

**Document of
The World Bank**

Report No.: 54359

PROJECT PERFORMANCE ASSESSMENT REPORT

LESOTHO

**HIGHLANDS WATER PROJECT, PHASE 1B
(LOAN 4339-LSO)**

**COMMUNITY DEVELOPMENT SUPPORT PROJECT
(CREDIT 3308-LSO)**

May 4, 2010

*Sector Evaluations (IEGSE)
Independent Evaluation Group (World Bank)*

Currency Equivalents (annual averages)

Currency Unit = Lesotho Maloti (LSL)

1998	US\$ 1.00	LSL 5.55	2004	US\$ 1.00	LSL 6.46
1999	US\$ 1.00	LSL 6.12	2005	US\$ 1.00	LSL 6.38
2000	US\$ 1.00	LSL 6.94	2006	US\$ 1.00	LSL 7.98
2001	US\$ 1.00	LSL 8.62	2007	US\$ 1.00	LSL 7.07
2002	US\$ 1.00	LSL 10.53	2008	US\$ 1.00	LSL 8.28
2003	US\$ 1.00	LSL 7.57			

Abbreviations and Acronyms

BOS	Bureau of Statistics
CAS	Country Assistance Strategy
CDD	Community Driven Development
CDSP	Community Development Support Project
CWIQ	Core Welfare Indicators Questionnaire
FY	Financial Year
GTZ	Deutsche Gesellschaft für Technische Zusammenarbeit
IBRD	International Bank for Reconstruction and Development
ICR	Implementation Completion Report
IEG	Independent Evaluation Group
ISR	Implementation Status and Results Report
LHDA	Lesotho Highlands Development Authority
LFCD	Lesotho Fund for Community Development
LHRF	Lesotho Highlands Revenue Fund
LHWC	Lesotho Highlands Water Commission
LHWP	Lesotho highlands water program
LHWP-1A	Lesotho Highlands Water Project – Phase 1A
LHWP-1B	Lesotho Highlands Water Project – Phase 1B
LIL	Learning and Innovation Loan
MU	Management Unit
PAD	Project Appraisal Document
PPAR	Project Performance Assessment Report
TCTA	Trans Caledon Tunnel Authority

Fiscal Year April 1 – March 31

IEGWB Mission: Enhancing development effectiveness through excellence and independence in evaluation.
About this Report

The Independent Evaluation Group assesses the programs and activities of the World Bank for two purposes: first, to ensure the integrity of the Bank's self-evaluation process and to verify that the Bank's work is producing the expected results, and second, to help develop improved directions, policies, and procedures through the dissemination of lessons drawn from experience. As part of this work, IEGWB annually assesses about 25 percent of the Bank's lending operations through field work. In selecting operations for assessment, preference is given to those that are innovative, large, or complex; those that are relevant to upcoming studies or country evaluations; those for which Executive Directors or Bank management have requested assessments; and those that are likely to generate important lessons.

To prepare a Project Performance Assessment Report (PPAR), IEGWB staff examine project files and other documents, interview operational staff, visit the borrowing country to discuss the operation with the government, and other in-country stakeholders, and interview Bank staff and other donor agency staff both at headquarters and in local offices as appropriate.

Each PPAR is subject to internal IEGWB peer review, Panel review, and management approval. Once cleared internally, the PPAR is commented on by the responsible Bank department. IEGWB incorporates the comments as relevant. The completed PPAR is then sent to the borrower for review; the borrowers' comments are attached to the document that is sent to the Bank's Board of Executive Directors. After an assessment report has been sent to the Board, it is disclosed to the public.

About the IEGWB Rating System

IEGWB's use of multiple evaluation methods offers both rigor and a necessary level of flexibility to adapt to lending instrument, project design, or sectoral approach. IEGWB evaluators all apply the same basic method to arrive at their project ratings. Following is the definition and rating scale used for each evaluation criterion (additional information is available on the IEGWB website: <http://worldbank.org/ieg>).

Outcome: The extent to which the operation's major relevant objectives were achieved, or are expected to be achieved, efficiently. The rating has three dimensions: *relevance*, *efficacy*, and *efficiency*. *Relevance* includes relevance of objectives and relevance of design. Relevance of objectives is the extent to which the project's objectives are consistent with the country's current development priorities and with current Bank country and sectoral assistance strategies and corporate goals (expressed in Poverty Reduction Strategy Papers, Country Assistance Strategies, Sector Strategy Papers, Operational Policies). Relevance of design is the extent to which the project's design is consistent with the stated objectives. *Efficacy* is the extent to which the project's objectives were achieved, or are expected to be achieved, taking into account their relative importance. *Efficiency* is the extent to which the project achieved, or is expected to achieve, a return higher than the opportunity cost of capital and benefits at least cost compared to alternatives. The efficiency dimension generally is not applied to adjustment operations. *Possible ratings for Outcome:* Highly Satisfactory, Satisfactory, Moderately Satisfactory, Moderately Unsatisfactory, Unsatisfactory, Highly Unsatisfactory.

Risk to Development Outcome: The risk, at the time of evaluation, that development outcomes (or expected outcomes) will not be maintained (or realized). *Possible ratings for Risk to Development Outcome:* High, Significant, Moderate, Negligible to Low, Not Evaluable.

Bank Performance: The extent to which services provided by the Bank ensured quality at entry of the operation and supported effective implementation through appropriate supervision (including ensuring adequate transition arrangements for regular operation of supported activities after loan/credit closing, toward the achievement of development outcomes. The rating has two dimensions: quality at entry and quality of supervision. *Possible ratings for Bank Performance:* Highly Satisfactory, Satisfactory, Moderately Satisfactory, Moderately Unsatisfactory, Unsatisfactory, Highly Unsatisfactory.

Borrower Performance: The extent to which the borrower (including the government and implementing agency or agencies) ensured quality of preparation and implementation, and complied with covenants and agreements, toward the achievement of development outcomes. The rating has two dimensions: government performance and implementing agency(ies) performance. *Possible ratings for Borrower Performance:* Highly Satisfactory, Satisfactory, Moderately Satisfactory, Moderately Unsatisfactory, Unsatisfactory, Highly Unsatisfactory.

Contents

Principal Ratings	v
Key Staff Responsible.....	vi
Preface.....	vii
Summary	ix
1. The Water and Rural Sectors in Lesotho's Economy	1
Poverty and economic growth in Lesotho	1
The two projects	2
2. LHWP-1B's Objectives and Implementation	3
Objectives and Design	3
Institutional Arrangements.....	4
Implementation	5
Safeguards.....	6
Monitoring and Evaluation	6
Accounts and audit.....	7
3. Ratings for LHWP-1B	8
Outcome	8
Relevance	8
Efficacy	9
Efficiency	16
Risk to Development Outcome	16
Bank Performance.....	17
Borrower Performance	18
4. CDSP's Objectives and Implementation	18
Objectives and Design	18
Institutional Arrangements and Implementation	20
Safeguards.....	21
Monitoring and Evaluation	21
Accounts and audit.....	22
5. Ratings for CDSP.....	22
Outcome	22
Efficacy	25
Efficiency	29
Risk to Development Outcome.....	29

Bank Performance.....	30
Borrower Performance.....	31
6. Lessons.....	31
Annex A. The Lesotho-South Africa Water Treaty.....	34
Annex B. Unfinished resettlement.....	38
Annex C. Well handled environmental initiatives.....	44
Annex D: The quality and effectiveness of Bank support to implementing safeguards.....	46
Annex E. Basic Data Sheet.....	50

Principal Ratings

LESOTHO HIGHLANDS WATER PROJECT – PHASE 1B

	<i>ICR*</i>	<i>ICR Review*</i>	<i>PPAR</i>
Outcome	Satisfactory	Moderately Satisfactory	Moderately Satisfactory
Risk to Development Outcome	Low or negligible	Moderate	Moderate
Bank Performance	Satisfactory	Satisfactory	Moderately Satisfactory
Borrower Performance	Moderately Satisfactory	Moderately Satisfactory	Moderately Satisfactory

* The Implementation Completion Report (ICR) is a self-evaluation by the responsible Bank department. The ICR Review is an intermediate IEGWB product that seeks to independently verify the findings of the ICR.

COMMUNITY DEVELOPMENT SUPPORT PROJECT

	<i>ICR*</i>	<i>ICR Review*</i>	<i>PPAR</i>
Outcome	Highly Unsatisfactory	Unsatisfactory	Unsatisfactory
Institutional Development Impact**	Negligible	Negligible	–
Risk to Development Outcome	–	–	Significant
Sustainability***	Highly Unlikely	Non-evaluable	–
Bank Performance	Unsatisfactory	Unsatisfactory	Highly Unsatisfactory
Borrower Performance	Highly Unsatisfactory	Unsatisfactory	Highly Unsatisfactory

* The Implementation Completion Report (ICR) is a self-evaluation by the responsible Bank department. The ICR Review is an intermediate IEGWB product that seeks to independently verify the findings of the ICR.

Key Staff Responsible

LESOTHO HIGHLANDS WATER PROJECT – PHASE 1B

<i>Project</i>	<i>Task Manager/</i>	<i>Division Chief/ Sector Director</i>	<i>Country Director</i>
Appraisal	John Roome	Jeffrey Racki	Pamela Cox
Completion	Andrew Macoun	Jaime Biderman	Ritva Reinikka

COMMUNITY DEVELOPMENT SUPPORT PROJECT

<i>Project</i>	<i>Task Manager/</i>	<i>Division Chief/ Sector Director</i>	<i>Country Director</i>
Appraisal	Norbert O. Mugwagwa	Ruth Kagia	Pamela Cox
Completion	Hope Phillips Volker	Dzingai Mutumbuka	Fayez Omar

Preface

This is the Project Performance Assessment Report of two projects in the Kingdom of Lesotho: the Lesotho Highlands Water Project-Phase 1B (LHWP-1B) and the Community Development Support Project (CDSP).

The LHWP-1B was approved on June 4, 1998 financed by an IBRD Loan (Loan 4339) of \$45.0 million. There were three part cancellations of the Loan, amounting to \$22 million overall. The Bank loan contributed to a planned combined lending package to the project of \$858 million from a consortium of financiers. The project was closed on December 31, 2006, two years behind schedule. At closure \$21.7 million of the Bank loan had been disbursed and total lending from the consortium was \$620 million. The CDSP was approved on December 20, 1999 financed by an IDA Credit (Credit 3308) of \$4.7 million. At closure as scheduled on September 30, 2003, \$2.5 million equivalent had been disbursed. An amount of \$1.8 million was cancelled in June 2003.

This report presents findings based on review of the projects' implementation completion reports, appraisal reports, legal documents, sector reports, and other relevant material. An IEG mission to Lesotho in April 2009 visited project sites and held discussions with government officials and agencies, project directors and staff, beneficiaries and resettled communities, NGOs, and key development agencies. For purposes of evaluating water sharing arrangements between Lesotho and South Africa, representatives from user and financing agencies in South Africa were also consulted.

The projects were chosen for evaluation together for two reasons. First, while very different in nature – major infrastructure under LHWP-1B compared with community driven development of small village investments under CDSP – they were closely linked by the Government of Lesotho and the World Bank in a complementary development package. LHWP-1B's role was to create the infrastructure required to impound and convey water to South Africa in exchange for royalty payments. CDSP's intended role was to reformulate the Lesotho highlands revenue fund to increase its effectiveness for poverty alleviation using participatory development processes. Between them, the projects were to generate and use revenues to tackle Lesotho's most critical need – poverty alleviation. How these aspirations worked out provides a rich source of lessons for future development in Lesotho and elsewhere.

Second, the evaluation provides case study material for an ongoing IEG review of the Bank's experience with environmental and social safeguards. The projects triggered a diverse group of such safeguards, from environmental and social issues to international waters, dam safety, natural habitats and other matters. Experience varied from good to problematic, generating a variety of lessons for future handling of safeguards.

Following standard IEG procedures, copies of the report were sent to the Kingdom of Lesotho for review but no comments were received.

Summary

The Lesotho Highlands Water Project-Phase 1B (LHWP-1B) and the Community Development Support Project (CDSP) were structurally very different, the former involving major infrastructure investments and the latter small community investments. Yet they were linked to a common cause – the generation of revenues (royalties) from water sales to South Africa under LHWP-1B and the allocation of those royalties under CDSP to the poor through a social fund using community development processes. This combined contribution was seen by the Government of Lesotho and the World Bank as a partnership at the heart of Lesotho's development strategy, which was and remains strongly focused on poverty alleviation. Average per capita income is low (\$1030 in 2008). Moreover, Lesotho's income distribution is one of the most unequal in Africa, with some 60 percent of the population classified as poor.

The Lesotho Highlands Water Project-Phase 1B was a second investment phase of a large and still ongoing water development program to capture and transport surplus water from Lesotho to South Africa. The LHWP-1B's objectives were: (i) "to put in place the physical and managerial capacity for Lesotho to transform its principal natural resource of abundance – water – into export revenues that can be applied to poverty reduction and economic stability while: (a) protecting the environment and mitigating any adverse social and environmental impacts; and (b) maximizing the local development spin-offs of the project in Lesotho; and (ii) to assist South Africa in developing its lowest cost alternatives for supply of water to the Gauteng Region." The project's primary activity was construction of a large dam and conveyance tunnels. Supporting this was institutional capacity building, a resettlement program for 418 families affected by the project, and environmental mitigation actions. These investments were to establish the infrastructure that would earn royalties to finance poverty reduction. Total project costs at completion were \$629 million, of which the Bank financed \$29.7 million (including residual amounts of \$8.0 million from the loan provided for the previous project, LHWP-Phase 1A).

LHWP-1B had a *moderately satisfactory* outcome overall. The project's objectives were substantially relevant, given that additional revenues for poverty reduction were a clear need. The project's design was also relevant. Providing the physical and managerial infrastructure for water exports would provide royalties that could be used for poverty alleviation. Continuing to use the existing institutional base backed by a proven and well functioning water treaty between the two countries also made sense. The most successful project component was the construction of the water infrastructure (73 percent of actual project costs). This was completed to good standards and ahead of schedule, and water deliveries and royalty earnings met their targets. But there were shortfalls in training for staff in Lesotho's implementing agency and in the resettlement program. Most fundamentally, while LHWP-1B generated revenues that could have been used for poverty alleviation, CDSP's fund failed to use those royalties for this purpose.

The project's economic rate of return as estimated at project completion (about 12 percent) was based on lower effective demand for water from South Africa than initially expected, compounded by the global economic downturn. However, in the longer term, demand for water will be spurred by demographic and economic growth and can be expected to increase significantly. The risk that the project's development outcome will not be maintained is

moderate, as both governments want the treaty and water transfer program to work and can be expected to take measures as needed to ensure continued good operations.

Monitoring and evaluation is assessed as modest overall. Management information to follow the progress of the project was well collected and used. Monitoring of environmental impacts was also good, but socio-economic monitoring and evaluation was weak. Data that were collected attracted little interest from the agencies' operational staff, and there was no follow-up to the findings.

The Bank's performance was moderately satisfactory. Quality varied. The design and supervision of capacity building and resettlement were weak, a critical gap in attention to poverty concerns, while the Bank's performance was strong in the provision of water infrastructure and as an informal coordinator and motivator of a large consortium of development agencies and private investors. The Bank's inter-agency and inter-country facilitation role and its technical assistance have been the most important qualities it brought to the project, out of all proportion to the Bank's small (5 percent) share of total project costs. The borrower's performance was moderately satisfactory: management of the construction program was outstanding, yet there were weaknesses with resettlement and capacity building and, as with the Bank, there was little attention to how royalty funds were used.

The Community Development Support Project was a Learning and Innovation Loan of \$4.7 million with a planned government contribution of \$5.7 million. The project was designed to pilot community-driven development approaches for financing village infrastructure targeted on poorer communities. CDSP's objectives were: "(i) to test a demand-driven and participatory approach through a multi-sectoral special fund and draw lessons as to whether it is an appropriate mechanism to support community development in Lesotho; and (ii) to test various mechanisms and tools to monitor poverty trends in Lesotho and to coordinate national poverty monitoring and analysis activities." The first objective was to be funded by the royalties from LHWP-1B. To do this, an existing social fund was restructured. The restructured fund – the Lesotho Fund for Community Development (LFCD) – was to have a Board of Directors to be chosen from government civil servants and beneficiaries, and a management unit with the technical units and specialists needed. An operational manual produced during project preparation was to guide the community driven, pro-poor and transparent participatory processes used in selecting and guiding implementation of small social infrastructure sub-projects (such as a village water scheme, training center, and footbridge). These would be chosen by the communities who would contribute a share of investment costs. To achieve the second objective, a program for testing and coordinating new ways of monitoring poverty would be implemented under the Bureau of Statistics.

From Government letters, workshops and actions such as the establishment of the LFCD before Board approval of CDSP, there appeared to be good government commitment to the participatory community-driven approach. However, this was not to be the case in practice. Almost immediately, the project went seriously off track due to the influence of political vested interests. The LFCD's Board became dominated by ministers rather than technocrats and stakeholders, thus introducing a strong political element. The operational manual and community driven development approaches were abandoned. Key operational divisions in the fund's management unit were not established. There was no monitoring and evaluation, despite this being an essential part of a Learning and Innovation project. Parliamentarians were given license

to select projects to fit their own constituency interests and royalties were used to finance politically chosen and non-participatory investments. Thus, the original purpose of the project was lost.

CDSP's outcome was *Unsatisfactory*. The highly unsatisfactory performance of the project's community development program was partly compensated by satisfactory performance of the national poverty monitoring component. The community-driven development program was relevant in its objectives, but its design failed to identify the risk of political capture despite similar prior experience with LFCD's precursor fund. The objective to test community-driven approaches was not achieved, as the project was overwhelmed by a supply-side approach without documentation, workshops, and other learning processes.

Risk to development outcome is significant because, although national poverty monitoring is continuing and is supported by Government (only a moderate risk), the community-driven development program supporting the project's primary objective failed, manifesting its high risk. Monitoring and evaluation, a particularly important need with a Learning and Innovation Loan, was negligible for community development as no evaluation program was prepared, an M&E unit was not established and no data were collected on the performance of the sub-projects. The Bank's performance was highly unsatisfactory, as it failed to address the political capture problem until it was too late. The borrower's performance was also highly unsatisfactory, as it did not prevent the political dominance of the project and it obstructed adequate staffing and functioning of the LFCD's management unit.

The program as a whole. The two projects formed a necessary partnership: CDSP relied on LHWP-1B royalties and LHWP-1B needed CDSP to use the royalties for poverty alleviation. The partnership was only mechanical, however: funds were provided by LHWP-1B, but there was no organizational linkage between the two projects and the leverage of the much larger LHWP-1B was not applied when special interests corrupted the social fund. A practical, mutually supporting approach would have been better. For instance, the LHWP-1B royalties channeled to the social fund could have been conditional on the acceptability of community development processes used by CDSP; the projects could have had joint monitoring arrangements; impacts on poverty alleviation could have been included in the monitorable indicators; and the projects could have been supervised jointly, with poverty alleviation as an emphasis.

This assessment also illustrates that infrastructure projects require more than "hardware." LHWP-1B's construction program and closely linked activities such as management of water between Lesotho and South Africa were satisfactory. But "software" activities such as resettlement and capacity building were less well done, pulling down the project's ratings. Thus, from a broader perspective than provided in LHWP-1B's objectives (which were restricted to providing funds that "can" be used for poverty alleviation), a successful construction program did not lead to a successful development program. Finally, this review reveals several pointers for the handling of safeguards, which are included in the lessons outlined below.

Principal Lessons:

- *A successful construction program does not necessarily mean a successful development program. Attention is needed to the full objectives of a project, including “software” as well as “hardware.”* LHWP-1B’s successful water infrastructure program will be a main pillar in Lesotho’s development program for decades to come. But the royalties did not go to poverty reduction, the project’s most fundamental objective. Also, while LHWP-1B was strong in all aspects related directly to construction (engineering, physical works and water delivery), it performed weakly in software aspects (capacity building, training and resettlement).
- *Lesotho and South Africa’s “Good Practice” Water Treaty has features that may be relevant elsewhere.* The following features have contributed to success: (i) clarity and detail in the treaty document, including procedures for adjusting to changing circumstances; (ii) appropriate institutions – a bridging institution has worked well in coordinating actions between the two countries; (iii) focused objectives; and (iv) independent dispute resolution mechanisms within the institutions themselves. The Bank’s 20-year engagement providing technical and policy support, and as a motivator for the financial involvement of other lenders, also contributed to the treaty’s success.
- *Safeguards implementation should not be given second-tier priority, but should receive the same attention as the main project components. Successful implementation of a safeguard program requires the same design and supervision qualities as other project components.* Compliance with a safeguard requires a range of skills and resources very familiar to Bank project operations in general: a good action plan; readiness for implementation; good supervision, including relevant specialist skills; highlighting the safeguard’s importance in dialogue with Government; building implementation capacity; and monitoring. Implementation of the safeguard actions should have no less priority than other key project components. There is likely to be a cost, however, since such quality actions would tend to increase staff resource needs and would require additional Bank budget.

Vinod Thomas
Director-General
Evaluation

1. The Water and Rural Sectors in Lesotho's Economy

Poverty and economic growth in Lesotho

1.1 Natural Resources. Development in the Kingdom of Lesotho must contend with the country's small size, limited resources, rugged terrain, and poverty. Lesotho's population is about 2.2 million, and land area is some 30,000 km². About 70 percent of the population is rural, and one-third lives in the mountains. Two-thirds of the country is mountainous and the remaining land is often degraded due to overuse. Cultivable land is scarce, occupying only 10 percent of the country's land area, and farms tend to be small. Rangelands in the hills are also degraded due to overgrazing. Population pressure on the land is thus high and is exacerbated by population growth estimated at nearly 1 percent per annum, a significant growth rate given Lesotho's constraining land resources. However, the high prevalence of HIV/AIDS (one quarter of the adult population are infected) has introduced a new dynamic.¹

1.2 Sources of economic growth. Agriculture is the source of most employment in Lesotho, but has low productivity, and land constraints limit the sector's growth. Lesotho produces only 30 percent of its food consumption. Efforts to diversify agriculture were made in the 1990s and 2000s, but with limited success, although some high-value commercial production and processing is taking place. Garment production has grown during the past decade, and this and other industries may be key to future economic growth and employment. The main job opportunities, however, have been from working in the mines in the Republic of South Africa. A significant proportion of Lesotho's male population is employed in the mines, and remittances back to families from the workers represent about 20 percent of Lesotho's gross national income. There are other income connections between the two countries, since South Africa encircles Lesotho, and commercial and cultural interactions are inevitably close. These connections make Lesotho vulnerable to changing economic conditions such as the present global recession and its effect on reducing demand for commodities, as downturns reduce job opportunities in the mines and the amount of remittances.

1.3 Poverty and economic growth. At the time when the assessed projects were prepared, (the late 1990s), Lesotho's GDP growth rate was low, averaging less than two percent per annum.² Performance improved slightly in the early 2000s when GDP growth averaged slightly over 3 percent per annum, nudged up by an expanding manufacturing sector,

¹ A devastating accompaniment to working on the mines has been the spread of HIV/AIDS. The all-male labor camps attracted prostitution and widespread transmission of the virus. HIV/AIDS was then transmitted to the wives of the miners on their return home. HIV/AIDS is a major epidemic in Lesotho. According to the 2006 CAS, some 24 percent of the adult population has HIV/AIDS, making Lesotho the country with the highest prevalence of HIV/AIDS amongst all IDA countries. Also, the prevalence of HIV/AIDS is higher among women than men. In addition to the loss of life and the emotional stress that this pandemic causes, burial costs and the loss of productive family members can lead to severe impoverishment. HIV/AIDS also saps the efficiency of government agencies and the commercial sector through loss of skilled human resources.

² Lesotho Country Assistance Strategies, 1998 and 2006 (Real annual growth rates of GDP at market prices).

especially textiles. GDP per capita, however, remains low (\$1030 in 2008³). Moreover, the distribution of Lesotho's income is one of the most unequal in Africa. Some 60 percent of the population are poor, and a third are in extreme poverty. The poverty incidence is 72 percent in rural areas compared with 27 percent in Maseru, the capital.⁴

The two projects

1.4 The projects assessed in this report are the Lesotho Highlands Water Project- Phase 1B and the Community Development Support Project.

1.5 The Lesotho Highlands Water Project-Phase 1B (LHWP-1B) was a large investment phase of a yet larger and still ongoing water development program to impound and transport surplus water from Lesotho to South Africa, in exchange for royalties provided by South Africa to Lesotho. This program is underpinned by a water treaty ratified by the two countries in 1986, which provides a cooperative framework for water investments, operations and establishing royalties.

1.6 Two Bank-assisted projects preceded LHWP-1B. The first – the Highlands Water Engineering Project (FY87; approved in December 1986 and closed in December 1990) – financed planning for the overall water development program, including detailed design for the first investment phase. This first investment was supported by the Bank through the Lesotho Highlands Water Project-Phase 1A (FY92; approved in July 1991 and closed in March 1999). Phase 1A, costing about \$2.5 billion,⁵ primarily comprised constructing two dams for impounding water in Lesotho and some 80 km of tunnels to enable transfer of the water to South Africa. The infrastructure was successfully completed, delivering water to South Africa at 18 m³ per second, as planned. Phase-1A also financed detailed designs for the second phase of the water program - LHWP-1B (FY98; approved in March 1998 and closed in December 2006), the subject of this review.

1.7 The Community Development Support Project (CDSP) was to test how to use the royalties from LHWP-1B to finance a social fund supporting small, mostly rural investments. The investments were to be chosen and implemented with substantial community participation, and to be targeted on poor communities. As indicated above, reaching the poor, especially in the rural highlands where the population is particularly impoverished, is a fundamental need in Lesotho. A community driven development (CDD) approach was considered the best way to achieve this. CDSP set out to use an existing fund – the Lesotho Highlands Revenue Fund which had been established in 1991 – as the base institution for financing and providing technical assistance to the communities. This fund, however, had become highly corrupted and influenced by politicians and other vested interests. The Bank

³ Source: World Development Indicators database, World Bank, April 2009

⁴ Country Economic Memorandum, 2005, World Bank.

⁵ LHWP-1A was financed by a consortium of lenders including the United Nations Development Program, African Development Bank, European Union, European Investment Bank, Development Bank of Southern Africa, Commonwealth Development Corporation, commercial banks, and export credits. The IBRD's contribution was \$69 million out of a planned \$110 million. The Bank also played a convening role for lenders and the Lesotho Government.

recognized that the fund would need to be substantially reformulated including new guidelines on selecting and approving sub-projects, building capacity to provide technical assistance to communities, and institutional restructuring to provide the skills and mechanisms to be effective. Measures towards these objectives were taken during project preparation, and the fund was also re-named as the Lesotho Fund for Community Development (LFCD).

1.8 The complementary roles of the two projects. Bank and Government strategy statements have consistently articulated a close link between LHWP-1B and CDSP. Royalties from LHWP-1B were to finance poverty alleviation through CDSP. The Government and the Bank shared the same vision. The two projects would be mutually supportive and would play a key role in Lesotho's development, especially in tackling poverty. Thus, as stated in the project appraisal document for LHWP-1B, "The revenues provided by the project are Lesotho's best opportunity to reduce poverty which is supported by ongoing economic and sector work and the proposed Poverty Reduction Project LIL, 1998. The FY98 Country Assistance Strategy stated that: "The Bank used its support for the Lesotho Highlands Water Project (LHWP-1A) to assist the Government to formulate and implement a rural development program and to explore means to maximize the poverty reducing impact of the project. The proposed Social Fund Project (i.e. CDSP) would support the strengthening of the social fund mechanism by building institutional capacity for delivering services to the poor." Government's Poverty Reduction Strategy (2005) also stressed poverty alleviation and the linkage through royalties between LHWP-1B and CDSP. Poverty reduction is, moreover, a central theme in other Government and Bank documents.⁶

2. LHWP-1B's Objectives and Implementation

Objectives and Design

2.1 The objectives of the Lesotho Highlands Water Project-Phase 1B were: (i) *to put in place the physical and managerial capacity for Lesotho to transform its principal natural resource of abundance – water – into export revenues that can be applied to poverty reduction and economic stability while (a) protecting the environment and mitigating any adverse social and environmental impacts; and (b) maximizing the local development spin-offs of the project in Lesotho; and (ii) to assist South Africa in developing its lowest cost alternatives for supply of water to the Gauteng Region* (Project Appraisal Document). The Loan Agreement contains an abbreviated version of the first Development Objective as stated in the PAD, and does not include the second Objective. The PAD version, including its second objective, is used in this assessment because it best represents the intent of the project as discussed in the text of the PAD.

2.2 Project components of LHWP-1B were concentrated on the physical activities needed to achieve the project's water export objective plus related supporting activities. Construction

⁶ As in Government's "Strategic Economic Options Report" (1997) and Poverty Reduction Strategy (2005), and in the Bank's 2005 Country Economic Memorandum and 2006 Country Assistance Strategy.

of infrastructure (mainly a dam at Mophale in the highlands and some 30 km of tunnels for water transport) was the primary project component accounting for \$378 million or 60 percent of total actual costs.⁷ Other components were consultancies for design and supervision of construction, an environmental and social action plan, and training and capacity building. The total project cost of LHWP-1B was estimated at \$884 million, and the Bank Loan was \$45 million, all for training and consultancies. A credit would normally be provided for Lesotho given its low per capita income, but a loan was chosen because of the commercial nature of investment and financing for LHWP-1B. LHWP-1B was financed by a consortium of lenders which together were to finance \$858 million of the project costs. By project completion total project costs were \$629 million and total financing, excluding government, was \$621 million. There was some saving on construction costs but the main factor for the reduced costs and financing was the depreciation of the Maloti against the dollar – during project implementation, the Maloti typically exchanged at between 20 and 40 percent below the rate assumed at appraisal.

Institutional Arrangements

2.3 The institutions through which LHWP-1B was implemented had already been established under the first phase (LHWP-1A) of the Lesotho highlands water development program.⁸ Nevertheless, the institutional needs were demanding as LHWP-1B continued to require close collaboration in water management between two countries and triggered a special safeguard under Bank policies - the international waterways safeguard.

2.4 At the base of LHWP-1B's institutional structure is the 1986 water transfer treaty between Lesotho and South Africa. The treaty defined the role of the three main institutions to be formed for the Lesotho highlands water program, and provided a detailed foundation for processes, the rights and obligations of the two countries, and the calculation mechanism for water royalties. The institutions established under the Treaty were the Lesotho Highlands Development Authority (LHDA), South Africa's Trans Caledon Tunnel Authority (TCTA), and the Joint Permanent Technical Commission. The commission was subsequently renamed the Lesotho Highlands Water Commission (LHWC), playing the same role. LHDA and TCTA were each responsible for works and actions within their country. But there was a need for an institution to provide a bridging mechanism for the extensive coordination required, and to overview the whole program. This was and still is the role of LHWC.

⁷ The water was used by South Africa for extra supply to Gauteng province, a water-scarce highly industrialized region.

⁸ LHWP-1A and LHWP-1B are the first two phases of a long-term water development program, phase 1B being the "project" under review. Where reference is made in this report to the long term water program (which includes both phases 1A and 1B and, where relevant to the discussion, future development phases), the term "program" is used to indicate this (for instance, the "Lesotho highlands water program", or "LHW program").

Box 1: Objectives and Components of the Lesotho Highlands Water Project-Phase 1B

Development Objectives (source – Project Appraisal Document)

I. To put in place the physical and managerial capacity for Lesotho to transform its principal natural resource of abundance – water – into export revenues that can be applied to poverty reduction and economic stability while (a) protecting the environment and mitigating any adverse social and environmental impacts; and (b) maximizing the local development spin-offs of the project in Lesotho.

II. To assist South Africa in developing its lowest cost alternatives for supply of water to the Gauteng Region.

Components:

A: Main Project Works comprising the Mohale dam (a 145 meter high concrete face rock-fill dam), about 30 kms of tunnels for water conveyance to South Africa, and other water infrastructure. Costs were estimated at appraisal to be \$531 million, and actual costs were \$378 million.

B: Engineering Supervision: Engineering services for detailed design and preparation of tender documents of project works and construction supervision services. Costs estimated at appraisal were \$105 million, actual costs were \$79 million.

C: Environmental and Social Action Plan: Implementing an Environmental and Social Action Plan including: (i) resettlement of affected communities; (ii) compensation for project affected losses; (iii) income restoration and rural development; (iv) protecting the environment and cultural heritage; (v) a public health program; and (vi) program monitoring and evaluation. Costs were estimated at appraisal to be \$140 million. Actual costs were \$88 million.

D: Administration and Capacity Building: Consultancies and training for the main project implementation agency – the Lesotho Highlands Development Authority (LHDA) – including for financial and administrative management; implementing the environmental and social action plan, “panels of experts” for the engineering and environment/social programs, studies, and operating costs for LHDA. Costs were estimate at appraisal to be \$108 million. Actual costs were \$84 million.

Financing (including financing costs):

	Planned Financing (\$ million)	Actual Financing (\$ million)
IBRD-1B Loan	45.0	21.7
IBRD Phase 1A Loan ^{a/}	8.0	8.0
Development Bank of Southern Africa:	47.0	32.3
European Investment Bank:	109.0	45.3
Government of Lesotho:	26.0	8.4
Commercial loans and money markets:	649.0	513.0
Total:	884.0	629.0

^{a/} Using residual amounts of the LHWP-1A Loan.

Sources: Development objectives from PAD; Costs from PAD and ICR

Implementation

2.5 LHWP-1B was implemented over 8 ½ years including two extensions of a year each to provide more time for implementation of the social and environmental components. There was a delay of one year between Board Approval and Effectiveness, mainly due to delays

with institutional adjustments which were conditions of Effectiveness. There was no restructuring or major change in components.

Safeguards

2.6 Five environmental/social safeguards were triggered by the project:⁹

- Environmental assessment (OP 4.01): LHWP-1B was designated an environment category A project, and a full Environmental Impact Assessment was prepared followed by an Environmental Action Plan. This included management of the reduced river flow downstream of Mohale dam and establishment of three nature reserves. An intended Integrated Catchment Management Program was not implemented.
- Resettlement (OP 4.12): Resettlement, reviewed in paras 3.16 to 3.21 and Annex B, only involved 418 families, but was the most difficult safeguard to implement.
- International waters (OP 7.50): The water treaty and its implementation satisfied the requirement that the riparians have “entered into agreements” or “established an institutional framework” for managing the water (para 3.9 and Annex A).
- Safety of dams (OP 4.37): With a height of 145 meters, Mohale dam is firmly in the category of a “large dam”, defined in the safeguard policy as one over 15 meters. LHWP established an engineering panel of experts who inspected design and construction throughout the process. An emergency preparedness plan was also established. The IEG mission was advised that the dam was still being inspected periodically by the panel.¹⁰
- Natural habitats (OP 4.04): A program was implemented to preserve the Maluti minnow, the most vulnerable of species affected by the new water regime downstream of Mohale and which is indigenous only to Lesotho’s highland water bodies (para 3.15 and Annex C).

Monitoring and Evaluation

2.7 Based on the design, implementation and utilization of LHWP-1B’s M&E, overall M&E performance is rated *Modest*.

- Design: *Substantial*. The appraisal report contains an overly long (11 pages) results framework and was aptly considered “far too all-embracing” by the Bank’s Quality

⁹ A “Safeguard is a policy that is critical to ensuring that potentially adverse environmental and social consequences are identified, minimized and mitigated (World Bank Safeguard Policies as of February 2010). There were no major issues as regards financial management, procurement, and disbursement.

¹⁰ In February 2006, subsequent to heavy rains and a rise in the reservoir level to spilling conditions, a crack appeared in the concrete facing. The ICR advises that this has been examined by the panel of experts which concluded that the crack did not present dam safety concerns.

Assurance Group which reviewed the project in 2002.¹¹ Nevertheless, the indicators have proved helpful for assessing project progress. An M&E unit was also established to manage M&E surveys which would primarily be contracted out to consultants, and the M&E manager was appointed before project approval. The contents of the surveys related to the environment and water infrastructure were spelled out, but this was not so for social aspects of the project.

- **Implementation:** *Modest.* The M&E unit was maintained throughout the project period and continues to this day. Management information data (tracking progress of construction, water flows, etc.) has been good, Socio-economic and poverty related monitoring was less successful as disjointed contracting of consultants resulted in some discontinuity between surveys.
- **Utilization:** *Modest.* Data related to the project's physical progress was followed closely by LHDA and LHWC, and played an important informational role in management decision making. Environmental monitoring was also good quality. The regular reporting on water flow below Mohale dam and of the maluti minnow population are good practice examples. For socio-economic monitoring, supervision reports indicate that information provided by the M&E unit attracted little interest from the operational units. This appears particularly so for resettlement. The November 2001 supervision mission aide memoire commented that there was little evidence that the findings from the socioeconomic monitoring process were being used to assess and plan compensation and development activities. The weak utilization of socio-economic data contrasts with the good utilization of construction and environmental data, moderating an otherwise good performance.

Accounts and audit

2.8 Accounting records were maintained efficiently and any required reconciliations of accounts were done expeditiously. Audit reports were issued on average 5 months after the end of each financial year, were unqualified, and were in accordance with the International Auditing Standards. There were two Inspection Panel requests, both during preparation of the project, and both dismissed by the Panel.¹² A corruption charge related to LHWP-1B's predecessor, LHWP-1A, was successfully prosecuted during the LHWP-1B project period.¹³

¹¹ This was before the current appraisal practice of listing a limited number of core "monitorable indicators".

¹² One complaint in the Gauteng region that water supply to a township would be reduced was considered by the panel to be more a legacy of the previous apartheid regime than due to Bank policies and procedures. The other was a claim by mining companies that the land submerged under the Katse reservoir (Phase 1A of the LHW program) came under their exploitation rights. Lesotho's supreme court ruled this was null and void, and the inspection panel concluded that the Bank was not responsible.

¹³ This involved corruption with consultant engineering contracts. Lesotho, with the Bank's support, acted firmly, prosecuting the involved persons and companies. Six government personnel, including a former Chief Executive of LHDA were convicted, and two large international consultant engineering companies were barred from competing for World Bank financed contracts.

3. Ratings for LHWP-1B

Outcome

3.1 Considering the relevance, efficacy and efficiency of LHWP-1B, the project's outcome is rated *moderately satisfactory*. The results are summarized in Table 1 and amplified below.

Table 1: LHWP: Ratings of development objectives and outcome

<i>Development Objectives (Source: PAD)</i>	<i>Relevance</i>	<i>Efficacy</i>	<i>Efficiency*</i>
1. To put in place the physical and managerial capacity for Lesotho to transform its principal natural resource of abundance – water – into export revenues that can be applied to poverty reduction and economic stability while (a) protecting the environment and mitigating any adverse social and environmental impacts; and (b) maximizing the local development spin-offs of the project in Lesotho.	Substantial	Modest	Substantial
2. To assist South Africa in developing its lowest cost alternatives for supply of water to the Gauteng Region.	Substantial	Substantial	Substantial
Combined rating for both objectives:	Substantial	Modest	Substantial
Overall Project Outcome: Moderately Satisfactory			

Relevance

3.2 Relevance of objectives. Both of LHWP-1B's development objectives are relevant. The project harnesses the respective comparative advantage of each country – Lesotho with abundant water but in critical need of revenues, and water-scarce South Africa willing to pay royalties for such water. CDSP's social fund was intended to use the LHW program's royalties to help poor communities to invest in social infrastructure. LHWP-1B was well couched within Lesotho's overarching objective to reduce poverty, the highest development priority of both the Bank and Government (Section 1). Poverty reduction through pro-poor economic growth has been a consistent goal throughout LHWP-1B's preparation and implementation. The 1998 Country Assistance Strategy, prepared at the same time as the project, highlighted LHWP-1B as a centerpiece for the pro-poor development strategy. The 2006 CAS, prepared as the project was closing, also held pro-poor growth as a strategic objective. Given Lesotho's situation of low per capita incomes and considerable income disparities, the relevance of objectives is assessed to be *substantial*.

3.3 Relevance of design. The project's design was uneven in quality. Engineering design was strong - there were no significant design changes during construction, while the physical capacity for the intended water transfers was achieved. Institutionally, it was appropriate to structure the project within the arrangements under the water treaty, which had been largely successful. On the other hand, preparation of a training plan for the management strengthening activities was left in the PAD to be done during project implementation, and in

the event was only formulated shortly before project closure. The resettlement program had several design shortfalls – principally the limited emphasis on helping re-settlers to become self-reliant, and the institutional structure for resettlement. The engineering focus of LHDA did not generate sufficient emphasis on resettlement, and a dedicated institution for resettlement or some other arrangement might have been better.

3.4 A general weakness, shared with CDSP, was a lack of attention to how the royalties were to be used (para 3.26). The intention of using royalties for poverty alleviation is clearly listed in Bank strategy documents and in the LHWP-1B PAD. Yet in the project's specific design there is no apparent interest once the royalties are handed over, and the design of CDSP provided no practical solution for using the royalties. In effect, the funds could have been used, without any monitoring, for any purpose whatsoever. Monitoring, legal covenants and other safeguards could have been considered in the design of LHWP-1B.

3.5 The weak designs of LHWP-1B's resettlement and capacity building activities and the gap in determining how to safeguard the usage of the royalties temper the highly satisfactory design for the construction activities of the project. Hence, the combined relevance of design for the first project objective is assessed *modest*. The design for the second objective – providing water to South Africa at the lowest cost alternative had *substantial* relevance. LHWP-1B's location and design provided the lowest-cost alternative for the additional water that Gauteng province required.

3.6 Taking account of both the relevance of objectives and the relevance of design the overall relevance of LHWP-1B was *substantial*.

Efficacy

Objective 1 . To put in place the physical and managerial capacity for Lesotho to transform its principal natural resource of abundance – water – into export revenues that can be applied to poverty reduction and economic stability while (a) protecting the environment and mitigating any adverse social and environmental impacts; and (b) maximizing the local development spin-offs of the project in Lesotho.

Construction, water delivery and royalties

3.7 The project's engineering design and works required complex engineering and major civil works, especially for the Mohale dam and some 30 km of tunnels to transport water to South Africa. The works were completed in full by mid-2004, six years after project approval and six months before the original project closing date. The combined cost of engineering and works was \$457 million which was 72 percent of the cost estimated at appraisal. There is general consensus in Government, other agencies and the Bank on the good quality of the infrastructure. The size and complexity of LHWP-1B (amongst other features, Mohale is one of the highest dams in Africa.¹⁴) make this achievement particularly remarkable. The created infrastructure delivers water as designed – 9.6 m³/second from

¹⁴ Mohale dam has a height of 145 meters. Katse (LHWP-Phase 1A) is 185 meters high, the second highest dam in Africa.

Mohale to Katsu and 2.2m³/second for Matsoku diversion. Cumulative royalties in 2006 were 1.9 billion Maloti or \$240 million, slightly above the projections of royalties made at appraisal.¹⁵ Hence, based on appraisal targets, the objective to create physical infrastructure for water delivery in exchange for royalties has been met. Efficacy of the construction program and the associated earning of royalties was *high*.

Managerial capacity

3.8 Creation of infrastructure was to be partnered by the strengthening of capacity to manage the water transfer program. In particular, this was intended for LHDA as the hands-on implementer of the project. To build LHDA's staff capacity, a substantial training program had been envisaged at appraisal, which was to be managed by LHDA through an annually reviewed three-year rolling training plan. This was to commence in 1998, the first year of the project.¹⁶ Three years later, the September 2001 supervision mission aide-memoire stated that no such plan had been drafted by LHDA. Subsequently, seven years after project approval, and already into the first of the two project extension years, the April 2005 supervision mission aide memoire commented that there had still been no training expenditures under the Loan. The non-achievement of the training program was a key gap given LHDA's need for staff strengthening.

3.9 The Water Treaty. The project contributed indirectly through discussions related to water management under LHWP-1B and through technical assistance to the continued development of the institutional arrangements and processes of the 1986 Water Treaty between Lesotho and South Africa. The treaty governs all aspects of negotiating and coordinating water and financial transfers between the two countries, and was set up expressly for the Lesotho water program at the beginning of Phase 1A. The core institution is the Lesotho Highlands Water Commission (LHWC) comprising representatives of both countries, primarily from Lesotho's LHDA and South Africa's Trans Caledon Tunnel Authority which were the implementing agencies in their respective countries. The treaty has been an essential part of the Lesotho highlands water program. A number of observers consider the treaty to be a "best practice" example of international water sharing. IEG concurs with this assessment. The IEG mission discussed experience under the treaty with stakeholders from both Lesotho and South Africa. The main features considered to have contributed to the treaty's success, as well as aspects that could have been improved, are noted in Annex A. Taking into account the negligible efficacy of staff training yet the project's indirect contribution to the continued good management of water under the treaty, the overall efficacy for improving managerial capacity is assessed *modest*.

¹⁵ There is no indication in the ICR that the estimated growth of royalties was calculated consistent with the growth in demand assumed for the economic analysis of LHWP-1B. The recalculation of the economic rate of return made at project completion resulted in a reduction in the estimated ERR compared with the appraisal estimate (para 3.23). While estimating royalties is a financial calculation and the ERR uses economic costs, the direction of changes in the level of royalties and for the ERR would normally be expected to be similar. Possible explanations include that: (i) royalty levels under the treaty were raised by more than the trend in demand for water; and/or: (ii) that the appraisal estimate of royalty earnings was made entirely independent of the ERR analysis, and was overly optimistic compared with ERR assumptions. The IEG mission did not find data to verify such or other explanations.

¹⁶ As listed in the key performance indicators for LHWP-1B (PAD, Annex 1, page 9).

Using export revenues that can be applied to poverty reduction and economic stability

3.10 The water treaty continued during the project period to serve successfully as a mechanism for determining the water royalties paid by South Africa to Lesotho. Such royalties went to two budgets: (i) to the social fund (the Lesotho Fund for Community Development) established under the Community Development Support Project, also assessed in this review; and (ii) to the government general budget. Under CDSP, the LFCD was to be specifically targeted to poorer communities. Funds received by the general budget were not earmarked for a specific purpose.

3.11 There is a close conceptual and operational link between LHWP-1B and CDSP, as stated very prominently in Bank strategy statements when the two projects were being prepared (para 1.8.). Hence, an overarching question relating to both projects is why, during design and implementation, this link was not further developed into an effective partnership. Each appraisal report refers to the other project, but no specific actions are cited. Supervision continued this pattern. Each project was supervised in isolation. Yet discussions of both projects together could have added synergies that would have made both projects better. In the case of LHWP-1B the project achieved its objective to enable more funds that can be applied for development purpose, but there should be concern if the “can be applied to poverty alleviation” becomes a clear “it does not go to poverty alleviation,” because the CDSP broke down (Section 5). Given these broader perspectives, LHWP-1B’s efficacy ensuring revenues that can be applied to poverty reduction and economic stability was *modest*.

Maximizing local development spin-offs

3.12 This sub-objective is described in the PAD in terms of jobs created in Lesotho by the project’s construction activities. From this perspective the project performed well. Thus, at appraisal, construction activities were estimated to create 3,000 jobs. By project completion 9,000 jobs had been created involving some 20,000 person-years of employment. Based on international experience, construction earnings can also be expected to have had multiplier effects - increased incomes can generate additional jobs and value added, but no empirical analysis was found of the specific situation for Lesotho. Nevertheless, the known first-round impacts considerably exceeded targets, and efficacy is assessed to be *substantial*.

3.13 AIDS. Notwithstanding the above, a relevant unknown is whether the LHWP-1B’s construction camps have influenced the transmission of HIV/AIDS. Lesotho, with an estimated 24 percent of the population infected by HIV/AIDS can hardly afford the distress and poverty created by additional sources of possible infection. While no data specific to LHWP-1B’s construction camps was found by the IEG mission, the experience of Lesotho’s labor force working in South Africa’s mines is concerning. The South Africa experience is that the all-male labor camps attracted prostitution and widespread transmission of the virus. HIV/AIDS was then transmitted to the wives of the miners on their return home. A clear need is to better understand whether the Lesotho highlands water program enhanced

transmission of HIV/AIDS, how any such risks can be averted, and then, as applicable, to use such knowledge to design effective preventive measures for the future.¹⁷

Mitigating social and environmental impacts

3.14 LHWP-1B's objective to protect the environment and mitigate any adverse social and environmental impacts had *substantial* efficacy in the case of environmental management and was partially achieved, hence, with *modest* efficacy, in the case of resettlement of the families affected by the project.

Environmental management

3.15 Environmental aspects of LHWP-1B have in most respects been managed well. Efficacy was *substantial*. The two most prominent environmental activities were the management of river flows downstream of Mohale dam, and a biodiversity program to protect the Maluti Minnow, a fish unique to Lesotho's highlands and particularly vulnerable to changes in water flow.¹⁸ To date, both programs have been successful. Environmental flow options were assessed through monitoring and modeling of in-stream flows and this analysis was then put into action - Mohale's dam outlet valves and operating rules were adjusted and the minimum flows specified in the water treaty were increased by over 300 percent. Under the Maluti minnow conservation program fish were transferred to four locations with similar habitat upstream of Mohale dam. To date, population density in the new locations has been stable. Annex C provides further details on these two "good practice" environmental actions.

Resettlement

3.16 The Mohale dam and reservoir and other infrastructure under LHWP-1B required the resettlement of 418 households. These families were resettled following a comprehensive resettlement policy with the following main features: provision to each family of a newly constructed small house, long-term compensation based on the estimated lost income from the household's fields and other assets, training if requested for an income earning activity, and community facilities if not present (such as an access road or primary school). Of particular note is the long compensation period (inflation adjusted) of 50 years (or an equivalent lump sum payment).

3.17 Field inspections in 2008 by the national Ombudsman¹⁹ found that in most cases resettlement for LHWP-1B families had been concordant with the policy, but for 83 resettled families, some resettlement actions were still due. Most of the remaining actions were relatively simple. Over 80 percent of the 83 complaints were only for the complete payment of the family's compensation package (for instance, for the family's trees or other assets).

¹⁷ The ICR reports that some mitigation activities were undertaken under LHWP-1B primarily through education at clinics and in pamphlets and distribution of condoms.

¹⁸ The environmental action plan also included piloting of catchment management approaches, and monitoring of water quality.

¹⁹ Lesotho's "Ombudsman" heads an independent office created by Government to look into complaints by the people of unfair or inappropriate actions by government departments or agencies.

Completing the resettlement actions is, thus, not only an evident need but also relatively straightforward to carry out.

3.18 Based on the IEG mission's field visits and discussions with re-settlers, government and NGOs, several measures could have improved the quality of resettlement (Annex B).²⁰ Institutional strengthening was one need. There was no equivalent for resettlement of LHDA's capacity for implementing the construction program. Construction received close management attention and the staff numbers, specialist skills and technical assistance to succeed. Resettlement was short-changed in all of these areas.²¹

3.19 Second, rather than seeing resettlement as primarily a matter of "compensation", a greater emphasis on "development" was needed – i.e. to help each family to become self-sufficient rather than dependent on compensation hand-outs. The training and technical assistance provided under LHWP-1B could have been further strengthened. And third, the planning and implementation of resettlement needed to be more participatory and flexible, based on a grass roots rather than top-down approach. Given the incomplete achievements of the resettlement program, efficacy was *modest*.

The broader impacts of the resettlement and environmental program

3.20 Setting standards. Notwithstanding the imperfections noted above, structured interviews by the IEG mission of different stakeholders indicate that the Bank has had positive impact on resettlement and environmental safeguards reaching well beyond the specific confines of LHWP-1B alone.²² Typical remarks were that national awareness of environmental and social issues, in particular resettlement issues, had been raised and that the Bank's safeguards set standards for others to emulate. The resettlement program for the Metalong dam project was one of the examples cited.²³ And, when an NGO that had been a persistent critic of resettlement under the Lesotho highlands water program was asked by the mission what would have happened if the World Bank had not been involved with the program, the response of "disaster!" speaks volumes.

3.21 Are safeguard standards too high? A number of stakeholders (from LHWC, TCTA, LHDA and DBSA) considered that the Bank may be asking too much in its safeguard

²⁰ Care is needed in distinguishing between resettlement under LHWP-1B and resettlement under LHWP-1A. This PPAR refers only to the LHWP-1B program. There have been significant improvements in resettlement since the Katse resettlement program under Phase 1A.

²¹ Improving institutional arrangements would be one of the areas needing examination. Structural options might include a much strengthened and substantially autonomous unit in LHDA with the same seniority as the engineering group, a separate institution for R&R, choices regarding the appropriate degree of involvement of civil society (private companies, NGOs) in implementation and monitoring, and other options as practical.

²² In parallel with this PPAR, structured interviews using a questionnaire were carried out by the IEG mission with different stakeholders (in some cases the questionnaire was completed by the stakeholder without the structured interview, although these stakeholders were also interviewed beforehand). The interviews were to contribute to a separate Safeguards Evaluation Study being undertaken by IEG. Stakeholders consulted included, the Ministry of Finance, LHWC, LHDA, DBSA, NGOs, development agencies, local government, villagers and re-settlers.

²³ The Bank is contributing to the Metalong Dam project with a Loan of \$8.5 million.

standards, especially for resettlement. The Bank has “set the bar too high”; it is “asking too much and the actions are too costly” for government to do or to keep up after the project period; the government will be under pressure in non-Bank projects to follow the Bank’s entitlements; the Bank wants “an overly gold-plated resettlement policy;” “the program to save the Maluti minnow is too costly;” the Bank is “too generous to re-settlers;” the Bank is “overly intellectual”; etc. NGOs consulted did not consider that safeguards standards were too high. But most stakeholders including NGOs shared the view that good and timely implementation of resettlement (the practical) rather than concern with the level of standards was the key gap. In short, care was needed to ensure that the “best” was not the enemy of the “good”.

3.22 Implementing safeguards. LHWP-1B integrated programs to respond to all five of the safeguard needs that it encountered (environment, resettlement, natural habitats, international waters, and dam safety).²⁴ The number and diversity of these safeguards provides opportunity to derive lessons from the group as a whole. Several observations relating Bank performance to the quality of safeguard implementation have emerged: (i) the Bank performance qualities²⁵ that contribute to successful implementation of a safeguard are broadly similar to the Bank qualities needed to promote satisfactory performance of a non-safeguard; (ii) both good preparation and supervision are required; (iii) highlighting the importance of a safeguard can significantly influence government prioritization of the safeguard; (iv) staff resources need to reflect the effort needed; and (v) awareness of such needs (likely obvious to many Bank staff) does not necessarily translate to actual implementation. “Annex D provides a qualitative discussion of these observations, also including safeguards from CDSP.

3.23 Economic benefits from implementing safeguards. Both at appraisal and completion, the safeguards that applied to LHWP-1B were seen as necessary costs rather than considering the benefits from the safeguard as well as the costs. Accordingly, benefits from implementing the safeguards were not estimated or included in the ERR calculations. A better approach would have been to recognize such benefits. This would have put the costs in broader perspective, even showing in some cases that implementation of a safeguard can be economically beneficial. For the resettlement safeguard, if higher standards of living for the affected communities are achieved, benefits would, at least partly, offset the costs of the program. If LHDA/LHWC had calculated the economic viability and the financial benefits from resettlement, decision makers in Lesotho might have been more readily persuaded to fund and adequately staff the resettlement program to the full extent needed. The constant monitoring and calculations of in-stream flow requirements below Mohale dam is LHWP-1B’s best example of estimating benefits as well as costs.

²⁴ The international waters safeguard was well handled under the water treaty, with LHWC’s coordination, and the dam safety safeguard was met through the establishment of a dam safety panel for regular inspections of infrastructure and operations).

²⁵ Performance qualities considered in Annex D are: (i) a satisfactory environmental assessment (or equivalent); (ii) quality of preparation; (iii) implementation readiness; (iv) general effectiveness of supervision; (v) presence of required specialists; (vi) effectiveness in institutional strengthening; (vii) emphasis given to the safeguard in team interactions with government; and (viii) creation of a good M&E system.

Efficacy of Objective II. To assist South Africa in developing its lowest cost alternatives for supply of water to the Gauteng Region.

3.24 LHWP-1B's second objective – to provide water to South Africa's Gauteng region at the lowest possible cost – was fully achieved. In a comparative costing at appraisal of alternative water capture and delivery systems for South Africa, it was found that LHWP-1B's costs of water provision would be at least 20 percent lower than the costs of the lowest cost alternative water enhancement option.²⁶ That differential may be larger now given that LHWP-1B's actual project costs were lower than appraisal expectations. Efficacy was *substantial*.

LHWP-1B's overall efficacy

3.25 Objective I has a number of features for which efficacy has been individually evaluated above. For: (i) establishing the infrastructure for water transfer and sales of water between Lesotho and South Africa - efficacy was *high*. The works were of high quality, on schedule, below expected costs, and delivered the quantity of water intended - an exemplary performance; (ii) the training program for LHDA failed, but coordination between the two countries improved, a *modest* step towards improving "managerial capacity"; (iii) for generating export revenues that can be applied to poverty reduction and economic stability, efficacy was *modest*. The revenues were generated, but as CDSP's social fund became dysfunctional, the possibility to channel funds for poverty alleviation purposes disappeared; (iv) employment generation from construction was *substantial*, exceeding targets for such local development spin-offs; (v) environmental management had *substantial* efficacy in the case of river flows management and biodiversity conservation; (vi) resettlement had mixed performance and was incomplete – a *modest* achievement. The efficacy of LHWP-1B's second objective was *substantial* in that the project fully achieved providing the lowest cost alternative for supply of water to South Africa.

3.26 LHWP-1B's achievements under objective I were strong as concerns water supply and revenue generation, but there were shortfalls in capacity building and resettlement. Most important, the broader strategy – poverty alleviation – was ignored, and the project never achieved even its modest goal of making export revenues that "*can be*" applied to poverty reduction." When there was no possibility of using LHWP-1B's revenues for poverty alleviation after the social fund was diverted from its intended purpose, this should have been a concern for LHWP-1B. Leverage from the popular LHWP-1B program might have been used to pressure use of the fund for its intended purpose. There was an ideal opportunity to form an effective partnership with CDSP in order to better achieve the goal – poverty alleviation – that the two projects had in common. Given the shortfalls in capacity building and resettlement and, especially, the lack of success making funds available for poverty alleviation, the efficacy of objective I is assessed *modest*. Taking the two objectives together, LHWP-1B's overall efficacy was *modest*.

²⁶ The next lowest cost alternative supply augmentation options were development of a "Tugela/Vaal transfer scheme" and an "Orange/Vaal transfer scheme."

3.27 The “hardware”-“software” divide. For both the Bank and Government, there was a marked difference in effort and performance between “hardware” (engineering, physical works and managing water delivery) aspects of LHWP-1B that were excellent, and the project’s “software” aspects, in particular resettlement, capacity building and training, that were less successful. From the IEG mission’s discussions in Lesotho, the reason behind this differential appears to be largely cultural. LHDA is a strongly engineering oriented organization, and this is also substantially the case for LHWC and TCTA. Behind these agencies were two governments more focused on realizing the treaty and its provisions of water and royalties as expeditiously as possible, than on software considerations. The governments’ orientations to LHWP also reflect the recent history of the two countries. South Africa had only recently emerged from apartheid policies, and social concerns such as resettlement were not paramount. Lesotho also appears to have viewed development with an infrastructure orientation. The Bank team also tended to have a more hardware than software orientation. For future phases of the LHW program, conscious efforts to overcome any such biases, both during project design and implementation, would likely help to bring software actions more to the forefront.

Efficiency

3.28 The economic rate of return at completion, as calculated in the ICR, was 11.5 percent - about 4 percent less than the ERR calculated at appraisal, primarily due to reduced estimates of the future growth in demand for water and the economic value of water. This was because since appraisal South Africa implemented a number of demand-management activities, which reduced demand for water. Hence, the ICR calculation assumed a 1.5 percent per annum growth in water demand as compared with the three percent annual growth rate estimated at appraisal. However, a future growth in demand for water of only 1.5 percent per annum would be quite modest relative to economic growth in Gauteng province, the consumer of LHWP-1B’s water exports and the country’s economic and demographic center.²⁷ Based on the IEG mission’s discussions with TCTA, demand management can be expected to be only a medium-term palliative to Gauteng’s structural water scarcity, and in the longer term, LHWP-1B is likely to become an increasingly important underpinning for Gauteng’s and Lesotho’s development. Such strategic needs are not entirely captured through conventional cost-benefit analysis. LHWP-1B’s efficiency was *substantial*.

Risk to Development Outcome

3.29 The primary risk is institutional. The capacities of TCTA and LHWC are adequate, but LHDA needs strengthening. In particular, the resettlement program needs improvement: first and foremost to protect the welfare of the project affected persons; but also because a weak resettlement program could influence popular support to Government for further stages in the Lesotho highlands water program.

²⁷ GDP growth in Gauteng (which averaged 3.3 percent per annum in 1995-2002) has been faster than the national average of 2.7 percent in the same period. GDP growth in South Africa also accelerated in the 1990s.

3.30 A fundamental influence will be from the two Governments. As the water program is to the advantage of both Lesotho and South Africa, significant problems are likely to receive priority attention from both parties. Further, the water treaty has proven to be an agreement that can be adjusted to accommodate new developments, and would be an underlying strength for all institutional linkages. Overall, risk to development outcome is rated *moderate*.

Bank Performance

3.31 Quality at entry: There were two areas of excellence:

- Engineering. Close supervision of consultants by the Bank team over several years resulted in quality design for works and for preparation of tender documents. As a result, the project was fully ready for implementation of the construction program.
- International coordination and motivation. Two countries and a large group of development agencies and private sector investors were successfully brought together. A view expressed to the IEG mission by a number of persons including the Development Bank of Southern Africa, a prominent financier of LHWP-1B, was that the World Bank, by its presence and considered reliability and quality, provided reassurance to these institutions. Some commentators felt that the Bank was uniquely placed in its ability to facilitate international cooperation in funding and implementing such a complex and multi-actor program as LHWP-1B.

3.32 Counterbalancing these outstanding activities were some of the “soft” aspects of LHWP-1B which could have been better prepared. In particular, the resettlement program’s modalities and institutional base had not been firmed up, a plan for training and capacity building had not been prepared,²⁸ and features to facilitate usage of royalties for poverty reduction had not been considered. Taking the Bank’s strong performance with the construction program and as an international coordinator, as well as the weaker performance on the project’s soft areas, the Bank’s overall quality at entry is rated *moderately satisfactory*.

3.33 Quality of Supervision: Supervision missions were strongly staffed, were regular (twice a year), and had a range of specializations. A resettlement specialist was included in practically all missions. Management recognized that supervision of such a complex project would need greater resources, and the average annual supervision expenditure between FY00 and FY06 was \$310,000 – over three times a more typical project supervision budget. The team continued with the high level support on the engineering side that had characterized project preparation. The highly satisfactory supervision of the project’s hardware activities is

²⁸ There was also a general risk in taking the project to the Board with as many as eight actions required as conditions of Effectiveness. Board presentation could have waited until more of these actions had been achieved, especially as some required significant institutional adjustments. For instance, the conditions of Effectiveness included amendment of the water treaty to streamline the governance structure, creation of the Lesotho Fund for Community Development (under CDSP), and various policy changes for the resettlement program. In the event, the Effectiveness conditions were met, but not without a one year delay between project Approval and Effectiveness.

nevertheless countenancing software weaknesses - adequate solutions were not found for resettlement and capacity building, M&E could have been stronger, and, especially, the degree to which royalties went to poverty reduction should have been cause for concern. Overall, the quality of supervision was *moderately satisfactory*.

3.34 Taking both the quality at entry and quality of supervision together, the Bank's overall performance was *moderately satisfactory*.

Borrower Performance

3.35 Government Performance. The Government worked closely with the Bank during project preparation and followed the construction program carefully, providing support as needed. This included expeditious approvals related to the construction program. Government for the most part left LHDA, LHWC and TCTA to manage the construction program themselves. Management actions implementing the water treaty were also substantially left to these agencies. This was appropriate. The agencies rather than Government had the expertise, and undue interference by Government would not have been helpful. Nevertheless, this happened to some extent – for instance, key appointments had to be authorized by Government rather than the agencies themselves. Notwithstanding, construction was the fulcrum of the project, and in this field Government provided a good supportive environment. But little attention was paid to the utilization of the royalties for poverty reduction, even though addressing poverty was Government's central development objective (para 1.8). Government performance was *moderately satisfactory*.

3.36 Implementing Agencies' Performance: Construction and water management activities of the three agencies were highly satisfactory. LHDA successfully implemented the construction program - a major achievement. LHWC provided technical support to LHDA and was a largely effective overall coordinator. TCTA played a fully satisfactory role in liaising with LHWC and LHDA, and having the infrastructure ready to transport water deliveries from Lesotho. In managing the soft aspects of the project – training and resettlement in particular - LHDA and LHWC paid less attention, and the project results reflect this. These shortfalls diminish the overall evaluation of the performance of the three institutions – from an otherwise excellent assessment (on hardware aspects of the project) to a *moderately satisfactory* assessment when considering the project as a whole.

3.37 Taking the performances of both Government and the implementing agencies together, the borrower's overall performance was *moderately satisfactory*.

4. CDSP's Objectives and Implementation

Objectives and Design

4.1 The objectives of the Community Development Support Project were to: (i) test a demand-driven and participatory approach through a multi-sectoral special fund and draw lessons as to whether it is an appropriate mechanism to support community development in

Lesotho; and (ii) test various mechanisms and tools to monitor poverty trends in Lesotho and to coordinate national poverty monitoring and analysis activities. (source: Development Credit Agreement.)²⁹

4.2 The Community Development Support Project was a pilot project to test Community Driven Development (CDD) approaches for financing poverty alleviating community infrastructure. Funded under a Learning and Innovation Loan,³⁰ CDSP's components, supporting the project's first objective were to finance 22 sub-projects using CDD processes so as to learn for subsequent scaling-up to a national CDD program; and related to this, a component to strengthen a social fund agency. This would be the conduit for provision of finance and technical assistance for the sub-projects. CDSP's second objective was supported by a program to strengthen the nation's capacity for monitoring poverty, implemented by Lesotho's Bureau of Statistics. CDSP's objectives and components are shown in Box 2.³¹

4.3 Using royalties. CDSP was conceived as a way to utilize the royalties from water exports to South Africa under LHWP-1B. Poverty alleviation was the central thrust in both the Bank's and Government's strategies (Section 1). The LHWP's royalties, channeled through a CDSP-supported social fund, were seen as a means of directly financing rural infrastructure, through community driven processes targeting the poor. (Royalties over and above the needs of the fund would go to Government's general budget.) The project was a challenge as Lesotho had little experience with CDD approaches. Also, the existing social fund agency – the Lesotho Highlands Revenue Fund (LHRF), which had been established in 1992 and had been the channel of LHWP (Phase 1A) royalties – was dysfunctional and needed major revamping. To this purpose, LHRF was reorganized in institutional structure and with new financing guidelines, to become the Lesotho Fund for Community Development (LFCD).

4.4 The LHRF reformulation. LFCD was established in March 1999 during preparation of CDSP. LFCD was to make a new start on LHRF. In the words of Government's Letter of Development Policy for the CDSP (March 23, 1998), LFCD was to be a "*community-based fund that is more responsive to the needs of the community, particularly the poor.*" This would be accomplished by strengthening fund management and using CDD approaches following transparent procedures set out in an operational manual. The Bank and government viewed the LFCD and the supporting CDSP as central elements in Lesotho's poverty

²⁹ The PAD version of the Project Objectives is substantially similar to the DCA version used here, but is less precise in some of the wording. Accordingly, the DCA wording has been used. (For Objective (i) the PAD wording is "to test demand-driven and participatory approaches through a multi-sectoral special fund and draw lessons on how to support community development in Lesotho.")

³⁰ A Learning and Innovation Loan provides small loans for projects experimenting with or piloting innovations. It is in particular used where successful piloting would open the way for subsequent scale-up of a key development activity. In CDSP's case this was to be the CDD approach. A Learning and Innovation Loan is expected to include good monitoring so that a documented base is available for adjustment and future application, and it should also integrate participatory learning processes by the borrower.

³¹ CDSP was Approved in December 1999, and became effective seven months later in July 2000. It closed as scheduled in September 2003.

alleviation strategy. For the Bank, this even went as far as linking the size of the Bank's lending program to satisfactory performance of CDSP.³²

Box 2: Objectives and Components of the Community Development Support Project

Development Objectives (source: Development Credit Agreement.):

(i) To test a demand-driven and participatory approach through a multi-sectoral special fund and draw lessons as to whether it is an appropriate mechanism to support community development in Lesotho.

(ii) To test various mechanisms and tools to monitor poverty trends in Lesotho and to coordinate national poverty monitoring and analysis activities.

Components:

- A. Support for the establishment and implementation of the LFCD** by: (i) piloting the LFCD cycle through sub-projects in 22 communities, and for different types of sub-projects; (ii) Systems development and operationalization for LFCD; and (iii) Management and coordination of LFCD. Costs including contingencies were estimated at Appraisal to be \$7.6 million, and actual costs were \$18.7 million.
- B. Capacity building for LFCD** by: (i) Training of LFCD staff in operations, finance and management; and (ii) Training for LFCD partner institutions (communities, central and district level government staff, local governments, NGOs and private sector). Costs including contingencies were estimated at Appraisal to be \$1.4 million, and actual costs were \$0.4 million.
- C. Support to the National Poverty Program Monitoring** by: (i) collecting data for poverty monitoring; and (ii) Program monitoring and poverty analysis. Costs including contingencies were estimated at Appraisal to be \$1.4 million, actual costs not available.

Financing:

	<u>Planned</u> (In \$ million)	<u>Actual</u> (In \$ million)
Bank (IDA)	4.7	2.5
Government	<u>5.7</u>	<u>17.0</u>
Total	10.4	19.5

Sources: PAD and Development Credit Agreement (and ICR for costs at completion)

Institutional Arrangements and Implementation

4.5 CDSP was under the Ministry of Development Planning, with implementation through the LFCD for the first two components and the Bureau of Statistics (BOS) for the national poverty monitoring component. LFCD was headed by a Board of Directors, with hands-on implementation through a management unit. LFCD also had small field offices at district level which were to coordinate activities of line ministries that would provide technical assistance to communities in their areas of specialization. The intention was that the

³² Thus, the 1998 CAS stated that "high case lending to Lesotho would be contingent on the implementation of a program to deal with poverty reduction (such as the establishment of the enhanced LHRF (which would become the LFCD) and better implementation and monitoring of the Poverty Action Program."

LFCD Board and management unit (MU) would be substantially independent from political influences. Thereby, LFCD could operate as a technocratic institution with transparent criteria for sub-project selection, and standard operational norms for implementation using CDD processes.

4.6 The estimated cost of the project at appraisal was \$10.4 million of which IDA was to contribute a \$5.7 million grant. At project completion about half (\$2.5 million) of the grant had been disbursed. The shortfall was in part due to lower expenditure on establishing and equipping the Lesotho Fund for Community Development, and in part to depreciation of the maloti. Government expenditures on the project increased considerably – from an estimated \$5.7 million at appraisal to \$17.0 million at closure. The increase was almost entirely due to the funding by government of more and larger sub-projects, amounting to considerably more than the originally planned 22 sub-projects. CDSP was closed as scheduled, in September 2003, some 3 ¾ years after Board approval. The LFCD was disbanded at the end of 2008, with no plans for a replacement organization.

Safeguards

4.7 CDSP triggered the environmental assessment safeguard (OP 4.01), and an environmental impact assessment was undertaken (category B). For the project's main component – community development – the approach was to integrate an environmental and social screening process as part of the appraisal of each sub-project. However, preparation for such a screening process was incomplete. First, while the environmental impact assessment was of reasonable standard, a clear environmental action plan was not prepared. Further, the operational manual, which was to be the key guide during sub-project appraisal and implementation, contained minimal guidance on how to carry out environmental and social screening.³³ In the end, however, all this was moot as political influences on LFCD caused all environmental and social processes to be abandoned.³⁴

4.8 CDSP's National Poverty Monitoring component had a happier experience. It provided poverty data that have been useful for both Government and the Bank, and BOS' surveys are still continuing, substantially using the survey and analytical methodologies introduced by CDSP.

Monitoring and Evaluation

4.9 Evaluating CDSP's M&E needs to distinguish between two very different experiences: the positive experience under the project's small national poverty monitoring

³³ The operational manual was also unrealistic regarding environmental impacts. "*Any project which might have an impact on the environment is not accepted until an Environmental Impact Assessment has shown that the impact is only positive.*" Some environmental impact(s), positive and/or negative, can be expected for most subprojects, and mitigation rather than abandonment would have been a better orientation.

³⁴ Nevertheless, Lesotho ex-CDSP staff felt that if the political take-over had not occurred, the Bank's involvement with the project would have increased environmental and social awareness, both at the project level, where there would have been some positive influence on handling environmental and social issues, and more broadly by acting as a demonstration for other projects in Lesotho.

component (paras 5.22 and 5.23), and failure as regards monitoring the CDD program. Good M&E for the CDD program was particularly important. As a Learning and Innovation (LIL) project intended to “test demand-driven and participatory approaches” and to “draw lessons on how to support community development in Lesotho” (project objective I); it was important that CDSP had a strong base of comparative data for this testing and learning process. In this, and other respects M&E for the CDD program had a *negligible* performance:

- Design was *modest*: The particular importance of M&E for the experimentation and learning intended under a Learning and Innovation Loan was well recognized at appraisal. But this was not translated into designing a firm M&E program. Much of the discussion in the appraisal report refers to actions to be done rather than preparatory actions completed.
- Implementation was *negligible*: Supervision missions emphasized the importance of M&E and MIS, but little was achieved. In May 2001 an M&E specialist reviewed the CDD program’s monitoring arrangements, and found that M&E arrangements were still in early preparation and that preparation of the MIS had achieved even less. These observations were nearly 1 ½ years after Board approval, and only 2 years from the scheduled project closure. Another concern of that mission was that no M&E unit had been set up in LFCD. Such arrangements appear to have remained in limbo. Thus, the IEG mission found that the CDSP management unit was under the impression that M&E had perhaps been under the Ministry of Development Planning, but “had not been visible”.
- Utilization was *negligible*: There was no data to use.

Accounts and audit

4.10 LFCD had a financial manager throughout the project period. Despite the disruptions caused by the takeover of LFCD, there are few references to accounting or financial management problems in supervision mission aide memoires. Accounts were reviewed annually by an external auditor (four audits in the 4 year project period). The May 2003 supervision mission aide memoire drew attention to a delay in the clearance by the LFCD Board of the 2001/2002 audit, but otherwise, no major issues are reported.

5. Ratings for CDSP

Outcome

5.1 Considering the relevance, efficacy and efficiency of CDSP - especially of community development, the project’s largest and most central component - and the lack of monitoring and learning processes intended under a LIL, the CDSP’s outcome is rated *unsatisfactory*. The results are summarized in Table 2 and amplified below.

Table 2: CDSP: Ratings of Development Objectives and Outcome

<i>Development Objectives (Source: Development Credit Agreement. a/)</i>	<i>Relevance</i>	<i>Efficacy</i>	<i>Efficiency</i>
1. To test demand-driven and participatory approaches through a multi-sectoral fund and draw lessons on how to support community development in Lesotho.	Negligible	Negligible	Modest
2. To test various mechanisms and tools to monitor poverty trends in Lesotho and to coordinate national poverty monitoring and analysis activities.	Substantial	Substantial	Substantial
Combined Rating for both Objectives	Modest	Modest	Modest

Overall Project Outcome: Unsatisfactory

a/ The objectives expressed in the PAD have identical wording

Relevance

5.2 Relevance of objectives. *Substantial.* Both of CDSP's objectives had substantial relevance. Poverty alleviation, especially in rural areas and the impoverished highlands was, appropriately, the central concern of both Government and the Bank (Country Assistance Strategy, 1998). Also, improving the capability of the national Government to collect and monitor poverty related data could help keep poverty alleviation at the center of development planning. Pro-poor economic growth remains the Bank's primary concern for Lesotho (CAS 2006).

5.3 Relevance of Design. CDSP's design was critically flawed as concerns the community development objective, contrasting with the design of the poverty monitoring objective, which had substantial relevance.

5.4 Ambiguity of project scope. The PAD and DCA create some confusion as to what the project actually was. The Development Credit Agreement refers to a project with a Government contribution of \$36 million, implying that CDSP was responsible for all sub-projects funded by the LFCD. The PAD refers to a Government contribution of \$5.7 million, indicating that CDSP concerned the 22 pilot projects only. But elsewhere in the PAD the text indicates that all subprojects, including the Government funded sub-projects, would be subject to the same CDD approach. This ambiguity continued throughout project implementation.

5.5 Relevance of design for testing a CDD model. A social fund was a potentially good vehicle for reaching poor villages. Also, based on experience elsewhere, a CDD approach, through community participation and in-kind contributions to investment costs and resultant "ownership" by the community of their infrastructure, had the potential to reach the poor. This was especially so given Government's limited implementation capacity and Lesotho's rugged terrain impeding access to many poor communities which would need to be substantially self-reliant. It made sense also to start by piloting the CDD approach to gain experience and to build the capacity of the funding agency. And a Learning and Innovation

Loan was a good means of testing the CDD approach. But measures to reduce vulnerability against vested interests were not taken.

5.6 Vulnerability to political capture. The critical shortfall in CDSP's design stemmed from the underestimation of the strength of political stakeholders and other vested interests (in particular, politicians in the constituencies) compared with the bureaucracy (the civil service and a core of senior ministers). Against such vested interests, and as further reviewed under efficacy below, royalties were highly vulnerable to diversion for uses outside the CDD framework. An alternative solution using the Government budgetary processes was available (para 5.17).

5.7 Quality at entry. Significantly compounding these problems, CDSP was not ready for implementation, and this contributed to the project's vulnerability. A fast start with an already formed Board and management unit would have made it more difficult to derail the project's institutional structure and CDD focus. But, at the time of project approval, the institutional base for the project had not been sufficiently established: (i) LFCD's Board had still not been appointed; (ii) the Chief Executive Officer and Finance Director of the management unit (MU) had not been recruited (they were appointed six months later); (iii) while the operational manual had been prepared, the more detailed implementation guides that were necessary for field implementation had not been produced;³⁵ (iv) the training plan was still to be prepared; and (v) the M&E unit and M&E work plan had not been established. Un-readiness is also apparent from supervision documents. Thus, the November 2001 aide memoire (almost two years after Board presentation and over half way through the project period) commented that LFCD management had only recently initiated preparations for the 22 pilot communities. In this situation the choice of a project period of only 3 ¾ years was a highly unrealistic expectation.

5.8 Linkage with LHWP-1B. Like the LHWP-1B, CDSP was conceived as part of an overall goal - LHWP-1B would earn revenues for poverty alleviation, and CDSP would be the vehicle for using these revenues to alleviate poverty."³⁶ The conceptual linkage between the two projects is clearly expressed in the 1998 country assistance strategy and the two appraisal reports (para 1.8).³⁷ Yet the linkage between the two projects went no further than the concept stage. CDSP, like LHWP-1B, contained no tangible features that would actually achieve better linkage. Thus, what had been articulated as a poverty alleviating partnership

³⁵ The operational manual had been prepared, but this was a broad guide and provided insufficient specific guidance, essential for a CDD program. The preparation team had planned for more detailed field guides, but they did not materialize. The training plan was not prepared until the final year of the project. The intended staff strength in the management unit was far from complete.

³⁶ The Loan Agreement for LHWP-1B even had management of the social fund as a project component, which was included as the project's Part G: "*Lesotho Highlands Water Revenue Fund: Strengthening LHWRP's capacity to manage efficiently Royalty Payments accruing to the First Guarantor as a result of the Project.*" (Schedule 2 of the Loan Agreement – Description of the Project.)

³⁷ "One component of such effort (*the CAS strategy*) would be the reformulation of the Lesotho Highlands Revenue Fund – a special fund established in order to effectively utilize royalties from water exported to South Africa under the Lesotho Highlands Water Project." (LHWP-1B PAD, strategic context section, page 3.

between the two projects was not realized in design, and this isolation continued during project implementation.

5.9 Taking account of the ambiguity of the project's scope, the design weaknesses making CDSP vulnerable to political capture (significantly accentuated by the project's lack of readiness for implementation) and the lack of a monitoring and evaluation capacity, essential for a LIL, the overall relevance of design for the CDSP's community development objective was *negligible*.

5.10 Relevance of design for the national poverty monitoring objective. The design for achieving this objective is only sketched briefly in the PAD but the survey approach was discussed in greater detail between the Bank preparation team and the Bureau of Statistics - an established agency with prior experience in survey design and implementation. The survey technique to be used - the Core Welfare Indicators Questionnaire (CWIQ) - had already been developed by the Bank and had been successfully tested in a number of other African countries. It was a suitable choice to start the poverty monitoring program. The relevance of design for the national poverty monitoring objective was *substantial*.

5.11 Thus, considering the relevance of both objectives and of design, and balancing the contrasting ratings for community development and national poverty monitoring, the overall relevance of CDSP is assessed *modest*.

Efficacy

5.12 CDSP's overall efficacy is rated *modest* based on the substantial achievements in poverty monitoring (objective II) partly compensating for the negligible achievements in testing the community development model (Objective I). Efficacy by objective is reviewed below.

Objective I. To test a demand-driven and participatory approach through a multi-sectoral special fund and draw lessons as to whether it is an appropriate mechanism to support community development in Lesotho.

5.13 A rapid chronology of events contributed to a comprehensive failure with this objective:

5.14 Initial signs of commitment. The initial signs from Government were that a supportive environment existed for a CDD approach. By Board approval of CDSP in December 1999 a number of events had occurred suggesting commitment to implement CDSP in the pro-poor and community oriented approach envisaged. The LHRF was increasingly acknowledged in Lesotho to have been ineffective at reaching the poor, and it was recognized by both the Bank and Government that it needed revamping. The 1998 CAS, which was discussed with Government during preparation of CDSP, emphasized reformulating the LHRF as one of the key Government actions. From Lesotho's side, in a workshop in November 1997, which included Government, political, NGO, and private sector representatives, it was agreed to reformulate the LHRF as a transparently managed poverty alleviation vehicle. Key principles of CDSP - poverty orientation, community

leadership, clear screening criteria for selecting sub-projects and use of an operational manual as the base for project implementation – were discussed. There were also promising early actions by Government before CDSP’s Board approval: the Lesotho Fund for Community Development was established to replace the LHRD; the locations for the intended 22 sub-projects under CDSP had been chosen using poverty screening criteria; and the operations manual for CDSP had been produced (though without detailed guidance on implementation).

5.15 Demand-driven approaches were jettisoned. These apparently promising actions suggesting commitment were very quickly overturned by a group of actions, mostly taking place shortly before or after project effectiveness. The LFCD Board of nine members had initially been intended to include permanent secretaries rather than political members, but right at the beginning of the project four ministers were appointed to the Board (at a later point six ministers were on the Board) and the two intended community members of the Board were never appointed. The presence of the ministers introduced an inevitable political element and the influence of other politicians as well. In July 2001, political influence was further abetted by an amendment to the LFCD Act to enable members of the National Assembly to submit sub-project proposals. Choice of communities for sub-projects was now entirely a decision based on constituency considerations. Also, the operational manual was in effect jettisoned, even before the project got underway. By effectiveness, Government had approved some 25 sub-projects (additional to the intended 22 pilot projects which had not started), with the CDD and sub-project selection processes ignored.

5.16 Non-establishment of key units in the implementation agency. Another serious problem was the LFCD Board’s evisceration of the institutional structure of the LFCD management unit from the start of the project. Dispensed with were: the technical department, management information unit (MIS and M&E), internal audit unit, and the communication and capacity building unit. The loss, in particular, of the communication and capacity building unit, the technical department, and the M&E unit, drastically reduced capacity for community development approaches. As a result, while it dispensed funds for non-CDD development activities in the constituencies, LFCD and its management unit did not develop as a specialist community development agency.³⁸

5.17 Unprotected funding from royalties. Compounding CDSP’s vulnerability to political capture was the decision during project preparation to finance the fund directly from LHWP-1B’s royalties. The idea was conceptually appealing – it would give the LHWP-1B greater legitimacy as the source of poverty alleviating activities. But it also significantly raised the LFCD’s profile and vulnerability to capture. Royalties were seen by many in Lesotho somewhat as a windfall, with access as the people’s (and politician’s) right. Several government officials and Bank staff advised the IEG mission that a better approach would

³⁸ “It would appear that the LFCD Board was not following the gazetted purpose of the Fund” To provide effective management of the Lesotho Highlands Water Project water royalties allocated to it for community driven projects intended for poverty alleviation.” (CDSP ICR, also quoting the statutes of LFCD.)

have been to channel all royalties to the Government central budget, and then allocate funds to LFCD in the same way as for other government programs.³⁹

5.18 Performance of the CDSP sub-projects: The absence of an M&E unit in LFCD has resulted in a dearth of M&E data on the performance of the CDSP pilot sub-projects. An empirically based assessment of the sub-projects' benefits and sustainability is thus precluded. Nevertheless, mission discussions with the MU and NGOs, and a field visit to one of the sub-projects suggests that there was some positive impact and that the CDD approach was probably better than the supply-driven approach of the royalty-funded LFCD projects. In 2005/06 two years after CDSP closure the LFCD MU did a tour of all 17 (five of the original 22 proposals were rejected⁴⁰) of the CDSP sub-projects. It found that all of the sub-projects were still operating, 16 reasonably well. One village water scheme was partly operative. The MU advised the mission that the only known change since the 2005/06 inspection is that a footbridge was swept away by a storm in 2008. The view of the MU was that they would know of other problems because parliamentarians are vocal when there is a difficulty in their constituency. Finally, a visit by the mission to one of the CDSP sub-projects – Lesala community training center⁴¹ - confirms that at least one of them is very much community owned and operated, is working well, and appears sustainable.

Lesala community's training center was built in 2003 as one of the 17 CDSP sub-projects. The community provided stones, water and some labor during construction. The center provides training to local men and women (mostly of student age) in vocational trades. Courses are typically of two years duration. The instructors are all local. The training center is popular with the community, and some students who were at secondary school chose to come to the center during their weekends. The community committee was active and met monthly. Instruction rooms were neat and clean. At the time of the mission visit several hands-on training activities were in process: carpentry for the men and boys, and cutting and sewing to make school uniforms for the girls. Some 6 years after commencement, the popularity of the center, its good condition, and the commitment of the community committee, indicates a valued facility with good chance of sustaining its activities.

Source: IEG mission field visit.

5.19 The apparent difference in performance between the royalty-financed and the CDSP financed LFCD sub-projects lacks corroborating data although there is some consistency between information and opinions from different sources.⁴² The general view was that the CDSP financed sub-projects performed better. The LCDF MU had definite views on this. First, in their strong view the CDSP sub-projects helped the poor. The 17 selected

³⁹ This mechanism could have been further tightened to ensure that sub-projects were chosen and implemented following the CDD approach to be used under CDSP. Thus, a strong monitoring system could have been established, and Government funds rationed out to LFCD in amounts corresponding to LFCD's absorptive capacity to handle its CDD sub-projects. As funds would only go to LFCD if it followed an effective CDD approach, the project would have been substantially shielded from political pressures.

⁴⁰ Of the 22 originally intended pilot sub-projects, proposals for feeder roads projects were rejected as costs exceeded the funding threshold, hence reducing the number of pilots to 17.

⁴² From the mission field visit, discussion with NGOs and the Ministry of Finance; and the general views on CDD (not CDSP specific) of several development agencies.

communities were all in poor areas identified by consultants following a process agreed with the MU and the Bank. Second, the MU advised that communities were fully involved in all of the 17 sub-projects. The communities also contributed some 10 percent to construction (through provision of labor and materials). By contrast, they advised that the government projects had little community participation, no sub-project committees and no community contributions.

5.20 These are all encouraging signs, but no records were found by the IEG mission. Information is restricted to the hearsay above and the mission visit to one of the sub-projects. Particularly critical is the absence of documentation on the experience of each sub-project, the results achieved, and the lessons that each experience provided. The absence of such documentation largely eliminates the value of CDSP's sub-projects as a means to "test a demand-driven and participatory approach through a multi-sectoral special fund and draw lessons as to whether it is an appropriate mechanism to support community development in Lesotho" (development objective I).

5.21 Summing up, CDSP did not achieve the objective of testing and drawing lessons from community development pilot projects. LFCD was never established as planned, drastically reducing its capacity for CDD approaches and preventing its development as a specialist community development agency. While there are signs that the CDSP financed pilot sub-projects fared better than the government funded sub-projects, the CDSP funded sub-projects were only established in the last few months of the project precluding any learning during the project period.⁴³ No end-of-project action plan was prepared for CDD in the future, and lessons from CDSP were not documented,⁴⁴ thus forgoing the learning purpose of a LIL. CDSP also failed to revamp the social fund and to help ensure that royalties were used in an efficient and transparent manner. Further, the breakdown of LFCD as a funding channel for poverty alleviation precluded the cooperation between LHWP-1B and CDSP that had been envisaged in the country strategy. The efficacy of objective I was *negligible*.

Efficacy of national poverty monitoring

*Objective II. To test various mechanisms and tools to monitor poverty trends in Lesotho and to coordinate national poverty monitoring and analysis activities.*⁴⁵

5.22 Efficacy was *substantial*. The Bureau of Statistics satisfactorily implemented the Core Welfare Indicators Questionnaire (CWIQ) survey, although an intended repeat CWIQ survey was not done. However, the project provided a good learning experience, and a base for BOSs' continued work program. Data collected under this survey and other subsequent surveys have been extensively used for monitoring poverty. BOS's work is also appreciated by Government and has been used by both Government and the Bank.⁴⁶ The data were used

⁴³ The Supervision Mission Back to Office Report of December 21, 2001 (2 years after Board approval) stated that the needs assessments and project identification in the pilot communities was only just commencing.

⁴⁴ There are also no indications that there were any workshops under the project.

⁴⁵ The PAD has identical wording of Development Objective II.

⁴⁶ For instance, the February 2003 CDSP supervision report commented that Government considered the poverty monitoring component a priority in view of the Poverty Reduction Strategy Paper under preparation.

for the 2005 Poverty Reduction Strategy, have been applied for tracking progress with the Millennium Development Goals, are a source of data in Bank papers, and are used by BOS for providing specific data to politicians and Government on a request basis.

5.23 The Director and staff of BOS advised the IEG mission that CDSP's poverty monitoring component enhanced the quality of BOS' survey analysis, and was a good learning experience for BOS staff. It had also helped catalyze interest in undertaking a series of additional poverty related surveys. CWIQ was followed by a Household Budget Survey in 2003, the last year of project implementation, although it was financed separately. The Household Budget Survey borrowed from the CWIQ methodology, but added additional and broader indicators. A "continuous multi-purpose survey" is now planned if possible as an annual exercise. The Director also believed that the CWIQ and the follow-on surveys had helped make Government more poverty conscious. In these respects achievements have been greater than appraisal expectations and the assessment in the ICR.⁴⁷

Efficiency

5.24 Efficiency was *modest* overall. There are indications that the community development sub-projects had some impact on welfare, but there is no corroborating data, which is particularly deficient given CDSP's purpose as a learning and innovation project. Based on the IEG mission discussions and the field visit (M&E was not established under the project) a *modest* positive impact on community welfare from the sub-projects is ascribed (para 5.18). The BOS' relatively small costs had *substantial* impact in stimulating Government's poverty alleviation efforts (paras 5.22 and 5.23).

Risk to Development Outcome

5.25 Risks are *significant* overall. National poverty monitoring under BOS is continuing to develop and Government has shown interest in the program by using BOS' data and continuing to fund BOS. BOS established a recognized role in Lesotho and its work program has proceeded unabated since project closure. Hence, risks that the national poverty monitoring program will dissipate appear only *moderate*. The community development objective has little left to fail. The LFCDD has recently been closed, and the CDD program did not continue. One sub-project is still functioning well (para 5.17), but without information on the other pilot projects, risks for the CDD program are best assessed as *significant*.

⁴⁷ IEG's assessment of CDSP's poverty monitoring program differs substantially from the assessment in the ICR which rated achievements under this objective as "negligible." In part, the difference reflects the opportunity available for the IEG mission to look at impacts as they have further developed since project closure. Additionally, IEG has taken a broader view than the ICR, in particular looking at the national level utility of the program, and the statistical capacity building impact. Also, the ICR's comment that a strategy to monitor poverty data was not prepared (one of the project's monitorable indicators and the main criterion used by the ICR) appears inaccurate, as supervision documents indicate that such a report was produced, discussed at a workshop in May 2001, and subsequently finalized.

Bank Performance

5.26 The Bank's performance was unsatisfactory in project preparation, and highly unsatisfactory for supervision. The poor quality of supervision had the greatest influence on CDSP's disappointing outcome, and Bank Performance is therefore assessed *highly unsatisfactory* overall.

5.27 Quality at entry was *unsatisfactory*. While CDSP's national poverty monitoring component was adequately prepared, there were major problems with the far larger community development program. On the positive side, CDSP's concept was basically sound. Further, extensive use of participatory workshops helped build consensus, at least at the working level of government and civil society, on most project features. Substantial efforts were also made to get agreement on relevant policies and core project features at senior government level, as can be attested from the Letter of Development Policy.

5.28 But there were four critical gaps. First was the Bank's inadequate assessment of risks from vested interests. Although taking the socio-political pulse of a country is a complex task, the earlier political capture of LHRF, due to factors identical to the later experience of LFCD, provided a clear warning that this might happen again.⁴⁸ Second, CDSP was not ready for implementation (para 5.7). Third, the project's scope – responsibility for all LFCD sub-projects or only for the 22 pilots – was unclear; and fourth, the M&E unit and an M&E work plan to test the CDD model had not been established despite the particular importance of M&E for a Learning and Innovation Loan.

5.29 Quality of supervision was *highly unsatisfactory*. The project faced critical issues. Amongst them were the take-over of the project by vested interests, the abandonment of community driven approaches, and the failure to establish essential units in LFCD's management unit. Yet discussion of such issues hardly featured in supervision mission aide-memoires until mid 2001, two years after Board approval. By then these harmful actions had become entrenched and the Bank's efforts thereafter did not ameliorate these core problems. It was not until December 2001, two and a half years after Board approval, that CDSP was classified as unsatisfactory.⁴⁹ By then, 68 sub-projects had been approved by LFCD for funding from royalties, with a total value of M109 million (about \$16 million), with no evidence that any of the OM's CDD processes had been used. All of these sub-projects were selected by Members of Parliament.

⁴⁸ The nearest that the PAD gets to discussion of the risks from vested interests is in the critical risks section (page 21) where there is reference to the risk of "change in political commitment to the LFCD's goal of poverty reduction," which is rated as a "modest" risk. But this refers to the overall political environment and not specifically to vested interests and the LFCD.

⁴⁹ The staffing and timing of supervision missions may have contributed to these weaknesses. The first substantially staffed mission was not until January 2003, only eight months before project closure. Prior to that, missions had typically comprised only the Task Team Leader and possibly one other team member.

Borrower Performance

5.30 Borrower performance is rated *highly unsatisfactory* overall. The highly detrimental actions taken by the political stakeholders resulted in minimal results from the community development side of the project. This was CDSP's dominant objective and represented nearly 90 percent of project costs. The small national poverty monitoring program, while implemented well, is not significant enough to justify an overall performance rating above highly unsatisfactory.

5.31 Government Performance. *Highly unsatisfactory*. The series of policy and institutional changes introduced by the political apparatus completely changed the fundamental features and outcome of CDSP. According to several members of the former MU interviewed by the IEG mission, there were other problems as well: decision making by the LFCD Board was slow, and it was common for Board meetings to be cancelled due to lack of a quorum. Throughout the project period the Board also paid little attention to key implementation constraints. And, despite having been identified during project preparation, the 17 sub-projects were only confirmed for implementation in the last year of the project.

5.32 Implementing agencies performance. *Moderately unsatisfactory* based on the unsatisfactory performance of LFCD, implementing the main project component, somewhat attenuated by the satisfactory performance of BOS:

- LFCD: *unsatisfactory*. The MU was not given a chance to perform satisfactorily. Its operational structure and staffing was never established as intended, and its effectiveness was seriously compromised by the vested interests that disabled the intended CDD approach. A bright spot is that the sub-projects were eventually implemented, though only in the last months of the project due to late clearance by the Board.
- BOS: *satisfactory*. The CWIQ poverty survey was implemented. BOS followed on with other surveys, and continued to develop its capability after project closure.

6. Lessons

The varied experience of LHWP-1B and CDSP provide seven principal lessons:

- *When projects are contributing to a common purpose, linkages between the projects should be exploited and reflected in a combined or mutually supporting design package.* LHWP-1B and CDSP were seen as closely related in the development strategies of both the Government and the Bank, and justified as such in the project documents – poverty alleviation through revenues earned by LHWP-1B channeled through a social fund managed under CDSP. But specific features to achieve this and to better assure the proper use of the social fund were not incorporated in either project, and each was supervised in isolation.

- *A successful construction program does not necessarily mean a successful development program. Attention is needed to the full objectives of a project, including on “software” as well as “hardware.”* LHWP-1B’s successful water infrastructure program will be a main pillar in Lesotho’s development program for decades to come. But, despite the LHWP-1B and the CDSP, the royalties did not go to poverty reduction, the project’s most fundamental objective. Also, while LHWP-1B was strong in all aspects related directly to construction (engineering, physical works and water delivery), it performed weakly in software aspects - capacity building, training and resettlement.
- *Vested interests can “capture” and severely compromise a project – special project features and Bank actions are needed to counteract any such risks.* The political take-over of the LFCO and the resultant collapse of community development processes illustrate that vested interests can outweigh apparently firm agreements and can compromise, or even as in the case of CDSP, nullify development intentions.
- *Lesotho and South Africa’s “Good Practice” Water Treaty has features that may be relevant elsewhere.* The following features have contributed to success: (i) clarity and detail in the treaty document, including procedures for adjusting to changing circumstances; (ii) appropriate institutions – a bridging institution has worked well in coordinating actions between the two countries; (iii) focused objectives; and (iv) independent dispute resolution mechanisms within the institutions themselves. The Bank’s 20 year engagement providing technical and policy support, and as a motivator for the financial involvement of other lenders, also contributed to the treaty’s success.
- *Practical application can make resettlement work. Improving implementation is more important than perfection of resettlement policy.* LHWP-1B’s resettlement program was far less complex than the construction program, was not large, and need not have been any less successful. Missing needs were: (i) a motivated and competent institutional structure; (ii) emphasis on practical, socially responsible, flexible and participatory implementation more than perfection in policy; and (iii) particular focus on helping resettled families to become self-reliant rather than relying on compensation payments alone.
- *Economic benefits from safeguards should be assessed as well as costs.* Under LHWP-1B the costs of safeguards were considered but benefits were seldom assessed. A better approach would have been to recognize such benefits, which would have put the costs in broader perspective. For resettlement, decision makers in Lesotho might have been more readily persuaded to adequately fund and staff the resettlement program if its economic viability had been assessed as a whole.
- *Safeguards implementation should not be frequently given second-tier priority, but should receive the same attention as the main project components. Successful implementation of a safeguard program requires the same design and supervision qualities as other project components.* Compliance with a safeguard requires a range

of skills and resources very familiar to Bank project operations in general: a good action plan; readiness for implementation; good supervision including relevant specialist skills; highlighting the safeguard's importance in dialogue with Government; building implementation capacity; and monitoring. Implementation of the safeguard actions should have no lesser priority than other key project components. There is likely to be a cost, however - quality actions such as the above would tend to increase staff resource needs, and would need additional Bank budget.

Annex A. The Lesotho-South Africa Water Treaty

1. The 1986 Water Treaty between Lesotho and South Africa⁵⁰ was the foundation of the Lesotho highlands water program, and, indeed, was prepared and signed between the two parties expressly to enable the carrying out of the program (Box A.1).

Box A-1: Main Features of the Lesotho – South Africa Water Treaty

Signed in 1986, the treaty provided the institutional, operational and financial base for commencement of the first phase of the Lesotho highlands water program – the Lesotho Highlands Water Project-Phase 1A (LHWP-1A). The three institutions involved (LHDA, TCTA, and LHWC) have their roles, rights and obligations defined. The nature of the program - water provision for South Africa by LHDA in exchange for royalties paid to Lesotho by South Africa, bulk distribution of the water within South Africa by TCTA, all hydropower to Lesotho, and coverage of construction and operations and maintenance costs of LHWP infrastructure by South Africa - are defined. An overview and coordination role for the Joint Permanent Technical Commission (later renamed as the Lesotho Highlands Water Commission) is specified. The Treaty also describes, backed in more detail by a “Royalties Manual,” how the royalties are calculated. Over time, six adjustments (“protocols”) have been made to the Treaty to accommodate changing circumstances.

Sources: The Treaty document and IEG interviews with LHWC, LHDA and TCTA

2. International water agreements have had mixed performances, and have often been fraught with difficulties. In contrast, the Lesotho-South Africa Water Treaty has been largely successful,⁵¹ and is often cited in water literature as an example of good practice.⁵² What have been the underlying factors that have enabled success? Some key points from mission discussions and literature review (which, however, excludes any discussion of the relative share of benefits between the two countries⁵³) are highlighted below:

⁵⁰ Titled the “Treaty on the Lesotho highlands water project between the government of the Kingdom of Lesotho and the government of the Republic of South Africa”, and signed at Maseru on 24 October 1986.

⁵¹ From one commentator: “*It is testimony to the resilience of these arrangements (i.e. the treaty) that no significant changes were made despite the dramatic political shifts in South Africa at the end of the 1980s.*” (In “*Trans-boundary Dispute Resolution – the Lesotho Highlands Water Project.*” A. Wolf and J. Newton, undated but after 2007).

⁵² For instance, the cooperation between Lesotho and South Africa was termed in one commentary as “*one of the most far reaching examples of water cooperation on the African continent. Since bilateral cooperation is strongly based on the sharing of benefits resulting from the joint river development, this project is often seen as a model for economic, efficient and fair water cooperation elsewhere.*” (Sadoff and Grey, 2002).

⁵³ NOTE: The appropriateness or otherwise of the relative shares of benefits between South Africa and Lesotho is not evaluated by IEG. The analysis and discussion in this report refers only to mechanisms, features, and implementation of the treaty, and in no way to benefit shares.

Features that have contributed to the Treaty's success were:

- (i) A win-win situation. Lesotho and South Africa start with the major advantage that they have intrinsic and mutually complementary reasons to cooperate with water transfer. South Africa's Gauteng region, contributing almost 60 percent of the country's GDP and some 40 percent of the urban population, is water short, and this will accentuate over time. For Lesotho, water is abundant but revenues for development and addressing extreme poverty are highly constraining. By building and operating infrastructure for Lesotho to sell water to South Africa, both parties have become better off.⁵⁴ Nevertheless, despite this inherent advantage, there were enormous hurdles to surmount at the beginning. Political relations between the two countries were not strong, and, particularly for Lesotho, water professionals were, and remain, scarce.

Box A-2: Flexibility and Dispute Resolution Features of the Water Treaty

Flexibility: While the Treaty is detailed, mechanisms exist for adjustment in program arrangements as needed: (i) LHWC rather than political decision makers has the institutional mandate to make operational decisions and coordinate plans for the future. (ii) The phased design of the Lesotho highlands water program also provides scope for adjustments at closure of each phase. And, more formally, (iii) "protocols" are occasionally used to adjust the treaty itself. For instance, the most recent protocol in 1999 refined the functions and responsibilities of LHDA and TCTA, adjusted the role of the institution connecting the two countries and renamed it the "Lesotho Highlands Water Commission."

Dispute Resolution: There are four levels of dispute resolution under the treaty, the first two internal to the institutions. A first role is that of LHWC itself, established for the very purpose of coordination and cooperation. The equal representation of each country (3 delegates each, with alternating chairmanship) and the small size and permanent nature of LHWC tend to make for a cooperative and informal environment.

The second dispute resolution level is a more formal meeting between the three institutions backed by a report prepared by LHDA and/or TCTA, or possibly by LHWC. As commented on, however, by the Chief Executive of LHDA and in similar vein by LHWC and TCTA, informal discussions between the institutions have tended to enable agreements by consensus between the three institutions themselves. There have been only two cases where going beyond the second stage has been necessary. Nevertheless, provisions for such steps as needed are present. Thus, the third step would be negotiation between the governments. Finally, if matters are still not resolved, provision is made for establishment of an Arbitral Tribunal. This would comprise three persons with legal background, one each appointed by the two countries and the third appointed by the two arbitrators themselves. Decisions at this level are considered in the treaty as final and binding.

⁵⁴ Mutual sharing of benefits is widely referred to in the literature on international waters. For instance: "*The LHWP can be considered as highly effective in the sense that it creates a "win-win situation" for both countries, which would both be losers otherwise.*" In "Sustainable management of international waters- the Orange River Case." A. Conley and P. van Niekerk, 2000.

- (ii) A clear, detailed yet flexible water treaty. The treaty, now 23 years old, is still substantially relevant. Protocols or informal consensus have been used from time to time to adjust to changing circumstances (Box A-2).⁵⁵
- (iii) Appropriate institutions. It was and remains sensible to have separate national institutions – LHDA for Lesotho and TCTA for South Africa - to handle each country's part of the program. Each could best navigate the administrative and operating environments specific to its own country. The vital inter-country coordination role is provided through LHWC, with equal representation of both nations. LHWC is a small entity, comprising three permanent delegates and three alternate delegates from each country. The small size and professional experience of this group facilitates decisions.⁵⁶
- (iv) A cooperation culture. In IEG mission discussions with the three key institutions (LHWC, LHDA and TCTA) and with senior Lesotho Government officials and the Development Bank of Southern Africa,⁵⁷ inter-agency relations concerning water management were considered to be generally good. Cooperation was thus easier.
- (v) Institutional autonomy and dispute resolution mechanisms. Although the mission found that the two governments and their politicians followed LHWP with great interest, LHWC, LHDA and TCTA enjoy substantial autonomy in implementing the water program. In part this is because LHWC plays the overview role that would normally be done by the governments. But also, dispute resolution mechanisms are integrated within the treaty (Box A-2).
- (vi) Limited objectives. The Treaty focuses exclusively on the Lesotho highlands water program (LHWP-1A, LHWP-1B and future investments as appropriate). It does not include water resources management in the larger Senqu-Orange river basin.⁵⁸ The two countries are free to implement activities in their respective countries as they wish, providing they do not impinge on LHWP water management (for instance, resettlement modalities differ between the countries).

⁵⁵ “The advantages of a flexible approach are further illustrated by the LHWP that allows for a continuous monitoring and adjustment of regime provisions in the light of changing circumstances.” (S. Lindermann, 2005 in “Explaining success and failure in international river basin management – lessons from southern Africa)

⁵⁶ For instance, “The bilateral arrangement of South Africa and Lesotho is fairly complex and comprises not only financial and ownership arrangements but also dispute settlement mechanisms and the formation of a bilateral organization and two implementing organizations enjoying autonomous status. Clearly, the LHWP demonstrates that bilateral functional water cooperation needs not technical and financial cooperation but complex institutional arrangements in parallel.” In Understanding Trans-Boundary Water Cooperation: Evidence from Africa. A. Klaphake and W. Scheumann, 2006

⁵⁷ DBSA was one of the main project financers and has been closely associated with LHWP-1B's implementation.

⁵⁸ There is an institution for broader basin management – the Orange-Senqu River Commission, established in 2000.

There is, however, a downside – the treaty’s limited attention to social issues may have contributed to less attention on resettlement.

- (vii) Prompt implementation. Signing of the treaty in 1986 was paralleled by Bank approval in the same year of the Lesotho Highlands Water Engineering Project which provided the funds for preparation of a long-term investment program to put the treaty into implementation. In 1991 the first phase of this program – the Lesotho Highlands Water Project - Phase 1A – got underway, also with assistance from the Bank. The implementing institutions as well as the financial means to carry out the program were also established early - LHDA and the Joint Permanent Technical Committee (the predecessor of the LHWC) were both established in 1986. Thus, momentum to carry out the treaty was uninterrupted.
- (viii) Training and technical assistance. This was a weak area. LHDA’s need for staff training and technical assistance was frequently expressed to the IEG mission, generally with comments that capacity building for LHDA was the greatest need. The highly technical skills for LHWP-1B implementation, especially for design and supervision of construction works, were provided through large contracts with international firms. For instance, engineering supervision contracts amounted to \$78.5 million. But there was no concerted plan to train staff. The ICR commented on key LHDA positions that still remained vacant at loan closure. The Borrower’s comments on the ICR refer to the short-term nature of capacity building in LHDA and the limited efforts placed on training.⁵⁹ Lesotho’s Minister of Environment and Natural Resources had similar views on capacity building.
- (ix) Long-term Bank support. Last but not least, has been the quality and continuity of the Bank’s support, together with other agencies such as the Development Bank of Southern Africa. Continuity was also good – spanning preparation of the program under the 1986 Engineering Project to LHWP-1B closure in 2006, a 20 year period, and the Bank’s association with Lesotho’s water sector is continuing under the Bank assisted Metalong dam project.

⁵⁹ *“The success of this component has been rather short term, relating mostly to support during the construction phase.” ... “The formal training policy and plan ... was never prepared. Professional training that took place between 1998 and 2003 mainly involved working as counterparts to the expatriate specialists, attachments to consultancies, (and) some short-term and limited long term academic training.”* (Section 3.2 of LHDA’s Comments on the ICR Report, June 13, 2007)

Annex B. Unfinished resettlement

1. The resettlement program: The Mohale dam and reservoir and other infrastructure constructed under LHWP-1B required relocation of some 418 households in three stages – stage one where 99 households which would have been immediately affected by the construction were relocated, a stage two where 216 households with houses in the reservoir impoundment area were relocated, and a stage three of 103 households which could no longer sustain their livelihoods due to significant loss of agricultural land to the reservoir. Additionally, LHDA reports that an extensive water and sanitation program was mounted to cover the whole Mohale catchment area, well beyond the population directly affected by the LHWP-1B. This program provided piped water and 2,545 ventilated pit toilets to 126 villages.

2. An adequate policy but lagging implementation: The compensation policy for project affected persons has evolved over time, with Phase 1B learning from Phase 1A's experience and with further improvements since closure of LHWP-1B. Box B-1 shows the main elements of the policy as of March 2009.⁶⁰ The resettlement package is quite comprehensive. LHDA provides each family with a newly constructed small house, long-term compensation based on the estimated lost income from the household's fields and other assets, training if requested for an income earning activity, and community facilities if not present, such as an access road or primary school. Of particular note is the long compensation period (inflation adjusted) of 50 years (or an equivalent lump sum payment). The IEG mission field visits indicate that the compensation package has the potential, if flexibly implemented and in a timely fashion, to protect the material welfare of re-settlers.

Box: B-1. Main Elements of LHWP-1B's resettlement package

- Choice of resettlement location

Each household provided with:

- Fenced site of 1,200 m²
- New house with heating and cooking facilities
- Water tank
- Ventilating pit toilet
- Disturbance allowance over 3 years (year 1 Maloti 6,000, Year 2 M4,000 and year 3 M2,000)
- Annual compensation payments over 50 years, based on estimated net value of agricultural production (with inflation adjustments) and any other income sources (eg. trees, brick kiln).
- Option of substituting the 50 year annual payments by a lump-sum withdrawal (based on a Business Plan for the family involved).
- Minimum threshold of compensation – any individual who was getting less than M3,960/year has annual compensation allowance topped up to this level.
- Development assistance - training and technical assistance to establish a skill/trade and/or provision of agricultural extension.
- Community facilities to include as needed an access road, reasonable proximity to primary school, and, sometimes, other facilities such as a church, etc.
- Communal compensation for lost communal assets such as rangeland, wild vegetables, useful grasses and medicinal plants

Source: LHDA

⁶⁰ The resettlement package is as of 2009. Resettlement entitlements under LHWP-1B were substantially similar to 2009 entitlements. The main difference is that a compensation period of 10 years rather than 50 years was applied.

3. Boxes B-2 and B-3 illustrate situations where re-settlers, while encountering some adjustment issues, have adapted to their new environment and lifestyle. These encounters corroborate the apparently adequate provisions under the compensation policy. But in its application, the policy has had mixed performance. The greater issue then is to effectively carry out compensation. In effect, one can debate the policy, with arguments that could perhaps be made for additional benefits or for lower benefits, but any gaps that may be present in the policy would appear to be a far lesser concern than shortfalls in implementation. Indeed, the IEG mission found a widespread view within Government and civil society that this was the case - improving the *implementation* of resettlement was the key need.⁶¹

Box B-2: Success and difficulties resettling in a rural host village

The IEG mission visited Ratau village and met with the Acting Principal Chief, Area Chief, Village Chief and several host and settler household heads. Some 33 re-settler families had come to the village of 680 families in 2002. Meeting participants advised that, although the settlers had the same language and culture as the host villagers, integration had still been a problem, though not major. Initial misunderstandings had included how to use the re-settlers communal compensation for lost grazing. The resettlers initially thought this was only for them whereas it should have been shared. The issue was resolved through construction of a communal grain mill which benefitted all villagers and brought some income from usage by other villages. Management of the mill had still been a problem but a committee comprising both settlers and host villagers had substantially resolved these difficulties. LHDA and the Department of Cooperation had helped in this. The village elders could also help by getting different parties together for discussions.

Despite the initial integration problems, meeting participants felt that people's lives were improving. There were issues here and there but in most respects there had been "a great change in the lives of people." Most re-settlers were now "better off", and this could be seen in better clothes and appearance, purchase of household appliances and furniture. Typical improvements cited were: a better house, access to water, electricity, a clinic and nurse and a school now in the village, access to roads, possibility with improved road access to request a doctor if a family member is ill, only a short walk to a mill, and climate less cold compared with the highlands. The host villagers also benefitted from the amenities provided. However, one host villager also commented that benefits were not always there – there were other villages where livelihoods had not improved.

A particularly appreciated provision was the income generating schemes, including the possibility to learn crafts such as sewing, carpentry, welding, purchase of a taxi, etc. The agricultural intensification activities were also strongly valued. There was "treasure in the soil", and agricultural improvements (e.g. more diversification into fruits and vegetables, better agronomic practices, improved livestock breeds and range management) could provide greater income.

However, participants commented that sustainability of incomes might be a problem on a case by case basis: for instance, if a taxi breaks down and repairs are too costly. The "business plan" that LHDA required before granting a lump sum payment to a household was considered a good idea.

Source: IEG mission field visit

⁶¹ The Bank was also concerned with the weak implementation of resettlement. In the last year of the project (2006) the supervision team downgraded the project's status of implementation to moderately unsatisfactory based on the poor performance of the resettlement program.

Box B-3: Flexibility in urban resettlement

Eleven households have re-settled in Tsolo, near Thatsane Industrial Zone on the outskirts of Maseru. The households were re-located in 2001. An IEG interview with the wife in a family of two older persons illustrates both the variability of family needs in a resettlement program, and a situation where LHDA was flexible in dealing with the special needs of this family.

The couple's house was situated in a 1200 m² fenced off plot of land which enabled some kitchen gardening. The house had been built in 2003 and was in good condition. It had electric wiring, piped water, a kitchen in the house and two VIP toilets. The couple had taken lump sum compensation. With this they had bought a field outside Maseru and cultivated maize. They had also bought a freezer and a larger TV. Both the husband and wife had tried to get jobs, but they found that the factories were not employing older people. A solution had been found for a sustainable income stream. The couple requested LHDA to build an extension to their house so that they could rent out rooms. Six such rooms were constructed and all had lodgers (the second toilet had also been provided by LHDA following city standards for the larger number of residents).

The woman advised that "life is better" as a result of resettlement. However, she complained of one matter. They had been compensated by LHDA for their land (and 138 trees) but she felt that she should also have been compensated for a livestock corral.

Source: IEG mission field visit.

4. The status of implementation: The most recent report of the national Ombudsman (April 2009) provides a factual inventory, based on village by village field visits, of the present status of the resettlement program.⁶² The village inspections were carried out in September 2008 and the Ombudsman provides a household by household account of the compliance of the resettlement program compared with a previous visit in September 2007. The 2007 inspection followed a first round of visits made by the Ombudsman in June 2006. The primary observation of the Ombudsman in the April 2009 report is that very little had been done by LHDA in following up his recommendations of September 2007. And the September 2007 inspection had also been critical of the limited progress since 2006.⁶³

5. The Manageability of resettlement needs: The striking feature of the problems listed by the Ombudsman is how manageable they actually are. Compared with the major resettlement programs that have been undertaken for some schemes in India and China,⁶⁴ the LHWP-1B, dealing with only 418 resettled families, has a modest task. Further, there now remain only some 20 villages with 83 re-settled families, for whom some actions are still

⁶² "Ombudsman's Inspection of Compliance in the Mohale Areas", April 2009.

⁶³ From the April 2009 Ombudsman's report: "*Following the release of his report on the Mohale Inquiry in June 2006, the Ombudsman carried out a compliance inspection during September 2007, 15 months after the release of his report. His findings in that exercise were that LHDA had not complied with his recommendations.*" and ... "*Again in September 2008 the Ombudsman embarked upon a similar exercise. I regret to have to say that once again Very little has been done in answer to the complaints lodged with the Ombudsman by the affected people and households.*"

⁶⁴ For example, India's Andhra Pradesh Third Irrigation Project resettled over 4000 families. China's Xiaolangdi Resettlement Project (dealing with persons displaced by a dam project) resettled over 170,000 families.

due. Most of the actions are relatively simple. Over 80 percent of the 83 complaints are only for payment of a still due part of the family's compensation package (for instance, for the family's trees or other assets). Few physical works are thus required from LHDA, and distribution of funds due should be straightforward. Most of the remaining complaints – such as completing a business plan in order to provide lump-sum payment – are matters well within LHDA's experience.

Key Resettlement and Rehabilitation Needs

6. From the IEG mission's discussions and field visits in Lesotho, discussion with Bank staff and review of the literature on LHWP's resettlement program, the following implementation issues have emerged:⁶⁵

- (i) Timely implementation: The delays that LHWP-1B's resettlement program encountered have resulted in hardship for a number of re-settlers and substantial criticism from the national ombudsman, civil society and others. This need not have been the case. An adequately staffed unit in LHDA should have been able to address the issues raised by the ombudsman.
- (ii) Institutional strengthening: While there is no reason why LHDA's present institutional capacity cannot expeditiously implement the Ombudsman's fairly straightforward recommendations, capacity building for the future is desirable. Just as there is a basic engineering capacity in LHDA, an equally proficient and adequately staffed department or ancillary institution, with substantial autonomy, is needed for implementing the resettlement and social development aspects of the water investment program. This could be supplemented through contracting private consultants or NGOs. There also needs to be a better system for tracking resettlement progress - M&E was hardly utilized.
- (iii) Enabling oversight: The degree and method of oversight also needs attention. A number of sources commented to the IEG mission that LHWC was overly micro-managing the resettlement program, which was impeding implementation. The ombudsman's report also refers to reports of impediments involving LHWC, stating that limited progress with the Mohale program was attributed by LHDA to be because "*the Commission (LHWC) having taken its time to give it (LHDA) the necessary authority and funds to execute the many jobs it had to execute.*"^{66 67}

⁶⁵ Care has been taken to reflect the needs as during LHWP's Phase IB and as still relevant today. Much of the literature refers to Phase IA, the Katse program. As indicated by the discussion in this section, there have been significant improvements since that learning experience. There is, nevertheless, room for further improvement, as listed below.

⁶⁶ A broadly similar observation has been made by Thayer Scudder, formerly a member of LHWP's panel of experts for social and environmental issues. "*The Commission has been a constraint on developing the project in the interests of affected people "..... and"Another constraint has been the Commission's ongoing micro-management of the affairs of the Environment and Social Services Group*" (T. Scudder in "On the wrong side of development" (editors M. L. Thamae and L. Pottinger, 2006).

⁶⁷ However, a viewpoint expressed to the IEG mission by an observer who was familiar with both LHDA and LHWC was that the degree of involvement by LHWC might primarily be influenced by the degree to which LHDA needed help. Where less help was needed, LHWC could become less involved.

- (iv) A “development” approach for sustainable income generation: The term “compensation” used under LHWP to designate re-settler benefits, distracts from the central need - to rehabilitate welfare emphasizing development – i.e. helping families to become self reliant rather than perpetually dependent on the resettlement package.⁶⁸ A “development approach”, emphasizing the families’ independence and capacity to provide for self-sufficient and sustainable wellbeing and income is needed. This is increasingly LHDA’s approach. Commonly chosen activities by settlers have been establishment (with vehicle) as taxi or delivery van drivers, trades such as carpentry and welding, and intensified agriculture.⁶⁹ The development orientation could be further enhanced. Training of women could also be emphasized. In Lesotho’s society, where a large proportion of the men are working in the South African mines, women manage the farms and any domestic enterprises.
- (v) Participatory approaches: Several NGOs and donors as well as individuals in LHDA and LHWC commented that LHDA’s approach to re-settlement to date had been top down rather than involving communities in a participatory and bottom-up approach. The engineering culture of LHDA prevailed, tending to a more directive than participatory orientation. Instead, re-settlers should be a part of the project planning, identifying their needs and participating as implementers as well as beneficiaries of resettlement during implementation.
- (vi) Flexible Implementation: Boxes B-2 and B-3 illustrate both the distinctly individual nature of resettlement – the needs of each household or community may vary considerably – and, for these families, LHDA’s flexibility in catering to these different needs. Nevertheless, several observers commented to the mission that the more typical orientation has been a “one size fits all” approach. The more case by case approach exemplified in the boxes merits application as general practice.
- (vii) Involving civil society: To date, the implementation of re-settlement has been almost exclusively done by LHDA. The NGO sector, while still quite small in Lesotho, is growing, and world experience is that such organizations can have greater capacity and aptitude than Government agencies in community outreach. Several representatives from the NGO sector and donor agencies commented on the potential role of NGOs in community activities related to re-settlement. An option to consider

⁶⁸ As stated in the Treaty for LHWP between Lesotho and South Africa, the need is to set families up to have “a standard of living not inferior to that at the time of first disturbance”. Improving rather than maintaining welfare would be even better. In fact, this was recommended by the water program’s Panel of Experts as far back as its first report in 1989, which stated that the project should aim not just to restore but also “to raise living standards and incomes.”

⁶⁹ A well-known example of agricultural diversification is the seed potato program in the mountains, which has proven to be popular and remunerative for farmers.

would be to have contracts with selected NGOs with proven experience in community development and a practical and field oriented approach.⁷⁰

⁷⁰ A number of observers commented to the IEG mission on the varying quality and motivation of NGOs, both national and international, that are present in Lesotho. NGOs with capacity and motivation for participatory field implementation rather than representing special interests would be the type to consider.

Annex C. Well handled environmental initiatives

1. LHWP-1B handled environmental flows and biodiversity well. These two “good practices” are summarized below:

Environmental Flow Requirements

2. Measurement and management of water flow and In-stream Flow Requirements (IFR) for river reaches below Mohale dam was conscientiously carried out based on regular monitoring and periodic studies by consultants. The IFR studies were done after the environmental impact assessment and engineering design for Mohale had been completed. This was not ideal as it required retrofitting IFR requirements into a previously determined dam design and operating plan. Developing the IFR, which is an inexact science given the many variables involved, also required an iterative and learning by doing-and-measuring approach. As a result, changes were made to Mohale’s dam outlet valves and operating rules, and the minimum flows specified in the treaty were increased by 300 to 400 percent. It is too early to be sure of the long-term effects of flow levels, although, from discussing with Bank and LHDA engineers the technical management of flow levels is well controlled at the levels considered appropriate by LHDA. More complicated is considering what is an acceptable IFR and what social and environmental benchmarks are needed. Further questions to consider would be - in what way and at what reduction in river flow, do downstream impacts start to have significant social and environmental costs? And, what are the economic trade-offs between environmental benefits and any changes in delivery of water to South Africa.

Species preservation

3. A promising biodiversity initiative has been the program to preserve the Maluti Minnow. This species is only found in particular areas of Lesotho and was at risk due to the reduced river flow downstream of the Mohale dam. In 2003 four upstream sites without predatory species were selected and 1700 of the minnows were transported to these reaches. The initial experience is encouraging. The table below shows that in three of the four sites the minnow was still surviving some four years after the relocation, and that population density increased from 2007 to 2008. But some caution is needed as the percentage of fish less than one year old diminished in that period. The Maluti Minnow action plan will need continued monitoring. Migration to these sites of trout, a predator of the minnow, is a possible risk which may require preventive measures.

Table C-1. Changes in Maluti Minnow samples

<i>Fish Caught in Sample</i>	<i>River Reach</i>			
	<i>Makhaleng</i>	<i>Jordan</i>	<i>Quthing</i>	<i>Maletsunayane</i>
<u>2007</u>				
Total fish	71	105	82	165
Percent of fish under 1 year old	61%	49%	46%	16%
<u>2008</u>				
Total fish	66	116	118	206
Percent of fish under 1 year old	17%	36%	35%	16%
Source: LHDA				

Annex D: The quality and effectiveness of Bank support to implementing safeguards

1. Safeguards were triggered between the two projects: environment for both projects, social/poverty impact (within the environment safeguard) for CDSP, and resettlement, international waters, dam safety and natural habitat for LHWP-1B. This diversity provides fertile ground for observing how the quality of the Bank's efforts promoting a safeguard can influence compliance with the safeguard.
2. This PPAR's review of implementation and ratings for LHWP-1B and CDSP, indicate a generally close relationship between the quality of the Bank's work promoting a safeguard and the degree to which the safeguard is satisfactorily implemented. For the dam safety safeguard which was satisfactorily complied with, even before LHWP-1B's implementation, the institutional capacity and procedures under a panel of experts were established to overview dam safety, and the Bank supervision task team contained the technical specialization and made the effort to monitor safeguard activities. By contrast, resettlement issues were unevenly tackled by the Bank, especially during project preparation. LHDA had several shortfalls which could have been better influenced by the Bank – incomplete preparation resulting in slow commencement of resettlement, an institutional capacity which was never fully competent for the task, and weak M&E. During supervision a resettlement specialist helped make some progress with resettlement, though not enough to consider the safeguard to have been fully met.
3. Such examples support what might be considered obvious - both intuitively and from Bank experience – that the quality of the Bank's safeguard efforts have causative influence on safeguard achievements. But this PPAR review indicates that "obviousness" is not necessarily translated into action by the Bank. More probing observations of the safeguards experience of LHWP-1B and CDSP may be illuminating.
4. For illustrative purposes an assessment of the quality of the Bank's support to implementing safeguards is provided in Table D.1. Each row represents a safeguard that was triggered either by LHWP-1B or CDSP.⁷¹ For comparative purposes, one activity that is not a safeguard – the construction of water infrastructure under LHWP-1B – has also been included. The quality of the Bank's support (performance of the task team and management) is assessed using eight criteria which typically make a difference in the Bank's effectiveness preparing and supervising a project component. For the preparation period: (i) a sound diagnostic of needs and issues (or the equivalent for a safeguard – e.g. a satisfactory environmental assessment for the environment safeguard); (ii) the quality of component

⁷¹ The safeguards include CDSP's poverty alleviation goal under the community development program because: (i) improving the welfare of the poor was the key element in CDSP's objectives and is also central in Lesotho's development strategy; and (ii) social concerns such as poverty would normally be part of a project's environmental assessment (OP-4.01). The environmental assessment is meant to cover social as well as natural environment issues, unless covered separately, as done for LHWP-1B's resettlement program. Of note is that Lesotho's environmental assessment for CDSP (January 1999) covered the environment only, and did not cover poverty issues.

preparation (or the safeguard equivalent – e.g. an environmental action plan, resettlement plan, etc.); and (iii) readiness for implementation. And, during project implementation: (iv) the Bank's general effectiveness (competence and experience) in project supervision; (v) the presence in the team of adequate specialist knowledge relevant to the safeguard or component concerned; (vi) the effectiveness of the Bank in promoting the borrower's institutional capacity for implementation; (vii) the degree to which the Bank places emphasis on and highlights the importance of the component/safeguard during interactions with Government; and (viii) whether an effective M&E system is established. For each safeguard, the quality of the Bank's support is then assessed relative to these criteria.⁷² Given the nature of this exercise, the assessments are indicative only, but they are consistent with the findings and ratings in Sections 3 and 5.⁷³

Table D-1: Quality of Bank Support to Implementation of Safeguards

<i>Safeguard</i>	<i>Quality of Bank Support</i>								
	Satisfactory EA	Quality of Preparation	Implementation Readiness	Effectiveness of Supervision	Task Team has required specialists	Effectiveness in Institutional strengthening	Team emphasizes safeguard	Create good M&E	Overall quality of safeguard support
Construction program (LHWP) (Ratings are on construction program and not on safeguards)	-	HS	HS	HS	HS	MU	HS	HS (for MIS)	Highly Satisfactory
Dam safety (LHWP)	n.a.	HS	HS	HS	HS	S	S	n.a.	Satisfactory
International Waters (LHWP)	n.a.	n.a.	n.a.	S	HS	MS	S	S	Satisfactory
Poverty Monitoring (CDSP)	n.a.	S	MS	S	S	S	S	HS	Satisfactory
Natural Habitat (LHWP)	S	S	S	S	MS	S	MS	S	Moderately Satisfactory
Resettlement (LHWP)	MS	MS	MS	S	S	MU	MS	U	Moderately Unsatisfactory
Poverty Alleviation (CDSP) (i) (CDD program)	MU	MS	MU	HU	MU	HU	HU	HU	Highly Unsatisfactory

Nomenclatures: HS = Highly Satisfactory; S = Satisfactory; MS = Moderately Satisfactory; MU = Moderately Unsatisfactory; U = Unsatisfactory; HU = Highly Unsatisfactory.
(i) Under the environment safeguard, covering social as well as environmental issues.

⁷² Evaluations take the context of each criterion into account. For instance, the quality of supervision for CDSP was poor at the beginning of the project and approaching satisfactory at the end. However, a simple "average" of the two performances would not capture the quality of supervision when it mattered. All of the key Government actions which resulted in project failure happened during the first two years of project implementation. Thus, the rating of highly unsatisfactory for quality of supervision reflects the very deficient supervision in that critical period.

⁷³ For instance, the highly satisfactory rating in Table D.1 for quality of supervision of LHWP-1B's construction program is also reflected in the commentary on the Bank's quality of supervision for construction in Section 3 - LHWP-1B's ratings.

Prospects for enhancing the Bank's effectiveness with Safeguards

5. From Sections 2 to 5, and Table D.1 above, the following observations arise:

- *The Bank performance qualities that typically contribute to successful compliance with a safeguard are broadly similar to the Bank qualities that help achieve satisfactory implementation of non-safeguard project components.*
- At least for the 6 safeguard examples here, there is nothing particularly mysterious about what is associated with success or failure: application of high quality skills and effort by the task team and management is associated with good results – for instance, the international waters and dam safety safeguards as commented above. In contrast, CDSP's community driven poverty alleviation efforts had low performance qualities in practically every aspect. National poverty monitoring and natural habitat safeguards had moderate performance, and resettlement was on the lower side, though considerably better than CDSP's CDD poverty alleviation program.
- The highest performer is a non-safeguard – the LHWP-1B construction program, which was implemented well and has almost flawless Bank performance qualities. This program was LHDA/LHWC's highest priority, and received similar priority attention from the Bank and Government. The only score below highly satisfactory is in "The effectiveness of helping build institutions." The moderately unsatisfactory assessment reflects the Bank's neglect of capacity building for LHDA. However, even here, while the Bank was not successful in helping strengthen LHDA overall, the project used turnkey consultant contracts for design and supervision of construction which were effective. Thus, *for the construction activity*, institutional capacity was created, albeit for only a temporary period.
- *Good quality Bank performance is needed for both preparation and supervision of the safeguard action plan.*
Higher Bank performance is associated with good ratings both in preparation and in implementation - the same as would be expected for a non-safeguard project component.
- *The degree to which the Bank prioritizes and highlights a safeguard in its interactions with the borrower can have significant impact on safeguard compliance.*
Bank emphasis on a safeguard appears to influence Government efforts as well. Supervision aide memoires for LHWP-1B put resettlement near the end and construction at the beginning. aide memoires tended to be over 10 pages - hence attention to an item at the end of the aide memoire would likely be less. Also, the order of subjects covered in wrap-up meeting discussions might have provided a psychological signal to LHWC and LHDA that the safeguard action is less important than other project activities. CDSP is an extreme example of signals or lack of them provided to the borrower - early CDSP missions placed minimal emphasis on the key

factors causing the collapse of the CDD program. By contrast, CDSP's national poverty monitoring even had visits by Bank specialists uniquely for this component.

- *Staff resources need to reflect the implementation needs for safeguard compliance, and not get secondary treatment relative to other components.*

If achieving compliance with a safeguard requires a set of Bank qualities not unlike the needs of a standard project component, there is an evident consequence for budgets and management decisions. The resources to achieve safeguards compliance need to be mainstreamed and not considered as only an "add-on" after the resource needs for the main project components have been catered for. Additional Bank resources to enable the qualities needed may be required - more safeguard related specialists in task teams, more staff time to promote improved implementation capacity and M&E, etc.⁷⁴

⁷⁴ For preservation of the Maluti Minnow, LHDA contracted a research program during LHWP-1B preparation which led to a subsequent action plan. The Bank encouraged and monitored progress. There was no particular Bank expertise in aquatic ecology, but the consultants provided that. The Bank also encouraged careful monitoring of the minnow population, so progress and impact were transparently known (Table B.1). Supervising all these activities required some incremental staff resources.

Annex E. Basic Data Sheet

Lesotho Highlands Water Project, Phase 1B (Loan 4339-LSO)

Key Project Data (amounts in US\$ million)

	<i>Appraisal estimate</i>	<i>Actual or current estimate</i>	<i>Actual as % of appraisal estimate</i>
Total project costs	884	629	71
IBRD Loan (LHWP-1B)	45	21.7	48
IBRD Loan (LHWP-1A)	8	8.0	100
Cofinancing	n.a.	590.6	n.a.
Borrower	26	8.4	32
Cancellation			
Total Financing ^{1/}	n.a.	629	n.a.

^{1/} Excludes export credit backed financing instruments

Project Dates

	<i>Original</i>	<i>Actual</i>
Initiating memorandum		01/13/1993
Board approval		06/23/1997
Effectiveness	06/09/1999	06/09/1999
Closing date	12/31/2004	12/31/2006

Staff Inputs

	<i>Actual/Latest Estimate</i>	
	<i>No. Staff weeks</i>	<i>US\$ ('000)</i>
Identification/Preparation/Appraisal	n.a.	71
Supervision	241	2,172
Total	n.a.	2,243

Mission Data

	<i>Date</i>	<i>No. of persons</i>	<i>Specializations represented</i>	<i>Performance</i>	<i>Rating</i>
				<i>Implement- -ation status</i>	<i>Develop- ment Objectives</i>
Identification/ Preparation	10/04/1993	4	TTL, Env, Ops, Proc	n.a.	n.a.
	02/12/1994	8	TTL, Ops, R&R, Env, WRM, Proc, Country Officer, Ops,		
	10/04/1994	5	TTL, Ops, R&R, Soc, Dam Engr.		
	11/01/1994	11	TTL, Power Engr, Ops, Dam Engr., Geologist, Soc, Env, Econ, NRM, Fin, WRM Econ		
Appraisal	06/23/1997	8	TTL, Power Engr, Soc(2), Econ, Env, Leg, Country Director		
	10/26/1997	3	Soc, Political Econ, Soc		
Supervision	05/24/1998	2	Dam Engr, Geologist		
	06/27/1998	2	TTL, Political Econ		
	11/15/1998	4	TTL, Soc, Inst, Env	S	S
	02/04/1999	1	NRM	S	S
	04/28/1999	7	TTL, Soc, Dam Engr, Env, Econ, Inst	S	S
	11/03/1999	1	NRM	S	S
	11/09/1999	7	TTL, Inst/M&E, WRM, Soc, Env, Engr, Econ	S	S
	05/02/2000	8	TTL, Engr, Env, R&R, Econ, Inst, Proc, WRM	S	S
	11/02/2000	8	TTL, Engr, R&R, Env, Econ, WRM, Proc, Fin	S	S
	04/23/2001	7	TTL, Engr, Soc, Env, Econ, WRM, Proc,	S	S
	10/29/2001	7	TTL, Engr, R&R, Rural Development Spec., Env, Econ/Fin, Proc	S	S
	03/05/2002	1	TTL	S	S
	04/22/2002	8	TTL, Engr (2), Soc, R&R, Econ, WRM, Data management	S	S
	09/17/2002	8	TTL, Engr (2), Soc, WRM, Env, Fin, Econ	S	S

10/28/2002	3	TTL, Engr, Econ	S	S
03/03/2003	7	TTL, Env, Soc, Econ, Engr, Inst, Sector Manager, TTL, Inst	S	S
06/09/2003	2		S	S
09/16/2003	8	TTL, Env, Soc (2), Econ, Engr, Inst, Vice President Africa	S	S
12/01/2003	4	TTL, Inst, Soc, Public Health	S	S
03/22/2004	7	TTL, Inst, Soc, Env, WRM, Fin, Dam Safety Engr	S	S
08/31/2004	10	TTL, Inst, Env, Soc(2), Dam safety Engr, Fin, Econ, WRM, MIS	S	S
01/17/2005	4	TTL, Inst, Soc, Public Health	S	S
04/04/2005	8	TTL, Inst, Soc, Env, Public Health, Fin, Country Director	MS (Moderately Satisfactory)	S S
09/05/2005	12	TTL, Inst, Soc, Econ, Env, Econ, WRM, Public Health, Fin, M&E, Ops(2)	MS	S
12/12/2005	5	TTL, Inst, Soc, Sector Manager, Country Director	MU (Moderately Unsatisfactory)	S
05/15/2006	4	TTL, Inst, Soc, Fin	MU	S
10/16/2006	9	TTL, Inst, Soc, Econ, WRM, Public Health, Ops (3)	MS	S
January/February 2007	5	TTL, ICR team (4) and workshops		

Key for abbreviations (speciality abbreviations include those for CDSP): TTL=Task Team Leader, Engr=Engineer, Fin=Financial Specialist, Proc=Procurement Specialist, Econ=Economist, Env=Environmental Specialist, Soc=Social Specialist, Ops=Operations Specialist, NGO=NGO specialist, Inst=Institutional Specialist, NRM=Natural Resources Management Specialist, Leg=Legal Specialist, WRM=Water Resources Management Specialist,

COMMUNITY DEVELOPMENT SUPPORT PROJECT (CREDIT 3308)

Key Project Data (amounts in US\$ million)

	<i>Appraisal estimate</i>	<i>Actual or current estimate</i>	<i>Actual as % of appraisal estimate</i>
Total project costs	10.4	19.5	184%
IDA Credit	4.7	2.5	53%
Cofinancing	n.a.	n.a.	
Cancellation		1.8	

Project Dates

	<i>Original</i>	<i>Actual</i>
Initiating memorandum	-	03/19/1998
Board approval	-	12/20/1999
Effectiveness	04/18/2000	07/17/2000
Closing date	09/30/2003	09/30/2003

Staff Inputs

	<i>Actual/Latest Estimate</i>	
	<i>No. Staff weeks</i>	<i>US\$ ('000)</i>
Identification/Preparation	n.a	109
Appraisal	n.a	102
Supervision	67	291
ICR	8	21
Total	n.a	523

Mission Data

	<i>Date (month/year)</i>	<i>No. of persons</i>	<i>Specializations represented</i>	<i>Performance</i>	<i>Rating</i>
				<i>Implementation status</i>	<i>Development Objectives</i>
Identification/ Preparation	12/01/1997	5	TTL, Econ, Ops (2),NGO/Instn		
	06/08/1998	8	TTL, Econ, Ops (2), NGO/Instn, Poverty M&E, Soc, Inst		
Appraisal	02/01/1999	1	Fin		
	02/22/1999	7	TTL, Econ, Inst, Poverty M&E,Proc, Social Fund Management Specialist, Office Mgr.		
	05/17/1999	4	TTL, Leg, Inst, Econ		
Supervision	06/14/2000	1	TTL	S	S
	02/07/2001	2	TTL, Social Fund Spec	S	S
	06/20/2001	2	Social Fund Spec, Poverty M&E	S	S
	12/01/2001	3	TTL, Soc, Statistician	U	S
	3/26/2002	1	TTL	U	U
	01/24/2003	5	TTL, econ, Pov M&E, Fin, Proc, Soc	U	U
	05/31/2003	6	TTL, Fin, Proc, Poverty M&E, Social Fund spec. 3/1547		

Other Project Data**FOLLOW-ON OPERATIONS**

<i>Operation</i>	<i>Loan/Credit no.</i>	<i>Amount (US\$ million)</i>	<i>Board date</i>
Lesotho Highlands Water Project – Phase 1A	Loan 3393	\$110	07/23/1991
Highlands Water Engineering Project	n.a.	\$9.8	12/11/1986
Water Sector Improvement APL Phase II – Metolong Dam and Water Supply	n.a.	\$8.5	05/26/2009