it continues to be seen as the only, or best-fitted, instrument available to engage with the authorities at a strategic policy level. Reaching the poor is difficult when using Government channels of delivery. Engagement through NSAs would be attractive as it offers a potentially more effective manner to reach the poor, but local NSA capacities are limited, few international NGOs are present and current staffing levels of the Delegation cannot realistically manage such a programme. The staffing limitations at the Delegation constrain not only the choice of instruments that can be used but also the political engagement of the Delegation. Given all these different constraints, some conclusions are drawn below per theme and sector, following which, recommendations are proposed at both strategic and more pragmatic levels.

5.2 Conclusions

The conclusions reached by this evaluation have been regrouped by theme, as follows: relevance of the cooperation strategy; contextual factors of importance; outcomes, impact and sustainability; efficiency of implementation and financing modalities.

Relevance of the cooperation strategy

Conclusion 1 – The European Community's engagement with Lesotho was appropriate to the geopolitical , post apartheid context of the mid 1990s. More recently, in the 2010s, shifts in the regional political economy, the European Union's new role and responsibilities and the changes in thelandscape in Lesotho provide a unique opportunity for setting the EU's engagement on a new course.	
Based on: EQ1 and 2	*Leading to recommendation: R1*

This conclusion is based on the following findings:

- Lesotho's geopolitical context in the post-apartheid era was not favourable to deepening relations with South Africa; despite regional integration initiatives through the SADC and the Joint Bilateral Commission of Cooperation (JBCC) launched by the then President Thabo Mbeki's in 2001, relations between Lesotho and South Africa were difficult (EQ2). In this context, the EU rightly followed Lesotho's 'isolationist' stand and adopted a purely country-based development cooperation approach (EQ1).

- However, since then Lesotho has become essential to South Africa due to its water exports, South Africa has shown it is keen to preserve peace in Lesotho and, at administrative levels, government officials both in Lesotho and in South Africa have expressed increased interest in undertaking joint projects. The latter has also been illustrated by a more active JBCC since its renewal for five years in 2012. The EU could have taken a broader perspective on its cooperation approach, also helped in this by the new political role assigned to it by the Lisbon Treaty (2009). However, the EU was constrained by its instruments: (i) differentiated access to EU financing instruments available for regional initiatives for Lesotho (EDF) and South Africa (none), and, (ii) the different trading arrangements of the two countries (Cotonou Agreement and EBA for Lesotho and a standalone SA-EU TDCA for South Africa). These two constraints thwarted EU funding of any regional or bilateral (South Africa-Lesotho) cooperation initiatives that could directly benefit Lesotho (EQ1).
- A regional and even bilateral (South Africa-Lesotho) approach didn't fit neatly with the way delegations are organised: the triangular rapports between Delegations always passing through Brussels did not facilitate cross-country cooperation and learning required by the particular situation in Lesotho (EQ1, EQ2, EQ8).
- Recently the EUD has shown interest in giving its engagement a new direction. At the end of 2014, change was already being initiated within the limits of the EU's current constraints: the EUD seized the opportunity offered by its new political role and its unique position, in 2015, as sole representative office of the EU in Lesotho, to take a proactive leadership role in political and policy discussions with the Lesotho Government in support of development cooperation. However, this political cooperation has been considerably hindered by the absence of a political officer in the Delegation and by the very difficult circumstances after the *alleged attempted* coup (EQ1 and EQ8).

Conclusion 2 – In the absence of a suitable regional instrument of cooperation, EU's current approach to support Lesotho via the national envelope has not been able to adequately address Lesotho's specific developmental challenges or take into account its unique position within the region or the relationship with South Africa. There is keen awareness of this constraint within South Africa, SACU and the EU Delegations and a willingness to find adequate solutions.	
Based on: EQ1, 2 and 3	*Leading to recommendation: R1*

This conclusion is based on the following findings:

- The EU did not take account of Lesotho's specific constraints linked to it being an enclave in South Africa, whether in its regional or country programmes. In the regional programme it supported regional economic and trade integration that could but yield little benefit for Lesotho (already a very open economy and with a very small productive and export capacity) whilst leaving out other areas of regional cooperation which would have been of more immediate interest such as regional approaches to the HIV pandemic, the youth unemployment problem, water management for sustainable agriculture, migrant workers, food security or the pursuit of the MDGs. The EU's regional funding promoted theeconomic and trade integration even though SADC focused on a broader agenda, including all social areas as well as the management of regional public goods, which better reflect Lesotho's interest in such a regional grouping. Such areas of cooperation and integration between South Africa and Lesotho could deliver greater development results than the exclusive national focus in Lesotho and the exclusive regional economic integration focus of the regional programmes. Funding of bilateral (South Africa-Lesotho) initiatives was, however, not possible within the EU's instruments (EQ2).

- Similarly, in the country programme, the EU did little to support private sector development and trade initiatives that could have helped Lesotho take advantage of the existing large regional market and/or of preferential markets further afield. Despite having recognised, in the 10th CSP, that GoL did not have the technical and managerial expertise to create a business-enabling environment for private sector development (PSD) and that small business growth is expected to pass mainly through the export market, the EU did not include any programmes of support to PSD or trade except an allocation of €1.2 million to trade that was later reallocated to TA for PSD following the MTR (EQ3). This is all the more surprising given Lesotho's experience with the AGOA had been conclusive in boosting the growth of the textile sector, which, in turn, had had a knock-on effect on general economic growth, social and health performance and gender balance. The effect of the AGOA benefits were well demonstrated but the EU was unable to tailor-make an agreement for Lesotho as it had its focus on the broader needs of the entire ACP grouping. In fact, Lesotho did not draw much benefit from its EBA access (its trade with the EU is extremely limited) and EPA negotiations were stalled (EQ1).
- The main actors involved at regional level (SACU and the South African Government) as well as EU Delegations in Lesotho and South Africa are aware of the constraints on EU regional support to Lesotho; they are keen to pay close attention to the unique case that is Lesotho and to find avenues towards developmental change. This is thus a very opportune time for Lesotho to reach out and express its own interest in pursuing such a path (EQ1, EQ2).

Conclusion 3 – The programming of country cooperation responded to needs but could have taken better account of local and sector priorities, constraints and experience. The choice of sectors and instruments was heavily influenced by policy directions from headquarters.	
Based on: EQ3, EQ4, EQ5, EQ6, EQ9 and Annex 7	*Leading to recommendation: R3, R4, R5, R6, R7, R8*

This conclusion is based on the following findings:

- The choice of focal sectors of cooperation responded to identified medium-term challenges for Lesotho and fitted within the broad priority areas of action as set out by the Government's poverty reduction strategy; although consultations with Government were held, the choice of focal sectors and instruments was overwhelmingly influenced or even decided bythe policy directions given by Brussels. The inclusion of energy in the 11th EDF or the use of budget support in the 10th and 11th EDF illustrate this case (EQ3 and EQ6).
- Government priorities and capacities, sector developments, Delegation resources, and local conditions for aid effectiveness were insufficiently taken into account in the choice of instruments. Lessons from past cooperation experience were not systematically capitalised on (EQ3). In the social protection sector, the EU responded to Lesotho's HIV/AIDS crisis by addressing only the effects of the crisis, trusting that its

contribution to the Global Fund took care of prevention of HIV/AIDS. A more in-depth understanding of the situation would have increased the effectiveness and sustainability of its support and influenced the shape of the 10th EDF programme (EQ3, EQ4, Annex 7). In the water sector, the lack of effectiveness of the SBS in contributing to sector outcomes highlighted the lack of EU understanding of the sectors' dynamics (and that of its relationship with the MoF) (EQ3, EQ5). In PFM, the choices made with regard to programming further support to PFM reform implementation did not integrate the lessons learned from the evaluation of previous TA programmes. With regards to the choice of the BS instrument, the critical review of results obtained on the progress of both PFM reform implementation and on PRS implementation over the period appeared less important in the programming decision than the general policy stance that BS should be favoured as an aid modality; the sudden deterioration of the fiscal balance which eventually triggered BS disbursements overrode the technical assessment of the risks entailed in using BS (EQ3, EQ6, EQ9).

Outcomes, impact and sustainability

Conclusion 4 – The weaknesses of public administration in Lesotho have overshadowed the potential effectiveness and sustainability of EU aid	
Based on: Chapter 3, EQs 1, 6, 8.	*Leading to recommendation: R2, R3 and R8*

This conclusion is based on the following findings:

- The EU's attention has been focused on GoL's ability to monitor and report on the performance of policy implementation especially since 2004 when the weakness of this monitoring capacity was inter alia cause for stopping budget support operations. Since then, EU (and other donors) efforts have contributed to the setting up and operation of a Performance Assessment Framework and to formalised annual reviews of performance. However, the attention of the EU seems to have been more on the implementation of this PAF (which has been poor, constrained by availability of timely data to inform on implementation progress), than on its results. Looking back at the results of the PAF, it is clear that the Government has been challenged to reach its performance targets. GoL's planning and implementation capacities have not been able to deliver according to plan and the production of annual reviews was plagued by delays and lack of required data (see EQ6).

- It is argued that the main explanatory factor of this poor performance over 2008-2013 has been the lack of Government commitment to reform and the inability of the public service to function in an efficient and effective manner. All other factors that have impeded policy implementation (such as poor public finance management, weak planning, poor inter-ministerial coordination, etc.) are a direct result of the weakness of public administration caused by the politicisation of the public service (Box 1, chapter 3). The EU has not been willing or not been able to address this problem which is at the core of the Government's inability to deliver effective and sustainable actions. However, as the EU's cooperation aligns to public policies and strategies, and is mostly implemented by public servants (especially considering that budget support accounted for more than half of EU disbursements over the period 2008-2013), the effectiveness of EU aid is also undermined by this same fundamental issue. The same issue has also played a role in the decision of some other donors (Irish Aid) and NGOs (Care International) to leave Lesotho (EQ1 and EQ8).

Conclusion 5 – Lesotho suffers from an overall lack of accountability of the public service which undermines the effectiveness of the services it delivers.	
Based on: EQ6	*Leading to recommendation: R2, R8 and R9*

This conclusion is based on the following finding:

- Accountability in Lesotho is extremely weak: neither the Parliament nor the population is holding the Government accountable. NSAs are working to make communities more aware of public accountability issues but are hampered by the lack of access to budget data (which is not published). The Parliament's scope for investigation is constrained by capacities for analysis and by the difficulties to table critical issues for debate. The population is highly dependent on the public sector for its employment and social transfers and pays relatively little in terms of tax (since budget revenues stem mainly from SACU transfers): when public service delivery is poor or failing, better-off Basotho can easily go to South Africa to receive a better service, relieving the potential pressure on the Government to improve its own services (EQ6).

Conclusion 6 – In social protection, EU support has been instrumental in shaping the national social protection system. The effectiveness and sustainability of the Child Grant Programme were not entirely ensured when it was transferred to the Government. Altogether the CGP has been an excellent source of learning and contributed to the development of good practice both within the OECD/DAC countries and the Cash Community of Practice (CoP)[46].	
Based on: EQ4	*Leading to recommendation: R6*

This conclusion is based on the following finding:

- The EU's support to social protection has played a key role in initiating, then shaping, the country's national social protection policies, systems, tools and institutional setting. The programme was shown, on a pilot basis, to contribute to improved education and nutritional status of children although its effectiveness would have been greater had complementary initiatives been systematically foreseen; expanded at national level and transferred to GoL, the sustainability of the system was not yet ensured and necessitated a follow-up phase. Indeed key decisions still needed to be taken regarding issues such as coverage (census or targeted form) and frequency of updating of the NISSA, the introduction of checks and balances to avoid political usage, cash transfer delivery mechanisms and the choice of supply-side measures to ensure effectiveness (EQ4).

- The project contributed to the development of good practice particularly linking Social Protection with cash transfer programming in emergencies. It has demonstrated responsiveness and capacity to be upscaled even before having all its elements in place (NISSA)[47]. In this regard, the CGP is more advanced than Social Protection systems in

[46] The Cash Community of Practice refers to all stakeholders promoting the use of cash transfer modalities for the delivery of humanitarian assistance, as expressed by the Cash Learning Partnership (www.cashlearning.org)

[47] Some of the main challenges linking Social Protection systems with the delivery of humanitarian (emergency) assistance consist in a) enabling the design of social protection systems that can be triggered during emergencies b) upscale social protection systems during emergencies c) facilitate referrals and hand-over to social protection system. Referral to the CGP to target beneficiaries during emergencies has been made possible albeit on an ad-hoc basis so far.

West Africa, Malawi and Zambia. There is scope to be more proactive in sharing the evidence with the OECD/DAC, the CoP globally[48] as well as the Global Clusters.

Conclusion 7 – Through the 9th EDF projects, the EU contributed to improved water service delivery and environmental protection; the effectiveness of its budget support was limited to better sector coordination.	
Based on: EQ5	*Leading to recommendation: R7*

This conclusion is based on the following finding:

- The EU played a key role in the water sector through its long-term involvement: through its project support, it contributed to increased water service delivery and environmental protection, whilst its sector budget support contributed to better sector coordination but not to expected improvement of sector planning and monitoring. Although the country is likely to be on track towards achieving the MDG 7c as far as access to water is concerned, progress is slower than expected (EQ5).

Conclusion 8 – The implementation of BS in Lesotho was triggered by the macro-fiscal framework (sudden temporary deterioration in Lesotho's otherwise structurally sound fiscal position). It took insufficient account of the weaknesses of public administration which jeopardised the successful implementation of public policy, and thus of BS, as well as the effectiveness and sustainability of BS's accompanying technical assistance support in PFM.	
Based on: EQ3 and 6	*Leading to recommendation: R3, R4 and R8*

This conclusion is based on the following findings:

- Budget support was the instrument of choice during the period, contributing to more than 50% of disbursements of EU aid. Its justification in macro-economic and fiscal terms, at the time of programming, was the potential drop in SACU revenues, which appeared, ex post, unfounded even if budget support contributed to unlocking the authorities' fiscal constraint during the two crisis years of 2010/11 and 2011/12. At the time of programming (2006-2008), GoL's fiscal surplus before grants represented 11.5% and 6.6% of GDP respectively in 2006/07 and 2007/08; it still stood at 3.1% in 2008/09 before plunging to -16.8% and -17.1 in 2010/11 and 2011/12 (section 1.3 context, EQ3, EQ6 and EQ9).
- The careful preparation phase of the operation from 2006 to 2008, followed by a cautious waiting for pre-conditions to be fulfilled, was brought to a sudden stop when the fiscal situation deteriorated in 2010: the risks entailed in launching BS when conditions were still not entirely fulfilled were disregarded in favour of the need to disburse quickly to face the immediate fiscal threat.
- The effectiveness and potential impact of budget support was constrained by the weaknesses of public administration: the yearly performance reviews showed systematic evidence of underperformance on both PFM and PRS implementation:
    - From attaining either fully or substantially 74% of the targets in its PAF in 2009, the Government's performance gradually deteriorated until it met only 44% of its

[48] Especially with small-sized import-dependent countries such as Djibouti or the Pacific Islands, or with more advanced ones such as Mauritius that also happen to have developed a single registry.

targets in 2012. Results were slightly better in 2013 with 55% of targets met. Donors had to delay their assessment on at least two occasions (2009 and 2011) in order to enable more targets to be fulfilled so they could give a positive assessment of general progress.

- Disbursement rates for EU variable tranches reflected similar poor performance: variable tranches disbursed for 63% in 2011, but 55% in 2012 and only 27% in 2013.

After having stopped BS in 2004 when the exact same findings of extremely weak compliance of budget support eligibility criteria were made, the EU still continued to disburse over the period 2007-2013 thus not giving appropriate signals to the GoL (EQ6).

- TA was provided consistently and for increasing amounts throughout the period to support PFM, the monitoring of PRS implementation and the NAO. Lesotho's weak civil service had been identified as the main factor inhibiting effective and sustainable TA in EU capacity-building project evaluations and in the country strategy evaluation of 2004. The urgent need for an overall reform to address politicisation in the civil service and improve human resource management remained nevertheless unaddressed by the EU (EQ3, EQ6).

Conclusion 9 – The important role of the NSA has been recognised by the EU and support to strengthen their capacities has been provided. However, the sustainability of NSA as service providers has not yet been ensured.	
Based on: EQ7	*Leading to recommendation: R9*

This conclusion is based on the following findings:

- In the context of weak and ineffective public administration, NSA have an important role to play, both as service providers and as vehicles for improved accountability and governance. This role has been recognised by the EU and support has been provided to strengthen NSA They have been an effective channel for development change, but the degree of success varies according to the purpose of the support: capacities in pro-poor service delivery and support of human rights objectives have improved but progress with decentralisation has proved challenging amid unfavourable public governance circumstances.
- Whilst it is accepted that the EU has always envisaged NSA as a complementary channel, the challenges of working with Government mean that it has been appropriate to consider whether support to NSA could play a more prominent role. However the scale and capacity of NSA are insufficient to enable this channel to act as more than a complementary channel of support (EQ7).
- In addition it has been noted that some NSA, such as Send-a-Cow, depend on EU support for a high share of total funding in Lesotho. This creates a risk to their long-term sustainability within the country.

Efficiency of implementation and financing modalities

Conclusion 10 – Staffing levels and expertise of the Delegation were not attuned to the management requirements of its workload and the extent of its involvement, and this worsened with the added responsibility for political dialogue. Nevertheless, if the Delegation were to be properly staffed, current circumstances could turn the Lesotho Delegation into an example of what the EU can achieve with its new political weight.	
Based on: EQ8	*Leading to recommendation: R10*

This conclusion is based on the following finding:

- Staffing levels in the Delegation have been a constraint to the efficient management of the cooperation portfolio. The reporting burden required by Brussels on a small Delegation has been considerable. In addition the portfolio, especially in relation to non-focal sectors, requires a wide range of expertise. Staffing expertise has, until recently, been insufficiently connected to the areas of focal and non-focal cooperation, especially in relation to budget support, PFM, justice and decentralisation. The fact that few (or no in 2015) MS were present on the ground and that the EUD was not only the EU's sole representative but also one of the few donors representations left in Lesotho, was not adequately taken into account: the requirements to lead policy and political dialogue were much greater than in other Delegations, whilst the Delegation had not been attributed a political officer. Nevertheless, this situation could be an opportunity for the EU to show what a Delegation, if properly staffed, can do for its MS and what role it can play in political dialogue with a country that up to now had no other links with the EU than its cooperation programme (EQ8).

Conclusion 11 – The different financing instruments used in Lesotho showed no differentiated efficiency; effectiveness was found to be lower for budget support than for projects because of weaknesses in public administration. The value added by BS in terms of policy dialogue was important in the beginning of the period but declined rapidly.	
Based on: EQ6 and 9	*Leading to recommendation: R3, R4 and R7*

This conclusion is based on the following findings:

- Different financing instruments were used in the portfolio and in the two focal sectors. They were not used in complementarity and created no synergies, but they were used towards the same objectives, thus demonstrating at least a convergence of intent. The implementation of the portfolio was inefficient, if measured by actual implementation timetables compared to planned ones: EDF 9 and EDF 10 implementation both accumulated many years of delay, regardless of the instrument used. The backlogs of portfolio execution denote both excessive ambition of the cooperation programme with regards to the country's absorptive capacity and heavy/lengthy EU administrative procedures (EQ9).
- BS provided a good platform for renewing policy dialogue with the authorities in 2006 and dialogue was relatively dynamic in the period 2006-2011. Since then, the dialogue around general policies has stalled, and coordination with the two other BS donors (WB and AfDB) crumpled. In the water sector, the dialogue remained relatively dynamic. The Delegation believes that the relative significance of the general budget support package

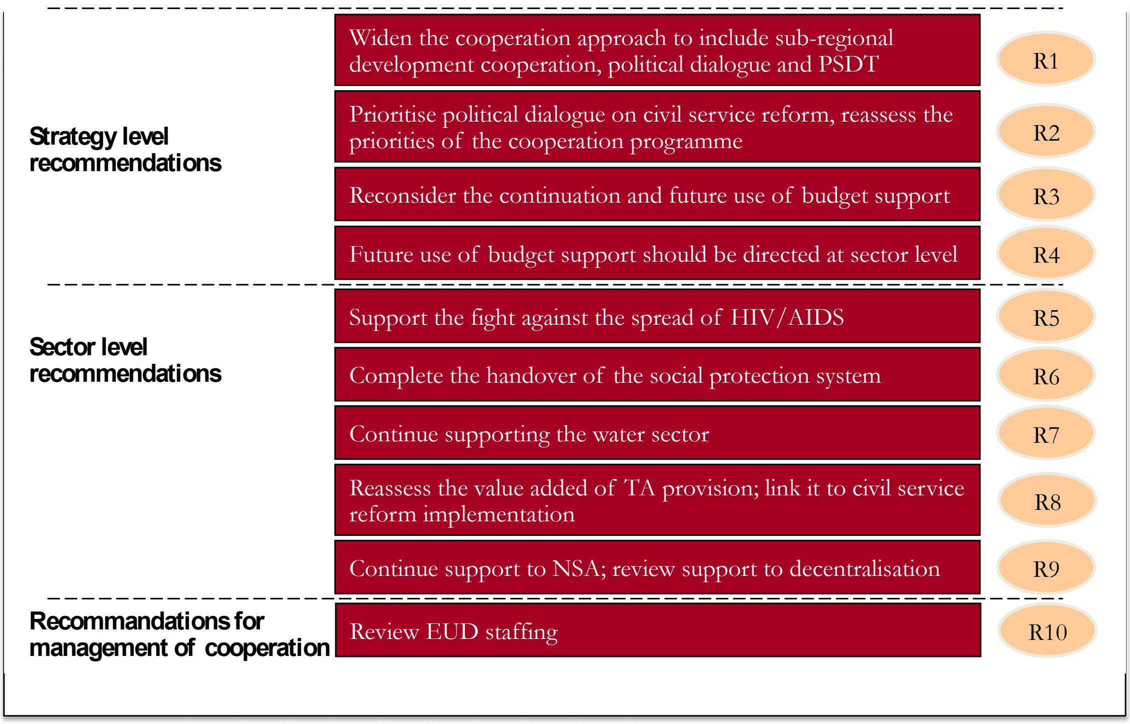
compared to the SACU revenues is one of the factors which explains the limited appetite for, and effectiveness of, policy dialogue. Evidence in other countries contradicts this: even where BS has been relatively insignificant in proportion to other sources of public revenues, policy dialogue has been very dynamic and effective when objectives of both the EU and the recipient country strongly converged (EQ3, EQ6).

6 Recommendations

The recommendations are based on the analysis and conclusions presented in the previous chapters and are formulated with the view to improve the appropriateness, effectiveness, efficiency, impact and sustainability of the EU's cooperation programme with Lesotho. They are structured around three clusters aiming to improvements in the following areas, as illustrated in the figure hereunder:

- Strategic level recommendations
- Sector level recommendations
- Cross-cutting recommendations.

Figure 7 – Recommendations



Source: ADE

The recommendations aim at being practical and identify actions that can be undertaken in the short term. However, some recommendations at the more strategic level require additional thought and debate within the Commission, their practicality will need to be further tested and they will thus involve a longer timeline. Following the recommendations, a table and figure set out the importance and urgency of the different recommendations made.

6.1 Recommendations at strategic level

R1. Widen the cooperation approach to combine national and sub-regional development cooperation, with a proactive political dialogue, including with South Africa, and facilitation of private sector investment and trade with South Africa.

Opportunities have and are emerging which call for a more diverse role for the EU with an engagement spanning across politics, trade and development cooperation. Basing such broader engagement on wider geopolitical considerations, including in particular the unavoidable role of South Africa in Lesotho's development, will offer a better chance for EU support to spur Lesotho's development. The EU's cooperation strategy for Lesotho should consider addressing the regional and especially sub-regional dimensions of Lesotho's development.

The EU could offer the two countries opportunities for joint initiatives in health (HIV/AIDS), water catchment areas, infrastructure, migration, etc. Support to PSD and trade should be seriously considered when deciding the strategic directions of future EU country programmes.

Justification: Align the EU's engagement to geo-political constraints and opportunities.

Based on: C1, C2:

- Lesotho heavily depends on South Africa which surrounds it and its development is inseparable from that of South Africa. South Africa has definite interest in cooperating with Lesotho despite the difference in economic development: Lesotho is essential to South Africa for its water exports (and potentially energy exports) and South Africa has shown that it is keen to maintain political stability in Lesotho. There is definite interest at administrative levels for undertaking joint projects which can benefit both countries.
- The EU has pursued a purely country-based approach to Lesotho's development. Under the Cotonou Agreement, the EU differentiated the treatment of Lesotho and South Africa by providing the two countries with different aid instruments, different access to regional programmes and separate trade agreements. These arrangements constrain the possibilities of designing and implementing development programmes involving both countries and that could benefit their joint interests.
- The EU should consider overcoming these limitations set by its instruments in order to help Lesotho to make better use of the economic opportunities offered by the South African market and to stimulate cooperation between the two countries on other areas of mutual interest (HIV, youth employment, water management etc.): the EU should envisage support to Lesotho's PSD and trade and to sub-regional integration through supporting initiatives of mutual interest to Lesotho and South Africa.

Proposed actions:

- Recruitment by the EUD of a political officer or a political economist with knowledge of the region
- Consider the possibility of developing a new financing instrument that could be accessed by both countries and would not require passing through a regional body. This instrument could simply be a share of the country NIP allocation dedicated to joined, bilateral projects. The potential of funding bilateral programmes under the PanAf and the SA-EU Strategic Partnership and its Dialogue Facility for promoting and funding trilateral cooperation should also be explored.

- Existing institutions (such as the DBSA, some CSOs, the JBCC, some MS such as GiZ) which already have an interest and some experience in working on South Africa-Lesotho joint initiatives, or in other countries cross-border experiences and/or in other tripartite development initiatives (GiZ for example), should be approached to discuss possibilities of co-financing bilateral programmes and/or the EU participating as sleeping partner in such programmes and/or the EU funding CSO existing programmes spanning across the border so as to avoid overloading EUD staff.
- The modalities for closer coordination and political dialogue with third parties between the EU Delegations to Lesotho and South Africa will need to be worked out.
- Other donors active in Lesotho should be approached to discuss partnering possibilities for regional and bilateral initiatives.
- Lesotho's private sector development should be supported through political and policy dialogue, trade agreements/advice/promotion and funding of activities to develop and strengthen its competitiveness with a view to help it tap the huge potential South African market. Considering the EU's rule concerning the limited number of focal sectors of support, supporting PSD will require the EU to abandon support to one of the existing sectors of support (water, governance or energy).

R2. Build upon the momentum created by the changing political context in Lesotho, the political role conferred to the EU by the Lisbon Treaty and the unique position of the EU as sole EU donor representation in Lesotho, to place political dialogue on civil service reform at the forefront of cooperation and reassess the priorities of the cooperation portfolio

Benefiting from its recently-acquired political role, its weight as sole EU donor represented in Lesotho (and one of the few donors in Lesotho) and the changing political landscape in Lesotho, the EU is in a unique position to lead a proactive political dialogue with the (new) authorities and pass on some strong messages. Amongst these, the issue of civil service reform is prominent as it affects the effectiveness of Ethe U's entire cooperation portfolio, especially where operations depend upon a well-functioning public administration: a re-assessment of the continued relevance and potential effectiveness of individual EU projects and programmes could help the EU to redesign the priorities of its cooperation programme.

Justification: The effectiveness of financial and technical cooperation is undermined by the weaknesses of the public administration. A window of opportunity exists for effective political action and reassessment of priorities.

Based on: C4, C5 and C8

- The weakness of the public administration poses a threat to the effectiveness of public policy implementation and thus also to EU's development cooperation. Government's progress in reaching development outcomes has been very weak and declining as witnessed by decreasing scores on reaching overall Government performance targets (74% reached in 2009, 44% in 2012), specific targets set for the disbursement of EU variable tranches' budget support (63% disbursement rate in 2011 decreasing to 27% in 2013) and MDGs (only two MDGs on track end of 2014).
- The lack of effectiveness has been particularly severe for programmes directly supporting the Government's own systems and processes to deliver public services (budget support in particular) and for programmes attempting to build capacities

within the public administration.

- The issue of civil service reform has been on the table since 2001 in Lesotho and has not moved forward since then due to the lack of political commitment of successive governments. Nepotism in the civil service, on the one hand, and a very low contribution of domestically raised revenues to total public revenues (SACU revenues provide more than half of public revenues), on the other, have deterred citizens from exerting pressure on the Government for a change in the *modus operandi* of the public administration. In a context of low demand for public accountability both from the population and the Parliament (which suffers from weak capacities and impediments to table sensitive topics for debate), the EU, as a major donor and as a (past) provider of direct budget support, could play a major role in exerting political pressure in favour of an in-depth civil service reform and thus of improved accountability of the Government to its citizens.
- Support for civil service reform, tabled by the EU in its 11th EDF, runs the risk of being ineffective and unsustainable if not preceded by tangible evidence that the Government will provide its full commitment and backing to this reform.

Proposed actions:

- Recruitment by the EUD of a political officer or a political economist with knowledge of the region
- In order for the political dialogue to be effective, the EUD will need to define a long-term strategy for political dialogue by giving it clear directions: what does the EU want to achieve in Lesotho? How can it assist Lesotho to realise its potential and its vision? How can it advance the South Africa-Lesotho agenda? These are some of the questions that such a strategy should respond to.
- The EUD will need to establish a political dialogue with the Cabinet (once in place after the elections) to explain the reticence of the EU to continue business as usual and to highlight the need for an in depth reform of the civil service as a condition for aid effectiveness.
- The relevance and potential effectiveness of individual EU projects and programmes should be re-assessed:
  - Non-performing programmes should be closed down, especially in non-focal areas where the EUD has relatively less capacity, that require a lot of management time and which are risky from a fiduciary perspective.
  - the launch and implementation of new projects and projects in the pipeline under the 10th EDF that require a fully functioning civil service should be deferred.
  - In the meantime projects implemented through the CSOs should be favoured.
- The ambitions of the 11th EDF should be re-assessed to scope the involvement based on the country's absorptive capacity and the EUD's expertise, to concentrate on programmes in sectors where support has been known to be effective (water), and to add programmes in areas identified as responding better to Lesotho's needs (PSD, cross border initiatives); the current and foreseen support to governance should be focused only on civil service reform and should be conditional upon demonstrated commitment of the Government to the civil service reform.

R3. The continuation and future use of budget support in Lesotho should be reconsidered in light of the Government's past lack of progress in implementing its own policies and thus in improving its service delivery and of the deterioration of many social indicators including poverty, and increasing income disparities and inequalities in citizens' access to and use of public services.

Budget support is in many ways the most appropriate form of support to Lesotho, giving the Government full ownership of its policy choices, providing it with additional policy and fiscal space and boosting its accountability to citizens and donors whilst allowing the EU to support overall improvement of service delivery to the population. Budget support is also seen by the EUD as an important leveraging tool for political dialogue.

However, over the evaluated period, budget support has not achieved the expected outcomes: the improvement of the design and implementation of policies and of their implementation results and impacts with regards to reduced poverty, improved social indicators and reduced income and social inequalities, did not materialise. Whilst the continued HIV pandemic has played a role, these poor results are mainly attributable to poor Government commitment to, and thus implementation of, reforms and the weakness of the public administration. The strategy pursued by the EU in the past in a similar context in Lesotho was to stop budget support (2004), negotiate a roadmap with the Government (2006-2008) and resume when conditions for the effectiveness of budget support were deemed to be satisfied (financing agreement signed in 2008 with the first disbursement delayed till 2010 due to the non-fulfilment of a prior condition). Considering that, from a technical point of view, eligibility criteria for EU BS with regards to PFM reform and policy implementation deteriorated over the period 2010-2013 since BS resumed, and that public service has not delivered the targeted improvements in social outcomes, there is a case for reconsidering the continuation of BS and its future use in Lesotho.

Stopping budget support would give a clear political and policy message to the Government about the inability of the EU to support reforms that are not implemented and policies that do not deliver. Rather than undermining the dialogue, this well-justified decision would create a space to resume a policy dialogue that has been floundering steadily in the last few years; as a reminder, this evaluation found that the strongest policy dialogue took place between 2006 and 2008 when there was no budget support. Indeed, the quality of policy dialogue does not so much depend on the provision of funds as it depends on i) the commitment of GoL to carry through agreed reforms and (ii) the commitment of the EU to act in accordance with its own rules and conditions regarding BS disbursement. Arguments that imply that BS is a prerequisite to policy dialogue (especially in the SACU transfer context) are symptomatic of a Government's weak commitment to agreed reforms: it has been demonstrated[49] that in countries where EU BS is very marginal or nil in terms of total budgetary resources, policy dialogue can be extremely dynamic and the political support of the EU is a strong incentive for reform when there is prior commitment to reform (from at least part of the Government).

The two problems of (a) government commitment to reform and (b) quality of public administration, which have created the specific unfavourable context in Lesotho where policies no longer deliver, should be addressed before continuation of BS is considered. If these problems are not addressed, the pattern experienced in 2004-2008 will be repeated with, predictably, the same lack of results.

Justification: Provide incentive to effectively set up conditions for effective policies: commitment to relevant

[49] See the evaluations of budget support in Tunisia, Morocco or South Africa.

and credible reforms and a public administration that has the capacity and willingness to implement these reforms.
Based on: C4, C8 and C11 ▪ Budget support in Lesotho was stopped in 2004 because conditions for its effectiveness had been found unsatisfactory: the ability of the government to monitor its own progress in policy implementation and results achieved as well as its commitment to and progress in the implementation of PFM reforms were insufficient to enable the continuation of budget support under EU eligibility criteria rules. After two years of in-depth negotiations (2004-2006), progress in these two areas was deemed sufficient to resume budget support and a new contract was signed. However, *a posteriori* the assessment of progress appears to have been rather optimistic and conditions deteriorated again steadily during the 2008-2013 period: o Whilst 74% of overall Government performance targets were reached in 2009, this steadily deteriorated to 44% of targets in 2012 and reached 55% in 2013. o Similarly PFM performance was stationary or sliding backwards with diagnostic studies (in 2006, 2009, 2012) and IMF reports attesting of the difficulties in achieving PFM reform implementation despite extensive donor support, including that of the EU. Most recently, conflicting signals were given with regards to commitment to PFM reform, with on the one hand the preparation of a new PFM Action Plan up to 2017 but on the other the lack of activity and meeting of the Improvement Reform Steering Committee since 2013. o Results in the poverty and social indicators have been alarming: although HIV/AIDS has played an important role (which itself could have been tackled better by the Government and donors), policies did not deliver on access to public services, HIV/AIDS continued to spread (58,6% of women are affected), poverty increased, social indicators worsened and income disparities increased. Lesotho's HDI in 2012 was lower than in 1990. ▪ The EU thus supported a set of policies that did not improve service delivery, it provided capacity-strengthening support that remained ineffective because of the general weakness of the public administration and its policy dialogue did not lead to either improved policies or strengthened commitment to reforms. ▪ Over the period, the degree of satisfaction of the three eligibility criteria for BS (maintenance of macro-economic stability, progress in the implementation of PFM reform and progress in the implementation of the national development policy (or the sector policy for SBS) and its continued relevance and credibility) has thus steadily deteriorated in Lesotho, and requires to be reassessed very critically. It is important to remind the authorities that the satisfaction of the EU budget support three eligibility criteria (four as of 2012) that represent the conditions for effectiveness of budget support and thus also for effectiveness of national policies.
Proposed actions: • The use of BS should be re-assessed on the basis of the eligibility criteria and the results achieved so far (including a critical review of the PAF, its indicators, and institutional responsibilities for data collection and preparation) • If there is a change in Government commitment to reform and to positive development change, then there is no impediment to continued and even

strengthened policy and political dialogues. The EU should be able, even without providing budget support, to be actively involved in these dialogues and to participate in the JAR-reviews and PFM progress reviews and implementation of PRS. In this context, closer coordination with other donors, esp. the World Bank because of it being in a similar situation, would be beneficial.

- To help the EUD with the monitoring of the PFM situation and progress in the country, the EUD could recruit or retain on short-term basis a PFM expert.

R4. Should eligibility criteria be satisfied and a case for budget support be made in the future, the focus should be on sector level support and on sector performance

Based on past experience, general budget support hasn't been able to deliver results whilst sector budget support has been able to achieve mixed results: better coordination in the sector but little contribution of funding towards results achieved in service delivery. If the general conditions were to be favourable for the use of budget support (all eligibility criteria met), then sector budget support could be most effective when (i) tying tranche disbursements to performance (designing the SBS with the maximum allocation of 100% to the performance-based variable tranche and no fixed tranche allocations – a hitherto novel experience for the EU) and (ii) ensuring that the sector receives, after budget negotiations, the funds planned for in the medium-term expenditure framework that are required for strategy implementation. In this manner, the design of the SBS would ensure that the sector can access the resources it needs to fulfil its PAF targets and that SBS disbursement provide strong incentives for implementation of reforms (if commitment to reform is lacking and no progress is being made on achieving results, no disbursement will be made either).

Justification: Provide incentive to implement policy reforms and energise sector improvements

Based on C4 and C7

- General budget support has been ineffective in reaching expected results; eligibility criteria were not strictly satisfied. Commitment to reform and public administration weaknesses undermined the effectiveness of public policies.
- The SBS in the water sector was relatively more successful:
    - it contributed to improved coordination and improved data flows in the sector (until the information system broke down in 2012), but
    - BS did not contribute to sector outcomes (service delivery) as the sector did not receive the funds provided by the EU and realised its outputs and results mainly through other external financing (MCA mainly);
- The EUD has expressed willingness to continue SBS; sector reform contracts, *in combination with project approach and blending of financial instruments (for the sectors of water and energy)* were indicated as the preferred financing modality in the 11th EDF.

Proposed actions:

- The conditions for effective BS should be carefully analysed:
    - As shown, the implementation of a civil service reform programme has now proven to be an essential ingredient to successful budget support and this should remain an unconditional precursor to any budget support.
    - The most difficult area to assess conditions for SBS effectiveness will be the credibility of Government's policies and sector reforms. Here the EUD needs to develop a yardstick to measure and assess what tangible

proof of evidence is required before accepting that Government commitment to reform is genuine this time around: monitoring of implementation during two years with steady progress on implementation results is suggested.
  - Above and beyond some form of earmarking of the SBS to the sector, a careful analysis should be undertaken of the conditions of budget arbitrage in the sector.
- If and when designing a SRC, the contract should be designed on the basis of an agreed medium-term budget plan (revamped MTEF) that will be a pre-condition for disbursement; a pay for performance approach where the total amount of the SRC is in the form of variable tranches could be considered instead of the more traditional 60%-40% mix of fixed and variable tranches.
- The provision of complementary capacity-building support should be linked to improved management of human resources within the civil service so as to tie improved skills to the job for a minimum period of time.

R5. The EU should support the fight against the spread of HIV/AIDS in Lesotho by intense lobbying for better prevention.

The EU has had, in the developmental timeline, a short-term involvement in the field of HIV/AIDS through the Child Grant Programme, aimed at helping the households of HIV/AIDS-affected people, children in particular, followed by the building of a national social protection system beyond the HIV/Aids victims. As laudable as this was, it did not contribute to address the fundamental issue of the spread of HIV in Lesotho which has continued unabated over the period. HIV/AIDS continues to be the single largest threat to Lesotho's future development and requires immediate attention and concerted and renewed support from the donor community, the Government and the population. Whilst it is accepted that the EU is a generous contributor to the Global Fund, this does not rule out additional advocacy and synergies to support to HIV/AIDS.

Justification: Lesotho has the second highest number of new infections of HIV/AIDS per capita worldwide. The pandemic is the greatest threat to Lesotho's future.

Based on: C3

- The HIV/AIDS pandemic affects 58.6% of Basotho women aged 15 and above and 23.1% of the total population. The pandemic has contributed to poor, even deteriorating, social outcomes:
  - primary education enrolment rates were no higher in 2012 than in 2000.
  - Regarding health, 39% of children under five years of age suffer from chronic malnutrition with stunting, 4% from acute malnutrition with high mortality rates after treatment; maternal mortality deteriorated sharply.
- The EU adopted a non-contributory approach to safety nets, targeting specifically orphans and vulnerable children from HIV-affected families: this contributed to dealing with some of the effects of HIV/AIDS but did nothing to address the pandemic itself thus undermining the sustainability of actions undertaken.
- Opportunities to use the CGP for passing on important messages about HIV prevention were not taken.

Actions:

- Lobby for the reinstatement of the national HIV/AIDS Commission
- Lobby for increased Government and community attention to, and support for,

HIV prevention and care, in the communities and at the workplace • Lobby to couple social protection with prevention measures: use the CGP to mobilize the communities, the media and decentralised governance systems for prevention • Explore opportunities with GoL to capture migrants in the foreseen social protection package as per the NSPS.

6.2 Recommendations at sector level

R6. Measures need to be put in place to ensure that the social protection system the EU helped set up, then transferred to GoL, is effective and sustainable
The EU should pursue its commitment to see the fruit of the important investment in systems it made under the CGP and influence the scale-up process. The EU should pursue its involvement in the sector and ensure that taking this pilot initiative nationwide and transferring the responsibility for its financing and management to the Government is realised under the best circumstances and in particular that the system remains protected from political interference and fiduciary risk, becomes viable in the longer term and provides transfers that can be used for social services.
Justification: The EU started an important initiative that has long-term financial and social implications: it should ensure that its conditions for success are present.
Based on: C3 and C6 ▪ In Lesotho, 10% to 16% of the population benefits from social protection measures: the sustainability of these social protection programmes depends on their cost-effectiveness. ▪ Institutional arrangements, public financial commitments, political will towards cost containment, the design of targeting and cash transfer systems, are all factors influencing this sustainability and which had not yet been well grounded at the time of handover of the programme to the Government.
Proposed actions: • The EUD should continue providing advisory services to the Government on how social protection systems would be rolled-out, esp. with regards to NISSA's coverage (census or targeted approach) and frequency of updating; the EUD should also pursue the advocacy together with the WB on needs-based social protection services rather than by entitlements; the CGP still needs to be fine-tuned in regards to the service provision component and combined approaches (cash plus), referral mechanisms, graduation/exit strategies and the trigger of social protection system to respond to emergencies. • Community mobilisation and government accountability should be supported in order to strengthen the provision of public services to communities; possibilities to use the media or to include educational/prevention messages with the grant transfer mechanism should be explored to do this. • Livelihood interventions could be designed as a package with the cash grant for both effectiveness and possible graduation/exit strategies; the WB's experience on the piloting of productive safety nets could be tapped into. • Lesotho's case could be used to actively contribute to advocacy for efficient Social Protection systems development in the Region (within SADC and in Africa) and to share the lessons learned with Brussels. • Similarly, institutional knowledge on Cash & Voucher systems (ECHO) could be

shared to support research into payment options, the harmonisation of transfer mechanisms and a unified payment system; cross-learning between UNICEF, WFP and different sections of the government could be promoted; standard operating procedures and good practice in cash transfer and specifically beneficiary data protection could be analysed.

- The EUD could take a proactive role in engaging the government and UNICEF to develop a complaint mechanism associated with social protection systems delivery.

R7. The EU should continue supporting the water sector with both project and sector-wide funding and should encourage inclusion of WS sciences in the high school curriculum.

The relevance of the EU interventions in the sector is clear and is grounded on strong sector knowledge. Although this has taken a long time, the impact of past EU interventions is growing and progressively showing results and benefits. The EU has used both project and sector budget approaches, each having strengths and weaknesses: the project approach increased quantity aspects such as the access to basic WS services, but faced variable sustainability of results; the budget support approach improved the quality aspects such as better coordination within the sector but didn't have a significant impact on better access to basic WS services. Given the key experience of the EU and the lessons learned, a mixed approach of project and budget support should be pursued with the caveats that reintroduction of BS would be dependent on demonstrated progress in the satisfaction of eligibility criteria (see R3 and R4), it should be directed to the sector and linked to performance in the sector (see R4) and the EUD sector expertise remain to monitor and pursue the policy dialogue. Finally sustainability of the sector should be promoted by including training in WS sciences in a national high school.

Justification: Further capitalise on the EU's experience in the sector by funding existing projects and continuing sector-wide support if conditions are right

Based on: C3, C7 and C11

- The EU support in the water sector, whether 9th or 10th EDF-funded, has strengthened the water sector's reform progress and contributed to better sector policy and coordination. Project interventions, despite incurring major implementation delays, contributed positively to water service delivery and environmental protection. The SBS provided good incentives for better sector coordination through the imposed monitoring mechanisms and the associated collection of sector data, but was felt to have contributed little to increased outputs since the funds were not allocated to the sector.

- Strategic and managerial capacities still need improvements due to the lack of regular and reliable data, and strong administrative commitments that are essential to achieve the targets in sector W&S strategies remain outstanding. Noteworthy is the continuing weakness of the M&E in the sector which require to be strengthened as they are essential to a sound planning of social services development within existing financing constraints.

Proposed actions:

- Join and fund a specific part of the Lowlands water supply scheme of which only two of the eight zones targeted are currently covered. The remaining six zones will serve about 550,000 additional people. The projects are ready for funding and do not require feasibility studies. The basic physical elements and the concept remain unchanged, only socio-economic data need to be updated and technical points refined. The Lowlands water supply scheme is the only major and comprehensive *national* solution to improve the WS for about three quarters of the population in the Lowlands (urban & rural). By being a part of making this particular plan a reality, EU funds would be highly efficient and profitable to the country.

- Consider, in the medium term and once conditions are appropriate (see R3), providing BS in the form of a Sector Reform Contract. In such a case, link disbursement to (i) the development of a sector MTEF, and (ii) the performance in the sector. Both conditions require that the water sector information management system be reconstructed based on i/ the existing backup of data, ii/ an open source operating system, iii/ a compulsory involvement of the CoW's office and iv/ a GIS software licence for specific mapping purposes.
- Instead of additional capacity building through TA supports that provide only a period of learning opportunity, set up and support a vocational awakening to the topics of WS sciences through a specific training/course at a national high school. This could be extended to tertiary level training if warranted by the number of candidates. Advocacy and the opening to the profession would allow for a regular renewal of national expertise and ensure a better sustainability of the sector's investments. This does not imply to cease TA but to redirect part of the contribution towards the development of specific capacity in the medium and long term. TA will still be needed in the sector, focusing on specific technical and managerial issues.

R8. The added value of continuing TA provision in a context where the civil service lacks a human resource management strategy and where the public administration is extremely weak due to politicisation, should be assessed by the EU; evaluations of previous TA programmes in the field of governance have identified these causes as having negatively affected the effectiveness of TA in Lesotho.

Important TA support is foreseen under the 10th and 11th EDFs: ongoing programmes and those in the immediate pipeline need to be re-assessed in the light of the failure of previous similar programmes to deliver sustainable and useful results. Without a civil service reform and without a sound human resource management strategy in place, it is unlikely that TA will achieve its objectives. Government willingness to launch a civil service reform measured by actual, measurable progress resulting from the implementation of the reform is a critical success factor for the provision of TA.

Justification: TA has been ineffective because it is undermined by a weak civil service. The politicisation and human resource management of the civil service needs to be addressed for aid to be effective.

Based on: C3, C4, C5 and C8

- The EU undertook two important TA programmes in the area of PFM and macro-fiscal policies (funded under the 9th EDF) which were both ineffective. The politicisation and general weakness of the civil service, including poor human resource management and the lack of incentives for staff to improve their performance, were identified by successive evaluations as the factors having affected the effectiveness of these programmes. Without implementation of a civil service reform programme, these problems remained unaddressed.
- Past TA has partially filled an expertise gap for the EUD and has taken on line function responsibilities instead of advisory capacity functions within the Ministry of Finance.
- A new, even more important programme in terms of funding has been launched in

2014, even though the basic essential constraint of a sound civil service management has not been addressed by the Government.

- A positive sign is that the EU TA programme to support PFM improvement has been made conditional upon the revival of the Improvement Reform Steering Committee (IRSC) which was appointed in 2005 to lead the reform at the highest level but stopped meeting in 2013.

Proposed actions:

- The added value of the on-going TA in the current context should be evaluated; this TA concerns the Ministry of Finance in support of the PFM reform action plan, aid coordination and the NAO. At the same time the validity of launching the other TA components under PRBS2 should be critically re-assessed.
- As advocated above (R2), political dialogue should be used to stress the EU's position on the civil service and the need for an in-depth reform.
- In the area of governance, the EU should continue funding training and governance capacity-strengthening if directed towards CSOs and the Parliamentary committees.
- In order to close the expertise gap within the EUD, a PFM expert could be recruited to advise the EUD (see R3).

R9. The EU should continue to fund NSA in Lesotho, whilst continuing to gradually build their capacity. A review of the EU involvement in decentralisation should be undertaken to consider whether continued support is justified.

The current programme of support for NSA has only been running a little over one year. Based on experience so far, the EU should continue its funding of NSA despite the considerable workload that this brings. NSA are important in Lesotho's development, in service delivery, in advocacy and accountability, especially at this juncture where government services do not provide satisfactory and equitable service delivery.

Progress has been slow with decentralisation and the Government has given mixed messages regarding its commitment. Delays have occurred in disbursing resources, and there appear to be fiduciary risks funding lower levels of Government. A Mid-term Review, as planned by the EUD, is appropriate to consider the full programme, including management of fiscal decentralisation.

Justification: NSA have limited capacity, but also play a valuable role in advocacy, in holding Government accountable and in service delivery. The withdrawal of some international NSA from Lesotho and dependence of some NSA on limited donor funding highlights their fragility, and need for mentoring and support.

Based on: C5 and C9

Decentralisation:

- Decentralisation progress is very slow in Lesotho (started in 1997) and fiscal decentralisation has suffered from delayed release of project funds;
- Government stakeholders flagged fiduciary concerns and lack of effective oversight of fund management at lower levels of Government to the evaluation team;
- Lack of momentum of PFM reforms as identified in C3, 4 and C5;
- Lack of a strong financial management partner following the earlier withdrawal by the World Bank

Proposed actions:

- Continue funding NSA whilst seeking to strengthen their capacity and ensuring their financial sustainability beyond EU support.
- Continue to encourage consortia to form to respond to Calls for Proposals in order to lessen the degree of fragmentation of NSA. This creates some transaction costs for NSA but these are preferable to the alternatives such as funding using a management contractor (as happened under LGNSP).
- Continue to use direct management by the RUD, using a Local Agent; it seems an appropriate way forward providing adequate EUD staffing is maintained.
- Undertake, as a priority, a Mid-Term Review of the decentralisation programme.

6.3 Cross-cutting recommendation on management

R10. Staffing resources in the Delegation should be better adapted to its constraints and its ambitions.

Whereas EU guidelines for staffing are recognised as generally valid, Lesotho presents the particularity of being sole EU representative and of requiring a more regional approach if its cooperation is to be effective. If BS is stopped or scaled back, the alternative of undertaking projects will be resource-intensive. Yet the EUD is barely staffed up adequately for its current mix of instruments. Providing high value-added support to other EU MS is an opportunity for EEAS but is also resource-intensive. From a risk management perspective and opportunity maximization perspective the EU should therefore consider putting additional resources into the EUD. Lastly, more regular and numerous monitoring missions and evaluation missions could help compensate for limited staff numbers.

Justification: Staffing resources are based on worldwide benchmarks and amounts disbursed and number/type of contracts. They need to take account of the Delegation's unique position and its ambition to deepen sub-regional cooperation.

Based on: C10

- It would be a missed opportunity if the EUD were not staffed adequately to handle its important leadership role, given the absence of other EU missions in Lesotho;
- Small delegations are particularly vulnerable to absences such as through ill-health etc., and this has adversely impacted on performance in the past (e.g. in the water sector);
- Whilst TA has a valuable role to play, it still requires oversight by the EUD;
- Recruitment of national staff can be cost-effective.

Proposed actions:

- EU headquarters to provide additional resources, first and foremost a political officer. It could consider applying the 20% cap globally rather than on each officer and Delegation: in many instances, for example in larger EUD with a higher degree of specialization, the 20% cap would be unlikely to be a problem and the Delegation probably undershoots it. By contrast, in Lesotho, given the small size of the EUD and the profile of engagement, it represents a very real restriction. Applying the cap globally would overcome this constraint.
- Adapt staffing of the Delegation to the programmes rather than programmes to staff as seems to have been done in the past.
- Simplify the non-focal sector portfolio and revisit support to decentralisation and justice, both sector being resource-intensive and with uneven GoL commitment.

Decentralisation has high fiduciary risks whilst justice is important and, if possible, could benefit from reinforced support, with a focus on needs-responsive support.

- Ensure that all programmes in small Delegations such as the one in Lesotho are monitored through the ROM so that the Delegation and the stakeholders can access more sector-specific expertise and different views on their challenges.

To conclude the recommendations, the figure below illustrates with a table and a graph the importance of recommendations for improving cooperation effectiveness and sustainability, the urgency of the measures to be taken and the timeline for reaching the result of the recommendations, which translates their feasibility. For example, R7, which advises the EU to push the GoL to implement a programme of civil service reform, is essential to the cooperation's effectiveness and sustainability, it is urgent for the EUD to start discussing this issue at the highest levels of Government, but, at the same time, the civil service reform will probably, considering the upcoming elections and the preparation time needed for such a move (even if such a reform has been in the GoL's drawers for more than 10 years), not materialise in the next year or two.

Figure 8 – Recommendations by priority

Recommendations	Importance	Urgency
R1. Widen the cooperation approach to include sub-regional development cooperation, political dialogue and PSDT	High	High
R2. Prioritise political dialogue on civil service reform, reassess the priorities of the cooperation programme	Essential	Essential
R3. Reconsider the continuation and future use of budget support	Medium	Medium
R4. Future use of budget support should be directed at sector	Medium	Low
R5. Support the fight against the spread of HIV/AIDS	Essential	High
R6. Complete the handover of the social protection system	Medium	Low
R7. Continue supporting the water sector	Medium	Low
R8. Reassess the value added of TA provision; link it to civil service reform implementation	Essential	High
R9. Continue support to NSA; review support to decentralisation	Medium	Low
R10. Review EUD staffing	High	High

Source: ADE