PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED CREDIT

IN THE AMOUNT OF US$6.80 MILLION EQUIVALENT

TO THE

KINGDOM OF LESOTHO

FOR AN

AGRICULTURAL POLICY AND CAPACITY BUILDING PROJECT

MAY 28, 1998

Rural Development Operations
Southern Africa Country Department
Africa Regional Office
CURRENCY EQUIVALENTS
(Exchange Rate Week of April 20, 1998)

Currency Unit = Maloti (M)
M1.00 = US$0.20
US$1.00 = M5.00

FISCAL YEAR
April 1 - March 31

ABBREVIATIONS AND ACRONYMS

ADB - African Development Bank
APCBP - Agricultural Policy and Capacity Building Project
AWP - Annual Work Plan
CAS - Country Assistance Strategy
CMT - Change Management Team
DEM - Department of Economics and Marketing
DFID - Department for International Development
DLSPP - Department of Lands, Survey and Physical Planning
EIA - Environmental Impact Assessment
EU - European Union
FAO - Food and Agriculture Organization
GOL - Government of Lesotho
GOLFIS - Government of Lesotho Financial Information System
GPN - General Procurement Notice
GTZ - German Agency for Technical Cooperation
ICR - Implementation Completion Report
IFAD - International Fund for Agricultural Development
ISNAR - International Service for National Agricultural Research
M&E - Monitoring and Evaluation
MEP - Ministry of Economic Planning
MIS - Management Information System
MLG - Ministry of Local Government
MOA - Ministry of Agriculture, Cooperatives, Marketing and Youth Affairs
MOF - Ministry of Finance
MPS - Ministry of Public Service
NGO - Non-Government Organization
PER - Public Expenditure Review
RSA - Republic of South Africa
TOR - Terms of Reference
UES - Unified Extension System
UNDP - United Nations Development Program

Vice President: Callisto Madavo
Country Director: Pamela Cox
Sector Manager: Sushma Ganguly
Task Team Leader: Sakwa J. Bunyasi
LESOTHO
Agricultural Policy and Capacity Building Project

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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

Africa Regional Office
AFCO1

Project Appraisal Document
Lesotho
Agricultural Policy and Capacity Building Project

Date: May 28, 1998
Country Director: Pamela Cox
Project ID: LS-PE-1402
Task Team Leader: Sakwa Bunyasi
Sector: Agriculture
Program Objective Category: Agriculturally Sustainable Development

Lending Instrument: Specific Investment Loan (SIL)

<table>
<thead>
<tr>
<th>For Loans/Credits/Others:</th>
</tr>
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<tbody>
<tr>
<td>Amount: US$6.80m/SDR5.1m</td>
</tr>
<tr>
<td>Proposed terms:</td>
</tr>
<tr>
<td>Grace period (years): 10</td>
</tr>
<tr>
<td>Years to maturity: 40</td>
</tr>
<tr>
<td>Commitment fee: Standard</td>
</tr>
<tr>
<td>Service charge: Standard</td>
</tr>
<tr>
<td>Multicurrency [X]</td>
</tr>
<tr>
<td>Single currency, specify</td>
</tr>
<tr>
<td>Standard Variable [ ]</td>
</tr>
<tr>
<td>Fixed [ ]</td>
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<tr>
<td>LIBOR-based [ ]</td>
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</table>

Financing plan (US$m):

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<thead>
<tr>
<th>Source</th>
<th>Local</th>
<th>Foreign</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government</td>
<td>0.2</td>
<td>0.4</td>
<td>0.6</td>
</tr>
<tr>
<td>Cofinanciers (ADF, DFID, EU, GTZ)</td>
<td>2.5</td>
<td>4.4</td>
<td>6.9</td>
</tr>
<tr>
<td>IDA</td>
<td>2.2</td>
<td>4.6</td>
<td>6.8</td>
</tr>
<tr>
<td>Total</td>
<td>4.9</td>
<td>9.4</td>
<td>14.3</td>
</tr>
</tbody>
</table>

Borrower: Kingdom of Lesotho
Guarantor: N/A
Responsible agency(ies): (i) Ministry of Agriculture, Cooperatives, Marketing and Youth Affairs;
(ii) Ministry of Local Government.

Estimated disbursements (Bank FY/US$M):

<table>
<thead>
<tr>
<th></th>
<th>1999</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual</td>
<td>1.2</td>
<td>2.6</td>
<td>2.2</td>
<td>0.8</td>
</tr>
<tr>
<td>Cumulative</td>
<td>1.2</td>
<td>3.8</td>
<td>6.0</td>
<td>6.80</td>
</tr>
</tbody>
</table>

For Guarantees: N/A

Project implementation period: 3 years
Expected effectiveness date: 09/01/98
Expected closing date: 12/31/2001
A. Project Description

1. Project Development Objective and Key Performance Indicators

The development objective of the Agricultural Policy and Capacity Building Project (APCBP) is to put in place improved institutional and policy arrangements for the sustainable and efficient management, financing and delivery of public and private agricultural services in Lesotho. The project will assist in redefining the Ministry of Agriculture, Cooperatives, Marketing and Youth’s (MOA) core public roles with the view to facilitating increased private sector participation in the provision of certain agricultural support services and for MOA to become more priority/target oriented and client responsive. The project is part of a longer-term program to promote agricultural growth and poverty reduction and the first step in the development objective would be to build up capacity for planning and program implementation, particularly at the district level. Evidence of progress in the capacity building program would be measured through an improved financial management system and disaggregated district accounting system, including improved planning, improved budget and district work program procedures, privatization of agricultural enterprises, implementation of the unified extension service (UES), improved land legislation, institutional restructuring of MOA and Public Expenditure Review (PER) on basis of activities coherent with newly defined national/district strategies (Annex 1).

2. Project Components

The proposed 3-year project will lay the foundation for long-term agricultural development spanning a period of 10-15 years. The project will assist in the implementation of the first most critical phase of the program, namely the one dealing with the reorientation of MOA’s approach to the delivery of agricultural services and the institutional reform measures which this would entail. The APCBP has four components which are described in detail in Annex 2, with detailed cost breakdown in Annex 3. The components are summarized below:
<table>
<thead>
<tr>
<th>Component</th>
<th>Category</th>
<th>Cost Incl. Contingencies (US$M)</th>
<th>% of Total</th>
<th>Bank-financing (US$M)</th>
<th>% of Bank-financing</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Sector Strategy and Management</strong>, comprising three sub components - Policy Analysis; Planning and Budgeting; and Monitoring and Evaluation. This component will help strengthen analytical capacity in MOA for essential policy analysis, build skills and technical expertise in sectoral planning and budgeting with a district focus, develop a functional monitoring and evaluation system and introduce an effective sectoral management information system.</td>
<td>Institution building, policy, physical</td>
<td>1.25</td>
<td>8.8</td>
<td>0.56</td>
<td>8.2</td>
</tr>
<tr>
<td><strong>Agricultural Support Services</strong>, comprising four subcomponents - Extension, Research, Marketing Facilitation and Technical Services (livestock, conservation etc.). The component will support the rationalization, decentralization and effective delivery of client-oriented agricultural support services and promote production through sustainable natural resource management.</td>
<td>Institution building, policy, physical</td>
<td>2.40</td>
<td>16.8</td>
<td>0.59</td>
<td>8.7</td>
</tr>
<tr>
<td><strong>Land Management and Administration</strong>, comprising four subcomponents - Land Policy and Legislative Reform; Land Administration; Land Information Systems; and Land Use Planning. This component is designed to facilitate land policy review, legal and administrative reform and the strengthening of the institutional capacity of the Department of Land, Survey and Physical Planning (DLSPP) for effective land management. This component will be implemented by the Ministry of Local Government.</td>
<td>Policy, institution building</td>
<td>3.24</td>
<td>22.7</td>
<td>1.58</td>
<td>23.2</td>
</tr>
<tr>
<td><strong>Change Process Management</strong>, comprising four subcomponents - Institutional Restructuring; Human Resource Management; Financial Management; and Privatization and Divestiture. This component will support the strategic management of the change process as a whole focusing on comprehensive reform in MOA at district and central levels, including institutional restructuring, developing related policy and systems (e.g. Human Resource Policy, Financial Management Systems) and the privatization, market liberalization and divestiture activities.</td>
<td>Policy, institution building</td>
<td>7.39</td>
<td>51.7</td>
<td>4.07</td>
<td>59.9</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td>14.28</td>
<td>100</td>
<td>6.80</td>
<td>100</td>
</tr>
</tbody>
</table>
3. **Key Policy and Institutional Reforms**

The main policy and administrative reforms being sought under the project are meant to remove restrictions on marketing and trade of agricultural products, eliminate Government involvement in price setting and divest commercial activities and enterprises. Price reforms were implemented for maize and sorghum in 1996, and wheat in November 1997. This process will eventually cover all the major commodities. The reforms are expected to have a major impact on resource use (land, labor, capital) as producers and consumers face market prices and should facilitate diversification into areas where Lesotho has a comparative advantage. The key policy reforms proposed under the Project are outlined in the Letter of Sectoral Policy and in its Attachments (Annex 8). The divestiture of public enterprises and commercial services is expected to release human and financial resources for the financing of core public services in MOA while providing opportunities for increased private sector investment. A schedule of privatization and divestiture which was agreed at Negotiations, is part of the Letter of Sectoral Policy.

4. **Benefits and Target Population**

The project would contribute to improvements in the policy environment and put in place a more sustainable and client responsive agricultural support service at the local and district level. In time this will enable smallholder farmers to better respond to market incentives, and improve the management of their farm business and incomes.

By assisting MOA to focus on core public functions and stimulating the private sector to take on a bigger role in the provision of these services, it would make the support delivery system to farmers more efficient and cost effective. In the medium term, as farmers would diversify from maize by placing more emphasis on higher value crop production, particularly horticulture, farmers’ incomes would rise and it may also lead to increased exports. In the longer-term, a more effective extension and research system fully integrated with the introduction of private clinical veterinary services and the improved supply of seeds and planting materials and operating in a framework of improved land tenure regulations, could be expected to contribute to an improvement in Lesotho’s overall land and water resource management. The potential target population benefiting from the project would be households whose livelihoods depend mainly on agriculture, estimated to be 55% of the 229,000 rural households in Lesotho.

5. **Institutional and Implementation Arrangements**

**Project Implementation and Coordination.** The Ministry of Agriculture will have overall responsibility for the implementation and coordination of the project with the exception of the Land Management and Administration component which will be implemented by the Ministry of Local Government. While some structural changes to the existing departments of MOA may occur if the proposed civil service reform takes place (e.g. the department of Youth Affairs could be moved to another Ministry), it is expected that the change will be gradual and therefore project implementation would be largely the responsibility of the present key departments in MOA and districts. While the existing organizational and management structure under the leadership of the Principal Secretary will provide the overall policy guidance and operational direction for the project, the actual implementation and decision making will be decentralized to the districts. Although the Local Government Act of 1996 provides a framework for decentralization and Local Government reform, the exact modalities are still being formulated. However, local
government elections seem to be firmly scheduled for April 1999. Ultimately, all MOA line staff in the district, including the present District Agricultural Officers, will become responsible to the District Administrator. Likewise when the District Planning Units and the District Development Coordinating Committees become fully functional it is clear that the driving force for the direction and implementation of the agricultural support delivery system will be the district’s local government. The change process approach for the district would therefore be flexible and involve a “learning-by-doing route” until such time as everyone is on-board with respect to the exact modalities of the Local Government Reform. The institutional reform of MOA would be carried out under the project with assistance from a team consisting of local and foreign staff which would assist management and facilitate the “change process” at both Headquarters and district level. The team would also provide some back stopping on technical issues, particularly in the implementation of the UES. It is expected that the facilitating team would be in place by January 1999.

Intersectoral Coordination. While the present MOA’s Management Committee will provide the agricultural development oversight, there will be need for coordination and direction of the project at a higher level. Not only does the project need a forum to discuss the specific repercussions from the Civil Service and Local Government reforms for the organization and management of MOA, but there will also be a need to discuss issues concerning macro economic development and funding targets or overlapping functions (particularly regarding land use planning, environment and rural development matters at the district and village level) between various Ministries and Agencies. Prior to project effectiveness, an inter-agency steering committee would be established with balanced representation from government ministries, private sector and civil society to provide policy level leadership to the sector. The planning unit of MOA would provide the secretariat.

Accounting, Financial Reporting and Auditing Arrangements. MOA would be responsible for project accounting and financial reporting in accordance with the Government of Lesotho Financial Information System (GOLFIS). The GOLFIS system being supported by the IMF, needs to be improved to accommodate disaggregation of district based budgeting and annual work plan. Accounting policies and procedures would be upgraded and a unified budget approach would be introduced in which both recurrent and capital budget estimates would be disaggregated and based on programs at the “activity level” generated from the districts. Both MOA and DLSPP would also carry out a Public Expenditure Review no later than one year after Project effectiveness. In addition, agreement has been reached within Government that proficient accountants would be deployed at each of the 10 districts. Project accounts will be audited annually, following international auditing standards, by independent auditors acceptable to IDA. The auditor’s report would cover the project accounts, SOEs and the Special Account and be submitted to IDA within six months of the end of each fiscal year [Annex 2 (a)].

Procurement. The procurement arrangements are outlined in Annex 6 and summarized in Tables A - C. There are no large packages that will require ICB procedures, most of them will be other procurement procedures, while the employment of consultants will be processed in accordance with the Guidelines: “Selection and Employment of Consultants by World Bank Borrowers (revised 09/1997)”. To help build capacity for the preparation of procurement documentation, short-term consultant support will be provided. A similar approach has been successfully used in an Education Sector Project in Lesotho.

Reporting, Monitoring and Evaluation. The project would support the development of
improved systems and processes for monitoring and evaluation (M&E). Overall responsibility would rest with the Department of Economics and Marketing. The project would include the following M&E arrangements: (i) preparation of semi-annual progress reports (financial and administrative sector data); (ii) baseline surveys and project impact assessments based on performance benchmarks already developed, and including the effectiveness of UES; (iii) semi-annual donor review; (iv) annual workprograms and budget submissions and reviews; and (v) a mid-term-review about 18 months after project effectiveness. A final project evaluation would be conducted in year 3 to evaluate lessons of experience and determine need and readiness for the second phase of the development program.

B. Project Rationale

1. Country Assistance Strategy (CAS) Objectives Supported by the Project

CAS document number: 17751-LSO  Date of last CAS discussion: 1/26/96
CAS updated and discussed with EXC: 4/27/98  Board presentation of CAS on: 06/04/98

The objectives of the Bank assistance for the next few years are to support Government's strategy of poverty reduction and its efforts to sustain macroeconomic performance through greater integration into the sub-regional economy. The project will support these CAS goals by: (i) developing government's capacity through institutional reform and decentralization; (ii) improving the enabling policy environment, including support for private sector development; and (iii) promoting a comprehensive approach to natural resource management.

2. Main Sector Issues and Government Strategy

Lesotho is a unique country in that it is landlocked and enclosed entirely by South Africa. Most of the land is steep (75% >2000m) with little forest or woodland cover, with a severe climate, including regular droughts and hail. Of its total land area only 9% (<300,000ha) is suitable for arable agriculture and about 80% is rangeland which is most suited for extensive livestock production. A rapidly rising population has put acute pressure on the limited land resource and as a result overgrazing and soil erosion have become major problems in an already inherently fragile natural environment. With job opportunities in mining in South Africa declining and with limited domestic employment opportunities available, poverty is worst in the rural and mountainous areas. More than 55% of all households are living in these areas and their livelihood for the next decades to come will be dependent on increasing agricultural productivity, including livestock, and crop diversification.

Agricultural performance during the past decade has been moderate to poor due to an inadequate policy framework, weak institutional capacity and land tenure constraints, an uncoordinated piecemeal approach to agriculture development assistance, combined with adverse natural factors (erratic rainfall, increasing land degradation etc.). However, the Government has recently embarked on a program of economic, policy and institutional reform. This program involves the liberalization of trade and commercial activity and the privatization of state owned enterprises and assets. As part of this reform program, Government is also decentralizing the delivery of many of the public services. The recently formulated agricultural strategy by MOA is based on the following strategies: (i) improving the agricultural policy environment through market deregulation, divestiture of public enterprises; (ii) private sector development; (iii) land reform
and natural resource management; (iv) increasing beneficiary participation in the design and delivery of agricultural support services; and (v) capacity building.

3. Sector Issues to be Addressed by the Project and Strategic Choices

The challenge which will be taken up under the APCBP is how to manage the transition to a more intensive, diversified and sustainable farming system that can provide employment and higher incomes for all farmers, including the poor. Managing the transition to a more outward looking, market related rural economy requires restricting the role of Government to facilitative functions which are client oriented, the financing of public goods, improving the functioning of factor markets - (land, water, financial services), and improving productive rural infrastructure (feeder roads, rural market facilities, small-scale irrigation, range and pasture development, soil and moisture conservation, etc.). As a first step in improving the enabling environment for agricultural development, the project would focus on improving the policy environment, and rationalize and decentralize the public sector’s agricultural services system in priority areas such as extension and research, animal health, marketing facilitation, availability of seed and planting materials and land use planning. Another strategic choice has been made to underpin the largely capacity building thrust of the project with some selected support to priority on-farm and community production activities such as equipment to grazing associations, tree seedling distribution and planting material production, marketing infrastructure and small scale irrigation. The access for this support by clients would be subject to defined criteria. The proposed Lesotho Social Fund Project to be launched in parallel to APBCP will also serve as an instrument for pursuing decentralized delivery of support services and participatory planning for poverty reduction.

4. Project Alternatives Considered and Reasons for Rejection

Two options were considered: (i) to move directly into an Agricultural Sector Investment Program (ASIP); or (ii) to undertake either a national or regional type Rural Development Project. While the initial project preparation by Government was set along the lines of an ASIP it became rapidly clear that MOA did not have the capacity to take on the ASIP process in one step, particularly since the outcome of the proposed civil service reform and full agreement on guidelines on the implementation of the decentralization process was still not clear. Another critical factor for rejecting to go with the ASIP approach was the lack of institutional capacity in MOA including the lack of a shared vision and clearly defined long term agricultural development strategy in an era of fiscal constraints and market liberalization. Hence it was decided by Government and donors agreed that the first step of the ASIP should be the APCBP with a more narrow focus on capacity building, defining mission objectives and further policy reform and strategy development. While there are prospects for rural development type programs nationally, it was felt that a national thrust beyond the areas covered by the ongoing Lesotho Highlands Water Project and the proposed Lesotho Social Fund Project, would depend on lessons learned. However, with APCBP’s focus on the decentralization of MOA’s public services and the building up of greater rural stakeholder participation, APCBP could also be considered as a stepping stone for a national rural development program.
### 5. Major Related Projects Financed by the Bank and Other Development Agencies

<table>
<thead>
<tr>
<th>Sector Issue</th>
<th>Project</th>
<th>Latest Supervision (Form 590) Ratings (IDA-financed projects only)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Implementation Progress (IP)</td>
</tr>
<tr>
<td><strong>IDA-financed</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Land Use Planning and Management</td>
<td>Land Management and Conservation Project Cr. 1897-LSO (closed June 1995)</td>
<td>U</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>Lesotho Highlands Water Project Ln. 33930 (to be closed March 31, 1999)</td>
<td>S</td>
</tr>
<tr>
<td>Roads Rehabilitation Cr.28570 (to be closed December 31, 2001).</td>
<td></td>
<td>S</td>
</tr>
<tr>
<td>Support Local Small and Medium Sized Enterprises</td>
<td>Privatization and Restructuring Cr.26120 (to be closed December 31, 2000)</td>
<td>S</td>
</tr>
<tr>
<td>Poverty reduction and reduction in land degradation (related to LHWP)</td>
<td>Lesotho Social Fund Project</td>
<td>To be appraised in June 1998</td>
</tr>
<tr>
<td><strong>Other Development Agencies</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Extension and Community Development</td>
<td>Production through Conservation Program (SIDA, UNDP)</td>
<td></td>
</tr>
<tr>
<td>District Planning and Decentralization, including Extension Systems</td>
<td>Mafeteng Development (GTZ)</td>
<td></td>
</tr>
<tr>
<td>Agricultural development in Berea district</td>
<td>Phutiatsana Rural Development Project (AfDB)</td>
<td></td>
</tr>
<tr>
<td>Agricultural Development in the Three Northern Districts</td>
<td>Soils and Water Conservation Project (IFAD)</td>
<td></td>
</tr>
<tr>
<td>Wool and Mohair Production</td>
<td>Livestock Production and Rangeland Improvement (EU)</td>
<td></td>
</tr>
</tbody>
</table>

IP/DO Ratings: HS (Highly Satisfactory), S (Satisfactory), U (Unsatisfactory), HU (Highly Unsatisfactory)
6. Lessons Learned and Reflected in the Project Design

The ICR of the Land Management and Conservation Project in Lesotho stressed a number of lessons: (i) programs which seek to rely on local capacity and priority setting and implementation need flexibility in the design; (ii) implementation at district level should be part of some piloting to allow for a learning phase and preferably commence first at some selected districts; (iii) systematic client consultation should take place prior to implementation; (iv) decision-making should be brought to the lowest level e.g. village development council; and (v) programs of soil conservation and range management in southern Africa should be modest and undertaken with care, because there have been few, if any, successful programs. Experience from preparation of similar ASIP type projects in Zambia, Kenya, Malawi and Mozambique seem to suggest that issues related to core public functions, public expenditure reviews and institutional reforms are part of a development process which cannot be resolved overnight and are highly dependent on local stakeholder commitment and ownership. Most of the above issues have to be resolved first before embarking on a large agriculture investment program. General experience in the southern Africa region also shows that the lack of coordination among donors has impeded the process of learning from experience and has tended to increase the proliferation of projects. These lessons have been incorporated in the project design and preparation process.

7. Indications of Borrower Commitment and Ownership

Over a period of a year all Departments of MOA, and donors, have contributed to the formulation of a long term agricultural development framework, which is based on a complete decentralization of agricultural support services, making the services more responsive to the needs of clients, and improving the enabling environment for private sector development. While local stakeholder involvement has in the past been sporadic, there are now active reviews and discussions taking place at the district level seeking client views and contribution to the above process. The recent economic strategy reports of the three representative districts which are based on considerable client contribution together with the report “Summary of Progress and Proposals for the Way Ahead” prepared by MOA’s Capacity Building Working Group can be considered a testimony to Government’s ownership of the proposed project. Finally, both the Principal Secretaries of MOA, and Economic Planning and Manpower Development have accorded high priority to the development of a 10-15 year agricultural program.

8. Value Added of Bank Support in this Project

The Bank has acquired substantial experience in Africa in supporting institutional reforms and capacity building in agriculture, particularly with respect to agricultural support services. Among the donors in Lesotho, the Bank has also played a leadership role on issues concerning market liberalization, poverty alleviation, rural development and decentralization. The Bank is therefore well placed to advise Government and cooperating donors on the merits, options and problems of this project approach, including a subsequent sector investment or rural development program.
C. Summary Project Assessments

1. Economic Assessment

The aim of the project is to make the MOA’s agricultural support services more responsive to the needs of its clients and to make these services more cost effective. Most of the Ministry’s budgetary resources are devoted to salaries (60%), while half of the remainder are used on activities which are not necessarily client oriented or form part of MOA’s core public support functions. A case in point, is the Tractor Operations Unit, which although it only services a very small percentage of the annual crop production area, absorbs around US$1.0 million per year in operating expenses. There are at least 15 other enterprises that are losing money and which generate savings if divested. The APCBP resources will be used to facilitate the change process that is expected to lead to more client responsive services. The incremental resources to be provided by the APCBP are once-off costs that are meant to be primarily used for facilitating its decentralization process, including an enabling environment for the process of privatization of enterprises and to collaborate with private partners in the provision of extension, research and input supply services. It is expected that the benefits of improved client focus will begin to accrue beyond the 3 year project span of APCBP. The expected improvements in the quality and effectiveness of support services and their impact on farm productivity and output cannot be quantified because of the uncertainties in the response pattern of farmers to concurrent reforms in pricing and marketing liberalization. However, annual impact assessments to be carried out will track and quantify the impact ex-post (Annex 4).

2. Fiscal Impact

The expenditures under the APCBP amounting to US$14.3 million over the 3 years are mostly once off costs associated with the transformation process. Less than 5% of project costs are considered as recurrent expenditures (vehicle and equipment running costs, office expenses). The proposed Project savings will occur as MOA shifts out of non-core activities through divestiture (Annex 8), and institutional restructuring. These savings are expected to amount to about M30-35 million a year once the changes are implemented. This is equivalent to 33 - 38% of the recurrent budget. These savings will be higher if MOA carries out a functional review diligently. The functional review is expected to reveal duplication of roles within MOA and between MOA and other Ministries. It will also help identify peripheral activities within MOA. Savings generated from the MOA recurrent budget could increase Government’s share of development expenditure financing which currently is about 8%. Overall, the expected direct savings far outweigh the direct costs of the project (Annex 4).

3. Technical Assessment

The project’s technical basis is sound, having taken into account the lessons of the earlier Land Management and Conservation Project in Lesotho, the experiences from other Agricultural Support Services Projects (extension and research), as well as the lessons learned from the preparation and implementation of the Agricultural Sector Investment Programs in the Southern Africa Region. While strengthening the main operating systems of the Ministry (financial management, management information systems and human resource management), APCBP implementation strategy is based on the decentralization of much of the management and decision making authority to service delivery units (e.g. planning, extension, research and other services such as seed supply and veterinary clinical services) at the district level. The reform
process proposed under the project will be based on realistic strategies for the development of agriculture within districts based on an analysis of agricultural potential and client needs assessment. This process which has nearly been completed in three representative districts, and will be carried out in all ten districts and be completed no later than June 30, 1999, will be further supported by participatory tools (workshops, study tours, client and village consultation etc.) to build consensus, commitment and ownership. The sustainability of services will be enhanced through measures of cost recovery, outsourcing and in some cases full privatization. Particular emphasis would be given to the outsourcing of extension services, whereby extension delivery would be increasingly contracted out, rather than delivered by the civil service. The specific project support for on-farm and community production would complement the UES and are supportive to the natural resource management and crop diversification goals of MOA’s agricultural strategy.

4. Institutional Assessment

The project would be implemented by staff of the individual technical departments of MOA. These constitute the line structure of the Ministry and no new parallel implementing units will be established. The overall project coordination will remain through the agricultural management committee, chaired by the Permanent Secretary. A small group of specialists will provide facilitation and other technical assistance in the “change management process” of the Ministry. Apart from change process facilitation they would provide support in areas of financial and human resource management, monitoring and evaluation, privatization and decentralization, including specific support for extension, research, seed production/supply and animal health services. Parallel to the support of the Ministry’s Headquarters at Maseru, which will have to deal with issues related to: (i) core functions of the departments; (ii) possible staff retrenchment; (iii) operating/management systems; and (iv) privatization of MOA managed enterprises, high priority will be given to develop and strengthen the managerial and implementation capacity at district level. As the details of local government decentralization unfolds, fine-tuning of MOA’s support services at district level will have to take place, particularly as it relates to local Government authority and functions.

Another important area of institutional reform is land policy. Current land policy is seen as inhibiting the development of land markets, constraining natural resource and land management and is discriminatory against women and discourages non-nationals of Lesotho from holding land. The project would therefore include a program of activities designed to facilitate land policy review, legal and administrative reform and to strengthen institutional capacity of the Department of Land, Survey and Physical Planning for effective land management. GOL agreed to initiate an authoritative and participatory process of land policy and legislative review involving broad-based citizen consultation.

5. Social Assessment

Agriculture extension in certain areas of Lesotho has been using a diagnostic participatory approach (Production through Conservation Project), which commences with village headmen workshops over 3-5 days and by using an area team of subject matter specialists using participatory rural appraisal techniques the group conducts a community needs assessment. The community and the team, sometimes with specialists participating from other ministries, then develop plans to achieve stated goals and to identify groups with common interests. The project is designed to apply these methods as part of the UES throughout the country, which will likely
lead to a greater awareness of and attention to the special constraints faced by farmers, and particularly women farmers. In the institutional reform process the gender composition of the technical field staff will be addressed as the number of households headed by women is higher than in many other African countries, undoubtedly because of the long tradition of Basotho men leaving to work in South Africa mines. With the number of Basotho mine workers employed in South Africa declining, another issue will be to address their “homecoming” through promotion of part-time, small-scale farming and livestock activities in Lesotho.

6. Environmental Assessment

Environmental Category [ ] A [x] B [ ] C

Successful agricultural production will depend to a large extent on proper identification and management of environmental issues. The main issues requiring attention are: (i) climatic (drought, hail and relative short growing season); (ii) soil erosion and relatively poor soils; (iii) inadequate forest cover; and (iv) uncontrolled livestock grazing. All these factors are contributing to the pressing environmental problems associated with increased land degradation in Lesotho. As part of the preparation of APCBP an Environmental Impact Assessment (EIA) was carried out, and its report (April 1998) was endorsed by Government. The project has addressed in its design the most important environmental issues raised in the EIA report. For example, the content of extension messages will focus on improving the enhancement of sustained agricultural production by paying more attention to related environmental issues such as soil erosion, range management and crop and livestock husbandry. This would be complemented by agricultural support programs to farmers/communities to enhance soil conservation, afforestation and natural resource management. The project is also taking up under the land management component the land tenure issues, as these are considered some of the core constraints affecting land use. Finally, the project will include technical assistance to establish improved environmental monitoring between MOA and the National Environmental Secretariat and provide on the job training on the proposed mitigation measures outlined in the EA report to MOA staff.

7. Participatory Approach

<table>
<thead>
<tr>
<th>Participatory Approach</th>
<th>Preparation</th>
<th>Implementation</th>
<th>Operation</th>
<th>Evaluation</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Primary beneficiaries</td>
<td>CON</td>
<td>IS/CON/COL</td>
<td>COL</td>
<td>COL</td>
</tr>
<tr>
<td>farmers/community groups</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(b) Other key stakeholders</td>
<td>CON</td>
<td>IS/CON/COL</td>
<td>COL</td>
<td>COL</td>
</tr>
<tr>
<td>Intermediary NGOs</td>
<td>IS/CON</td>
<td>COL</td>
<td>COL</td>
<td>COL</td>
</tr>
<tr>
<td>Academic institutions</td>
<td>IS/CON</td>
<td>IS/CON/COL</td>
<td>CON/COL</td>
<td>COL</td>
</tr>
<tr>
<td>Local Government</td>
<td>IS/CON</td>
<td>IS/CON/COL</td>
<td>CON/COL</td>
<td>COL</td>
</tr>
<tr>
<td>Other Donors (DIFID, EU GTZ, IFAD, AfDB)</td>
<td>COL</td>
<td>COL</td>
<td>COL</td>
<td>CON/IS</td>
</tr>
<tr>
<td>Private sector</td>
<td>CON</td>
<td>IS/CON/COL</td>
<td>CON/COL</td>
<td>CON/IS</td>
</tr>
<tr>
<td></td>
<td>COL/CON</td>
<td></td>
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</tr>
</tbody>
</table>

NB: IS-information sharing; CON-consultation; COL-collaboration
8. Sustainability

The project is geared toward enhancing the cost-effectiveness and sustainability of public agricultural support services within the context of constrained fiscal resources and a liberalized economic environment. Sustainability would be enhanced by: (i) empowerment of communities to determine their own development priorities and participation in subsequent design and implementation; (ii) defining the core functions of the public, private and other non-governmental sectors in agricultural support; (iii) the selective introduction of cost recovery, out-sourcing and other forms of service commercialization; (iv) improving the planning capabilities and financial and program management of MOA, including a human resource development plan; (v) donor collaboration and commitment to support the long-term agricultural development program; and (vi) commitment of the country towards overcoming environmental constraints and of the farming community to invest in agricultural diversification.

9. Critical Risks

The successful implementation of a long-term agricultural sector development program in Lesotho carries considerable risks, as generally the track record of donor assisted agricultural projects is poor. However, this is the first time that both Government and donors have been discussing together an overall agricultural development program and reached agreement on a phased action plan of which the first phase would concentrate on putting in place institutional arrangements and operational capacity related to both planning and implementation. By designing the program in phases and first concentrating on the rationalization and effectiveness of MOA’s support services and emphasizing the capacity building process, it is felt that the overall risks are minimized, particularly since MOA is willing to commit itself to both the principles of privatization and decentralization of the agricultural services.

<table>
<thead>
<tr>
<th>Risk</th>
<th>Risk Rating</th>
<th>Risk Minimization Measure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government’s commitment to implement restructuring process of agricultural core functions, including privatization program.</td>
<td>S</td>
<td>Raised public awareness, strong and continued showing of unified donor commitment to change management process, including use during restructuring process of capable facilitators.</td>
</tr>
<tr>
<td>Delays in implementation by government of decentralization process.</td>
<td>M</td>
<td>Expose policy makers to relevant international experiences and donor support for helping local government with political, fiscal and administrative reforms.</td>
</tr>
<tr>
<td>Willingness of government and MOA to deal with staff retrenching issue and eliminate overlapping functions between departments and between Headquarters and districts.</td>
<td>S</td>
<td>The change process should be nurtured by bilateral support for retrenchment, by the ongoing Civil Service Reform and by an independent transparent process. The program should link the process with effective training and</td>
</tr>
<tr>
<td>Establishing a technocratic Land Policy Review Group may not earn the process sufficient legitimacy among the majority of stakeholders.</td>
<td>M</td>
<td></td>
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<tr>
<td>---</td>
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<td></td>
</tr>
<tr>
<td>Workplan for privatization.</td>
<td>M to S</td>
<td></td>
</tr>
<tr>
<td>Inter-ministerial committee to oversee MOA’s reform process</td>
<td>S</td>
<td></td>
</tr>
<tr>
<td>Overall Risk Rating</td>
<td>M to S</td>
<td></td>
</tr>
</tbody>
</table>

Risk Rating - H (High Risk), S (Substantial Risk), M (Modest Risk), N (Negligible or Low Risk)

10. Possible Controversial Aspects

None

11. Readiness for Implementation

The critical procurement relates to the recruitment of technical assistance for the Change Management Team (CMT). The Terms of Reference for the CMT have been prepared and at negotiations it was agreed that the CMT would be assigned to MOA no later than January 1, 1999. Other than the CMT, the two first years would require mostly training and stakeholder consultations. The preparation of bidding documents for civil works and vehicles and equipment and annual procurement plans will be supported by short term consultants. Detailed annual procurement plans will be finalized in conjunction with the preparation of the annual work programs. During negotiations the draft of the Project Implementation Plan was discussed and will be updated annually as part of the documentation of the Annual Work Plan (para A5). The main project performance indicators were discussed and agreed during negotiations and form part of the Development Credit Agreement.
D. Main Credit Conditions

1. Conditions of Effectiveness

- Appoint an Inter-ministerial Development Committee with composition and TOR, satisfactory to IDA.
- Submit final Project Implementation Plan satisfactory to IDA.

2. General Conditions

- Audit reports within 6 months of the close of the Fiscal Year.
- Carry out a mid-term review of the program 18 months after credit effectiveness.
- Prepare an MOA annual work plan and procurement plan including a rolling 3 year budget for the districts by November 30, 1998 and each year thereafter.
- Commencing November 1, 1999, prepare and submit to IDA a progress report on project implementation, integrating the results of M&E activities.

3. Dated Actions

(a) Planning and Budgeting:

- Bring UES into full operation by June 30, 1999.
- MOA to develop in consultation with the Ministry of Economic Planning criteria for determining district development expenditure priorities no later than June 30, 1999.
- Complete the preparation of the 10 district agricultural development strategies by June 30, 1999 and thereafter to be updated annually by November 30.
- Prepare a separate budget for enterprises on the divestiture program and show such budget separately beginning with the 1999/2000 budget.
- Prepare a sectoral PER within one year of effectiveness.
- Prepare guidelines for decentralized district based implementation functions by MOA/MLG no later than 2 years after project effectiveness.
- Prepare action plan for improved M&E system for MOA by September 30, 1999.

(b) Human Resource Management:

- Change Management Team to be assigned to MOA no later than January 1, 1999.
- Confirm staffing inventory for MOA Headquarters and Districts by September 30, 1998.
- Complete mapping of staff by March 31, 1999.
(c) Financial Management:

- Complete the design of improvements to a decentralized financial management system including its M&E requirements, by September 30, 1999.

E. Compliance with Bank Policies

[X] This project complies with all applicable Bank policies.

[signature] [signature]
Task Team Leader Country Director
### Narrative Summary

**Goal:**
Promote poverty reduction by enhancing the performance and sustainability of the agricultural sector.

1. Real per capita agricultural income increased by 1% per annum.
2. Share of the rural population below the poverty line is reduced by 5% by 2001.
3. Government’s fiscal allocation to publicly financed agricultural services decreased by 15% in real terms by 2001 with annual progress towards this according to benchmarks laid down by sectoral PER.
4. MOA’s share of budget spending for agriculture at district level increases to at least 60% of recurrent budget by 2001.

### Key Performance Indicators

1. Unified Extension Services operational in ten districts by 12/2001 with services delivered according to defined client categories and needs assessment.

### Monitoring / Evaluation

1. Sample Household Income surveys.
2. Update surveys on poverty assessment.
3. Official budget statements.
4. Annual surveys of public spending by MOA.

### Critical Assumptions

- A favorable economic environment and the improved and a more competitive agricultural service delivery system, esp. at the district level, will positively impact on farmers’ income.
- No severe droughts, which could adversely affect production.
- General elections in 1998 will not result to major changes in rural development policy or commitment to APCBP objectives.
- GOL maintains satisfactory economic enabling environment, including commitment to: (i) privatization of selected agricultural services; (ii) market deregulation and fiscal discipline; and (iii) civil service and land policy reform and decentralization program.
- Evidence of local government reform.
- Donors continue to support project/program goals and channel funds to core program areas.
<table>
<thead>
<tr>
<th>Output:</th>
<th>Planning and Budgeting</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Sector strategy and management improved.</td>
<td><strong>1.1.</strong> Long-term policy framework updated yearly to reflect priorities and analysis of current and potential constraints of agriculture in Lesotho.</td>
<td>Annual reports by Department of Economics and Marketing (DEM).</td>
</tr>
<tr>
<td></td>
<td><strong>1.2.</strong> Public Expenditure Review (PER) completed by 9/1999 to set: (a) macro-economic agricultural expenditure targets; and (b) quantitative benchmarks for the reform of MOA expenditures, based on district-based strategies.</td>
<td>Report of PER sector wide and for 3 pilot districts.</td>
</tr>
<tr>
<td></td>
<td><strong>1.3.</strong> Agricultural planning and budgeting conforms with district development planning and budgeting procedures by 12/2000.</td>
<td>Reports by DAOs, district planning unit, DEM.</td>
</tr>
<tr>
<td>4. MOA's recurrent expenditure reduced by 15% by FY2001 through divestment/privatization/cessation of non-core activities.</td>
<td>MOA's annual functional expenditures.</td>
<td></td>
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<tr>
<td>5. Privatization of agricultural enterprises implemented according to agreed schedule (Annex 8).</td>
<td></td>
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<tr>
<td><strong>Risks would be related to lack of civil service and privatization reforms and delays in decentralization process.</strong></td>
<td></td>
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</tbody>
</table>
### Policy Analysis

1.4. Government interventions phased-out (according to Annex 8) as follows:
   - Tractor hire services and restrictive, import licensing requirements (12/2000);
   - Agro-chemicals (12/1999);
   - Fertilizer supply (12/1998); and


1.6. Define and introduce comprehensive incentive framework and supporting extension services to promote environmentally-sustainable land use decisions by farmers/communities by 12/1999.

### Monitoring / Management Information

1.7. M&E system and management information system operating effectively by 12/2000.


1.9. Yearly results of sector performance analysis available one month prior to annual review.

### Output

2. Agricultural support services rationalized.

### Extension


2.2. Clear workplanning and reporting systems in place for UES by 12/2000.

2.3. Twenty (20) percent of extension service delivery

### Policy Analysis

- Government committed to pursue satisfactory enabling environment and clients, MOA and MLG are able to effectively cooperate in planning and implementing restructuring process of agricultural support services.

### Monitoring

- Suitable (external) institution to carry out sector performance analysis can be identified and contracted.

- Departmental staff will fully cooperate with organizational change and supports MOA’s withdrawal from selected public service delivery functions.
<table>
<thead>
<tr>
<th><strong>Research</strong></th>
<th></th>
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<tbody>
<tr>
<td>2.4. Research Agenda agreed, based on: (i) client’s needs formulated under the district economic strategies; and (ii) other pertinent factors, e.g. relative importance of agriculture (crops and livestock) in GDP contribution, available contributions from SA research, staffing/incentives and climatic constraints by September 1999.</td>
<td>Report of research consultant.</td>
</tr>
<tr>
<td>2.5. Institutional arrangements to carry out research mandate finalized by 12/1999, including outsourcing.</td>
<td>Research program, mid-term research agenda.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Technical Services</strong></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>2.6. Sixty percent of agricultural budget is allocated to districts by 12/2001, out of which a maximum of 55% is on personnel.</td>
<td>Institutional arrangements operational.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Output:</strong></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>3. Improved Land management and administration in place.</td>
<td>DAO recurrent budgets, MOA budget.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Land Policy</strong></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>3.2. Transfer of deeds registry and LSPP completed and new organizational structure for LSPP elaborated (e.g. Land Use Planning) by 12/1999.</td>
<td>Government circular &amp; gazette.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Land Information Systems</strong></th>
<th></th>
</tr>
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</table>

<table>
<thead>
<tr>
<th><strong>Land Use Planning</strong></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>3. Only when the Commission is authoritatively constituted and will act in a transparent manner can the review process be expected to lead to successful land policy/management improvements.</td>
<td></td>
</tr>
</tbody>
</table>
| Output:  
| 4.1. Rationalization of Research Institutions (NUL, LAC, ARD, Forestry) by 12/1999. | 4.2. Review of institutional location of MOA’s non-core units (e.g. Youth Affairs, Nature Conservation, National Parks, Nutrition, Cooperatives) with action plan for potential transfer by 12/1999. | Revised government establishment list. | • No farmer support schemes are implemented, which would counteract established policies of reducing Government intervention to core functions, liberalization and privatization.  
| 4.3. Restructuring of District agricultural offices completed 12/2000 reflecting district strategies and implementation of UES. | 4.4. District Development Coordinating Committee (DDCC) functions as APCBP steering body at district level. | Report by DDCC on APCBP. | • Strong leadership from MOA and support from Ministries of Public service and Finance to be given to institutional reform, willingness to retrench staff and effectively dealing with overlapping functions of the 7 MOA departments.  
| 4.5. Staffing inventory for HQ and districts confirmed by 9/1998. | Human Resource Management | Revised payroll and revised establishment list. | • Full agreement on implementation procedures for decentralization required between ministries concerned, particularly MOA and MLG.  
| 4.8. Benchmarks for staffing levels and staff rationalization completed by March 1999 (linked to PER). | 4.9. Staffing rationalization meeting defined reform benchmarks on an annual basis. | Personnel reports. | • Ministry of Finance, and Ministry of Public Service to provide leadership to MOA/MLG in the improvement of management in financial and HR services respectively.  
<p>| Financial Management | | Personnel reports. | |</p>
<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td></td>
<td>Privatization and Divestiture</td>
<td></td>
</tr>
<tr>
<td>4.11.</td>
<td>List of enterprises on divestiture list submitted to Privatization Unit by PS.</td>
<td>Letter confirming the submission.</td>
</tr>
<tr>
<td>4.13.</td>
<td>At least 3 significant agricultural enterprises offered for sale/divested by 12/1999.</td>
<td>PU/MOA reports.</td>
</tr>
<tr>
<td>4.14.</td>
<td>The privatization of agricultural enterprises is implemented on schedule on an annual basis.</td>
<td>Published government regulations + procedures.</td>
</tr>
<tr>
<td>4.15.</td>
<td>Framework of privatization of Veterinary Services and drug supply, including legal aspects in place by June 1999 including budgetary implications.</td>
<td>Surveys, reports.</td>
</tr>
<tr>
<td>4.16.</td>
<td>50% of clinical Veterinary Services and 100% of drug supply delivered by private sector by 12/2000.</td>
<td>Surveys, reports.</td>
</tr>
<tr>
<td></td>
<td>Coordination</td>
<td></td>
</tr>
<tr>
<td>4.18.</td>
<td>Change Management Team (local and external) and necessary resources in place by January 1999.</td>
<td>Minutes of meeting; client survey positive on change.</td>
</tr>
</tbody>
</table>
Annex 2
Detailed Project Description
Agricultural Policy and Capacity Building Project

A. Summary Project Description

1. The main project development objective would be the introduction of improved institutional and policy arrangements for the sustainable and efficient management, financing and delivery of public and private agricultural services. Implementation will be through four main components (see chart below):

   i. Sector Strategy and Management
   ii. Agricultural Support Services
   iii. Land Management and Administration
   iv. Change Process Management

2. The components correspond to organizational units within the Ministry of Agriculture and the Ministry of Local Government, but the implementation strategy also reaches out to the private sector, NGOs and community-based organizations.

Agricultural Policy and Capacity Building Project (APCBP)
Project Support Activities

Policy Reform, District Focus, Stakeholder Involvement

Sector Strategy and Management
Policy Analysis
Planning and Budgeting
Monitoring & Evaluation

Agricultural Support Services
Extension
Technical Services
Research
Marketing Facilitation

Land Management and Administration
Land Policy and legislative Reform
Land Administration
Land Information Systems
Land Use Planning

Change Process Management
Institutional Reform, Privatization, Decentralization

Institutional Restructuring, Privatization and Divestiture
Financial Management
Human Resource Management

Farming and Community Support
District Services and Innovation Support
Restructuring Support
3. The project components are:

(i) **Sector Strategy and Management.** This component will help strengthen analytical capacity for essential policy analysis, build skills and technical expertise in sectoral planning and budgeting with a district focus, develop a functional monitoring and evaluation system, and introduce an effective management information system. It comprises three sub-components:
- Policy Analysis;
- Planning and Budgeting; and
- Monitoring and Evaluation.

(ii) **Agricultural Support Services.** The component aims at the rationalization, decentralization and effective delivery of agricultural support services, which are client-oriented and promote production through effective natural resource management. It comprises four sub-components:
- Extension;
- Technical Services;
- Research; and
- Marketing Facilitation.

(iii) **Land Management and Administration.** This component aims at a comprehensive land reform and is designed to facilitate land policy review, legal and administrative reform and the strengthening of the institutional capacity of the Department of Land, Survey and Physical Planning. This component will be implemented by the Ministry of Local Government. It comprises four sub-components:
- Land Policy and Legislative Reform;
- Land Administration;
- Land Information Systems; and
- Land Use Planning.

(iv) **Change Process Management.** This component will provide for the strategic management of the change process as a whole and will assist in the management of the change process focused at a comprehensive institutional reform, including institutional restructuring, developing related policies and systems (e.g. Human Resource Policy, Financial Management Systems) and the privatization, market liberalization and divestiture activities. It comprises four sub-components:
- Institutional Restructuring;
- Human Resource Management;
- Financial Management; and
- Privatization and Divestiture.

B. Detailed Project Description

I. **Sector Strategy and Management (US$1.25 million)**

4. **Policy Analysis.** This sub-component aims to strengthen the capacity for basic policy analysis and strategy development. The Policy Analysis team will: (i) assess impact of the reform process; (ii) carry out or commission studies on the economic impact of external policy changes and domestic policy initiatives on agriculture; (iii) prepare an annual review of the “state
of agriculture" prior to the preparation of the annual budget; and (iv) prepare periodic updates of the sector strategy. The Annual Sectoral Review will be a synthesis of sectoral economic performance, analysis of major shocks to the sector and policy response, and an identification of major issues facing the sector. This work would provide a strategic direction to the preparation of the rolling and annual budget plans and would provide directions for the annual update of the district economic strategies. Project support will comprise training, technical assistance and equipment as well as funds for policy research and dissemination through workshops, seminars and publications.

5. **Planning and Budgeting.** This sub-component aims to strengthen the planning capacity at the central and district levels. Over the next three years, the planning and budgeting team will focus on: (i) assisting districts to develop economic development strategies; (ii) assisting districts to develop workplan and budgets based on needs assessment generated through the unified extension service (iii) synthesizing economic development strategies and workplan/budgets into a national rolling development plan and expenditure framework for the sector; (iv) developing criteria for the determination of expenditure priorities; and (v) incorporating lessons of experience as identified by the Policy Analysis team and the Monitoring and Evaluation team. The Project will provide training, technical assistance and other necessary funds.

6. **Monitoring and Evaluation.** This sub-component will build capacity in MOA for: (i) identifying project impact, particularly MOA’s client delivery system, and performance indicators and establish an effective monitoring and evaluation system; (ii) generate essential sectoral management information (financial and administrative data, activities carried out and outputs produced in order to contribute to the objectives of the project; (iii) conducting sector performance analysis by suitable external institution; and (iv) establishing an effective management information system (including reporting procedures) for different levels of decision makers. Some of the priority areas for the M&E team will be: understanding the economics of farming systems in the different agro-ecological zones in the country; tracking implementation of MOA’s programs; and providing impact data to the policy and planning teams. The Project will provide training and technical assistance, vehicles and equipment.

II. **Agricultural Support Services (US$2.40 million)**

7. This component addresses the core functions of the Ministry of Agriculture. It aims at the rationalization, decentralization and increased effectiveness of the agricultural service delivery system in all 10 districts in Lesotho. It consist of four sub-components: extension, research, marketing facilitation and technical services. Extension is considered the main catalyst of the agricultural service delivery system. Research, marketing facilitation and specific technical support complement an effective extension service.

8. **Extension.** The four extension approaches currently applied by MOA will be replaced by one unified extension service (UES). The new strategy for the UES will be based on a number of guiding principles (incl. multi-disciplinary/multi-sectoral, village/community needs assessments, empowerment of farmers and organizations, demand-driven and cost-effective) and will increasingly try to contract out and cost-share services. The UES for each district will be broadly based on the outcome of the district economic strategic studies which will have to be completed by June 1999. It will be further defined through the rationalization of the principles in light of the particular local and district circumstances. UES will be made operational through task
forces, stakeholder consultations and technical assistance and is expected to be fully operational by June 2001.

9. Research. The project will include technical assistance in selected areas, and support some of the operating costs and equipment to undertake priority research activities, following the establishment of both a clear research agenda by February 1999, and institutional arrangements by June 1999, including specific roles of extension and research staff pertaining to applied research carried out on farmers fields.

10. Technical Services and Marketing Facilitation. The project would also improve the policy, management and monitoring capacity of the technical services through inter alia (i) a better definition of governments’ support and incentive framework to farmers and communities, esp. relating to afforestation/conservation related activities, animal health functions, and the supply of seed and planting materials (for profit making farming activities); (ii) marketing facilitation; (iii) livestock data base, including its M&E system; and (iv) livestock registration.

11. The operationalizing of the UES at district level would be assisted by the project through District Services and Innovation support. The project would finance about (US$0.6 million) to be used for one-off investments or support to activities such as piloting new approaches, outsourcing of extension services, and developing farmers’ associations.

12. The project would also provide support through Farming and Community Support activities assistance in on-farm and community production activities (e.g. equipment support to grazing associations, tree seedling distribution and seed and planting material production, marketing infrastructure and small scale irrigation). Access for this support by the districts and the distribution thereof would be based on the principles ‘that all direct material support to clients would be transparently allocated and subject to defined criteria’. An initial set of criteria would have to be defined by MOA no later than September 1998 and included in the Project Implementation Plan and would include criteria such as: sector wide, disbursement and distribution of funding according to national policy, cost sharing principles (cash or kind) defined, competitive access to funding by districts, consistency and complementarity with the proposed Poverty Re-formulation Fund (LHWP), coordination with local government and DPU, M&E and updating of criteria. More detailed criteria governing the specific nature of support to various activities would emerge from studies mentioned above e.g. afforestation support and incentive framework. Another aim of this support would be to rationalize and consolidate the various on-farm and community activities presently provided but hidden under the various sub-items of MOA’s recurrent and development budgets by no later than FY2000.

III. Land Management and Administration (US$3.24 million)

13. Land Management and Administration. Agreement was reached with the Government on a program of activities designed to facilitate land policy, legal and administrative reform and to strengthen institutional capacity of the Department of Land, Survey and Physical Planning for effective land management. The Government agreed to initiate an authoritative and participatory process of land policy and legislative review involving broad-based citizen consultation. While the review will proceed in three overlapping phases, it will be viewed as a continuous process and will not be considered finished until new legislation and administrative guidelines will have been have been implemented. To facilitate this, the World Bank and other collaborating development partners undertake to provide requisite financial and technical assistance, including institutional
capacity strengthening. The Government is eager to complete the outline review process including preparation of draft legislation within twelve to fifteen months to facilitate implementation before the end of the project period. The major activities in the proposed program are summarized in the following sections.

14. **Land Policy and Legislative Reform.** This will comprise a review of land policy and legislation, synthesis of new policy principles and administrative guidelines and drafting on a new body of land legislation. The Government will prepare detailed work programs and comprehensive budget estimates to facilitate release of funds and procurement of equipment and services for each of the phases. The main outputs for the phases will be:

   (a) Report of the Review Commission, incorporating a summary of land issues and problems, proposals for their solution and suggestions for structural reorganization of land administration and conflict management;

   (b) White Paper synthesizing normative and legal administrative guidelines and suggestions of mechanisms for resolution of disputes; and

   (c) Draft land law, implementing regulations, rules and requisite schedules.

15. **Land Administration.** This will comprise capacity building based on diagnostic studies initiated under DFID Technical Assistance. The Government plans to complete functional rationalization of all activities relevant to land administration. The main activities will be:

   (a) The Deeds Registry currently in the Law Office and the Land Use Planning Unit in the Ministry of Agriculture would be integrated into DLSPP during the current budget year;

   (b) Decentralization of DLSPP and personnel training; and

   (c) Implementation of new business practice and management systems, and cadastral information systems. Some support would be provided for civil works for the expansion of office space to facilitate full networking.

16. **Land Information Systems.** This sub component will provide enhanced capacity for data gathering, analysis and dissemination. It will also support development of skills and awareness seminars. The areas of financing will be as follows:

   (a) Expansion of office space to house additional units and expanded network;

   (b) Various equipment (GIS, cartographic, office);

   (c) Technical assistance and studies in for GIS and agro-climatology; and

   (d) Support for printing and dissemination of maps.

17. **Land Use Planning.** This sub component will provide support to both Ministry of Agriculture and DLSPP. It will comprise strengthening of spatial and physical land use planning and the development of land use guidelines for district and community use. It will support:

   (a) Technical assistance, studies, training and familiarization tours on land use planning; and

   (b) Dissemination and training workshops;
IV. The Change Management Process (US$7.37 million)

18. The Change Management Process component provides support to the overall realignment and restructuring of the Ministry of Agriculture, driven by the decentralization of services to the districts, focusing on client needs and core public service functions, the Public Service Reform, the establishment of democratic Local Governments and the privatization of service delivery. The component consists of four sub-components: institutional restructuring, human resource management, financial management and privatization and divestiture.

19. **Institutional Restructuring, Privatization and Divestiture.** The focus of the Ministry of Agriculture on core functions requires reorientation, restructuring and ultimately a culture of change to respond more appropriately to the demands of the clients and communities. For this, the ministry needs support in the following key areas:

(i) **The Unified Extension Strategy.** The focus or the core activity of the ministry will be the UES, fully decentralized and working closely with other line departments at district level. For the ministry it will be critical to develop an enhanced understanding of the characteristics of its clients, their needs and the nature of public services which can genuinely add value in the agricultural sector. Critical to this will be the information coming out of the district economic strategies and the district village needs assessments, both forming an integral part of the UES. Once the demands and needs of the clients are fully reviewed and are matched with sustainable district public and private delivery systems, the appropriate functions of the ministry can be defined at both HQ's and the districts, including the district restructuring requirements. The definition of functions and the structure of HQ and districts should be completed by the end of 2001. The project will support the ministry in this process through the provision of technical assistance, equipment and training.

(ii) **Decentralization.** The MOA provides currently technical services either through its technical departments, based in Maseru, or as technical backstopping in the districts. The ministry is committed to decentralize decision making power to the districts, decentralize and scale down technical departments in Maseru and strengthen the planning, budgeting and implementing capacity of the district offices. Staff which will be transferred require training, infrastructure, equipment, housing and will receive adequate compensation. The project will assist the decentralization and rationalization of staff through restructuring support. Principles and procedures on how this support would be operationalized, would have to be finalized by GOL and agreed by the cooperating partners, no later than September 1998, through the Project Implementation Plan.

(iii) **Outsourcing of Extension and Research Activities to the Private Sector.** The ministry will have to explore the possibility of outsourcing some of its services to the private sector. By the end of the project period 20% of the extension services and 20% of the research program would have to be contracted out to either private or non-governmental organizations. The project would support this initially through a one-off activity through District Services and Innovation
Activity Support. In the medium and longer term Government would finance outsourcing from the recurrent budget and/or delivery activities would be fully taken up by the private sector, on a commercial basis.

(iv) **Divestiture of Departments.** The rationalization of agricultural teaching institutions, Lesotho Agricultural College (LAC) and the agricultural faculty of the University of Lesotho (NUL) should be completed by the end of 1999 with the transfer of LAC to NUL. In addition, government would review the possible integration of agricultural research into NUL thereby aiming at a fuller rationalization of research responsibilities and capabilities. The Land Use Planning division may be transferred to the Ministry of Local Government and most of the land use planning functions decentralized to the district planning units. The project would assist the divestiture of departments through restructuring support once restructuring issues are finalized.

(v) **Privatization of Enterprises.** The ministry intends to privatize 16 government enterprises like the Technical Operations Unit (TOU), the national abattoir, the feedlot and others (Annex 8). The list of enterprises should be forwarded to the Privatization Unit in the Ministry of Finance and by the end of 1999 at least 3 enterprises should have been fully privatized. The schedule for enterprises would be updated regularly. The project will support privatization of enterprises but government would establish the principles under which this budget support could be accessed for this purpose. By the end of the project at least 80% of the enterprises should have been privatized or removed from the budget of the ministry.

(vi) **Privatization of Services.** Government would privatize the clinical veterinary services, privatize veterinary drug stores and would have reached a privatization level of at least 50% for the clinical veterinary services and 100% for the veterinary drug stores. The project would assist government in the review of the legal and regulatory framework for the privatization of veterinary services. In addition, it would assist in the construction of additional clinics in the 2 districts and the establishment of a basic animal health service through village veterinary workers in the remoter parts of Lesotho. Village veterinary workers would be active in at least in 5 of the 10 districts by the end of the project. Finally the project would also support the development of a legal framework for the privatization/transfer of woodlots.

(vii) **Local Government Reform.** The establishment of local governments in Lesotho will require the support of all government ministries at district level. The transfer of staff to the districts and the establishment of new functional posts would be pursued and linked to the local government reform and the decentralization of other ministries. The establishment of district planning units, district development coordinating committees, district treasuries would require substantial attention. The development of district economic strategies would form part of the general district development plan. The project would support the local government reform with training and workshops for local government councilors and other officials in agricultural related issues, and would harmonize
the agricultural needs assessment and planning procedures of the UES with the
decentralized district planning framework.

(viii) The elements described above are all parts of the change process and have to be
pursued to arrive at a much leaner, more district-focused and decentralized MOA
organization. The project would support a change process management team,
consisting of both local and foreign advisors. The change team would guide the
ministry through this process by developing strategic plans for the change,
establishing communication channels with stakeholders, building ownership and
commitment and proposing new approaches to service delivery and coordination.
In supporting the overall change process the project would support the ministry
with technical assistance, equipment, training, workshops and operating costs.
The TA team would consist of four facilitators of which three would operate at
the district (regional) level and one extension specialist to back stop the three
regional facilitators in the implementation of the UES in the ten districts.

Service is weak and will require support from the project. The current staffing situation of MOA
is unclear and would be confirmed by MOA no later than September 1998. As a first step of this
process the “establishment list” would be reviewed and ghost workers eliminated from the
payroll. Future skill mix availability and requirements will be assessed and training support to
assist the ministry’s entire human resource development will be established. The access for this
support would be based on a complete training needs’ assessment for MOA, a satisfactory human
resource policy to be submitted to IDA and other donors no later than June 30, 1999, and on an
annual budget to be agreed upon by both government and donors. The project would assist in the
definition of a Human Resource Management Policy and the introduction of a human resource
management system. In addition, the project would also support more effective communication
systems through the provision of equipment, technical assistance and training.

21. **Financial Management.** The Accountant General and the Ministry of Finance will
recruit/deploy proficient accountants to each district to strengthen DAO’s budgeting and
accounting system. Similarly, proficient accountants will be deployed to districts’ sub-
accountancies that are currently not having skilled accountants.

22. MOA in liaison with the ministry of Finance and Economic Planning will disaggregate
budgetary allocations to activities by expanding and enhancing “GOLFIS” capacity. Warrant of
funds will equally reflect disaggregated line item allocations for each activity in the Recurrent
budget. Similarly, the capital budget will also reflect disaggregated allocations on the basis of
activities. This will ultimately facilitate better control of resources and transparent financial
reporting.
Annex 2 (a)
Financial Management System
Agricultural Policy and Capacity Building Project

1. **Introduction.** During the pre-appraisal process of the APCBP, it became apparent that the state of financial management system in the Ministry of Agriculture, Cooperatives, Marketing and Youth Affairs (MOA) in particular, and the entire Government (Ministry of Finance - MOF) in general as well as other operational and decision making structures in the government would need to be strengthened and reformed. In view of this, it was imperative for the financial management system to be considered as one of the key areas that would require strengthening and reformation (decentralization and de-concentration) both at the Headquarters and at the District level. Based on this situation, the financial management system in MOA and in the other supporting institutions at the two levels were reviewed at the appraisal mission, with a view to identifying specific areas that would require consideration for strengthening within the short, medium to long term. After identification of these areas of weakness, it is concluded that the system as reviewed is sufficient to meet the financial management and accountability demanded by the proposed Project.

2. **Budget System.** The present budget system in the Government of Lesotho (GOL) reflect a two category budget system, which also follow separate preparation process under two distinct ministries. The Recurrent Budget (RB) is in principle a functional responsibility of MOF through the Treasury Department. The Capital Budget (CB), i.e. for investment costs is a functional responsibility of the Ministry of Economic Planning. The Line ministries, e.g. MOA prepare consolidated recurrent estimates based on Departments’ estimates and submit this to MOF for review and finalization. Currently, MOA budgeting process is highly centralized, with all the departments, with the exception of the Extension Department preparing their estimates at the center (headquarters). The extension estimates are based on district work program and plans. The District Agricultural Officers (DAO) is responsible for obtaining activity based needs estimated by each unit for specific activities, which are finally used to derive the district extension recurrent estimates. These are all submitted through the Field Services Officer at the headquarters, following which they are consolidated together with the headquarters’ own recurrent estimates (which includes estimates for Maseru District). Unfortunately, however, it is not possible at the present time to reflect the specific activity based estimates under each district in the recurrent printed budget of MOA. This is primarily due to the available digit (character) limitation in the software presently in use in the Government of Lesotho Financial Information System (GOLFIS) at the Treasury. This is a matter of concern, especially because it limits the extent to which resources can be matched to specific activities and also make program based budgeting principle impossible to adopt. Similarly, it would be extremely difficult for the present system to provide a basis for sound and full accountability of resources employed in the projects by both donors and the GOL. Perhaps it is this constraint in GOLFIS that has forced MOA to use a one line budget item in the recurrent budget with a very substantial allocation (counterpart funds) to represent all sorts of expenditures which can not fit in either of the other specific expenditure items. The implication of this is that hidden expenditures, (a few of which could be ineligible under the project) could find their way through this very broad window.

3. In view of the deficiency of the budget system under the GOLFIS environment, MOA’s Warrant of Funds (WF) have failed to provide breakdown of amounts allocated for specific activities in a transparent manner. For instance, the WF holder is able to favor certain activities in
providing them with excess funds, at the expense of other equally important activities, without being recognized easily. In this regard, it would not be logical to hold the officers responsible for the implementation of activities on the ground responsible for non-performance. The system also lacks incentives to motivate the officers at the implementation level, to effectively program their work on the ground without an indication of the size of resources available to them.

4. Capital Budgets under projects are only reflected as aggregate allocations against the name of the specific project and are not disaggregated according to project activities and for district wise. It is therefore not possible to attribute specific allocation to any particular district and activity within the project.

5. **Recommendation and Agreed Next Step Action(s).**

   (i) GOL will as soon as practicable adopt a unified budget approach in which both recurrent and capital estimates would be based on programs at the activity level, and evolve upward from the field to the headquarters level within the line ministries;

   (ii) GOL will assign the full responsibility and function of preparing unified national budget to one specific institution, which will also put in place and manage a national budgetary control mechanism (e.g. by enhancing capacity in GOLFIS to make it responsive to user needs especially in a decentralized public service environment); and

   (iii) Specifically, GOL will ensure the limitation currently in GOLFIS are quickly fully identified and resolved. Outside technical help should be sought as needed.

6. **District Recurrent Expenditure.** The DAO, as the WF holder is responsible for the recurrent expenditure at the district level in MOA on behalf of the ministry’s Principal Secretary. The DAO has the authority to incur expenditure in accordance with the line items specified in the WF to procure goods and services required, and to run station. The expenditure has to adhere to District level procurement guidelines as provided for by the financial regulations of GOL. The DAO’s office is also responsible for ensuring that all goods and services are delivered/supplied and stored in safe custody, before initiating and authorizing payment for the goods/services. Preparation of all District based payment vouchers and vote book (budgetary) control are effected at the DAO’s office. To facilitate this function, MOA has attached support staff (Accounts Clerks) to each DAO. The number ranges between 1 and 2 in most cases depending on the volume of work and area covered in the district.

7. Payment vouchers once processed at the DAO’s office, are presented to the Sub-Accountancy for payment, usually by drawing checks in the case of third parties (suppliers) and for large staff payments (e.g. travel imprest allowance). Each Sub-Accountancy is under the leadership of a designated Sub-Accountant, who (on behalf of Treasury) is responsible of approving and effecting all payments for Government Departments which have District based presence and activities, (e.g. Education, Health, Agriculture, etc.). The Sub-Accountant also checks the payment voucher against the vote book to ensure the expenditure line item being charged has sufficient resources to meet the expenditure, and that it is properly charged, before approving the payment. This is a useful internal control measure, to prevent possibility of warrant holders overshooting the budget allocation and keeping out any irregular and unbudgeted
8. Once payments have been effected, the Sub-Accountancy prepares expenditure returns periodically, and submits them to Treasury (Accountant General) for review and processing of the reimbursement. The original copy of paid-up vouchers and supporting documents, are used to support the expenditure returns. One copy of the paid-up voucher is sent back to the originating department (e.g. DAO), while the third copy is retained at the Sub-Accountancy. Other Government ministries/departments with no district structures process their payments at the ministries’ headquarters.

9. Liquidity at the Sub Accountancy’s Bank Account, is maintained by the revenue collections the Sub Accountancy makes within the district, as receipt to the Government. A substantial proportion of the revenue collected in each district is on account of both Income Tax and Sales Tax, supplemented by revenue from other varied and minor sources, e.g. licenses, fee, levies etc. The size, mix and nature of the revenue collected from various sources vary from district to district. Although all revenue collected at the district level is banked (presumably intact), it is apparent that the system allows the Sub Accountancy to directly use the collected revenue for paying of district operational expenses. Under this system therefore, the Sub Accountancy is only issued with the resulting net financing (cash flow deficit) by the Treasury. In essence, the system has a number merits and demerits. However, it weakens the financial control objective, and also increases the risk exposure of public funds. The financial regulations require the Sub-Accountancy to transfer surplus funds from the district bank account to main Treasury Account as soon as the balance in the account exceed a certain maximum set by the Treasury (M 100,000). The main areas of weakness in the system are:

(i) The risk that revenue collections could easily be used to meet petty cash payments even before it is banked as required;
(ii) Revenue collections could remain unbanked for unreasonably long period, thereby risking its safety;
(iii) If revenue collections are not strictly accounted for and banked soon after being collected, temptation for the handlers to divert the funds for personal use is increased substantially;
(iv) Risk of loosing substantial income from interest earnings on surplus funds for the government is increased, in the event that large amounts of revenue are collected and not banked. Similarly, large balances may be retained in the district current bank accounts in excess of the authorized threshold and for long period i.e. before it is transferred to the consolidated fund, unless there is close supervision by Treasury; and
(v) Risk of encouraging Sub-accountants to adopt poor cash management practices contrary to the accounting conservative rule of paying creditors only when the accounts become due, and not earlier, thus taking full advantage of the credit period.

10 All these weaknesses if not attended to would exacerbate the financial risk on public funds, especially where regular supervision and evidence of an effective and robust internal audit is in-existence.
11. **Recommendation and Agreed Next Action(s).**

(i) MOA and Treasury (Accountant General) will recruit and deploy Senior Accountants to each district by December 31, 1998 to take charge of the accounting function, and strengthen the financial management and internal control system in the DAO’s;

(ii) MOA and treasury (Accountant General) will initiate training needs assessment of all the accounting staff both at Headquarters and at District level inclusive of the Sub-Accountancies, and develop a strategy for providing relevant training (inclusive of computer skills) to the accounting staff as needed by March 15, 1999;

(iii) Treasury (Accountant General) will adopt and instill prudent financial management practices in the system to ensuring that all revenue collections at every level are banked intact and transferred periodically (weekly) to the main Treasury Account (Consolidated Fund);

(iv) Treasury will also strengthen its supervisory role and beef up capacity in the Internal Audit Unit to ensure there are regular checks and reviews for the system in the line ministries and in the districts;

(v) Treasury to adopt a system of financing district activities by providing cash in tranches to meet the cash needs indicated in the warrant of funds issued to the districts by various departments. All subsequent tranches will be based on the reimbursement principle and subject to district’s ability to accounting for the previous tranche. This will ensure that districts have the incentive to submit their monthly returns and supporting documentation to facilitate timely preparation of reimbursement withdrawal applications for submission to the donors;

(vi) MOA will maintain adequate books of accounts and ensure that these are regularly compared and reconciled with the entries appearing in the monthly General Ledger at Treasury under GOLFIS. This will enable MOA to prepare timely and quality (accurate and detailed) project financial statements for audit purposes and in compliance with agreements with various donors; and

(vii) Treasury and MOA will also to mechanize the financial and accounting systems (processes) both at DAOs’ offices and district Sub-Accountancies as well as at MOA’s headquarters. This will help speed up all budgeting and accounting processes at all levels and help expedite preparation and processing of accounting data and records for to facilitate timely financial reporting (financial statements).

12. **Disbursements and Accounting of Donor Funded Projects.** For the last few years, MOA has not had any IDA supported project under its implementation. Also, MOA has also not been directly involved in the financial administration of other ongoing donor funded projects in the sector. Consequently, most, and especially the senior accounting staff are not familiar with procedure for accessing, disbursing and accounting for donor funds. In view of this, it is recognized that MOA’s capacity to process disbursements under the proposed IDA is presently extremely low, and must urgently be enhanced to cope with the demand. In view of this, it is desirable for MOA to develop a sustainable strategy within the existing structure with a view to strengthening the ministry’s capacity to effectively manage donor-supported projects over the next few years. This will prevent and avoid the present practice of establishing unsustainable donor supported parallel structures in the name of Project Implementation Units (PIU), which GOF plan to phase out gradually as the on-going projects with such units come to closure.
13. The present institutional arrangement both at Treasury (Accountant General) department and Ministry of Finance has invariably created a vacuum between them, which has weakened Government’s position and ability for control and coordination of government projects with donor aid and external resources. Currently, there is no one single (one stop shop) center that is effectively overseeing operations and management of donor aided projects. Although the department of Public Debt and Management exists in MOF, its present function and capacity does not allow it to play this role in addition to its present function of managing public debt (domestic and external). In this regard Government has requested IDA for an Institutional Development Fund (DF) grant to finance the formulation of measures to address these deficiencies through (i) provision of a systems advisor to upgrade the current GOLFIS including the interface with other database systems in Finance and Planning and (ii) strengthening the Public Debt Office in projects disbursement and reimbursement claims where GOL has spent up-front and recording of grant funded receipts and expenditures including commodity aid currently not being done.

14. Similarly, it is proposed that sector line ministries implementing projects with donor aid/resources should also establish similar units (starting with MOA as a pilot) in the Financial Controller’s Department to perform the following tasks on a full time basis: (i) coordinate preparation of withdrawal applications; (ii) pursue Special Account payments; (iii) pursue reimbursement claims with various donors; (iv) manage and keep custody of accounting documents (especially with regard to SOEs); and (v) be responsible for the preparation of annual project accounts for audit purposes. This section will be extremely important and useful as donor funding in projects becomes increasingly large and complex (particularly as the “SIP” concept becomes the new modus operandi in various sectors).

15. **Recommendation and Next step Action(s).**

(i) At national level, GOL will establish in Treasury under the Accountant General’s portfolio a unit to coordinate and manage all donor aid and external resources in projects by December 31, 1998.

(ii) At sector line ministry level, it is also recommended and agreed that donor aid accounting units will be established under the Financial Controller, thus strengthening the department by December 31, 1998.

16. **Audit.** The Project Implementing Agency (MOA) for the proposed project will be required to maintain adequate books of accounts and record of all financial transactions under the project in accordance with sound and generally accepted accounting principles. MOA will prepare annual Project Accounts in compliance with International Accounting Standards and submit them to the Auditor in accordance with GOL’s financial regulations. The Project Accounts, SOEs and the Special Account will be audited each year by an independent auditor acceptable to IDA. The Auditor’s report on each of three financial statements will be furnished to IDA not later than six months following the close of each fiscal year (September 30). However, the option to use of private independent auditor would be maintained in case of capacity limitation at the Auditor General’s Office.
## Annex 3

### Estimated Project Costs

**Agricultural Policy and Capacity Building Project**

<table>
<thead>
<tr>
<th>Project Component</th>
<th>Local</th>
<th>Foreign</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>A. Sector Strategy &amp; Management</td>
<td>0.17</td>
<td>1.05</td>
<td>1.22</td>
</tr>
<tr>
<td>B. Agricultural Support Services</td>
<td>0.91</td>
<td>1.37</td>
<td>2.28</td>
</tr>
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<td>C. Land Management and Administration</td>
<td>1.28</td>
<td>1.81</td>
<td>3.09</td>
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<td>D. Change Process Management</td>
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<td><strong>Total Baseline Cost</strong></td>
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<td>Physical Contingencies</td>
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<tr>
<td>Price Contingencies</td>
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<tr>
<td><strong>Total Project Cost</strong></td>
<td>5.35</td>
<td>8.93</td>
<td>14.28</td>
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</table>
### Annex 3 (a)

**Components by Co-financiers**

(US$ Million)

Agricultural Policy and Capacity Building Project

<table>
<thead>
<tr>
<th></th>
<th>IDA</th>
<th>ADF</th>
<th>EU</th>
<th>DFID</th>
<th>GTZ</th>
<th>GOVT</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Civil works</td>
<td>.70</td>
<td>-</td>
<td>.42</td>
<td>.49</td>
<td>-</td>
<td>.07</td>
<td>1.68</td>
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<tr>
<td>2. Equipment/furniture/vehicles</td>
<td>1.22</td>
<td>.50</td>
<td>.59</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>2.31</td>
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<tr>
<td>3. Consultant/studies</td>
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<td>.20</td>
<td>1.51</td>
<td>1.36</td>
<td>-</td>
<td>6.35</td>
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<td>4. Training/workshops</td>
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<td>.10</td>
<td>.59</td>
<td>.10</td>
<td>.14</td>
<td>-</td>
<td>1.43</td>
</tr>
<tr>
<td>5. Operating costs</td>
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<td>-</td>
<td>-</td>
<td>-</td>
<td>.51</td>
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<td>TOTAL</td>
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<td>1.50</td>
<td>0.58</td>
<td>14.28</td>
</tr>
</tbody>
</table>
### Annex 3 (b)
### Project Cost Summary by Sub-component
### Agricultural Policy and Capacity Building Project

#### A. Sector Strategy and Management

<table>
<thead>
<tr>
<th>Sub-component</th>
<th>Base Cost (Maloti '000)</th>
<th>Base Cost (US$ '000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Policy Analysis</td>
<td>867.9 442.3 25.0 1,335.2</td>
<td>173.6 88.5 5.0 267.0</td>
</tr>
<tr>
<td>Planning and Budgeting</td>
<td>508.3 633.3 280.2 1,421.8</td>
<td>101.7 126.7 56.0 284.4</td>
</tr>
<tr>
<td>Monitoring and Evaluation</td>
<td>2,399.0 934.0 14.0 3,347.0</td>
<td>479.8 186.8 2.8 669.4</td>
</tr>
<tr>
<td><strong>Subtotal Sector Strategy and Management</strong></td>
<td>3,775.2 7,009.9 319.2 6,103.9</td>
<td>755.0 401.9 63.8 1,220.8</td>
</tr>
</tbody>
</table>

#### B. Agricultural Support Services

<table>
<thead>
<tr>
<th>Sub-component</th>
<th>Base Cost (Maloti '000)</th>
<th>Base Cost (US$ '000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Extension</td>
<td>1,000.0 2,250.0 2,250.0 5,500.0</td>
<td>200.0 450.0 450.0 1,100.0</td>
</tr>
<tr>
<td>Research</td>
<td>775.0 2,259.6 - 3,034.7</td>
<td>155.0 451.9 - 606.9</td>
</tr>
<tr>
<td>Marketing Facilitation</td>
<td>881.4 586.8 171.3 1,609.5</td>
<td>176.3 111.4 34.3 321.9</td>
</tr>
<tr>
<td>Technical Services</td>
<td>1,113.0 1,113.0 14.0 1,292.0</td>
<td>222.6 33.1 2.8 258.5</td>
</tr>
<tr>
<td><strong>Subtotal Agricultural Support Services</strong></td>
<td>3,769.4 5,231.9 2,435.3 11,436.7</td>
<td>753.9 1,046.4 487.1 2,287.3</td>
</tr>
</tbody>
</table>

#### C. Land Management and Administration

<table>
<thead>
<tr>
<th>Sub-component</th>
<th>Base Cost (Maloti '000)</th>
<th>Base Cost (US$ '000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land Policy and Legislative Reform</td>
<td>1,898.3 2,548.0 1,025.0 5,471.3</td>
<td>379.7 509.6 205.0 1,094.3</td>
</tr>
<tr>
<td>Land Administration</td>
<td>1,128.9 2,051.1 831.2 4,011.2</td>
<td>225.8 410.2 166.2 802.2</td>
</tr>
<tr>
<td>Land Information Systems</td>
<td>2,317.9 1,779.6 258.0 4,355.5</td>
<td>463.6 355.9 51.6 871.1</td>
</tr>
<tr>
<td>Land Use Planning</td>
<td>53.3 383.0 1,175.5 1,611.8</td>
<td>10.7 76.6 235.1 322.4</td>
</tr>
<tr>
<td><strong>Subtotal Land Management and Administration</strong></td>
<td>5,398.3 6,761.6 3,289.6 15,449.7</td>
<td>1,079.7 1,352.4 657.9 3,089.9</td>
</tr>
</tbody>
</table>

#### D. Change Process Management

<table>
<thead>
<tr>
<th>Sub-component</th>
<th>Base Cost (Maloti '000)</th>
<th>Base Cost (US$ '000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Institutional Restructuring</td>
<td>5,861.1 4,602.7 679.9 11,143.7</td>
<td>1,172.2 920.5 136.0 2,228.7</td>
</tr>
<tr>
<td>Human Resource Management</td>
<td>1,207.7 1,261.5 1,191.6 3,665.3</td>
<td>241.5 252.2 239.2 733.1</td>
</tr>
<tr>
<td>Financial Management System</td>
<td>1,039.8 833.1 410.1 2,283.0</td>
<td>208.0 166.6 82.0 456.6</td>
</tr>
<tr>
<td>Privatization and Divestiture</td>
<td>2,500.0 7,000.0 8,000.0 16,000.0</td>
<td>500.0 1,500.0 1,600.0 3,600.0</td>
</tr>
<tr>
<td><strong>Subtotal Change Process Management</strong></td>
<td>10,608.5 14,197.3 10,286.2 35,092.0</td>
<td>2,121.7 2,083.5 2,057.2 7,018.4</td>
</tr>
<tr>
<td><strong>Total BASELINE COSTS</strong></td>
<td>23,351.4 29,200.6 16,335.3 66,483.0</td>
<td>4,712.3 5,640.1 3,266.1 13,615.4</td>
</tr>
</tbody>
</table>

#### Total PROJECT COSTS

<table>
<thead>
<tr>
<th>Sub-component</th>
<th>Base Cost (Maloti '000)</th>
<th>Base Cost (US$ '000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Project Contingencies</td>
<td>374.7 1,430.0 1,583.1 3,342.8</td>
<td>74.9 286.0 307.6 668.6</td>
</tr>
<tr>
<td>Taxes</td>
<td>29,926.1 29,630.6 17,868.4 71,425.0</td>
<td>4,785.2 5,926.1 3,573.7 14,285.0</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Base Cost (Maloti '000)</th>
<th>Base Cost (US$ '000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Base Cost (Maloti '000)</td>
<td>23,926.1 29,630.6 17,868.4 71,425.0</td>
</tr>
<tr>
<td>Total Base Cost (US$ '000)</td>
<td>4,785.2 5,926.1 3,573.7 14,285.0</td>
</tr>
</tbody>
</table>
Annex 4
Economic and Fiscal Impact Assessment
Agricultural Policy and Capacity Building Project

A. Introduction

1. MOA has done a great deal of work in developing a long-term agricultural development strategy. The MOA strategy seeks to increase the focus on growth in productivity and farm incomes as a means of reducing poverty, enhancing household food security and expanding employment opportunities. MOA's resources and its public policy making role are important factors that influence relative farm level incentives and the pattern of resource allocation. The proposed Agricultural Policy and Capacity Building Project is a vehicle for changing the way MOA does business in a manner that increases its ability to deliver services cost effectively. The analysis below identifies the key issues, and synthesizes proposed actions and expected outcomes.

B. Size and Composition of Public Expenditure

2. MOA aggregate expenditures amount to an annual average of Maloti 160 million (US$32 million) over the last five years in nominal terms. The aggregate sectoral public expenditure as a ratio of GDP is close to 3.5% compared to 1.5-2.0% for Sub Saharan Africa in the second half of the 1980s, while the same level of expenditure as a ratio of agricultural GDP is about 60%, and has not been lower than 25% over the last ten years. Comparable figures for Sub Saharan Africa are between 9% and 16%. The level of funding is therefore above Sub Saharan Africa norms.

3. Emoluments account for an average of 60% of total recurrent expenditure (Table 1). Within district budgets, this ratio is as high as 80% which leaves little room for operational travel and other field activities.

Table 1: MOA Recurrent Budget by Subhead 1995/96 - 1997/98

<table>
<thead>
<tr>
<th>Subhead</th>
<th>Budget 97/98</th>
<th>Percent</th>
<th>Revised 96/97</th>
<th>Percent</th>
<th>Actual 95/96</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>01 Emoluments</td>
<td>57,257,000</td>
<td>60.51%</td>
<td>44,342,650</td>
<td>58.89%</td>
<td>38,032,510</td>
<td>60.46%</td>
</tr>
<tr>
<td>02 Travel</td>
<td>8,172,301</td>
<td>8.64%</td>
<td>6,200,640</td>
<td>8.24%</td>
<td>5,852,700</td>
<td>9.30%</td>
</tr>
<tr>
<td>03 Operating Costs</td>
<td>22,139,860</td>
<td>23.40%</td>
<td>15,841,290</td>
<td>21.04%</td>
<td>15,629,956</td>
<td>24.85%</td>
</tr>
<tr>
<td>04 Special Exp.</td>
<td>4,255,140</td>
<td>4.50%</td>
<td>2,495,550</td>
<td>3.31%</td>
<td>1,976,090</td>
<td>3.14%</td>
</tr>
<tr>
<td>05 Grants &amp; Subs.</td>
<td>2,798,110</td>
<td>2.96%</td>
<td>6,412,860</td>
<td>8.52%</td>
<td>1,408,800</td>
<td>2.24%</td>
</tr>
<tr>
<td>Grand Total</td>
<td>94,622,411</td>
<td>100%</td>
<td>75,292,900</td>
<td>100%</td>
<td>62,900,056</td>
<td>100%</td>
</tr>
</tbody>
</table>

4. Since 1995/96, the recurrent expenditure has grown by 50% in nominal terms and that growth has been driven by increases in emoluments (Table 2). Overall civil service increases were an average of 10% over the same period which suggests that MOA changes were increases in staffing.
Table 2: Budget Trends by Subhead

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Maloti</td>
<td>Percent Terms</td>
</tr>
<tr>
<td>01 Emoluments</td>
<td>12,914,350</td>
<td>29.12%</td>
</tr>
<tr>
<td>02 Travel</td>
<td>1,971,661</td>
<td>31.80%</td>
</tr>
<tr>
<td>03 Operating Costs</td>
<td>6,298,570</td>
<td>39.76%</td>
</tr>
<tr>
<td>04 Special Exp.</td>
<td>1,759,590</td>
<td>70.51%</td>
</tr>
<tr>
<td>05 Grants &amp; Subs.</td>
<td>3,614,750</td>
<td>56.37%</td>
</tr>
<tr>
<td>Grand Total</td>
<td>19,329,421</td>
<td>25.67%</td>
</tr>
</tbody>
</table>

5. The top three beneficiaries of increases in the MOA budget have been the TOU, Cooperatives, and Lesotho Agricultural College. Extension, including district budgets, accounted for 38% of the recurrent expenditure and has grown at about the same rate as increases in civil service salaries. Within districts, resources are concentrated at District headquarters leaving only a small part for financing actual service delivery. In Leribe District for instance, only 18% of the resources budgeted for the district were available for front-line service delivery. The level of service delivery to farmers and communities at field level is limited.

C. Impact on Sectoral Performance

6. It is not surprising, given the above diagnosis that MOA’s expenditures have not had a discernible impact on agricultural output and productivity and may not have contributed significantly to the Government objectives of poverty reduction, enhanced food security and employment generation. Over the last 15 years, agricultural output has declined in absolute terms while MOA expenditures quadrupled in real terms (constant 1980 Maloti terms).

D. Proposed Budget Rationalization and Fiscal Impact

7. A key issue has emerged from the analysis of the level and pattern of budget allocations as to whether MOA could deploy its scarce resources to finance activities which are consistent with its core objectives of facilitating growth agricultural productivity and output. Two areas of focus are privatizable enterprises and Units within MOA that belong to other sectors.

(a) Privatizable Enterprises and Services. A conservative estimate suggests that about 14% of MOA’s recurrent budget (equivalent to an annual expenditure of M13 million or US$2.6 million) is accounted for by expenditure on privatizable enterprises and services. The big ticket items in the 1997/98 budget are: Tractor Operation Unit (M8.4 million inclusive of staff salaries); Livestock Products Marketing Services (M2 million); livestock production enterprises run by the Department of livestock (M2 million); and forestry woodlots, nurseries and state farms (M1 million).

(b) Other Units. A further 18% (equivalent to M16.6 million or US$3.3 million) is for Units in MOA that might better belong to other sectors. These include but are not limited to: Lesotho Agricultural College, Cooperatives, and Youth Affairs. In addition to the above, there are significant, but undocumented financial transactions between Government and Coop Lesotho, for instance, in
1997/98 there was a transfer of M1.21 million, while in 1996/97 there were transfers amounting to M4 million.

8. On the basis of preliminary analysis, MOA can cut back nearly M30-35 million (33-38%) out of its recurrent budget. The Agricultural Policy and Capacity Building Project provides a means for MOA to re-orient its priorities to focus on core activities and divest those areas that do not directly support its core mission.
### Annex 5
Financial Summary
Agricultural Policy and Capacity Building Project

Years Ending March 31
(US$ Million, 1998 prices)

<table>
<thead>
<tr>
<th></th>
<th>Implementation Period</th>
<th>Operational Period</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>3 Years</td>
<td></td>
</tr>
<tr>
<td><strong>Project Costs</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investment Costs</td>
<td>11.77</td>
<td>3 years</td>
</tr>
<tr>
<td>Recurrent Costs</td>
<td>2.51</td>
<td>10 years</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>14.28</td>
<td></td>
</tr>
<tr>
<td><strong>Financing Sources (% of total project costs)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>IBRD/IDA</td>
<td>6.80 (48%)</td>
<td></td>
</tr>
<tr>
<td>Co-financiers</td>
<td>6.90 (48%)</td>
<td>3 years</td>
</tr>
<tr>
<td>Government</td>
<td>0.58 (4%)</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>14.28 (100%)</td>
<td></td>
</tr>
</tbody>
</table>
Annex 6

Procurement and Disbursement Arrangements
Agricultural Policy and Capacity Building Project

A. Procurement

1. All procurement of goods and works would be done in accordance with “Guidelines for Procurement under IBRD and IDA Credits”. The Bank's Standard Bidding Documents for goods and works would be used. All procurement of consultants would be done in accordance with “Guidelines, Selection, and Employment of Consultants by World Bank Borrowers”. A draft GPN was cleared by the Borrower during Negotiations and will be published in the Development Forum at least 60 days prior to issue of bid documents. Specific Procurement Notices will be required for consulting service contracts above US$200,000 prior to the preparation of the shortlist.

(a) **Civil Works.** All civil works contracts for construction and rehabilitation of field offices and housing facilities will be carried out by NCB or other procurement procedures.

(b) **Goods and Equipment.** Expected procurement will comprise vehicles, motorcycles, furniture, office equipment, laboratory equipment, communications equipment, computer hardware and software, and selected consumables. Purchases will be through ICB, NCB and other procurement procedures.

(c) **Services.** This category includes consulting services, technical assistance, training, studies and tours. All consultant service contracts will be procured in accordance with the Bank’s guidelines for Selection and Employment of Consultants (updated September 1997). Most consultants will be recruited through competition among qualified short-listed firms or individuals in which the selection will be based on quality and cost based selection. TORs for all contracts and all sole source selection of consultants, and contracts will be subject to IDA prior review.

2. **Procurement Plans.** Three months prior to the start of each GOL fiscal year, MOA would submit a detailed procurement plan for the following fiscal year (para D2, page 15). Some technical assistance has been budgeted to assist in preparing procurement documentation.

B. Disbursement

3. The proceeds of an IDA credit of US$6.80 million would be disbursed over a three year period. The annual estimated disbursements are shown on page one of this PAD.

4. The process of the IDA Credit would be disbursed against:

(a) 90% of expenditures on works contracts;

(b) 100% of foreign expenditures and 90% of local expenditures for vehicles, motorcycles and equipment;
(c) 100% of expenditures for studies, training, workshops, tours and technical assistance; and
(d) 100% of expenditures of operating costs.

5. **Statement of Expenditures.** Disbursements for all expenditures would be against full documentation, except for items of expenditures under contracts and purchase orders below US$100,000 equivalent for goods, works and services of consultant firms and below US$50,000 equivalent for vehicles, services of individual consultants, for which disbursement would be made on the basis of statements of expenditures (SOEs). Supporting documentation for SOEs would be retained by the borrower for IDA review.

6. **Special Accounts.** To facilitate disbursements a Special Account in US dollars would be established at the Central Bank of Lesotho, under terms and conditions satisfactory to IDA. Upon project effectiveness, a sum not exceeding US$750,000 would be deposited by IDA into this account. Further deposits by IDA into this account would be made against withdrawal applications supported by appropriate documents.

7. **Audits.** The project implementing agencies - Ministry of Agriculture and the Ministry of Local Government will be required to maintain adequate books of accounts of all financial transactions under the project in accordance with sound and generally accepted accounting principles. The implementing agencies will prepare annual Project Accounts in compliance with international accounting standards and submit them to the Auditor General in accordance with GOL’s financial regulations. The Project accounts, SOEs and the Special Account would be audited each year by an independent auditor acceptable to IDA. The auditors’ reports and certificates with respect to each of these three statements of accounts would be furnished to IDA within six months of the close of each fiscal year (by September 30). However, the option to use private independent auditors would be maintained in case of capacity limitations at the Auditor General’s Office.

### Table A: Project Costs by Procurement Arrangements (in US$ million equivalent)

<table>
<thead>
<tr>
<th>Expenditure Category</th>
<th>ICB</th>
<th>NCB</th>
<th>Consulting Services/ Other</th>
<th>N.B.F</th>
<th>Total Cost (including contingencies)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Civil works</td>
<td></td>
<td>.70</td>
<td></td>
<td>.98</td>
<td>1.68 (0.70)</td>
</tr>
<tr>
<td>2. Equipment/furniture/vehicles</td>
<td>.79</td>
<td>.43</td>
<td></td>
<td>1.09</td>
<td>2.31 (1.22)</td>
</tr>
<tr>
<td>3. Consultant/studies</td>
<td></td>
<td></td>
<td>2.78</td>
<td>3.57</td>
<td>6.35 (2.78)</td>
</tr>
<tr>
<td>4. Training/workshops</td>
<td></td>
<td></td>
<td>.50</td>
<td>.93</td>
<td>1.43 (.50)</td>
</tr>
<tr>
<td>4. Recurrent costs</td>
<td></td>
<td>1.60</td>
<td></td>
<td>.91</td>
<td>2.51(1.60)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>.79</td>
<td>2.73</td>
<td>3.28</td>
<td>7.48</td>
<td>14.28 (6.80)</td>
</tr>
</tbody>
</table>

Figures in parenthesis are the amounts to be financed by the IDA credit
## Table B: Thresholds for Procurement Methods and Prior Review

<table>
<thead>
<tr>
<th>Expenditure Category</th>
<th>Contract Value (Threshold)</th>
<th>Procurement Method</th>
<th>Contract Subject to Prior Review/Estimated Total Value Subject to Prior Review</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>US$ thousands</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. <strong>Works</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>&gt; US$500,000</td>
<td>N/A</td>
<td>US$100,000 or more</td>
</tr>
<tr>
<td></td>
<td>US$100,000 - 500,000</td>
<td>NCB</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Less than US$100,000</td>
<td>Other</td>
<td></td>
</tr>
<tr>
<td>2. <strong>Goods</strong></td>
<td>&gt; US$100,000</td>
<td>ICB</td>
<td>US$100,000 or more</td>
</tr>
<tr>
<td></td>
<td>US$30,000 - 100,00</td>
<td>NCB</td>
<td></td>
</tr>
<tr>
<td></td>
<td>US$30,000</td>
<td>Other</td>
<td></td>
</tr>
<tr>
<td>3. <strong>Services</strong></td>
<td>All contract values</td>
<td>Consultants' Qualifications and Costs Sole Source</td>
<td>Over US$100,000 (firms) Over US$50,000 (individuals)</td>
</tr>
<tr>
<td>4. <strong>Operating Costs</strong></td>
<td>None</td>
<td>Other</td>
<td>All</td>
</tr>
</tbody>
</table>

Total cost of all contracts: $6.80 million  
Total value of contracts subject to prior review: $4.2 million  
Percent prior review: 62%

Note: 1. All TORs and Sole Source Selection will be subject to prior review.  
2. N/A - Not applicable, there will be no contracts above $500,000 for works and hence ICB will not be applicable.

## Table C: Allocation of Credit Proceeds

<table>
<thead>
<tr>
<th>Expenditure Category</th>
<th>Amount in US$ million</th>
<th>Financing Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Works</td>
<td>.70</td>
<td>90%</td>
</tr>
<tr>
<td>2. Equipment, vehicles, furniture, materials</td>
<td>1.22</td>
<td>100% FE, 90% LC</td>
</tr>
<tr>
<td>3. Consultants' services and studies</td>
<td>2.70</td>
<td>100%</td>
</tr>
<tr>
<td>4. Training and workshops</td>
<td>.50</td>
<td>100%</td>
</tr>
<tr>
<td>5. Operational costs</td>
<td>1.00</td>
<td>90%</td>
</tr>
<tr>
<td>6. Unallocated</td>
<td>.68</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>6.80</td>
<td></td>
</tr>
</tbody>
</table>
Annex 7
Project Processing Budget and Schedule
Agricultural Policy and Capacity Building Project

A. Project Budget (US$000)

<table>
<thead>
<tr>
<th></th>
<th>Planned (At final PCD stage)</th>
<th>Actual</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>US$150,000</td>
<td>US$180,000</td>
</tr>
</tbody>
</table>

B. Project Schedule

<table>
<thead>
<tr>
<th>Activity</th>
<th>Planned</th>
<th>Actual</th>
</tr>
</thead>
<tbody>
<tr>
<td>Time taken to prepare the project (28 months through March, 1998)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>First Bank mission (identification)</td>
<td>07/01/1995</td>
<td>11/15/1995</td>
</tr>
<tr>
<td>Appraisal mission departure</td>
<td>04/03/1998</td>
<td>04/01/1998</td>
</tr>
<tr>
<td>Negotiations</td>
<td>04/27/1998</td>
<td>05/14/1998</td>
</tr>
<tr>
<td>Planned Date of Effectiveness</td>
<td>09/01/1998</td>
<td>09/01/1998</td>
</tr>
</tbody>
</table>


Preparation assistance: PHRD Grant

Bank staff who worked on the project included:

<table>
<thead>
<tr>
<th>Name</th>
<th>Specialty</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sakwa Bunyasi (TTL)</td>
<td>Agricultural Economist</td>
</tr>
<tr>
<td>Ben van de Poll</td>
<td>Agriculturist</td>
</tr>
<tr>
<td>Sejian Riddle</td>
<td>Costing and Budgeting</td>
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<tr>
<td>Shem Migot-Adholla</td>
<td>Land Tenure/Social Aspects</td>
</tr>
<tr>
<td>John Nyaga</td>
<td>Financial Management Specialist</td>
</tr>
<tr>
<td>T. Mpyo-Kamulayi</td>
<td>Legal Counsel</td>
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<tr>
<td>Kafu Awunyo</td>
<td>Legal Consultant</td>
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<tr>
<td>Francesco Sarno</td>
<td>Procurement</td>
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<td>Rogati Kayani</td>
<td>Procurement</td>
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<td>Steven Gaginis</td>
<td>Disbursement</td>
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<tr>
<td>Serigne Omar Fye</td>
<td>Environment</td>
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<tr>
<td>Kobinah Atobrah</td>
<td>Consultant - Environmental Impact Assessment</td>
</tr>
<tr>
<td>Stefan Oehrlein (consultant)</td>
<td>Decentralization</td>
</tr>
</tbody>
</table>

The following staff from Participating Agencies worked on the Project:

ADB: D. Tripathy, B. Kanu.
DFID: Jonathan Beynon, Ian Goldman, Challa Moahloli, David Hoole.
GTZ: Christof Kohlmeyer, Albert Engel.
IFAD: Siaka Bakayoko, John Gicharu, Ian Jones and other consultants.
Other: George Day (ASIP Adviser to MOA funded by DFID).
FAO Cooperative Program.
International Service for National Agricultural Research (ISNAR).
Annex 8
Letter of Sectoral Policy
Agricultural Policy and Capacity Building Project

In reply please quote:

Your Reference:

Cable address: PLANNOFF
Telephone: 311619 Maseru

OFFICE OF THE MINISTER
OF PLANNING, ECONOMIC
AND MANPOWER
DEVELOPMENT
P.O. BOX MS 630
MASERU 100
LESOTHO

15th May, 1998

The Country Director
World Bank Group
1818 H Street, N.W.
Washington D.C. 20433
USA

Attention: Ms. Pamela Cox

LETTER OF SECTORAL POLICY ON INSTITUTIONAL REFORM OBJECTIVES
AND DEVELOPMENT STRATEGY IN AGRICULTURE

1. This is to inform you about the proposed Agricultural Policy and Capacity Building
Project (APCBP) for which the Government of Lesotho is seeking financial assistance from IDA
and other donors. This letter outlines the strategic direction in the agricultural sector and the
measures proposed under the project.

Long Term Vision

2. The agricultural sector is expected to continue to play a major role in meeting the
Government’s core objectives of reducing poverty, improving household food security and
generating employment in an economically diversified and ecologically sustainable way. To
achieve this objective the Government has formulated a long term (10 year) Agricultural Sector
Development Program (ASDP) with the core objectives of increasing farm productivity and
incomes by improving farm technology transfer, creating a conducive economic environment for
increased investment in the agricultural sector, and increasing awareness and investment in the
management of natural resources. It is the Government’s intention to request our development
partners to support the ASDP in a coordinated fashion through a program approach. However,
the Government is fully aware of the institutional and human resource constraints facing the
agricultural sector that would impede the satisfactory implementation of an ASDP type initiative.
It is our decision therefore, that we concentrate in the initial 3 years, on laying the foundation for
long term development by improving the policy and institutional environment and building
capacity for planning and implementation as a precursor to the launching of an ASDP.

Background to the Agricultural Sector

3. **Agricultural Performance and Constraints.** Lesotho has limited comparative advantage
in Agriculture, but because of its socio-economic structure about ±80 percent of its nationals
dwell in the rural areas and of which more than 50 percent derive their livelihood wholly or
partially from the agricultural sector. This sector also employs approximately 60 percent of the
country’s labour force at close to subsistence wage levels and incomes. The latest estimates
suggest that agriculture’s contributions to the Gross Domestic Product (GDP) is in the range of
9-13 percent, with wide year to year fluctuations depending on the rainfall. Overall, agricultural sector performance is still significantly below its potential.

4. **Constraints.** The agriculture sector faces a number of inherent constraints. First, only 9 percent of land is arable and a significant proportion of this is not used to its potential. Second, agriculture is largely rainfed and as a result output is heavily influenced by rainfall which is erratic. Third, rapid population growth exerts a lot of pressure on the already depleted natural resource base. Consequently, annual per capita growth from agriculture has been negative over the past 10 years. The performance was better for the livestock sector which was less affected by inter-annual rainfall variations.

The poor performance of the agricultural sector can be explained by:

(i) the policy framework, which has been characterised by extensive interventions by the government in the production, marketing, processing and pricing of agricultural commodities;

(ii) institutional factors, including the system of land tenure and capacity constraints within the public sector;

(iii) a piecemeal approach to development assistance; and

(iv) natural factors, such as erratic rainfall, poor soils and increasing land degradation in the face of intense pressure from human and animal production, including encroachment of residential sites into prime agricultural land.

5. **Agricultural Sector Growth Strategy.** The Government intends to pursue a policy of sectoral development based on comparative advantage in a competitive, outward-looking economic framework. To this effect the Government initiated the preparation of a 10 - 15 years ASDP. However it became apparent that the existing institutional and implementation capacity was inadequate to carry ASDP through. Hence a decision was made to adopt Agricultural Policy and Capacity Building Project (APCBP) as a stepping stone towards implementing ASDP.

6. GOL realises that in order to effect growth in agriculture, there is a need to broaden the productive base of the rural economy. This can only be achieved through ‘intensification’ of the competitive crops and livestock products and ‘diversification’ into higher value commodities. Amongst the export commodities, high value crops such as asparagus are expected to offer the greatest prospects for growth in output in the short to medium term. In the grain food sector, maize and wheat offers a similar potential if grown on a commercial basis. Concurrently support is needed for the generation of small-scale non-farm activities in areas complementing intensive agriculture and high-value cropping. Encouragement of private sector within agriculture should be pursued to create employment opportunities.

7. GOL intends to identify and promote its domestic resources for growth to supplement the declining remittances of its migrant workers who are now being heavily retrenched by RSA mining companies, and of course the now dwindling external donor finances of which Lesotho has been heavily dependent upon.
8. With the overall objective of stimulating domestic incomes and employment, GOL has embarked on a course of economic, policy and institutional reform. This reform is the result of extensive analysis and recommendations over many years, involves the liberalisation of trade and commercial activities and the systematic privatisation of state enterprises and assets, many of which have been subject to severe problems of management and commercial viability. The reform is aimed at cutting costs, increasing productivity and exposing the economy to the growth opportunities of international markets.

9. While Lesotho’s natural resources do not include very extensive areas of cultivable land, the size and capabilities of its workforce provide the opportunity for intensifying production in agriculture and in other productive sectors. This opportunity can only be realized, however, if an open, commercially oriented strategy, as opposed to a protective development strategy, is adopted. The government recognises that policy environment is still not conducive to full private sector participation/initiative. For example, parastatals continue to operate but still make losses and distort the markets. In addition, domestic marketing controls still exist for some commodities. The bottom line is that the institutional framework is still inadequate. Ministry of Agriculture Cooperatives Marketing and Youth Affairs (MOA) functions ineffectively for reasons such as: (i) weak extension links between research and farmers (inadequate extension and research strategies), (ii) insecurity in land tenure that inhibits investments which are necessary for high value crops, and (iii) weak institutional capacity. GOL is committed to its programme of privatisation, marketing deregulation and divestiture. A plan of action for market liberalisation is shown in Annex 1 and a proposal to privatise/divest some of the state enterprises is shown in Annex 2. Both the Action Plan and a list of privatisable enterprises have been approved by Cabinet.

### Institutional Reform and Decentralisation Strategy

10. MOA has recognised that ASDP will not have a sustainable impact on agricultural development in Lesotho in the absence of a well defined and structured institutional reform. Since the MOA's mission is only to facilitate the sector's development rather than participating in direct production, this reform becomes crucial. The institutional reform consist of a set of proposals for policy and institutional transformation. Concurrently, the Government is decentralising delivery of services and associated planning, management and budgeting powers from the central Ministries to the district level. Earlier efforts of MOA decentralization, were not fully satisfactory because while service delivery and staff were decentralised, all authority regarding planning, budgeting, decision making, personnel and financial management still remained at Headquarters.

11. To address these issues the Government of Lesotho through MOA has committed itself to operationalize the Lesotho Agricultural Policy Framework, using the Agricultural Sector Investment Programme as its key vehicle. In support of the sectoral policies whose objectives are directed towards three priority areas, poverty alleviation, household food security and employment, the Ministry has defined priority Capacity Building objectives aimed at strengthening and streamlining its managerial and ensuring good governance, more specifically to:
   (i) re-assess the dominant role of the MOA in the provision of farm support services in the agricultural sector and to find ways of increasing the participation of other stakeholders in service provision, in accordance with Annex 1;
   (ii) shift away from a centralized decision-making and control of public expenditure to a
(ii) shift away from a centralized decision-making and control of public expenditure to a decentralized, district managed system of service delivery to farmers;

(iii) restructure the budgeting system to re-allocate resources towards priority, demand driven services;

(iv) build overall capacity to manage the process of change and subsequent implementation of the agricultural sector public expenditure programme.

(v) privatize and divest publicly funded commercial enterprises and services to save resources, in line with Annex 2; and, 

12. In the expectation of a much tighter budgetary situation, the process described above is considered particularly urgent and important especially in institutions whose scope of services includes those that can be provided by the non-government sector including farmers, communities, and other stakeholders.

13. In view of the measures outlined above, many of which are already being implemented, the Government of Lesotho requests your favourable consideration for an Agricultural Policy and Capacity Building Project. Implementation of the project would be consistent with our broader initiatives to improve governance through decentralization, increase efficiency in the public sector through institutional reforms, and create greater opportunities for the private sector through market liberalization. If fully implemented, the project will set the stage for the implementation of ASDP which greatly enhance our capacity to address poverty and growth for the majority of our people.

SIGNED ON BEHALF OF
GOVERNMENT OF LESOTHO

L. V. KETSO (DR)
MINISTER OF FINANCE AND
OF ECONOMIC PLANNING
### Policy Action Matrix

#### Policy Objective

<table>
<thead>
<tr>
<th>Marketing and Pricing Policy</th>
<th>Current Status</th>
<th>Proposed Actions and Timing</th>
</tr>
</thead>
</table>
| 1.1 Promote efficient and effective agricultural input supply, marketing and processing systems through deregulation. | Government has withdrawn from price fixing, marketing and trade controls on maize, sorghum, wheat and their by-products. Need to assess impact of the reforms to date and to determine additional constraints. | (i) Carry out a survey of traders and dealers to determine adequacy of measures, identify outstanding issues by June 30, 1999;  
(ii) Evaluate economic impact of the reforms in the maize, sorghum and wheat sub-sectors by December 31, 1999;  
(iii) Complete diagnostic studies on scope of problem and impact on sector by June 30, 2000;  
(iv) Complete plan of action by September 30, 2000 for review by the 3rd joint Donor and Government Annual Review of APCBP in October 2000;  
(v) Government to issue a policy statement on what type of commodity aid it will seek and the manner and timing of its introduction in a manner that does not distort the market, by December 31, 1998;  
(vi) Government to withdraw from: (a) Coop Lesotho, including financing and loan guarantees for Coop Lesotho by December 31, 1998; (b) distribution of agricultural inputs including fertilizer by December 31, 1998; (c) agro-chemicals by December 31, 1999; and (d) farm machinery services by December 31, 2000;  
| Controls remain on imports and exports of live animals, meat, poultry, milk products, sugar, pulses, fruit and vegetables (under Marketing Act of 1967). | (i) Carry out a survey of traders and dealers to determine adequacy of measures, identify outstanding issues by June 30, 1999;  
(ii) Evaluate economic impact of the reforms in the maize, sorghum and wheat sub-sectors by December 31, 1999;  
(iii) Complete diagnostic studies on scope of problem and impact on sector by June 30, 2000;  
(iv) Complete plan of action by September 30, 2000 for review by the 3rd joint Donor and Government Annual Review of APCBP in October 2000;  
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| Input supply and distribution is partially handled by the public sector because Government receives donor commodity aid of fertilizer, agro-chemicals and machinery and implements. While Government would like to continue to receive the grants because of the balance of payments effect, it will seek to dispose of the commodity aid by public auction; | (i) Carry out a survey of traders and dealers to determine adequacy of measures, identify outstanding issues by June 30, 1999;  
(ii) Evaluate economic impact of the reforms in the maize, sorghum and wheat sub-sectors by December 31, 1999;  
(iii) Complete diagnostic studies on scope of problem and impact on sector by June 30, 2000;  
(iv) Complete plan of action by September 30, 2000 for review by the 3rd joint Donor and Government Annual Review of APCBP in October 2000;  
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(vi) Government to withdraw from: (a) Coop Lesotho, including financing and loan guarantees for Coop Lesotho by December 31, 1998; (b) distribution of agricultural inputs including fertilizer by December 31, 1998; (c) agro-chemicals by December 31, 1999; and (d) farm machinery services by December 31, 2000;  
| Subsidies in agriculture have remained in place for many years without re-assessing if rationale is still valid. | Re-evaluate the rationale of all remaining subsidies in agriculture and prepare a plan by December 1999, for reform or elimination. |

#### Divestiture

| Divest public sector ownership of commercial operations to enhance private sector role, curtail public sector losses, and increase impact on growth in the rural sector. | Government has identified a priority list of 16 enterprises and services for divestiture, and has submitted the list to the Privatization Unit (PU) of the Ministry of Finance. Emphasis will be placed on getting a few of them completed at a time and all the 16 will be completed in the next 3 years (see Schedule in Annex 2(b)); | (i) Confirm the scope and sequencing of enterprises on the divestiture schedule by Negotiations;  
(ii) In consultation with PU, recruit a Consultant to assist in the diagnostic and divestiture planning and documentation by September 30, 1998. |
### Privatization and Divestiture Schedule

#### Attachment 2

**Agricultural Policy and Capacity Building Project**

<table>
<thead>
<tr>
<th>ENTERPRISE</th>
<th>SITUATION ASSESSMENT</th>
<th>PROPOSED ACTION</th>
<th>TO BE COMPLETED BY</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Feedlot</td>
<td>Not in use for fattening. Operations of the feedlot were separated from the abattoir. Decision made to lease the feedlot. Land surveying to be carried out. Submitted to PU for leasing.</td>
<td>(i) Transaction to be concluded by</td>
<td>December 31, 1998</td>
</tr>
<tr>
<td>3. Wool and Mohair Marketing</td>
<td>Operate 95 woolsheds, classing and packing wool and mohair prior to marketing through PE. Not meeting objectives of improving market. Alternative structure required to discharge mandate. Provides conduit for subsidy to W&amp;M Growers Assoc. but handles only half of production.</td>
<td>(iv) Confer with Wool &amp; Mohair Assoc. and other traders on plans for strengthening wool marketing. (v) Carryout diagnostic study to determine divestiture plan. (vi) Discuss divestiture plan with WMA and initiate implementation of the plan. (vii) Complete divestiture arrangements.</td>
<td>December 31, 1998</td>
</tr>
<tr>
<td>4. Technical Operations Unit (TOU)</td>
<td>Heavy drain on government finances. Drain on foreign exchange. Eliminates private sector competition. Distorts farming systems at expense of employment by effectively subsidizing mechanical operations and crowding out intermediate technology options. Workshops do not support private machinery operators. TOU operated inefficiently.</td>
<td>(viii) Prepare detailed inventory of TOU assets and financial statements. (ix) Prepare phase-out plan with intermediate targets and actions for discussion by the joint donor APCBP Annual Review. (x) Phase-out TOU operations in accordance with agreed phase out plan.</td>
<td>September 1998</td>
</tr>
</tbody>
</table>


<table>
<thead>
<tr>
<th>ENTERPRISE</th>
<th>SITUATION ASSESSMENT</th>
<th>PROPOSED ACTION</th>
<th>TO BE COMPLETED BY</th>
</tr>
</thead>
</table>
| 6. State Owned Farms               | **Majametalana Farm.** Produces vegetables well below capacity. Subsidized production distorts the market and crowds out the private sector. Submitted to PU. Decision to be made to sell or lease.  
**Tsalitlama Farm.** Produces vegetables well below capacity. Subsidized production distorts the market and crowds out the private sector. Decision to be made to sell or lease.  
**Tsakholo Fish Farm.** There is no water supply and no production. The site may better suited to vegetable production.  
**National Pig Breeding Herd Farm.** Not running at capacity for either supply of breeding stock or meat production. Management hampered by financial management through warrant. Achieving 37% of capacity. | Conclude by  
Conclude by  
Carry out a rapid diagnostic study.  
Decision on use/sale.  
Complete diagnostic study.  
Submit to PU for sale or lease and conclude transaction by | June 30, 1999  
June 30, 1999  
December 31, 1998  
March 31, 1999  
March 31, 1999  
December 31, 1999 |
| Mokhotlong and Quthing Sheep Studs | **Mokhotlong and Quthing Sheep Studs.** Demonstration farms producing rams for sale. Output below capacity. No operating account. Not meeting objectives. 3000 ewes required but capital not available. Potential for lease.  
**Molimo Nthushe Pony Trekking Center.** Can be sold outright or transferred to Tourist Board.  
**Thaba-Tseka Pony Centers**  
**Botsabelo Dairy Farm.** Farm located in a peri-urban area. May not be suitable for farming purposes. Already submitted to PU.                                                                 | Review options for supply of breeding stock and the role of these breeding facilities.  
Conclude by  
Conclude transaction by  
(i) Review options for supply of improved pony stocks and role of these centers.  
(ii) Prepare inventory of assets and financial statements; ascertain status of title and conclude transaction by  
Conclude sale by | September 31, 1999  
December 31, 1999  
December 31, 1999  
(i) March 31, 1999  
(ii) June 30, 1999  
December 31, 1999 |
<table>
<thead>
<tr>
<th>ENTERPRISE</th>
<th>SITUATION ASSESSMENT</th>
<th>PROPOSED ACTION</th>
<th>TO BE COMPLETED BY</th>
</tr>
</thead>
<tbody>
<tr>
<td>7. Training Centers: FTCc 5</td>
<td>Key facilities for attaining policy objectives. Not achieving capacity output in either training or production. Inefficient financial management.</td>
<td>Prepare and implement a plan for rationalizing the use of the centers.</td>
<td>September 30, 1999</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(i) Prepare and start implementation of a plan to commercialize the centers.</td>
<td>October 31, 1999</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(ii) Prepare and implement a time bound schedule for transfer of woodlots to communities;</td>
<td>September 30, 1999</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(iii) Update asset inventory and financial statements</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>(iv) Conclude by</td>
<td>June 30, 1999</td>
</tr>
</tbody>
</table>
Annex 9
Environmental Impact Assessment
Agricultural Policy and Capacity Building Project

EXECUTIVE SUMMARY

I. Preamble

1. The Kingdom of Lesotho, a Southern African country, is a mountainous, land-locked state, wholly surrounded by the Republic of South Africa, lying between latitudes 28 degrees and 31 degrees south and longitudes 27 degrees and 30 degrees east. The total area is 30,355 sq. km, and it is the only sovereign country in the world surrounded by one other country. Lesotho is ethnically homogeneous, with the Sesotho Language spoken by virtually all the indigenous population. Sesotho, along with English as the second language, are the official languages. The population of Lesotho is about two (2) million (1994), and is projected to be about 2,114,000 by the year 2000 with an annual growth rate of 2.6%.

2. Four broad agro-ecological or geographical zones, demarcated by ascending altitude, extend approximately north-south across Lesotho, and the landform, soil, climatic and vegetational characteristics of those zones largely determine their land-use. The zones are: Mountains (or Highlands), Foothills, Lowlands, and Sengu River Valley. General elevations exceed 1,000 meters with the highland peaks rising to 3,299 meters above sea level. The terrain is generally rugged with steep slopes and fragile soil formations.

3. Sheet wash and rill erosion is common on the mountains, particularly on overgrazed range and cultivated land. The lowland area is particularly prone to erosion which is exacerbated by long term inappropriate land-use. Gullies or “dongas” are a prominent feature of the landscape.

4. Lesotho has a cool sub-tropical climate with conditions largely determined by altitude and subject to wide seasonal and geographical variations. Mean annual precipitation varies from 600 mm. in the southern and western lowlands to more than 1600 mm. in the north-eastern highlands, where frost, heavy snowfall and hail storms are common during winter months. Sengu Valley, in the rain shadow of the Maluti mountains, is significantly drier with an annual total of 500-600 mm. There is considerable annual variation in rainfall totals, and the country remains vulnerable to recurrent periods of droughts. Much of the rain falls in intense localized thunderstorms, and hailstorms are common.

5. The natural vegetation of Lesotho is dominated by grassland, and by indigenous shrubs in some mountain areas. The present vegetation is regarded as a sub-climax resulting from human interference and modification. Much of the country has become denuded of its natural grass cover through uncontrolled grazing and rushing surface water. Related problems are severe soil erosion, soil exhaustion and declining fertility, and desertification. Pure drinking water is available to 43% of the population in both the urban and rural areas.
6. The environmental conditions of Lesotho render it particularly prone to land degradation and soil erosion by water. Land is often steeply sloping and intense rainstorms, together with hail and frost promote the detachment of soil particles. Geological erosion, as a result of exfoliation which is a natural process, is greatly accelerated by inappropriate land use. The Lesotho environment is very fragile and given the interplay of the forces of wind and water on its barren surface, soil degradation and soil fertility reduction and polluted water resources are major environmental problems.

7. Agriculture, which is the main economic activity for more than 80% of the population, continues to suffer from long term decline in production. For instance, domestic food production fell short of national requirements by 45% in 1990. Farmland is scarce, and only 9% of the total land area is suitable for arable agriculture and 66% for grazing. The area of cultivation has declined by a third in the past three decades to 300,000 hectares in the 1990s. Many factors, both natural and human-made, have contributed to this reduction, including: drought, soil erosion, the system of land tenure, unsustainable land management practices and excessive livestock numbers.

8. In order to address the environmental issues of the country and help arrest the degradation of this fragile natural resource base, the Government of Lesotho (GOL) in collaboration with its donor partners, prepared the country’s first national environmental strategic framework, the National Environmental Action Plan (NEAP), defining the strategies, the necessary legislative framework and regulating mechanism required to protect, control, enforce, and monitor the use of the country’s poor natural resources.

9. The objectives and goals of the Agricultural Policy Capacity Building Project (APCBP) are to mitigate the above major constraints on the country’s economic and agricultural sectors by putting in place policy arrangements that will provide food security and create jobs as basis for alleviating poverty and reducing unemployment, as well as, provide the enabling environment for increased private-sector participation in the delivery services to enhance agricultural production for Lesotho.

II. Statutory Framework

10. In the GOL’s bid to address poverty reduction and sustain macroeconomic performance through greater integration into the sub-regional economy, it has adopted an outward oriented strategy involving a program of economic, policy and institutional reform. The reform involves the liberalization of trade and commercial activity and the privatization of state owned enterprises (SOEs) and assets. As part of the reform, the Government is also facilitating a long-term agricultural development framework, the Agricultural Sector Development Program (ASDP), which ultimately has led to a full fledged Agricultural Sector Investment Program (ASIP).

11. The APCBP fits very well into the overall strategy as the first phase of the long-term ASDP and ASIP framework, with the goals of developing government’s capacity through institutional reform and decentralization, improving the enabling policy environment for supporting the private sector development, as well as, promoting a comprehensive approach to the natural resource environment.
12. This policy initiative fits into the framework of the country’s natural resources management policies and the private sector development policies set up by the government and embodied in the following undertakings:

- the National Environmental Policy of Lesotho;
- the Environment Bill (1997) currently passing through Parliament;
- Lesotho Land Policy and Administration;
- the Natural Environment and Heritage Compensation, Rural Development and Public Health;
- the National Action Plan to Implement Agenda 21 for Lesotho;
- the Workshop on the Extension Approach for Lesotho, organized by the Ministry of Agriculture (MOA);
- the National Forum on Natural Resource Management, Combating Desertification and Mitigating the Effects of Drought, organized by the National Environmental Secretariat (NES);
- the National Tree Planting Program at Masite-Maseru District, led by the King of Lesotho in March, 1998; and
- the Working Papers on Lesotho ASIP.

13. The main thrust of the policy reform in general, and the various government undertakings to date, is to focus on the broad endorsement and adoption of the core principles of an outward looking economy in which government plays the role of a facilitator, instead of a service provider and controller, so that the private sector could emerge and generate sustainable economic growth.

14. To attain the objective of these undertakings, the major test will be the responsiveness of the private sector to the enabling policy environment. For the public sector, the test will require increased implementation of capacity building and policy sequencing according to priorities; institutional and human resources development; improved planning; adequate donor coordination; judicious development of infrastructure and putting into place implementable environmental policies and actions.

15. The priority areas needed for policy reforms in the APBCP are: extension and research; animal health; availability of seed and planting materials; and land use planning, based on a decentralized delivery process by underpinning the largely capacity building operations with some selected pilot production type activities with a system of monitoring and environmental impact assessment, and financing of projects that are in line with the ASIP objectives and strategies.

III. Probable Impacts of the Project

16. The APCBP would generally lead to some changes in the ecological setting of areas to be developed. To a great extent the project will have impacts on the physical environment, as well as, on the socio-economic and political environment of Lesotho. From the assessment in general, the project’s impact on the natural environment and on the social and economic fabric is globally positive.

17. The Possible Positive Impacts. The APCBP would generally provide food security, poverty alleviation, and increased private sector participation in the delivery of agricultural production services. The project would contribute to the improvement in the policy environment
and put in place a more sustainable and client responsive agricultural support services at the local level (i.e. below the District Level). This will enable the smallholder farmers be in a better position to respond to market incentives, and improve the management of their farm business and incomes.

18. The project will contribute to the creation of productive employment for the relatively young population and may eventually reduce the emigration to South Africa of the country’s disciplined labor force. With the improvement of the quality of life through employment creation, the production capacity of the private sector will be reinforced, thereby having significant positive impact on the national economy, as well as, the natural environment. An improved economy will also afford GOL the possibility of improving the village infrastructure, communications, and social services for the rural and larger population.

19. From the environmental health perspective, the project will afford the general population food security, improved dietary intake and reduced malnutrition, especially infant malnutrition. Although AIDS and other sexually transmitted diseases (STDs) are not wide spread in the country, making young people financially independent will hopefully minimize the temptations for prostitution and emigration outside the country.

20. In general, the positive impacts of the APCBP will include:

- reversal of the long term decline in production and productivity by increasing domestic food production (which fell short of national requirements by 45% in 1990);
- prevent the continual decline in arable land and scarcity of farmland, and stop the increase in landlessness; and
- utilize and harness more efficiently the country’s greatest natural asset of water resources, which are now being developed through the Lesotho Highlands Water Project (LHWP), by transferring water to South Africa and generating electricity for Lesotho.

21. **The Possible Negative Impact.** Potential negative impacts due to the project may occur on the physical environment, as well as, on the socio-economic and political relationships of the country. Interventions to protect the environment and ensure a sustainable development pattern of the private sector must recognize the impacts and put in place measures to prevent them. This would ensure that those aspects of development that contribute to sustainable development are recognized and encouraged, while actions which go against sound management practices are discouraged or modified.

22. **Physical Impact.** The main impacts on the physical environment are both natural and human-made. Under the APCBP there can be a growing demand for arable land which may lead to escalating the pressing environmental problems related to increased land degradation due to expansion of cultivated land, declining soil fertility, decrease of arable lands, the collection of firewood, the production of charcoal, the maintenance of large numbers of livestock, and inefficient water resources conservation.

23. All these activities already occurring could be exacerbated under this project, and could contribute further to the reduction of vegetation cover, which in turn leads to increased run-off, soil erosion, formation of gullies and “dongas”, land degradation, and loss of bio-diversity. The
activities also could compound the devastating effects of periodic droughts and desertification on agricultural production.

24. **Socio-Economic Impact.** The primary negative impact may be due to inadequate range management practices that lead to resettlement problems, as a result of land-tenure policies, which in turn will produce land displacement for communities and increase in landless farmers.

25. Other negative impacts may be due to:

- institutional weaknesses manifesting themselves in inadequate resource management, lack of trained staff and technical expertise, lack of built-in evaluation, assessment and monitoring procedures, and analytical capability for implementing comprehensive policies and programmes;
- lack of community participation in project planning, execution and management;
- lack of diffusion of appropriate technologies, especially of those technologies most appropriate for rural settings, such as: terracing to control run-off, contour ditching, mulching and gully plugs to control erosion;
- lack of education, information and research due to limited awareness of environmental problems and understanding of the economic costs and consequences of resource degradation resulting in unintended environmental damage (an example is the use of maximum tillage instead of “optimum” tillage of cultivated plots that weakens the soil particles and makes the land vulnerable to erosion when rainfall occurs);
- economic forces, subsidies and policy distortions, such as: the failure of policy and market forces to reflect the true costs of resource depletion, problems with pricing that under value common foods and services, and non-enforcement of laws to protect the environment;
- discriminatory practices against women, especially with respect to accessibility to land and credit; and
- inability to put in place a timely rural electrification and other energy resources to mitigate the unduly use of fuelwood that leads to deforestation on a large scale.

26. **Political Impact.** The primary political impact is the widespread and deep-rooted poverty associated with an inequitable land tenure system, which does not provide rural people with the necessary resources, or security to invest in conservation practices.

27. It is easy enough to identify some of the more obvious and visually dramatic impacts of human activity on the environment, but it is often difficult to establish what exactly should be done about them. How natural resources and land use are used by people very much depends on who owns those resources and, therefore, the nature of the land tenure system. Other impacts may be due to:

- the weakness and poor coordination of inter-agency involvement in the management and implementation of the policies that may affect the environment, i.e. the NES should be made to play more active role in the APCBP;
- the weak and not clearly stated identification and assessment of risks involving regulatory and institutional framework, the financial and market analysis, and business scenarios that will attract the participation of the private sector; and
the problems of obtaining credit for farmers and the utilization of rural banking systems to enhance credit availability to farmers.

28. Also, the virtual collapse of indigenous controls over grazing both in the lowlands and the mountains has long been associated with rapid degradation of vegetative cover, soil erosion and gully formation over much of Lesotho. Some observers argue that diminution of the authority of chiefs over grazing controls is a more important factor. There is a strong suggestion that the collapse of pivotal local institutions governing grazing rotation and livestock movements have aggravated the emergence of open-access, haphazard range management that has led to majority of herders who continue to strip the rangelands.

29. Full implementation of formal land regulations in Lesotho is constrained by the persistence of culturally embedded land use practices which have remained more or less resilient in spite of rapidly changing economic circumstances. The authority of traditional chiefs more crucial in the past, in respect of allocating of rights to land, has largely been eroded by exigencies of land pressure and the virtual disappearance of the arable land frontier. An important factor hastening these adverse developments continues to be high rates of labor migration to South Africa, transforming the structure of household labor availability while making cattle a preferred investment of surplus income from migrant wage remittances.

30. The series of policy and legislative responses by GOL have been typically minimalist, calculated to take account of the donors criticism without seriously undermining the tenets of customary laws. This requires that the political impact should be addressed in a serious manner for the success of the capacity building policy reform.

IV. Mitigation Measures

31. The mitigation plan which is in conformity with the World Bank’s Operational Directives attempts to put in place the required mechanisms to control the effects of the project on the natural environment. The GOL has identified and recognizes most of the country’s major problems. The mitigation measures required to be put in place must be inter-related. What is now required is to define an implementation strategy and establish a monitoring and surveillance mechanisms for the management of the anticipated problems at the district level and below the district level. The recently concluded national workshop on the messages for the newly adopted Unified Extension Approach (UEA) by MOA, is in the right direction.

32. There should be a proper rangeland management involving a central regulation, restriction of livestock numbers over designated areas of pastures, allowing access to only members of livestock/grazing associations, and introducing mandatory dipping and de-worming. Formation and empowerment of Range Management Associations, and improvement of livestock quality and provision of necessary infrastructure and inputs should be provided under this project.

33. The customary provision discouraging long fallow encourages desultory land-use practices, inimical to natural resource conservation. Therefore, a thorough-going land policy and legal reforms should be undertaken. The present application of FORM C should be assessed for efficacy and promoted for effectiveness.
34. The mitigation and solution of environmental problems requires coordinated programmes and activities by the different sectors of government and society. An enabling policy to allow both Government and public to integrate environmental considerations in their development activities is therefore essential. The role of Non-Governmental Organizations (NGOs) in awareness building, education and protection should be given sufficient recognition.

35. As the occurrence of soil infertility and pollution of water resources are major environmental impact, protection measures to minimize such risks through constant monitoring is an imperative. Also, the expansion and intensification of agriculture made possible by irrigation has the potential for causing increased erosion, pollution of surface and groundwater from agricultural biocides, and increased nutrient levels in the irrigation and drainage water resulting in alga blooms. Hence, measures should be set up to control the quantities of agricultural chemicals that are usually required in irrigated lands to keep production levels up, and to compensate for high growth rate and loss of nutrients through leaching. Small-scale irrigation should be preferred to large scale facilities.

V. Monitoring and Evaluation

36. Because of lack of clarity about extension objectives and messages (i.e. who is the target group and what are we trying to achieve), it is not possible to measure the effectiveness of the service, especially with respect to the impact on the natural resources and the assessment of the environment.

37. The monitoring system should be able to have at hand an effective management tool, information services, and cost effectiveness in order to provide incentive system to the farmers to become effective stakeholders.

38. The issue of gender should be brought into the mainstream of research and extension programme, design and implementation. In defining the client special attention should be given to selecting women and ensuring that they are, at a minimum, represented in proportion to the number of female-headed households.

39. Well intentioned legal and administrative reforms in land-tenure since the 1960s have not been enthusiastically implemented in rural areas. However, it would be too simplistic and misleading to characterize the failure of implementation as a result of lingering tensions between conservatism, represented by traditional chiefs, and innovation, represented by the bureaucrats and ruling politicians. Traditional chiefs must be made to retain their significant role as credible witnesses in dispute resolution and play an uneasy role in issuance of customary titles and formalizing reallocations in the complex land tenure system.

40. The Commissioner of Lands, and the Department of Lands Survey and Physical Planning (DLSPP) should be strengthened to participate fully in the APCBP, especially in pursuing the objectives of food security and poverty alleviation that can be directly related to land-tenure issues.

41. The MOA’s self-monitoring and self-evaluation is sufficient, however, the NES should play more active role to support these activities at the district and the area levels. For instance, the NES should work with the MOA to prepare the standards and indicators, as well as, procedures for monitoring that will be consistent across the country.
42. The primary concern should be the identification at the earliest stages of project implementation and on a continuous basis, any pollution of the water resources, degradation of the land, soil infertility, and loss of arable land.

VI. Recommendations

43. The project should benefit from the preparation of comprehensive rural and land use planning carried out by the responsible government institutions or their consultants in collaboration with the project management. This type of approach goes a long way in avoiding sites that are susceptible to degradation, erosion and pollution.

44. Also, the approach can make it possible to characterize land areas into: (i) areas that can be rehabilitated; (ii) areas that can be regenerated, i.e. areas that has been degraded badly and can be put into alternative uses; and (iii) areas that can be conserved. In this regard, a pollution potential map of Lesotho can be prepared with input from NES, DLSPP, and MOA. Such a map can be utilized, for example, in identification of areas valuable for intensive farming for high-value crops.

45. The contents of the extension messages on the effects and impact of land use and agricultural practices on the environment, particularly, on soil erosion, water conservation, and range management, as regards to land degradation, poor crop production and livestock production, must be increased in quality, i.e. beefed up.

46. All projects, including those of the pilot activities under APCBP, should have environmental impact assessment done whenever possible. The Department of Conservation, Forestry, and Land Use Planning of MOA, especially the Soil, Water and Nature Conservation Division, should play a leading role by coordinating activities with NES and the target clients at the district level. It should be feasible to include environmentally trained liaison person to work with stakeholders, non-governmental organizations (NGOs), and clients on the extension messages at the district levels and below the district levels.

47. The National Environmental Secretariat (NES) should be strengthened in its capacity building in order to carry out regular monitoring and evaluation of activities under APCBP, while supporting the self-monitoring and self-evaluation efforts of MOA. As much as possible, the NES should avoid implementing projects in the field under ASIP, because that will over-extend and weaken its monitoring capabilities considerably.

48. The land tenure issues and the practical ways these issues can impact positively on the ASIP program, should be addressed with the cooperation of DLSPP and MOA, working closely with the political leadership of Lesotho, the Traditional Chiefs, and the target clients in the communities, in order to rectify the core constraint affecting land-use and the attendant negative impacts on the environment.

49. The GOL should be encouraged to continue with its efforts in developing the parameters for privatization, such as, regulatory and institutional framework; the financial and market analysis; the business scenarios and procurement procedures, so that risks and incentives can be measured for which actual private-sector participation can be undertaken by the people themselves, preferably at the district levels. The process of privatization of the delivery services
for agricultural production should be *gradual*, and the GOL should resist any apparent fast-track approaches that may be suggested by international lending institutions and donors.

50. Education and research efforts should put emphasis on extension messages that respond to educating the youth, school pupils, students, and women on the implications of environmental impact due to land use and agricultural practices. The messages should include the concepts of entrepreneurship in agricultural related services by demonstrating the incentives, risks, and the ability to make a decent living in farming, as well as, the attractiveness and the environmental friendliness of the agro-business and industry. This will sow the seed for private sector participation for the future.

51. The extension messages should include workshops, demonstrations, and pilot activities that will enhance and attract business people into agricultural services and farming. This will make it possible to bring in needed resources to the subsistence farmers, and help in the transition into small-scale and medium-scale farming for a reasonable number of indigenous people at the district levels.

52. The GOL should look into the possibility of integrating all services and resources into a comprehensive *village/community infrastructure approach* to support the current policies for sustainable agricultural delivery services and food production.

53. Emphasis should be given in the project to: the ability to understand and work with credit, how to obtain credit, the use of rural banking and cooperative ventures, and provision of agricultural related facilities (such as storage, silos, slaughter houses, bins, blowers, etc.). How to maintain the harvest produce, and sustain the lean, drought seasons will be critical to the success of the project, and should be addressed forcefully.

54. Finally, *extension messages* should include an aggressive training of trainers (i.e. extension officers), team leaders at the district and area levels, and technical expertise required to conduct effective extension program under the unified extension approach (UEA). There is a strong need to build up capacity so that every project at the local and district levels will include information on environmental assessment. Emphasis should be put on the degree of the problem at hand, especially related to *soil erosion and water conservation*, to mitigate the declining soil fertility and land degradation.
Annex 10

Documents in the Project File
Agricultural Policy and Capacity Building

A. Project Implementation Plan

B. Bank Staff Assessments
   1. Public Expenditure Review.
   2. Assessment of Planning and Budgeting Systems for MOA.
   3. Is there a viable Economic Strategy for Agricultural Development in Lesotho?
   4. Land Policy, Legal and Administrative Reform.
   5. Capacity Building, Institutional Reform and Decentralization.
   6. Agricultural Sector Institutional Assessment.
   7. Costab Tables.

C. Other papers by MOA
   1. Agricultural Sector Investment Program:
      (b) Vol. II: Program Areas and Detailed Working papers.
   2. Privatization and Marketing Liberalization.
   3. (a) Crops Sub-sector Review.
      (b) Irrigation Sub-sector Review.
   4. Intensive and Extensive Livestock Production:
      (a) Agricultural Diversification.
      (b) Crop Production.
      (c) National Seed Policy.
      (d) Establishment of a National Seed Service.
      (e) Soil Fertility.
      (f) Horticulture.
      (g) Mechanization.
   5. Agricultural Support Services:
      (a) Strengthening Lesotho’s Agricultural Research.
      (b) Extension and Training Services.
      (c) Services to Community Groups.
      (d) Services to Youth Groups.
   6. Natural Resources Management:
      (a) Agrarian Reform and Administration.
      (b) Soil, Water and Nature Conservation.
      (c) National Forestry Action Plan.
      (d) Range Management.
   7. Capacity Building:
      (a) Capacity Building.
      (b) Agricultural Sector Institutional Assessment Workshop Processings.
      (c) Accounting and Financial Management.
## Annex 11

### Statement of Loans and Credits

Status of Bank Group Operations in Lesotho

**IBRD Loans and IDA Credits in the Operations Portfolio**

**Agricultural Policy and Capacity Building Project**

### Difference Between expected Original Amount in US$ Millions and actual Loan or Fiscal disbursements at Project ID Credit Year

<table>
<thead>
<tr>
<th>Project ID</th>
<th>Fiscal Year</th>
<th>Borrower</th>
<th>Purpose</th>
<th>Original Amount</th>
<th>IBRD</th>
<th>IDA</th>
<th>Cancellations</th>
<th>Undisbursed</th>
<th>Orig Prm Rev'd</th>
</tr>
</thead>
<tbody>
<tr>
<td>LS-PE-1403</td>
<td>1996</td>
<td>GOVERNMENT</td>
<td>ROAD REHAB. &amp; MAINT</td>
<td>40.00</td>
<td>0.00</td>
<td>36.39</td>
<td>9.34</td>
<td>.96</td>
<td></td>
</tr>
<tr>
<td>LS-PE-1401</td>
<td>1994</td>
<td>GOVERNMENT</td>
<td>PRIVATIZATION/RESTRU</td>
<td>11.00</td>
<td>0.00</td>
<td>7.51</td>
<td>-.30</td>
<td>0.00</td>
<td></td>
</tr>
<tr>
<td>LS-PE-1392</td>
<td>1992</td>
<td>GOV'T OF LESOTHO</td>
<td>EDUC. SECTOR DEVELOP</td>
<td>25.20</td>
<td>0.00</td>
<td>14.34</td>
<td>12.08</td>
<td>9.36</td>
<td></td>
</tr>
<tr>
<td>LS-PE-1396</td>
<td>1992</td>
<td>LES H/L DEV. AUTH.</td>
<td>HIGHLAND WNG. I</td>
<td>110.00</td>
<td>0.00</td>
<td>22.66</td>
<td>39.68</td>
<td>4.94</td>
<td></td>
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<tr>
<td>LS-PE-1391</td>
<td>1992</td>
<td>GOVERNMENT OF LESOTHO</td>
<td>INDUSTRY AND AGRO-IN</td>
<td>21.00</td>
<td>0.00</td>
<td>3.07</td>
<td>2.92</td>
<td>0.00</td>
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<tr>
<td>LS-PE-1395</td>
<td>1990</td>
<td>GOVT</td>
<td>HEALTH/POP.II</td>
<td>12.10</td>
<td>0.00</td>
<td>2.59</td>
<td>1.63</td>
<td>1.45</td>
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</table>

**Total**

<table>
<thead>
<tr>
<th>Original Amount</th>
<th>IBRD</th>
<th>IDA</th>
<th>Cancellations</th>
<th>Undisbursed</th>
<th>Orig Prm Rev'd</th>
</tr>
</thead>
<tbody>
<tr>
<td>110.00</td>
<td>109.30</td>
<td>20.00</td>
<td>84.56</td>
<td>65.35</td>
<td>16.71</td>
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</tbody>
</table>

### Notes:

- **Active Loans**
- **Closed Loans**
- **Total**
- Total Disbursed (IBRD and IDA): 239.45
- Total now held by IBRD and IDA: 206.52
- Total sold: 0.00
- Total undischursed: 84.56

a. Intended disbursements to date minus actual disbursements to date as projected at appraisal.

b. Rating of 1-4: see OD 13.05. Annex E2. Preparation of Implementation Summary (Form 590). Following the FY94 Annual Review of Portfolio performance (ARPP), a letter based system will be used (HS = highly Satisfactory, S = satisfactory, U = unsatisfactory, HU = highly unsatisfactory): see proposed improvements in Project and Portfolio Performance Rating Methodology (SecD94-901). August 23, 1994.

### Note:

Disbursement data is updated at the end of the first week of the month.
## Annex 12
### Country at a Glance
#### Agricultural Policy and Capacity Building Project

<table>
<thead>
<tr>
<th>POVERTY and SOCIAL</th>
<th>Sub-Saharan Africa</th>
<th>Low-Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population mid-1996 (millions)</td>
<td>2.0</td>
<td>600</td>
</tr>
<tr>
<td>GNP per capita 1996 (US$)</td>
<td>870</td>
<td>490</td>
</tr>
<tr>
<td>GNP 1996 (billion US$)</td>
<td>1.36</td>
<td>294</td>
</tr>
<tr>
<td>Average annual growth, 1990-96</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Population (%)</td>
<td>2.1</td>
<td>2.7</td>
</tr>
<tr>
<td>Labor force (%)</td>
<td>2.3</td>
<td>2.6</td>
</tr>
</tbody>
</table>

Most recent estimate (latest year available since 1989)

- Poverty: headcount index (% of population)
- Urban population (% of total population)
- Life expectancy at birth (years)
- Infant mortality (per 1,000 live births)
- Child malnutrition (% of children under 5)
- Access to safe water (% of population)
- Illiteracy (% of population age 15+)
- Gross primary enrollment (% of school-age population)
- Male
- Female

### KEY ECONOMIC RATIOS and LONG-TERM TRENDS

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>GNP (millions US$)</td>
<td>285.3</td>
<td>484.5</td>
<td>1,260.3</td>
<td>1,236.7</td>
</tr>
<tr>
<td>Gross domestic investment/GNP</td>
<td>10.4</td>
<td>25.5</td>
<td>67.7</td>
<td></td>
</tr>
<tr>
<td>Exports of goods and services/GNP</td>
<td>7.3</td>
<td>6.8</td>
<td>14.6</td>
<td></td>
</tr>
<tr>
<td>Gross domestic savings/GNP</td>
<td>-39.0</td>
<td>-39.7</td>
<td>-0.5</td>
<td></td>
</tr>
<tr>
<td>Gross national savings/GNP</td>
<td>11.4</td>
<td>24.3</td>
<td>39.2</td>
<td></td>
</tr>
<tr>
<td>Current account balance/GNP</td>
<td>-0.4</td>
<td>1.4</td>
<td>-37.1</td>
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<tr>
<td>Interest payments/GNP</td>
<td>0.1</td>
<td>0.0</td>
<td>1.2</td>
<td></td>
</tr>
<tr>
<td>Total debt/GDP</td>
<td>5.2</td>
<td>36.7</td>
<td>52.7</td>
<td></td>
</tr>
<tr>
<td>Total debt service/exports</td>
<td>0.7</td>
<td>5.2</td>
<td>5.3</td>
<td></td>
</tr>
<tr>
<td>Present value of debt/GNP</td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Present value of debt/exports</td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tbody>
</table>

(average annual growth)

- GDP: 4.4
- GNP per capita: 1.8
- Exports of goods and services: 2.4

### STRUCTURE of the ECONOMY

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
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</tr>
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<tbody>
<tr>
<td>(% of GDP)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Agriculture</td>
<td>32.5</td>
<td>21.5</td>
<td>11.0</td>
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<tr>
<td>Industry</td>
<td>13.2</td>
<td>29.7</td>
<td>39.6</td>
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</tr>
<tr>
<td>Manufacturing</td>
<td>5.7</td>
<td>11.3</td>
<td>16.4</td>
<td></td>
</tr>
<tr>
<td>Services</td>
<td>54.2</td>
<td>46.3</td>
<td>49.5</td>
<td></td>
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<tr>
<td>Private consumption</td>
<td>83.8</td>
<td>74.3</td>
<td>46.0</td>
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<tr>
<td>General government consumption</td>
<td>10.7</td>
<td>17.1</td>
<td>21.7</td>
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<tr>
<td>Imports of goods and services</td>
<td>58.7</td>
<td>71.9</td>
<td>92.8</td>
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</table>

(average annual growth)

- Agriculture: 4.7
- Industry: 10.9
- Manufacturing: 15.5
- Services: 5.6

Note: 1996 data are preliminary estimates. Figures in italics are for years other than those specified.

* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

a/ Percentage of GNP.
### PRICES and GOVERNMENT FINANCE

<table>
<thead>
<tr>
<th>Year</th>
<th>Consumer Prices (% change)</th>
<th>Implicit GDP deflator (% change)</th>
<th>Current Revenue (% GNP)</th>
<th>Current budget balance % GDP</th>
<th>Overall surplus/deficit</th>
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<tbody>
<tr>
<td>1975</td>
<td>14.2</td>
<td>30.5</td>
<td>0.0</td>
<td>-13.8</td>
<td>3.2</td>
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<td>1985</td>
<td>13.2</td>
<td>17.0</td>
<td>36.0</td>
<td>19.6</td>
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<tr>
<td>1995</td>
<td>6.3</td>
<td>3.0</td>
<td>36.0</td>
<td>13.8</td>
<td></td>
</tr>
<tr>
<td>1996</td>
<td></td>
<td></td>
<td></td>
<td>3.2</td>
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### TRADE

<table>
<thead>
<tr>
<th>Year</th>
<th>Domestic exports (fob) (mill. USD)</th>
<th>Imports (cif) (mill. USD)</th>
<th>Terms of trade (1987=100)</th>
<th>Export price index (1987=100)</th>
<th>Import price index (1987=100)</th>
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<tbody>
<tr>
<td>1976</td>
<td>22</td>
<td>335</td>
<td>0.7</td>
<td>95</td>
<td>95</td>
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<td>1985</td>
<td>168</td>
<td>1,168</td>
<td>2.2</td>
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<td>1995</td>
<td>197</td>
<td>1,203</td>
<td>3.6</td>
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<td>1996</td>
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### BALANCE of PAYMENTS

<table>
<thead>
<tr>
<th>Year</th>
<th>Balance of goods and services</th>
<th>Resource balance</th>
<th>Net income</th>
<th>Net current transfers</th>
<th>Current account balance before official capital transfers</th>
<th>Financing items (net)</th>
<th>Changes in net reserves</th>
<th>Memo</th>
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<tbody>
<tr>
<td>1976</td>
<td>26</td>
<td>-145</td>
<td>123</td>
<td>21</td>
<td>-1</td>
<td>2</td>
<td>-1</td>
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<tr>
<td>1985</td>
<td>39</td>
<td>-1,004</td>
<td>249</td>
<td>62</td>
<td>7</td>
<td>14</td>
<td>-21</td>
<td>588</td>
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<tr>
<td>1995</td>
<td>210</td>
<td>-969</td>
<td>451</td>
<td>50</td>
<td>-468</td>
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<td></td>
<td>753</td>
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### EXTERNAL DEBT and RESOURCE FLOWS

<table>
<thead>
<tr>
<th>Year</th>
<th>Total debt outstanding and disbursed (mill. USD)</th>
<th>Total debt service (mill. USD)</th>
<th>Composition of net resource flows</th>
<th>World Bank program</th>
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<tbody>
<tr>
<td>1976</td>
<td>14</td>
<td>1</td>
<td>Official grants</td>
<td>Commitments</td>
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<td>1985</td>
<td>175</td>
<td>19</td>
<td>Official creditors</td>
<td>Disbursements</td>
</tr>
<tr>
<td>1995</td>
<td>659</td>
<td>40</td>
<td>Private creditors</td>
<td>Principal repayments</td>
</tr>
<tr>
<td>1996</td>
<td></td>
<td></td>
<td>Foreign direct investment</td>
<td>Net flows</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Portfolio equity</td>
<td>Interest payments</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Net transfers</td>
</tr>
</tbody>
</table>

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**Inflation (%)**

- CPI
- GDP def.

**Current account balance to GDP ratio (%)**

**Composition of total debt, 1995 (mill. USD)**

- A: IBRD
- B: IDA
- C: Other multilateral
- D: Other bilateral
- E: Bilateral
- F: Private
- G: Short-term