Country and Sector Background

1. Over the past 15 years, Lesotho has successfully diversified from relying heavily on subsistence agriculture and remittances from mine workers, to an economy based on industry, services and export of abundant water resources. It has achieved moderate economic growth, with real per capita gross domestic product (GDP) averaging 3.3 percent growth annually between 1980 and 2009, recently by taking advantage of the preferential trade regimes and rapidly expanded garment exports to the United States. It has modernized management of natural resources and transformed its water surplus into sustained revenues by exporting water to South Africa. In addition, before 2009, Lesotho had managed relatively well the revenue windfall from the Southern Africa Customs Union. However, these structural transformations were not sufficient to enable the economy achieve high sustainable growth rates and withstand the external shocks in 2009 when growth fell sharply, or to substantially improve Lesotho’s social indicators. Poverty and inequality have remained high.

2. Most of the growth has been in garment production and mining, particularly diamonds, with industry accounting for about 48% and services around 42% of GDP in 2009. The Gross National Income (GNI) per capita was reported as US$ 1,020 in 2009 and the Gini Coefficient of 0.66 indicates a
high degree of inequality nationally. Lesotho’s population has remained more or less stable at around 2 million over the last decade, partly as a result of declining fertility rates and the high incidence of HIV/AIDS (an adult HIV prevalence of 23.6% in 2009). Remittances from migrants working in mining in South Africa have shown a steady decline in recent years. The economy is strongly linked with South Africa, with most growth tending to be in the border areas, especially in Maseru, but also in other border districts to the north- and south-west. Inflation has averaged about 6% since 2003, tending to parallel the South African inflation rate. Overall, Lesotho is fiscally stronger than might be expected, with regular budget surpluses until 2009 and a generally positive current account balance since 2006, although some deterioration has been experienced in the last couple of years. However, additional resources are required to fund development priorities.

3. **Rural and Agricultural Sector.** Although manufacturing and mining are the most important economic sectors, agriculture remains important as a major source of employment (45%) and subsistence. About 70-80% of Lesotho’s people live in rural areas and more than three-quarters of these are engaged in agriculture – mostly traditional, low input, low output, rain-fed cereal production and extensive animal grazing systems. In the past, remittances from mineworkers were a major source of rural livelihoods – providing vital cash for purchase of agricultural inputs and productive assets or investing in household assets and housing structures - but over the past decade there has been a substantial decline in these remittances. Despite the economic growth in recent years, income generating opportunities remain limited and often confined to urban areas and wage employment in the industry sector. Much of the population will continue to depend on agriculture for their livelihoods and income for some time to come.

4. Therefore, rural development will continue to play a key role for Lesotho’s development strategy. A number of challenges need to be recognized for agricultural development in Lesotho, including its agro-ecological and climatic conditions with recurrent cycles of drought, erratic rainfall, hail and frost, and limited areas of arable land. This is compounded by the fact that the limited production potential is not fully utilized due to poor farming practices, limited use of quality seeds, inappropriate crop selection and lack of diversification. The situation is further aggravated by unsustainable land management practices that lead to declining soil fertility and widespread soil erosion. In addition, the development of viable, market-oriented crop and livestock production faces a number of constraints. Local markets are small and there is a large supply of cheaper and/or better quality produce from South Africa. The existing land tenure system is not conducive for investments in land improvements (e.g. irrigation, soil and water conservation measures, and tree planting). Commercialization efforts by farmers and private sector operators are undermined by market distortions caused by Government’s involvement in commercial activities that are either not viable or should be left to the private sector. Additional risks for agriculture and rural economic development include climate change and rising food and input prices.

5. **Opportunities for smallholder agriculture commercialization.** Nevertheless, despite the difficult environment, opportunities for developing commercially viable smallholder agriculture in Lesotho exist through increasing crop and livestock productivity and by enabling smallholder farmers to better respond to market demand for specific commodities. New and emerging opportunities on the demand side include small slaughterhouse operations, larger orchards creating demand for locally produced fruits, growing numbers of urban consumers, potential for niche products, and road improvements that facilitate access for producers and traders. Fruits, vegetables, potatoes, wool and mohair, poultry and pigs are commodities that provide specific opportunities. Rural-based enterprises include seed suppliers ranging from major seed companies with distribution networks in Lesotho to small seed producers; input suppliers and local hardware stores in most towns that sell seeds, fertilizer, and farm tools; small nurseries that produce vegetable, fruit and forest tree seedlings and saplings; hatcheries that produce day-old chicks; feed stores that distribute animal feed; suppliers of veterinary services, veterinary drugs, and artificial insemination services; and providers of machinery services. On the output side, markets exist for fresh produce ranging from supermarkets that occasionally source local fruit and
vegetables to district and community-level stores; for live animals and animal products ranging from the large-scale meat wholesalers to small-scale butchers and traders; for wool and mohair both through some 30 private woolsheds and the 105 government-owned but local association-operated woolsheds; and for milk through at least seven milk collection points to the Dairy Plant. Other local outlets also exist for these products, such as hotels, guesthouses and local craft workshops, and for other more niche products such as mushrooms, herbs and essential oils. Some of the more commercially-minded farmers can access these services and markets directly in South Africa.

6. There are also various commodity-based farmer associations that are important providers of services for their members, both at the national and local level, although they are variable in their delivery and level of activity. The national-level Wool and Mohair Growers Association (WMGA) provides support for its members to organize shearing and marketing of wool and mohair and carries out lobbying and advocacy activities. The WMGA represents around 22 to 24,000 members, grouped into local associations operating the some 105 government-owned woolsheds. The Lesotho National Dairy Farmers Association is the national body representing the interests of a number of local dairy associations. The local dairy associations are usually grouped around milk collection centers where farmers bring their milk to be collected by the Dairy Plant. The National Horticulture Farmers Association is a national organization of vegetable growers, which encompasses Horticulture Associations in each District. There are various other commodity-based associations including local piggery and poultry associations. There are also Grazing Associations consisting of range users resident in the area, which were constituted in the 1970s to manage communal Rangelands Management Areas. Many of these associations are no longer fully operational, but some remain as a focal point in their communities for livestock activities. Overall, the small enterprises and farmer associations and groups that carry out marketing, processing, service provision and production activities are a key factor for increased commercialization of the sector. However, most are constrained by issues such as: (i) lack of access to sources of investment funds and financial services; (ii) limited knowledge and skills in business management and market requirements; (iii) poor access to technological improvements to increase their competitiveness; and (iv) weak market linkages.

7. **Agricultural support services and institutions.** Agricultural support services that can contribute to this development include Government extension services and a limited range of non-governmental service providers. Services include those provided by units of the Ministry of Agriculture and Food Security (MAFS), Ministry of Forestry and Land Reclamation (MFLR) and Ministry of Trade and Industry, Cooperatives and Marketing (MTICM); various farmers’ organizations and associations, usually commodity-specific; private input suppliers and market operators; local and international NGOs; and donor-funded programs. The major formal source of agricultural advisory services is through the MAFS extension service which has 6-8 Agricultural Resource Centers (ARC) in each district with technical specialists headed by a District Agriculture Officer (DAO), and around 3-5 sub-centers per ARC staffed by a field-level Agricultural Assistant. The system used is entitled the Unified Extension System (UES), with Agricultural Assistants expected to be general facilitators, covering a range of topics with support from the specialist technical officers at the ARC and District levels. The participatory Action Learning Cycle and Community Action Plan (CAP) concept was introduced as part of the UES around 1999 as a tool for working with stakeholders at the Headman Village level in order to plan extension activities and identify possible agricultural investments. This process was supported under the Agricultural Policy and Capacity Building Project (APCBP) financed by the World Bank, and the Sustainable Agricultural Development Programme for Mountain Areas (SADPMA) and the Sustainable Agriculture and Natural Resource Management Programme (SANReMP) financed by IFAD. Around 160 CAPs had been prepared by the end of the APCBP in 2004, and selected small-scale agricultural investments identified in the CAPs were financed on a matching basis through a Farmer and Community Support Fund (FCSF) established by the MAFS in 2002. About 140 micro-projects were funded in all ten districts, including irrigation/vegetable production, tree nurseries, poultry and small stock, and veterinary
services and conservation. Following a similar process, about 200 CAPs were prepared under SADPMA, and is currently still being applied under SANReMP.

8. However, facilities in the field are often very basic and recent budget cuts have worsened existing transport constraints and contributed to the difficulty of recruiting and retaining staff in the villages. The CAP is still theoretically the extension planning tool, but, in practice, CAPs that have been prepared in the past inform extension service delivery to a very limited extent and written reports are no longer available. CAPs that are of an acceptable quality and could be used as a starting point for SADP activities cover only about 100 of the 900 villages in Mafeteng district. District staff are somewhat de-motivated and communities are disinclined to participate in the preparation of new CAPs in the absence of investment funds for their implementation; new staff have been hired but not trained in the approach; and the number of staff with a good skills level and experience in facilitating the Action Learning Cycle and preparing CAPs is much reduced.

9. To support the MAFS extension system, there are seven Farmer Training Centers (FTC) in various states of repair and an Agricultural Information Services Division that occasionally publishes extension material and carries out radio broadcasts. The MFLR has departments for soil conservation, forestry and range resources management. The Range Resources Management Department is responsible for supporting management of range resources, training of herders, mobilization and support of grazing associations and herders associations, rangeland inventory and resource assessment, and range rehabilitation and development. The MFLR also has extension services through ARC network, supported by technical specialists and headed by a District Coordinator (DC) in each district. The Marketing Department in the MTICM analyzes market information, carries out market research, and has responsibilities in dissemination of information and marketing extension. Sub-sectors of the Marketing Department include horticulture, wool and mohair, poultry and input supply, as well as the Livestock Products Marketing Service (LPMS). There is a District Marketing Officer (DMO) in each district. However, coordination and joint activities among the field services of the three Ministries is limited.

10. The government has a policy of decentralization, which intends to move planning and decision making to the local level to better reflect local priorities and needs. This was initially legislated under the Local Government Act of 1997 but implementation has been slow. At the District level, each of the Technical Officers including the DAO, DC and DMO were expected to report to the District Administrator (DA), with district budgets programmed by the DA. However, most still report to their central Ministries, and while some coordination does take place among the technical staff, district-level priorities are not fully taken into account in the programming and budgeting process. As part of the process at the community level, Community Councils were first elected in 2005 but the second round of elections foreseen for 2010 has been postponed. There are 128 Community Councils with their own budget. The Community Councils were also expected to introduce Participatory Community Council Planning and to prepare Community Council Action Plans (CCAPs), but this has not been widely implemented. Funds were initially proposed to be transferred to the Community Councils, but partly due to lack of capacity, this has not happened to any extent. A Development Fund for Councils has been instituted and is now up to a total of 50 million Maloti per annum for all Councils. However, most of this budget is used for roads with decisions made at the central level. GTZ has supported this process through its Decentralized Rural Development Program and has supported participatory planning exercises through District Planning Units.

11. Most technological innovations are being introduced and extended by NGOs, both national and international, and through donor-funded programs, and, in some cases, by private entrepreneurs with linkages in South Africa, rather than through Lesotho’s research and extension system. Promising technologies being promoted at present by various NGOs and donors include conservation agriculture; keyhole gardens and other small vegetable production technologies involving composting; linking
keyhole gardens with small stock production; seed production of Open Pollinated Varieties of maize; improved animal husbandry and artificial insemination; small-holder pig production; and introduction of new varieties of fruit trees. In addition, a program of input fairs to link producers and suppliers is being introduced by FAO.

12. Most land in Lesotho is allocated and held under customary tenure. Traditionally, use rights for agricultural lands were allocated by a hierarchy of traditional authorities to household heads who then passed this on mainly to their male heirs. Grazing lands and other communal resource areas were used and managed under the administration of traditional authorities on behalf of the king. There has been a gradual introduction of new land administration and management institutions, including the establishment of a National Land Commission in 1999, which recommended, among other things: (a) the abolition of all customary responsibility for land administration; (b) systematization of leasehold tenure; and (c) registration and titling of land. Considerable support has been provided by a number of donors to move towards these goals. Most recently, ongoing support from the Millennium Challenge Corporation (MCC) resulted in a new Land Act gazetted in June 2010, which includes regularization of long-term leases of agricultural land. Regulations arising from the Act have not yet been fully adopted and implemented, partly due to some ambiguities and contestations between different administration and management authorities. However, demand for certificates or lease titles for crop land is not high since people generally feel that their long-standing rights are generally clear and undisputed, although it has also been reported that some who rent others’ crop land for agricultural activities do not necessarily feel that their rental rights are secure. Nevertheless, it is not considered that these issues represent major constraints to the implementation of activities proposed under the SADP.

Objectives
13. The Program Development Objective (PDO) is to increase marketed output among program beneficiaries in Lesotho’s smallholder agriculture sector.

14. The program will target smallholder farmers and farmer groups that: (i) need support to improve their operations and sources of livelihoods; and (ii) have the basic resources and motivation required to successfully improve agricultural productivity and diversify into market-oriented agriculture. To help develop markets for their outputs, the program will also support the development of agriculture-related and rural businesses. Four of Lesotho’s ten districts, namely Botha-Bothe, Leribe, Berea and Mafeteng, were selected in consultation with MAFS based on the following criteria: (a) districts with relatively high production potential and more than one agro-ecological zone; (b) accessibility/proximity to markets (for inputs and outputs); and (c) population outreach. The selected districts are along the South African border and include some of the more productive land with around two-thirds of the lowland areas in the country, about 52% of the arable land, a population of 850,000 (45% of the total) and around 3,000 villages.

Description
15. The SADP would focus its activities at two levels in order to increase commercialization of Lesotho’s agriculture: (a) the developing agricultural business sector, and (b) smallholder farmers who are already engaged in market-oriented production or have good potential to become commercially active. Accordingly, the program would consist of three components over six years: (a) Increasing Agricultural Market Opportunities; (b) Increasing Market-oriented Smallholder Production; and (c) Program Management.

Component 1: Increasing Agricultural Market Opportunities. The component objective is to support Lesotho’s developing agricultural business sector to contribute to increased commercialization of the agriculture sector. The main beneficiaries will be small and medium agro-based businesses, rural entrepreneurs and farmer associations with potential to expand their market-related activities or improve
their profitability, which would in turn improve market opportunities for smallholder farmers. Two sub-components are proposed:

**Sub-Component 1.1: Promotion of Innovative Agri-Business Initiatives.** The main objective of this sub-component is to support, through a Competitive Grants Program (CGP), the introduction, testing and demonstration of new business initiatives and technological innovations by small and medium agriculture-related and rural businesses, registered associations and cooperatives. Such business initiatives and innovations would likely focus on concepts to increase competitiveness, improve market access, add value, and improve service provision, thereby increasing opportunities and demand for local smallholder produce. The grants will be awarded based on proposals from applicants and a competitive selection process. They will, thus, be demand-driven to ensure that proposals are relevant to the applicants’ expressed needs and that winning applicants are the most entrepreneurial and innovative. However, in recognition of the limited management capacity of most businesses and to support them to develop and implement their activities, the grant applicant would be required to partner with a service provider(s) who would provide technical assistance, business and management advice, support for business development and market identification, and help with drafting the application and reports as needed. Eligible service providers include a wide range of private sector consultants, traders, faculty, extension and research staff and NGOs present in Lesotho.

Each grant will include three major elements: a demonstration element consisting of the costs to set up the activity (a business development element); a service provider element to cover costs of local technical assistance and support; and a technology transfer element to disseminate the grant findings to other potential adopters. Two levels of grants are proposed: (a) grants for small and medium businesses up to a maximum of US$ 25,000, particularly focusing on value added activities including small-scale processing and marketing as well as provision of inputs and services; and (b) grants for small developing entrepreneurs, generally registered associations, at the district or community level, up to a maximum of US$ 5,000. Up to 100 small grants and 70 larger grants are expected to be awarded. In both cases, to engender ownership and to demonstrate commitment, there would be a cost-sharing requirement, which would be 40% for the larger grants and 20% for the smaller grants. Proposals will be evaluated and selected based on criteria such as: (a) the viability of proposed activities; (b) the extent that activities would increase competitiveness, improve market access, add value, and/or improve service provision; (c) the expected impact on market demand for smallholder produce; (d) the extent that the proposal introduces new innovations in the Lesotho context; (e) possible replicability by other small rural businesses, and (f) likely sustainability.

**Sub-Component 1.2: Market Linkage Development.** This sub-component aims to develop and improve linkages between agricultural producers and markets, reduce market transaction costs and align production decisions with business and market opportunities. This will be achieved by setting up market linkage mechanisms, and providing for improved information flow and responsiveness between all actors in the market chain. The sub-component will target commodity-based farmer associations, district and local apex associations, registered farmer cooperatives, informal farmer organizations or producer interest groups, market intermediaries, agri-businesses, input suppliers and other market participants. Activities will include: (a) upgrading the public market information system under the Department of Marketing of the Ministry of Trade and Industry, Cooperatives and Marketing (MTICM) by improving information quality and services through training, sub-sector and commodity studies and introduction of IT-supported data and information exchange (e.g. web-based data exchange and Short Message Service (SMS); (b) agricultural trade fairs at district level; (c) round-table meetings with farmer/farmer groups and tradersprocessors; and (d) a mentoring service providing direct field support to producer groups and associations helping them to understand and adopt technologies in accordance with market requirements (e.g. food safety, product handling).
Component 2: Increasing Market-oriented Smallholder Production. The component objective is to support small-scale farmers groups in their efforts to produce marketable commodities, improve their ability to respond to market requirements, and help motivated semi-subsistence producers to move towards increased commercialization in line with natural resource management considerations. The main target group is smallholder farmer groups in areas with high production potential, who are already engaged in market-oriented production or have good potential to become commercially active. The approach is to plan, prioritize and demonstrate how market-oriented agricultural activities can be a worthwhile undertaking for smallholder producers and how to better address natural resource management issues in such planning processes. This would be done by offering a package of support that includes: (a) technical training, to improve production in line with market requirements; (b) commercial training, to better consider demand, costs and benefits when making production decisions (“farming as a business”), and to become more effective market participants; and (c) initial investment support to encourage farmers to venture into new activities. Two sub-components are proposed:

Sub-component 2.1: Preparation and Implementation of Agricultural Investment Plans (AIPs). Promising agricultural activities and priorities for investments and training that are required to more widely demonstrate these activities will be identified in Agricultural Investment Plans. Many market-oriented farmers are organized in groups, which are especially important for market-related activities. The majority of the activities in the AIPs would therefore target: (a) existing producer groups that want to venture into new activities, improve their market integration, increase their membership or join forces with other groups; (b) broader community-based groups that manage resources or facilities which are important for market-oriented production; and (c) poorer farmers who have an interest in joining a group or committed farmers with a common interest wishing to form new groups. To clearly demonstrate impact and avoid scattered interventions, the program would concentrate its efforts in those parts of the districts that offer the most potential for market-oriented production by smallholders. The sub-component will build on the experience with Community Action Plans under the completed APCBP and SADPMA and the ongoing SANReMP but will focus more on market-oriented agriculture and a greater emphasis on analyzing the viability of interventions and enterprises. The AIP process would have three main elements:

a) Preparation of AIPs: Around 90 four-year AIPs that spell out the support to be provided under the SADP will be prepared in the four districts. The AIPs will identify and prioritize training and technical assistance needs, and key resource management activities and productive investments. Planning areas will be based around the agricultural sub-centers, with the number of areas covered different for each district depending on population and number of sub-centers. AIP preparation will involve assessing market requirements and opportunities, and reviewing the findings of other community-based planning initiatives that have taken place in the recent past. It would also involve consultations with potential beneficiaries in a sub-centre area, including active farmer associations and groups and selected individual market-oriented farmers, and discussions with other key stakeholders in the area. A team of multi-disciplinary district-based staff would take the lead in the AIP planning process, which would be similar to the Action Learning Cycle approach under the Community Action Planning processes.

b) AIP related training. Successful implementation would require strengthening the capacity among district staff to prepare good quality AIPs. It would also require additional skills among agricultural service providers to be able to effectively assist farmers in taking a more market-driven and business approach to farming. Training would be provided to increase the capacity of service providers in support of the preparation and implementation of the AIPs, including the AIP Planning Teams, MAFS and other relevant ministry staff at district and sub-center level, and community-based extension and animal health workers where they exist. The initial focus will be on training in participatory planning and the Action Learning Cycle for AIP Planning Teams and extension staff. Provision has also been made to address other training needs that would emanate from the AIPs, especially in marketing and
business planning topics, and in skill gaps related to crops and livestock products for the market. Due to the importance of livestock, and the limited knowledge of livestock husbandry among extension staff, specialized training on livestock topics would be reintroduced for selected Agricultural Resource Center (ARC) and sub-centre staff, Livestock Assistants, and Community Animal Health Workers at the facilities of the Department of Livestock Services in Maseru.


c) Implementation of AIPs. The program will provide support for the implementation of agreed market focused interventions that have been selected as priorities in the AIPs. Implementation of AIPs would involve preparing agreements with producer groups and other community-based institutions, and also local service providers where these would be involved; procurement of items for investment support; training and advice on technical as well as business management aspects; activities to improve the condition or management of natural resources; and annual round tables as well as annual AIP review and action planning meetings. Program support would amount to US$ 80,000 per AIP on average over four years, with an annual budget ceiling of US$ 25,000 per year. Each sub-center AIP fund would consist of three cost elements, training, natural resources management and key productive investments, with a ceiling of 40% of the total amount in each category. Productive investments would include both community-wide activities and support for local producer group and associations, with beneficiaries expected to contribute 10% of the costs for the former and 20% for the latter to instill ownership and commitment. Periodic technical and financial progress reports would be prepared for each area where an AIP is implemented, and on-site visits would be made at least every six months, before each AIP tranche is disbursed, to verify progress and identify problems at an early stage.

Sub-Component 2.2: Technology Packages for Smallholders. To take advantage of specific expertise or approaches that are available among non-state actors but not in the government system, contracts will be provided to locally-based NGOs and private operators for introduction, further development and dissemination of new and improved technologies coupled with training and support. Topics will be drawn from common themes emerging during the preparation of the AIPs and requiring innovative solutions not necessarily obvious to the local communities, and prioritized at annual technology forums attended by district and national staff and experts. Examples may include conservation agriculture, water harvesting, improved homestead gardening, mushroom production, micro-scale irrigation systems, use of open-pollinated varieties, livestock feeding and improvement, and various small-scale processing technologies.

Component 3: Program Management. This component will establish an effective program management and administrative system, to ensure coordination between the program and other initiatives and national institutions in the sector.

Financing
Source: (US$ m.)
BORROWER/RECIPIENT 2.92
International Development Association (IDA) 10.00
International Fund for Agricultural Development 10.00
Local Farmer Organizations 0.98
Total 23.90

Implementation
16. The SADP needs a focus on commercial/business orientation amongst the implementers, cuts across a number of ministerial responsibilities, and will involve various other partners and service providers, the private sector and NGOs. Therefore, key considerations for effective project management arrangements include the following: (a) oversight function at high level (high level Task Force), with the appropriate authority to coordinate multiple ministries (close involvement of MFDP to coordinate other
line ministries); (b) representatives on the management committee from both the Government and outside (e.g. farmer organizations, private sector); (c) a PMU manned also by technical staff; and (d) integration of program monitoring and evaluation, knowledge management and learning. The arrangements are summarized in the Organizational Chart below.

17. Program Management and Coordination. A Program Management Unit (PMU) will be established, housed in the Ministry of Agriculture and Food Security (MAFS), and assigned responsibility for overall program coordination and day-to-day program management, including planning and budgeting, procurement, financial management and monitoring and evaluation (M&E). The PMU will also include technical specialists overseeing component implementation. Among others, specific roles and responsibilities of the PMU will include: (a) oversee and lead the implementation of component activities; (b) lead the preparation of the Annual Work Plan and Budget (AWPB); (c) monitoring and evaluation of program progress to inform subsequent planning and implementation; (d) review of performance of various implementers and service providers; (e) ensure proper financial management and procurement arrangements; (f) prepare various reports as required (e.g., progress reports, financial statements, and audit reports); (g) ensure coordination with a wide range of stakeholders as relevant; and (h) regularly update senior management on program progress and key issues, and flag any issues for their decision-making.

18. The PMU will be staffed by: a Program Manager; a Monitoring and Evaluation Officer; an Agro-business and Marketing Officer (component 1.2); an Agriculture Investment Planning Officer (component 2); a Procurement Officer; a Program Accountant; an Accounts Clerk; and support staff (Administrative Assistant, drivers). The PMU will also house a small (two-person) Competitive Grants Secretariat responsible for component 1.1. A Program Field Officer (PFO) under the PMU will be placed in each program district responsible for coordination and monitoring of all district-level activities.

19. Program Oversight. The PMU will report to a Program Management Committee (PMC), which will oversee and guide overall program implementation and ensure compliance with national policies, strategies and procedures. The PMC will include representatives from the ministries with responsibilities relevant to program implementation, Ministry of Finance and Development Planning (MFDP), Ministry of Agriculture and Food Security (MAFS), Ministry of Local Government and Chieftainship (MLGC), Ministry of Trade & Industry, Cooperatives and Marketing (MTICM) and Ministry of Forestry and Land Reclamation (MFLR). Other stakeholders, including farmer associations/groups, private sector (agribusinesses, technical service providers, etc.) and NGOs would also be represented. The PMC, which is an extension of the Technical Working Group formed for project preparation, will receive and comment on all program reports and Annual Work Plans and Budgets (AWPB). The committee will meet at least quarterly with the Program Manager of the PMU acting as a Secretary to the PMC. The PMU will report to the PMC.

20. District Level. The overall coordination of the program at district level will be carried out by the District Planning Unit (DPU) chaired by the District Administrator and including the District Agricultural Officer (DAO). As an alternative, a program-specific District Program Management Committee (DPMC) could be established or the District Extension Working Group could be reactivated for this purpose, if considered to be more efficient. The membership will include NGOs and other actors active in the district. The PFO in each district would closely work with and support the DPU or PMC and the technical officers at district and community level.

Sustainability

21. The sustainability of component 1 activities will be based on several design features: (i) the CGP will be demand-driven and competitive with proposals developed by the beneficiaries themselves, thus likely to be responsive to the needs of the applicants and to ensure that winning applicants are the most
entrepreneurial and innovative; (ii) the cost-sharing requirement will ensure that applicants are serious and likely to continue activities after the completion of the grant; (iii) the technology transfer activities are likely to result in adoption of improved technologies and long-term benefits after project completion, with the results of the evaluation of each grant, including a cost-benefit analysis, widely publicized and made available to financial institutions and other potential adopters; (iv) the requirement to link with service providers is likely to lead to long-term relationships between the applicants and service providers after the grant completion; and (v) strengthening farmer groups and organizations as market partners and improving information flow is likely to lead to long-term improvements in the selected value chains.

22. For component 2, sustainability is addressed by: (i) intensive participation among community-level stakeholders in the preparation of their Agricultural Investment Plans; (ii) cost-sharing by beneficiaries in the implementation of the investments; (iii) building strong relationships between producers and market operators; (iv) interlinked natural resource management considerations will be incorporated for longer-term benefits; (v) strengthening service providers to support communities; (v) introduction and dissemination of improved technologies with partnerships between locally-based NGOs and government extension services.

Lessons Learned from Past Operations in the Country/Sector

23. **Project focus and partnership.** Lessons learned from earlier projects such as APCBP, SADPMA and SANReMP include the need to avoid complex project design and to propose simple and clear implementation mechanisms. The SADP involves participatory processes that are inherently somewhat complex but focus only on two main themes: (i) strengthening market demand by promoting agri-business enterprises and (ii) facilitating market-driven production at the farm level. Furthermore, the design promotes synergies among the program activities. A joint Bank and IFAD project can also reduce transaction costs for Government and allows pooling of donor expertise to address project issues.

24. **Targeting.** Based on the experience under SADPMA and SANReMP and discussions with in-country stakeholders, a couple of lessons have emerged. First, the sector would benefit from demonstrated and replicable success stories in smallholder agriculture. Second, for effective support it is critical to focus on farmers who are motivated and interested in farming as an important means of livelihoods and source of incomes. A targeting approach that incorporates capacity and motivation of farmers, viability of groups and enterprises is desirable. Therefore, a poverty/subsistence focus would not feature strongly in the suggested program as a targeting tool, although poorer farmers with a potential to produce for the market will be included where possible.

25. **Support for commercialization.** Competitive Grants Programs (CGPs) have proven effective in supporting emerging rural businesses and farmer groups to introduce, test, and demonstrate innovative technologies to a broader audience of potential rural entrepreneurs and beneficiaries and to support the process of commercialization in the agriculture sector in other Bank-funded projects. There is a good base of small entrepreneurs, farmer organizations and associations ranging in size from about 10 to more than 300 members that have been successfully used as entry points by other donors and NGOs in Lesotho, and it thus proposed to work with these groups under the program. Nevertheless, lessons from previous donor activities have shown that some associations lack capacity to fully represent their members and provide meaningful services either in technology transfer or marketing support. Accordingly, the project will also focus on strengthening such organizations through improving knowledge of commodity markets and management skills and providing access to market information.

26. **Planning process at field level.** Lessons from APCBP and SADPMA indicated that the development of the unified extension service potentially allowed improved government services and coordination at the farm level. In particular, the project completion report of SADPMA concluded that one of the most lasting achievements was the introduction of Community Action Plans (CAPs) and the
consequent initiation of a grassroots planning process. However, it has also shown that intensive and repeated training and capacity building are needed due to frequent district staff changes. These completed projects as well as the ongoing SANReMP have utilized this approach to identify and finance investments at the community level, an approach that will continue to be used in modified form through the AIP system to be supported in this project.

27. **Extension services.** Lessons have shown that capacity of the extension system is not sufficient due to turnover of staff, lack of implementation capacity, and inadequate training. Effective agricultural advisory systems are catalysts for introducing new practices and improving small farm productivity and are a key aspect of many projects in the region. Accordingly, the project will support the strengthening of the extension service. At the same time, based on experience, it is recognized that activities should not be carried out only through Government extension and other services and that much of the locally-relevant innovation takes place as a result of NGO and donor programs rather than through the government system. Instead, the project will assist the government to develop public/private partnerships by providing support through locally-based NGOs for the provision of services. However, as much as possible, this support will also involve the government extension services.

28. **Institutional arrangements.** Following lessons from the earlier SADPMA, SANReMP had a Programme Coordination and Management Unit (PCMU) with competitively recruited staff including a coordinator, M&E, procurement and accounting officers. The PCMU was mainly responsible for coordinating program activities and facilitating procurement of goods and services in support of the relevant Ministry departments and districts. One of the challenges was that, without technical specialists or component managers, implementation and supervision of contracted service providers relied heavily on the Ministry departments/districts, which led to delays in a number of cases. Therefore, under the SADP, the PMU will be staffed with technical specialists and field officers in each district to backstop the implementers at field level in collaboration with the Ministry department heads and district technical officers.

### Safeguard Policies

<table>
<thead>
<tr>
<th>Safeguard Policies Triggered by the Project</th>
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<tr>
<td>Environmental Assessment (OP/BP 4.01)</td>
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<td>Natural Habitats (OP/BP 4.04)</td>
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<td>Projects on International Waterways (OP/BP 7.50)</td>
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<tr>
<td>Projects in Disputed Areas (OP/BP 7.60)</td>
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</tbody>
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### Contact Point

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*By supporting the proposed project, the Bank does not intend to prejudice the final determination of the parties' claims on the disputed areas*
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