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This action is funded by the European Union

## ANNEX

of the Commission Decision on the financing of the individual measure in favour of the Kingdom of Lesotho

### Action Document for Contribution to the Africa Investment Platform (AIP) for the Lesotho Lowlands Water Development Project - Phase II

<b>1. Title/basic act/ CRIS number</b>	Contribution to the Africa Investment Platform (AIP) for the Lesotho Lowlands Water Development Project- Phase II CRIS number: LS/FED/040-943 Financed under the 11 <sup>th</sup> European Development Fund (EDF)	
<b>2. Zone benefiting from the action/location</b>	Lesotho	
<b>3. Programming document</b>	11 <sup>th</sup> EDF National Indicative Programme (NIP) 2014-2020 for Lesotho	
<b>4. Sustainable Development Goals (SDGs)</b>	SDG 6: Clean Water and Sanitation Other significant SDGs: 1 and 8	
<b>5. Sector of intervention/ thematic area</b>	Water	DEV. Assistance: YES
<b>6. Amounts concerned</b>	Total estimated cost: EUR 199 300 000 Total amount of EDF contribution EUR 41 000 000 This action shall be jointly co-financed with the entity specified in the indicative project pipeline (Appendix) and financed in parallel by the Government and other IFIs. The contribution seeks a financial leverage (i.e. grant / total portfolio) of around 1: 4.9.	
<b>7. Aid modality and implementation modality</b>	Project Modality This action through the Africa Investment Platform shall be implemented in <b>indirect management</b> by the entity selected in accordance with the criteria set out in section 5.4	
<b>8 a) DAC code(s)</b>	140 – Water and Sanitation: 100%: sub-code 1: 14021 Water supply - large systems: 91%; sub-code 2: 14010 Water sector management: 5%; sub-code 3: 14022 Sanitation - large systems: 1%; sub code 4: 14032 Basic sanitation: 1%; sub code 5: 14081 Education & training in water & sanitation: 2%	
<b>b) Main Delivery Channel</b>	Recipient Government 12000 and Public Sector Institutions 10000	

<b>9. Markers (from CRIS DAC form)</b>	<b>General policy objective</b>	<b>Not targeted</b>	<b>Significant objective</b>	<b>Principal objective</b>
	Participation development/good governance	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Aid to environment	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
	Gender equality and Women's and Girl's Empowerment	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Trade Development	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Reproductive, Maternal, New born and child health	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	<b>RIO Convention markers</b>	<b>Not targeted</b>	<b>Significant objective</b>	<b>Principal objective</b>
	Biological diversity	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Combat desertification	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Climate change mitigation	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Climate change adaptation	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
<b>10. Global Public Goods and Challenges (GPGC) thematic flagships</b>	N/A			

## SUMMARY

The 11<sup>th</sup> EDF National Indicative Programme (NIP) 2014-2020 includes water as one of three focal sectors of cooperation, support which will contribute to the implementation of the Lesotho National Strategic Development Plans (NSDP, and its successor NSDP II). The NIP addresses the water sector from the broader perspective of water resources management, water services and climate change adaptation, hence 11<sup>th</sup> EDF support to the water sector will focus in a balanced manner on the resource side and supply side.

The support to the resource side has been addressed through Integrated Catchment Management (ICM), which contributes to water resources, agriculture and the rural economy in Lesotho as well as to Lesotho's adaptation to climate change. The proposed Lesotho Lowlands Water Development Project - Phase II, to which this action contributes, will have a focus on water supply and will be financed through a blending operation, merging an EU grant with loans from International Financing Institutions. Combined with the ICM programme, it will ensure the required balance, with also support to sector coordination, planning and monitoring in both actions.

The specific objectives of the action are water infrastructure development, which will facilitate increased access in designated zones in the Lowlands region of Lesotho to secure, safe and affordable water supplies for rural and urban households, enterprises and industries, creating economic opportunities (with the garment industry an important player) and allow for irrigation of specific crops in agriculture. It will capacitate Government, private sector and civil society to maximise the socio-economic development benefits of water supply without compromising sustainability of ecosystems. The action will further contribute to improving the environment and to adapting to climate change.

The above is in line with the new European Consensus on Development<sup>1</sup>, in particular article 25, which engages the EU and its Member States to support the poorest communities in improving access for all to water, among others. The SADC-EU EPA (Lesotho is a signatory) as ratified in 2016, together with the SADC Trade Free Area, could play an important role in securing sustainable livelihoods, contributing to job creation from sustainable access to safe water, including sanitation, and promoting the concept of shared benefits.

## **1 CONTEXT ANALYSIS**

### **1.1 Context Description**

Lesotho is a least developed country with a population of around 2.1 million people and a small economy. Gross Domestic Product (GDP) is about USD 2.2 billion, with a Gross National Income (GNI) of USD 1 210 per capita<sup>2</sup>. The country is landlocked and entirely surrounded by a single state, South Africa, upon which it is fully dependent and with which economy it is integrated through the Southern African Customs Union (SACU). In addition the Lesotho Loti is pegged to the South African Rand.

Close to 60% of the population in Lesotho live below the poverty line and poverty rates have slightly increased since the beginning of the decade in spite of significant investments by the government and development partners. While poverty is not limited to rural areas (representing around 60% of the population), 80% of the rural population are estimated to depend on subsistence farming, 66% live on degraded lands due to overgrazing and unsustainable land management practices and 35% of rural children are stunted. Climate change is contributing to poor harvests and adding to soil erosion. Lesotho ranks 127 (out of 181) for climate vulnerability, showing a high vulnerability and a low readiness for adaptation. Lesotho's Nationally Determined Contributions (NDC) indicates a decrease in summer precipitation and "diminishing of normally large rivers along with many dams remaining dry for most of the year" as already ongoing trends, expected to intensify in the future. The HIV prevalence of 25.6% is the second highest in the world.

The country has suffered from political and security instability throughout its independence from 1966 but this has intensified since mid-2014. In early 2016, Budget Support under the 10<sup>th</sup> EDF was discontinued due to non-compliance with the general eligibility criteria. Lesotho's new coalition government, elected in June 2017, faces difficult challenges due to external shocks compounded by a fragile political situation. Government remains extremely fragile given a very small majority and consequently struggles to pass reforms recommended by SADC. The implementation of an agreed and inclusive reform roadmap, encompassing constitutional, security, legislative, judicial and public service reforms, is essential if Lesotho is to engage in a process of modernising its economy and overcoming its social problems. The government and the opposition currently have an opportunity to engage in a genuinely inclusive national dialogue leading to a consensus on reforms as a means of preventing instability. SADC has provided a stabilisation force since 2017 to support the reform programme (discontinued in November 2018).

Water is one of the most important natural resources of Lesotho (apart from diamonds) and the water sector encompasses all aspects of life, the economy and the natural environment. The unique geographic location, high altitude and pristine natural quality of the mountain areas position Lesotho as the "Water Tower" of Southern Africa. As such, Lesotho's

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<sup>1</sup> OJ C 210 of 30.6.2017.

<sup>2</sup> <http://data.worldbank.org/country/lesotho>

contribution to the annual run-off in the Orange basin is 40% with only 3% of the basin area. Around 30% of all water supplied by Rand Water in Gauteng Province -14.3 million people, or 25.3% of the total population in South Africa- is supplied through the **Lesotho Highlands Water Project** (LHWP), while up to 40% of the GDP in South Africa is generated in Gauteng Province. South Africa and Lesotho cooperate in the LHWP, a multistage infrastructure project that provides revenue to Lesotho by transferring water from the catchment of the Senqu / Orange River in Lesotho to South Africa's major industrial and population centres in Gauteng Province and which contributes to developing Lesotho's hydropower resources. In 2013 Botswana, Lesotho and South Africa signed a Memorandum of Understanding (MoU) for access to water from Lesotho to alleviate the structural water shortages in Gaborone. A desk study was completed in 2015, while a feasibility study for the **Lesotho-Botswana Water Transfer Project** started in 2017.

Further, access to improved water services is still an issue in Lesotho. The Census 2016<sup>3</sup> revealed that 97% of the urban population has access to improved water services, while this feature counts for 80% of the rural population. The Census report estimated also that only 44% of Basotho are using improved sanitation facilities (around 50% for urban and 34% for rural).

Erosion in the catchment areas of Lesotho is alarming to the level that the traditional herding culture and livelihood of many households is threatened as a result of overgrazing, unsustainable land management practices and indiscriminate mining of woody biomass from hills. Reversing the trend of land degradation will require better planning for sustainable wetland management, as part of Integrated Catchment Management (ICM).

## **1.2 Policy Framework (Global, EU)**

Lesotho has a unique potential in the areas of water and energy both at the national and regional level. The geography and topography of the country, with the highest low-point in the world (at 1400 meters), provide the potential for the country to be the "Water Tower" for large parts of Southern Africa and offer many opportunities for the creation of clean and renewable energy from hydro, solar and wind sources. Apart from the important need for increased and secure access to water within Lesotho, the economic heart of South Africa, the Gauteng Province, is increasingly dependent on Lesotho's water. Studies suggest that Lesotho could also generate through clean energy a major part of South Africa's power needs up to 2030 (whereas Lesotho currently depends on South Africa for energy). At the same time, the importance of promoting actions for combating climate change and erosion are fundamental. The **National Indicative Programme** under the 11<sup>th</sup> EDF addresses the water sector from the broader perspective of water resources management, water services and climate change adaptation. The support focuses in a balanced manner on the resource side and supply side of water.

The resource side has been addressed in the Annual Action Programme (AAP) 2018 through the support to **Integrated Catchment Management** which contributes to secure water resources, enhanced agricultural production and the rural economy in Lesotho, as well as contributing to Lesotho's adaptation to climate change. The proposed **Lesotho Lowlands Water Development Project - Phase II**, to which this action contributes, will have a focus on water supply and will be financed through a blending operation, merging an EU grant with loans from International Finance Institutions (IFI's). Combined with the ICM programme, it

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<sup>3</sup> Household Census 2016 - Bureau of Statistics (BoS), September 2017.

will endure the required balance, with also support to sector coordination, planning and monitoring in both actions.

**Regional Cooperation and Water Diplomacy** should increasingly focus on making best use of the scarce water resources in the region by promoting water efficiency, water quality and catchment management. Tightening the alignment between regional and national programmes will also help in ensuring that the sectors that make most use of water in the ORASECOM<sup>4</sup> countries do so efficiently. In line with the recent EU Council Conclusions on Water Diplomacy, both EEAS and DEVCO have indicated that capacity development among key stakeholders in the region on regional water cooperation should receive more attention in the forthcoming years.

The **UNECE Convention**<sup>5</sup> is since 2018 open to all members of the UN. Lesotho is not yet part of the Convention, while there are many benefits for Lesotho in acceding, in particular the possibility of receiving support in establishing agreements on transboundary water resources or strengthening existing ones, as well as the possibility of learning from experience of other members of the Convention. The Government of Lesotho has recently indicated that it is willing to consider signing up for the Convention.

Investment in water supply will also create economic opportunities for industries and businesses in the project zones. The **SADC-EU EPA**, as ratified in 2016 and with Lesotho as a signatory, together with the **SADC Free Trade Area**, could play an important role in facilitating such increased economic opportunity for Lesotho.

The proposed action responds to the **European Consensus on Development** particularly with the proposed investment in infrastructure, which will support the poorest communities in improving access to water and will create many additional jobs directly and indirectly, and through mobilising and using domestic resources.

### **1.3 Public Policy Analysis of the partner country/region**

The policy goals of Lesotho, as set out in the **National Strategic Development Plan (NSDP)**<sup>6</sup>, the **Lesotho Water and Sanitation Policy (LWSP)** and **Vision 2020**, are still valid and justify the EU water policy support defined in the NIP.

The NSDP aims at reaching Lesotho's development goals set out in the Vision 2020. The Vision 2020 goals are, amongst others, focussing on developing a strong economy and a well-managed environment. This is to be achieved by e.g. boosting economic growth; developing key infrastructure; enhancing the skills base; reversing environmental degradation and adapting to climate change. The NSDP II, currently being finalised, will focus on the following four pillars for the economic growth and development of the nation: Manufacturing, Tourism and Innovation, Technology and Agriculture.

Lesotho's water sector policy framework is relevant and credible. The LWSP (a revision was produced early 2018) is guiding the water sector strategies and planning. The policy addresses the right of access to affordable water services for all Basotho and promotes participatory approaches in planning and management of water resources and services. Policy objectives of the newly defined LWSP - 2018 are to promote adequate and sustainable supply of safe water and sanitation services; coordination and coherence in management and development of water

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<sup>4</sup> ORASECOM stands for Orange - Senqu River Commission. The ORASECOM countries are South Africa, Botswana, Namibia and Lesotho.

<sup>5</sup> The Convention on the Protection and Use of Transboundary Watercourses and International Lakes (Water Convention) aims to protect and ensure the quantity, quality and sustainable use of transboundary water resources by facilitating cooperation: <https://www.unece.org/env/water>

<sup>6</sup> NSDP 2012/2013 – 2016/2017 has been extended and will be succeeded by NSDP II as from 1 April 2019.

and other related natural resources for socio-economic benefits, without compromising sustainability of vital ecosystems; harmonisation of processes and procedures followed by different development partners and other stakeholders in order to optimise available internal and external resources; an enabling environment for achieving the Sustainable Development Goals (with particular reference to SDGs 1, 3, 5, 6, 13, 14 and 15) and development and implementation of ICM.

The LWSP 2007 and the Water Act 2008 formed the foundation for the development of the **Long Term Strategy for Water and Sanitation (LTS)** in 2014, which has been enacted in 2016. Development of both the LWSP and LTS was carried out in a consultative and participatory manner. The LTS is in-line with the recent development of the decentralisation policy and the envisaged roles of Local Councils (LCs) in catchment management and water services.

The action will support both the draft NSDP II and the LTS 2016. Both documents are highly relevant to the water sector, integrating environment and climate change considerations, as expressed in commitments in Lesotho's Nationally Determined Contributions (NDC) of December 2017. Lesotho's National Adaptation Programme of Action (NAPA) highlighted "securing village water supply for communities in the southern lowlands" as one of the priority climate change adaptation measures, and the NDC also emphasises addressing access to water. The action will contribute to the Gender Action Plan II<sup>7</sup>, while it is well aligned to the Lesotho Gender Policy 2003, as well as with the United Nations "2030 Agenda" for Sustainable Development and the SDGs. The Gender Gap Analysis finalised in 2016 also contributed to formulate this Action Document.

The action will contribute to Lesotho's adaptation to climate change, reinforcing the population's resilience to mitigate the risk of natural disasters.

The challenge for NSDP II and the LTS 2016 is in their funding credibility, whether there will be sufficient budget allocated to make both adequate. Both plans have however a performance assessment/monitoring and evaluation framework in place. Part of the action will also be to reinforce institutional capacities of key stakeholders in the sector. Both documents have sufficient attention to the more vulnerable groups in the Basotho society, being also compliant with relevant international commitments on human rights. There is however a key gap relative to women's rights, and overall gender equality. These difficulties have been consistently brought up over the last years.

A **Climate Change Policy** and related Strategy was completed at the end of 2017 by the Lesotho Meteorological Services (LMS) with support from TA provided by EU. A Framework for **Integrated Catchment Management (ICM)** was developed in 2016 by the Ministry of Water, through its Department of Water Affairs (DWA) with EU support. Under the leadership of a National Inter-ministerial Catchment Management Committee (NICMC) a harmonised approach in nationwide implementation of ICM will be applied as from 2019.

#### **1.4 Stakeholder analysis**

Target groups which will be immediately positively affected by the action will be households, industries, businesses and farmers through the provision of safe water. Final beneficiaries, and in essence the right holders of safe water supply, will be the population in the zones where the LWDP will be implemented.

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<sup>7</sup> Gender Equality and Women's Empowerment: Transforming the Lives of Girls and Women through EU External Relations 2016-2020 (SWD(2015)182 final of 21.9.2015).

The key institutions in the water sector in Lesotho, as stakeholders and duty bearers with their responsibilities, are:

- **Ministry of Water:** sector ministry providing policy guidance and oversight over sector institutions;
- **Commissioner of Water (CoW):** planning and coordination of water sector activities;
- **Department of Water Affairs:** monitoring, assessment and allocation of water resources;
- **Department of Rural Water Supply (DRWS):** water and sanitation to local councils and communities not covered by **Water and Sewerage Company (WASCO);**
- **WASCO:** government-owned company responsible for water and sewerage services in major urban areas and for operation of bulk water services;
- **Lesotho Meteorological Services (LMS):** meteorological data collection and weather forecasts. Secretariat for climate change adaptation and mitigation activities;
- **Ministry of Health:** sensitisation on hygiene and sanitation and data collection on water-borne diseases;
- **Lesotho Electricity and Water Authority (LEWA):** regulation of electricity and water services;
- **Lesotho Highlands Development Authority (LHDA):** planning, implementation and operation of water activities in the Highlands, electricity generation and bulk water transfers to Gauteng Province in the Republic of South Africa;
- **Metolong Authority (MA):** Bulk water supply to Maseru region, through Metolong Dam and Water Supply Programme, and environmental and social management plan in the respective catchment areas (dissolved in September 2018);
- **Lesotho Lowlands Water Supply Scheme Unit (LLWSSU):** responsible for design of bulk water schemes for the Lowlands region.

Future developments foreseen in the sector are:

**Bulk Water Authority:** The government is in the process of establishing the **Lesotho Bulk Water Authority (LWBSA)** for asset management in the Water Sector, which, once established will be responsible for the implementation of the Lesotho Lowlands Water Development Project - Phase II as well as to own and manage, operate and maintain the bulk water infrastructure beyond this project. Also the bulk water infrastructure of the Metolong Dam and Water Supply Programme will be handed over to the LWBSA as soon as this Authority has been established.

**Water Institute:** The **National University of Lesotho (NUL)** intends to launch the interdisciplinary Water Institute. Many of NUL's existing programmes and courses have already a component on water but there is little coordination between the disciplines. The Water Institute intends to coordinate interdisciplinary research, education and outreach programmes related to water, and to explore alternative ways of dealing with climate change, population growth and land use changes in order to avert their impacts on water resources.

**Sector Reform:** The focus in reform in the water sector should be on strengthening the capacity of the **Water Commission (WC)** on national level planning, contracting, reporting and supervising the implementation of infrastructure to be developed under the Lesotho Lowlands Water Development Project - Phase II. Specific attention should also be on strengthening of WASCO and the DRWS as service providers in the water sector and on the Department of Water Affairs (DWA) as the coordinating entity for ICM.

## 1.5 Problem analysis/priority areas for support

Historically the supply of water to urban areas in the Lowlands Region of Lesotho has been from river extraction and pumping from underground sources. Increased urban populations and commercial activities in the Lowlands led to increased demand on these resources and water supply facilities. A number of towns in neighbouring South Africa draw water from the same river sources, namely the Mohokare / Caledon River basin, which has added additional strain on scarce resources and has been a major constraint to continued economic growth.

Water is one of Lesotho's most valuable natural assets and is central to the country's long-term growth prospects. The water sector contributes to Lesotho's GDP, and a large portion of this contribution is derived from revenues (representing 3% of GDP) associated with the Lesotho Highlands Water Project (LHWP).

Rising industrial demand for water, rapid urbanisation growth in and around the Maseru Metropolitan Area, and dilapidated infrastructure have steadily increased the pressure on water supply services. Lesotho is also suffering from more extreme and frequent droughts in the Southern Lowlands (Mafeteng District, Mophale's Hoek District, and Quthing District) and the Senqu River Valley region, which are characterised by low levels of rainfall, poor socio-economic indicators, and inadequate water schemes. A more secure infrastructure platform is required to sustain the well-being and economic livelihood of the population to reduce vulnerability to disaster.

The Government of Lesotho established the **Lesotho Lowlands Water Supply Scheme Unit (LLWSSU)** in 2002 to address the chronic shortage of safe water supply to the Lowlands area of the country for socio-economic development, through improving water supply to settlements for domestic, institutional and industrial purposes. The scheme supports the introduction of technically, economically, socially, environmentally, and financially viable, bulk treated water supply systems.

The **Lesotho Lowlands Water Supply Scheme (LLWSS)** was designed in 2008, using funding under the 9<sup>th</sup> EDF for EUR 6 million. The LLWSS identified reliable sources of water for up to year 2035 based on projected domestic and industrial demands. The scheme is a bulk water supply scheme to deliver treated water to supply points and reservoirs where it will be then distributed to individual water supply zones and fulfil projected domestic and industrial demands. The LLWSS has divided the Lowlands area of Lesotho into 8 distinct zones from Botha Bothe to Quthing Districts, covering all settlements with inhabitants of more than 2500 persons and covering all areas including urban, peri-urban and rural settlements.

The LLWSSU, with funding from the World Bank, contracted in 2016 a consultant for the review and update of the 2008 Lesotho Lowlands Water Supply Scheme Detailed Designs. The update took water demands for domestic, agricultural and tourism purposes into consideration. The reduction of non-revenue water and additional sanitation requirements emanating from an increased water supply were also taken into consideration, as well as capacity development requirements to sustainably manage and operate new infrastructure. The Update of the Detailed Designs was completed in July 2018, with zones 2 & 3 (with emphasis on Maseru town) and zones 6 & 7 (with towns Mafeteng and Mophale's Hoek) as priority areas for the next phase of Lowlands Water Supply Scheme (i.e. **Lesotho Lowlands Water Development Project - Phase II**).

The **Metolong Dam and Water Supply Programme (MDWSP)** included a large proportion of zones 4 and 5 of the LLWSS, mainly covering Maseru town and the area north to Teyateyaneng (T.Y.) and south to Morija. The multi-donor funded programme, to which financing the European Investment Bank (EIB) contributed 48% of the total USD 429 million, can be considered the first phase of the Lowlands Water Supply Scheme. Since 2015, the MDWSP is delivering safe drinking water from the Metolong Dam through a distribution



system and several new reservoirs to a population of up to 500 000 people in the towns of Maseru, Roma, Morija and Teyateyaneng (T.Y.).

Lesotho gained already experience with **blending** in the Maseru Waste Water Project phase I (MWWP) and in the MDWSP. The grant provided under the Water Facility in the MWWP (9<sup>th</sup> EDF, EUR 10 million) was covering around 25 % of the total investment (with EIB providing EUR 14.3 million and an additional EUR 18 million provided by the Government of Lesotho).

The grant provided by the Millennium Challenge Cooperation (MCC) in the MDWSP (USD 87 million on a total investment of USDS 429 million) had a similar function, providing 20% of total investment required. Based on these two blending operations in the past, a feasible leverage for the blending in the next phase of LLWSS should therefore be around 1:4.

The **industrial sector** has, over the years, made significant contributions to Lesotho's economy due to the influx of international investors following the signing of the **African Growth and Opportunity Act (AGOA)** in 2000. In recent years, the textile-apparel industry, which is one of the country's largest employers with 44 000 direct jobs, has stagnated reportedly due to water shortages, global economic crisis, inadequate transport connectivity, and trade challenges, which have resulted in the closure of factories. This has led to the decline of the sector's contribution to the GDP from 22% in 2002 to 8.8% in 2015. Since then, the **Lesotho National Development Corporation (LNDC)**, a parastatal agency responsible for facilitating industrial development, has been struggling to find investors to occupy the factory shells, indicating unreliable water supply as one of the main issues. Factory shells in Mafeteng and Mohale's Hoek (i.e. zones 6 & 7) have experienced simultaneous closures of different industries over the past ten years, resulting in the loss of 4 000 jobs. Maputsoe, which is part of zones 2 & 3 and the second largest developed industrial area in Lesotho, is facing critical water supply challenges with only 40% of its water demand being met. Companies have resorted to carry out water consuming processes in South Africa (e.g. cleaning and dyeing garments), increasing operational cost and reducing profits. As textile industries are the major private employer, especially for Basotho women, their closure and resulting unemployment push many people into poverty. The revised Lowlands Water Supply Scheme Socio-Economic study of 2017 showed that just 8% of households in the intended project zones reported their water source as being reliable, which puts the access figures of the Census 2016 (see 1.1) in a different context.

The proposed project, **Lesotho Lowlands Water Development Project - Phase II**, is the next phase of the LLWSS, having zones 2 & 3 and 6 & 7 as its priority zones. The projects have been identified and justified by utilising an objective selection process which scored each project based upon need, relative benefit, value and practical considerations of limiting and enabling factors which would affect the ability to implement and gain benefit from an individual project. The zones were subsequently ranked. Zones 6 & 7 were ranked the highest and zone 2 & 3 were ranked the lowest. However, both zones (packages) are considered a priority generally due to the fact that in addition to supplying water for domestic purposes, they have high industrial activity and potential for growth that will trigger economic growth and create employment. The scores for zones 6 & 7 were driven by the severe impact of droughts in the areas, little access to water resources and limited water security under normal circumstances. The scores for zones 2 & 3 were low, also as a result of the resilience built by the presence of the Lesotho Highlands Water Project which releases water during the droughts. However, there are unmet water demands, particularly in Maputsoe town due to the low capacity of the water works to supply the demand. These scores further reflected that the implementation of bulk supply projects in these zones would have a higher relative positive impact on livelihoods and economic activity than some other areas.

The LWDP will also have to address the issue of **Non-Revenue Water (NRW)** in the designated urban areas in the project zones. The percentage of NRW ranges from 34% for Hlotse and 39% for Maputsoe in zones 2 & 3; to 41% for Mafeteng and 51% for Mohale's Hoek in zones 6 & 7. The figure for Maseru is 40%<sup>8</sup>. Overall WASCO recorded a figure of 44% for NRW over its operational year 2017/2018.

The **11<sup>th</sup> EDF** is proposed to support the water sector in a balanced manner regarding the resource and also supply side of water. There is therefore attention on catchment management in the AAP 2018 and support to water supply via blending through this action. While water in Lesotho is already exported to Gauteng Province through the Lesotho Highlands Water Project and has further potential for export to other neighbours like Botswana (if the right political framework can be agreed), access to water and sanitation within Lesotho, not only at household level but also for the productive sectors like agriculture and industry, remains challenging, a situation to which the LWDP will respond.

## 2 RISKS AND ASSUMPTIONS

Risks	Risk level (H/M/L) <sup>9</sup>	Mitigating measures
Political instability as a result of breakdown of current coalition government. Instability can make sector policy dialogue impossible.	<b>M/H</b>	<ul style="list-style-type: none"> <li>Continued emphasis on political dialogue and diplomacy, underlining the potential negative repercussions of instability on development cooperation. It is expected that this risk will be reduced over time.</li> </ul>
Government effectiveness – e.g. insufficient performance-based sector budgeting, which can affect commitment to performance among office bearers.	<b>M</b>	<ul style="list-style-type: none"> <li>Support to Public Finance Management (PFM) reform, including provision of TA by EU (ongoing);</li> <li>Support to Bureau of Statistics to improve data production (provided under 10<sup>th</sup> EDF).</li> </ul>
PFM – Budget comprehensiveness falling short, insufficient budget discipline, procurement flaws, which can all erode discipline among office bearers.	<b>M</b>	<ul style="list-style-type: none"> <li>Support to PFM reform covering procurement compliance, including provision of TA by EU (ongoing);</li> <li>Support to Civil Service reforms (also supported by World Bank);</li> <li>Scrutiny of public sector wage bill.</li> </ul>
Government not sufficiently prioritising capacity development of key office bearers for planning, supervision, monitoring and evaluation of investments in infrastructure.	<b>L</b>	<ul style="list-style-type: none"> <li>Distinct Component 3 of LWDP will address this issue;</li> <li>Continued awareness raising on benefits at high level, combined with performance targets for staffing and budgets;</li> <li>Raise profile of sector through communication of results.</li> </ul>
Professional capacity in key sectors not adequate for effective utilisation of total funding. Reduced cost efficiency of investments.	<b>M</b>	<ul style="list-style-type: none"> <li>Incentives in employment contracts for attracting scarce skills by the project;</li> <li>Flexibility and mobility for highly experienced staff;</li> <li>Cooperation with universities and training institutions (e.g. NEPAD Southern Africa Network of Water Centres of Excellence) ;</li> <li>Support to professional associations.</li> </ul>

<sup>8</sup> There had been previous initiatives on NRW including one funded by CRIDF which piloted parts of Maseru.

<sup>9</sup> Risk level: H=high, M=medium, L=low.

<b>Risks</b>	<b>Risk level (H/M/L)<sup>9</sup></b>	<b>Mitigating measures</b>
Land acquisition and pipe routes may pose challenges to implementation of LWDP.	<b>L</b>	<ul style="list-style-type: none"> <li>Wayleaves for pipelines identified;</li> <li>Resettlement Action Plan (RAP) developed for acquiring land for permanent access prior to construction.</li> </ul>
Transfer of assets and system knowledge does not get sufficient priority during implementation of LWDP.	<b>M</b>	<ul style="list-style-type: none"> <li>Implementation arrangements provide ample possibility for hands-on training by PIU &amp; PMC to WC / LBWA;</li> <li>Preparation for hand-over will receive ample attention from start of programme.</li> </ul>
Environmental change might arise from poor catchment management compromising water security in the Lowlands zones. This will impact on livelihoods and on the economy of Lesotho, as well as on the whole ORASECOM region.	<b>M</b>	<ul style="list-style-type: none"> <li>Awareness raising at all levels of population. High profile ICM demonstration projects combined with effective communication campaigns (addressed under 11<sup>th</sup> EDF - ICM);</li> <li>Focus on professional capacity for "water science" to enable Lesotho to effectively address catchment management and negotiate strongly for transboundary benefits of improved catchment management (same).</li> </ul>
LWDP has underestimated the impact of climate change on rivers to deliver minimum required discharge leading to water insecurity.	<b>M</b>	<ul style="list-style-type: none"> <li>Construction of the Makhaleng Dam, as part of the Lesotho Botswana Water Transfer Project, will add to the water security in zones 6 &amp; 7.</li> </ul>
<b>Assumptions</b>		
<ul style="list-style-type: none"> <li>Long term benefits are given priority by Government over short-term immediate needs;</li> <li>Continuation of the present political drive for decentralisation;</li> <li>Attracting and retaining professional staff in the government will improve;</li> <li>Continuing coordination takes place in the sector.</li> <li>Efficient coordination set-up is planned and implemented since the beginning for LWDP</li> </ul>		

### **3 LESSONS LEARNT AND COMPLEMENTARITY**

#### **3.1 Lessons learnt**

An end of term review of the **Lesotho Water and Sanitation Sector Programme** under the 9<sup>th</sup> EDF, involving projects such as the 3-towns project and the Maseru Wastewater project under the Water Facility 9<sup>th</sup> EDF, was executed in 2013. The water sector in Lesotho further gained experience with budget support under the 10<sup>th</sup> EDF. The Results-oriented Monitoring (ROM) reporting in 2012 on EU funded water programmes highlighted the following: the need for appropriate budgeting of budget support funds and better understanding of the budget support tool among key government actors; use of outcome indicators to measure results and the importance of realistic indicators; and the importance of the policy and political dialogue in sector budget support implementation.

Unfortunately for the sector, the budget support had to be discontinued in early 2016, due to non-compliance with the 4 general eligibility criteria, with stagnation in PFM reform being a critical one.

The Metolong Dam and Water Supply Programme (MDWSP) has been implemented under the supervision of the **Metolong Authority** (MA), which was the contracting authority on

behalf of the Government of Lesotho. The **Board** of the Metolong Authority acted on a separate **Metolong Act**, enacted for the duration of implementation of the MDWSP. The Board, which started its first meetings in 2008, is composed of representatives of key actors in the water sector, e.g. the Commissioner of Water, the Chief Executive Officer of WASCO, director of Department of Rural Water Supply, further of representatives of the local community and civil society. The latter proved very important during the execution of the Metolong programme, mainly also for building consensus and buy-in among local communities which were affected by the infrastructure works. The Board was supported in its work by committed MA staff, where the Chief Executive Officer played a pivotal role in the overall MA performance. The MA in turn was supported by the **Metolong Programme Management Unit (MPMU)**, contracted under tender to an international consultancy firm. The advantage of having a Board with a clearly defined mandate is that its functioning was hardly affected by the political and security instability, which had intensified since mid-2014, with serious security incidents in 2014 and 2015 and two snap elections in 2015 and 2017 producing new coalition governments. In hindsight, the MA produced quality output along international standards, reasonably well in time and within budget. The downside of the organisational structure was that the hand-over from MA to WASCO, upon completion responsible for operation and maintenance of Metolong infrastructure, and the transfer of system knowledge through hands-on training on the job from MPMU to WASCO proved far more cumbersome than anticipated. In reality, WASCO only became seriously involved towards the end of programme, leading to challenges in the initial operation and maintenance of the Metolong scheme. The Metolong Dam safety responsibility as a result has been delegated in 2016 to the Lesotho Highlands Development Authority (LHDA). The operation of the water treatment plant, the bulk water reservoirs and the conveyor systems by WASCO is currently reasonably up to standard, to even good. Dam Safety, for which WASCO does not have the required capabilities and with LHDA occupied with their own responsibilities to provide the necessary back-up, will require continuous attention.

### 3.2 Complementarity, synergy and donor coordination

The Ministry of Water over the last 10 years headed the **Water Sector Coordination Forum**, with quarterly meetings and annual sector reviews. Participation in the meetings/reviews has improved greatly over the years and includes development partners as well as ministries engaged with the "broader water sector", the private sector and civil society.

Linkages to the 11<sup>th</sup> EDF support to the energy sector and to governance are many and very important for the successful implementation of the 11<sup>th</sup> EDF support to the broader water sector and economic development in general, including for creating and sustaining jobs.

The **linkages to current support to the energy sector** under 11<sup>th</sup> EDF include improved catchment management through promotion of energy efficient household devices (resource side of broader water sector); technical assistance to develop policies, strategies and master plans also for the off-grid sector to enable rural growth and job creation; TA to help restructuring the energy sector to make it more attractive to private sector investments e.g. in energy generation; analyse energy requirements for irrigation, market centres and for cold storage.

The **linkages to the governance** support under 10<sup>th</sup> EDF and 11<sup>th</sup> EDF include the progress in the decentralisation process and capacity in local councils for procurement, contract management and financial management; democratisation at local level to ensure effective and gender sensitive participation at community level including through the Participatory Initiative for Social Accountability (PISA)( executed by GIZ ); capacity for effective parliamentary oversight on planning and financing of the water sector; continued

improvements in Public Financial Management reform and fiscal decentralisation; improvements to the public service conditions and working environment; and awareness raising and communication including access to information and data sharing.

The National EPA Implementation Plan can take opportunities for growth and job creation into account as provided under this blending operation. Technical cooperation would need to be closely coordinated with other Development Partners, like the continued World Bank support to the water sector.

The **Lowlands Rural Water Supply and Sanitation Project (LRWSP)** financed by African Development Bank (AfDB) is supporting the implementation of a Tertiary Lines Project to provide drinking water from the Metolong Dam to rural areas in the districts of Berea and Maseru. The **Five Towns Project**, financed by Arab Bank for Economic Development in Africa (BADEA), will start soon to address water shortages in Botha Bothe and Hlotse located respectively in zones 1 and 2.

## **4 DESCRIPTION OF THE ACTION**

### **4.1 Overall objective, specific objective(s), expected outputs and indicative activities**

The **overall objective** of the action is to contribute to socio-economic development and associated job creation, as well as adaptation to Climate Change in Lesotho.

This supports the National Strategic Development Plan II (NSDP II) which aims at reaching Lesotho's development goals set out in the Vision 2020. These goals are, amongst others, focussing on developing a strong economy and a well-managed environment. The NSDP II with focus on four pillars for the economic growth and development is to be achieved by creating economic growth; developing key infrastructure; enhancing the skills base; reversing environmental degradation and adapting to climate change. The action will also contribute to the implementation of Lesotho's NDC. The EU support to the water sector will specifically address objectives on water and sanitation, agriculture and the rural economy. The action will contribute to improving the environment and to adapting to climate change, while furthering food security through sustainable water resources and utilising opportunities of the green economy, building upon the nexus "water-energy-food security" in Lesotho.

The action will support the implementation of the LWDP by transferring EUR 41 million from the 11<sup>th</sup> EDF to the AIP for the blending operation.

The **specific objectives** of the proposed action are water infrastructure development, which will facilitate increased access in designated zones in the Lowlands to secure, safe and affordable water supplies for rural and urban households, enterprises and industries, as well as having Government, private sector and civil society capacitated to maximise the socio-economic development benefits of water supply without compromising sustainability of ecosystems.

Further information on expected outputs and activities will be provided in the project application form.

### **4.2 Intervention Logic**

A scoping study on water had already identified in early 2015 the areas of attention for support to the water sector under the 11<sup>th</sup> EDF. The 11<sup>th</sup> EDF proposes to support the water sector in a balanced manner regarding the resource and also supply side of water. Providing water of the right quantity and quality in the designated zones will alleviate the current water shortages and improve the lives of the population in the zones and provide for additional access to sanitation facilities. It will create economic opportunities for industries (with the garment industry an important player) and allow for irrigation of specific crops in agriculture.

Both sectors, industry and agriculture, will contribute to economic growth and to job creation, decreasing poverty among the population.

The accompanying component for capacity development among key actors in the sector will ensure that there is capacity to own and manage, operate and maintain the water infrastructure also beyond this project. Further details of the intervention logic will be provided in the project application form.

### 4.3 Mainstreaming

An **Environmental and Social Impact Assessment** (ESIA) report and the associated **Environmental and Social Management Plan** (ESMP) have been completed for comments in November 2018. The ESIA, compliant with both World Bank and EIB Guidelines, has guided the design on a proper understanding of its environmental and social consequences to facilitate protection, restoration and enhancement of the bio-physical and socio-economic environment.

The **ESIA** has not identified any serious flaws which would restrict the development of the proposed bulk water supply infrastructure for zones 6 and 7. The ESIA concluded that the majority of impacts were assessed to be of very low or low negative significance with the implementation of recommended mitigation measures. There are no very high negative residual impacts associated with this project. The moderate residual negative effects of the project arise from the generation of waste during construction, the appropriate management of which is limited by the lack of appropriate local infrastructure to facilitate the application of the waste hierarchy.

The ESIA emphasised the importance of disaggregated data on project beneficiaries (vulnerable groups, gender, climate change vulnerability, income, and youth, etc, for both baselines and targets) with regard to their current social and economic conditions and their views on water and sanitation services.

The **ESMP** provides detailed guidance on the cost-effective mitigation and monitoring measures, as well as the roles and responsibilities of different stakeholders responsible for implementing, monitoring and reporting on the recommended measures. The ESMP will therefore ensure that the environmental and social objectives of the project are met and it is based on the various components of the project throughout design, construction and operational phases. The ESMP makes recommendation for institutional strengthening (including capacity building) and assigns responsibilities for the implementation of enhancement and mitigation measures as well as the completion of the monitoring programmes.

The **Resettlement Action Plan** (RAP) identifies activities that will restrict access or require physical resettlement. The RAP provides also for a detailed action plan for compensation of affected populations. The RAP has already confirmed that the identification of alternatives to avoid the need for resettlement has reduced the potential magnitude of the impact of the proposed project, resulting in only one household to be resettled across both zones 6 and 7.

The situation in Lesotho is unique with higher participation rates in **education** for females, and relatively balanced gender representation at management level. Lesotho is ranked first in Africa and sixteenth in the world on bridging the gap between the sexes and has adopted several gender-sensitive laws. However, societal abuse of women and children and **gender** based violence (including issues related to inheritance) are among the most significant human rights problems in the country. Cultural norms and attitudes continue to reduce women's ability to take advantage from possible opportunities and limit their role as part of the national human capital development. Considering the gender disparity in all spheres of Basotho society and to overcome specific barriers, this action emphasises gender equality as a cross-

cutting issue, promoting equal access to and control over e.g. ecosystem services like water supply and the equitable engagement in management thereof. Through emphasis on equal access to and control over ecosystem services for women and youth, including equitable engagement in the management of clean water and in agricultural production, the action can contribute to the economic and social empowerment of the latter. Specific emphasis will therefore also be placed on balanced representation of women and youth in structures to operate, manage and maintain the infrastructure.

A range of **gender differentiated data** is available in the Bureau of Statistics (BoS) reports e.g. in relation to wealth, education and health, as well as responsibility for collecting water. Generally, detailed gender differentiated data on the access to and use of water supply and sanitation services are not available since the BoS surveys for access to water and sanitation are household based and therefore not person specific. The ESIA has, where possible, filled this gap for the respective project zones.

**Youth** issues will be addressed as cross-cutting theme considering the fact that Lesotho has one of the highest unemployed youth populations in the world. Accordingly, empowerment of the youth will be prioritised in capacity development initiatives.

#### **4.4 Contribution to SDGs**

This intervention is relevant for the United Nations 2030 Agenda for Sustainable Development. It contributes primarily to the progressive achievement of SDG 6, clean water and sanitation, while the action is also contributing to SDG 1, no poverty, and to SDG 8, decent work and economic growth. Ensuring the availability and sustainable management of water and sanitation for demand in the zones will result in more growth and related jobs in the zones, while decreasing poverty among the population.

### **5 IMPLEMENTATION**

#### **5.1 Financing agreement**

In order to implement this action, it is not foreseen to conclude a financing agreement with the partner country.

#### **5.2 Indicative implementation period**

The indicative operational implementation period of this action, during which the activities will be carried out and the corresponding contracts and agreements implemented, is 108 months from the date of adoption by the Commission of this Financing Decision.

Extensions of the implementation period may be agreed by the Commission's responsible authorising officer by amending this Decision and the relevant contracts and agreements.

#### **5.3 Implementation of the budget support component**

N/A

#### **5.4 Implementation modalities**

The Commission will ensure that the EU appropriate rules and procedures for providing financing to third parties are respected, including review procedures, where appropriate, and compliance of the action with EU restrictive measures<sup>10</sup>.

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<sup>10</sup> [www.sanctionsmap.eu](http://www.sanctionsmap.eu) Please note that the sanctions map is an IT tool for identifying the sanctions regimes. The source of the sanctions stems from legal acts published in the Official Journal (OJ). In case of discrepancy between the published legal acts and the updates on the website it is the OJ version that prevails.

#### **5.4.1. Contribution to Africa Investment Platform (AIP)**

This contribution may be implemented under indirect management with the entity, called Lead Finance Institution, and identified in the appendix to this action document. The Lead Finance Institution has been selected using the following criteria: largest contributor in financial terms to the Metolong Dam and Water Supply Programme (MDWSP, also called Lowlands I), largest proposed contributor to the Lesotho Lowlands Water Development Project - Phase II, good track record in implementation of blending operations in Lesotho and in the region, approach in infrastructure projects on cross cutting issues like gender sensitivity, human rights, environmental safeguards and climate change much in line with those of European Commission, availability of the necessary technical expertise for back-up support and vast experience with projects in the water supply sector.

#### **5.5 Scope of geographical eligibility for procurement and grants**

The geographical eligibility in terms of place of establishment for participating in procurement and grant award procedures and in terms of origin of supplies purchased as established in the basic act and set out in the relevant contractual documents shall apply.

The Commission's Authorising Officer responsible may extend the geographical eligibility in accordance with Article 22(1)(b) of Annex IV to the ACP-EU Partnership Agreement on the basis of urgency or of unavailability of products and services in the markets of the countries concerned, or in other duly substantiated cases where the eligibility rules would make the realisation of this action impossible or exceedingly difficult.

#### **5.6 Indicative budget**

<b>Activities</b>	<b>EU contribution (in EUR)</b>	<b>Indicative third party contribution (in EUR)</b>
5.4.1 Contribution to Africa Investment Platform (AIP) <sup>11</sup>	41 000 000	158 300 000
5.9 Evaluation, 5.10 Audit	Covered by contribution to AIP	Covered by third party contribution
5.11 Communication and visibility	Covered by contribution to AIP	Covered by third party contribution
<b>Total</b>	<b>41 000 000</b>	<b>To be decided at a later stage</b>

#### **5.7 Organisational set-up and responsibilities**

The contribution to Africa Investment Platform will be implemented under the governance programme of the EDF blending framework. The Government of Lesotho is committed to set up, in agreement with the lead financial institution, a governance structure to oversee the implementation of the project.

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<sup>11</sup> The contribution to the Africa Investment Platform includes fees, if any, to be paid to the Lead Finance Institution.



The lead financial institution will ensure systematic consultation with the Government of Lesotho, the EU Delegation to Lesotho and the Commission services concerned with regard to procurement and reporting throughout the project's life time.

## **5.8 Performance and Results monitoring and reporting**

The organisational set-up and responsibilities are those put in place in the context of the Africa Investment Platform (AIP).

The contribution will be implemented under the governance of the EDF blending framework with a decision-making process organised on a two-level structure:

- Opinions on projects will be formulated by the Board, held whenever possible back-to-back with EDF Committee meetings;
- Opinions will be prepared in dedicated Technical Meetings, where the project application forms completed by the lead finance institution are assessed.

Activities will be implemented under indirect management by the Lead Financial Institution.

The Lead IFI has the responsibilities for reporting on expected and actual results. This may also for example involve collecting and aggregating data from downstream partners.

The day-to-day technical and financial monitoring of the implementation of this action will be a continuous process and part of the implementing partner's responsibilities. To this aim, the implementing partner shall establish a permanent internal, technical and financial monitoring system for the action and elaborate regular progress reports (not less than annual) and final reports. Every report shall provide an accurate account of implementation of the action, difficulties encountered, changes introduced, as well as the degree of achievement of its results (outputs and direct outcomes) as measured by corresponding indicators. The report shall be laid out in such a way as to allow monitoring of the means envisaged and employed and of the budget details for the action. The final report, narrative and financial, will cover the entire period of the action implementation.

The Commission may undertake additional project monitoring visits both through its own staff and through independent consultants recruited directly by the Commission for independent monitoring reviews (or recruited by the responsible agent contracted by the Commission for implementing such reviews).

## **5.9 Evaluation**

Having regard to the nature of the action, a final evaluation will be carried out for this action or its components via the Lead Financial Institution. It will be carried out for accountability and learning purposes at various levels (including for policy revision).

The evaluation reports shall be shared with the partner country and other key stakeholders. The implementing partner and the Commission shall analyse the conclusions and recommendations of the evaluations and, where appropriate, in agreement with the partner country, jointly decide on the follow-up actions to be taken and any adjustments necessary, including, if indicated, the reorientation of the project.

The financing of the evaluation shall be covered by another measure constituting a financing decision.

### **5.10 Audit**

Without prejudice to obligations applicable to contracts concluded for the implementation of this action, the Commission may, on the basis of a risk assessment, contract independent audits or expenditure verification assignments for one or several contracts or agreements.

The financing of the audits shall be covered by another measure constituting a financing decision

### **5.11 Communication and visibility**

Communication and visibility of the EU is a legal obligation for all external actions funded by the EU. This action shall contain communication and visibility measures which shall be based on a specific Communication and Visibility Plan of the action, to be elaborated at the start of implementation.

In terms of legal obligations on communication and visibility, the measures shall be implemented by the Commission, the partner country, contractors, grant beneficiaries and/or entrusted entities. Appropriate contractual obligations shall be included in, respectively, the financing agreement, procurement and grant contracts, and delegation agreements.

The Communication and Visibility Requirements for European Union External Action (or any succeeding document) shall be used to establish the Communication and Visibility Plan of the action and the appropriate contractual obligations.

## APPENDIX - INDICATIVE PROJECT PIPELINE

Project Title	Lead Financing Institution	Partner country	Sector	Operational concept	Instruments	Grant amount from NIP (in million EUR)	Size Total Investment LWDP (in million EUR) <sup>12</sup>	Financial Leverage Total portfolio / grant
Contribution to AIP for Blending Operation Lesotho Lowlands Water Development Project - Phase II	EIB	Lesotho	Water /water supply	The EU grant will be used to blend with a loan from the EIB, while there is parallel financing to the project from the Government (approx EUR 10.2 million) and the World Bank (approx EUR 67.1 million)	Investment Grant	41	199.3	4.9 (199.3/41)

<sup>12</sup> Based on exchange rate applied by EIB as per November 2018.