Lesotho – Country Assistance Strategy
Lesotho Highlands Water Project

We are pleased to note the substantial improvements in economic performance and growth witnessed by Lesotho. We are equally pleased to note, that following the recently held parliamentary election, the Government has a good background for addressing the social and economic challenges lying ahead. We find that the line taken in the CAS appears to be relevant and addresses high priority issues within the social and environmental sectors.

The most striking feature of the CAS seems to be that the Lesotho case – and CAS – is yet another example of growth without poverty reduction. In addition, a client survey carried out in Lesotho in 1997, sent the message that respondents did not see much impact from the Bank’s lending program on poverty alleviation (Box 6 in the CAS). Such findings ought to give serious food for thought for an organization whose main mission is to fight poverty!

The largest operation proposed with the CAS is the IDA credit of USD 45 million for phase 1B of LHWP. Related to this project, is an IDA Learning and Investment Loan of USD 5 million for a Social Fund. The Social Fund will be set up to support the Lesotho Highland Revenue Fund, established in 1992 to manage the revenues from the water project, estimated at an average of USD 45 million per year.

The LHWP was given a central role in the 1996 Lesotho CAS and is also a key element in the present CAS, thus reflecting the fundamental role of the project to the Lesotho economy. The question is: Is the project better with or without involvement of the Bank?

The answer clearly is YES, provided that the Bank can add value in terms of promoting high priority to the socioeconomic aspects of the project and assisting the Lesotho Government in making the population benefit from the project. So far, we fail to see that the Bank has been successful in this regard. This is disappointing, since this is where we believe that the Bank should have is comparative advantage.

Why has the Bank not much earlier, given high priority to revenue management? Bank operations in this important area should focus on the overall Government budget and public expenditure pattern, as well as on management of the Lesotho Highland Revenue Fund. It seems only
to be with this CAS, through the proposed LIL, that proper attention is given to the LHRF. However, we do not see plans in the CAS for medium to long term assistance to the Government on public expenditure management. Through such assistance, we expect that the broad population of Lesotho will soon begin to benefit from the LHWP, thus demonstrating to the population, that the project and the Bank’s program do have an impact on poverty alleviation.

We trust that the Bank can do better in Lesotho than it has done in the past. Based on this trust, we do not intend to oppose the CAS and the proposed lending for the LHWP, which we see as a project with potential, which should be utilized for the benefit of economic and social development in the region.

Had it not been for the newly received request for an inspection by the Bank’s Inspection Panel, this statement would have stopped here.

However, we find that the request recently filed, raises questions on which we would like to receive Management’s reaction at the Board meeting.

First, we are not able to fully assess the economic rationale of pushing this project forward now. Therefore, we would like Management to comment on the timing issue and confirm that the demand exists for the additional capacity of water supply to be provided by phase 1B. If the demand for additional water exists, and if overall project savings are made by initiating construction now (as stated in the CAS and the Project Appraisal Document), then we do not fully understand why end users fear higher prices for water as a result of the project.

We therefore, would like Management to comment on this issue and assure that as a direct result of going ahead with the phase 1B now, there would be no justification for increases in the price of water in the Gauteng area.

Secondly, we would like to receive further information on the possible medium to long term impact of the LHWP on the Orange River. Thus, we wonder to what extent the project would affect the flow and water volume of the river. Could water volume, for example, be reduced by 25 or 33 percent, or might the risk even exist that the river in the long term, would dry up?

On this issue, we would like to receive Management’s assurance that as a consequence of i) phase 1B and ii) subsequent phases, the LHWP would not have a serious negative impact on the Orange River.