Board Meeting of June 4, 1998
Statement by Jan Piercy

Lesotho Country Assistance Strategy
Lesotho Highlands Water Project – Phase 1B

1. I am grateful to have had the opportunity to visit Lesotho during our recent ED travel. The trip allowed me to gain first-hand knowledge about Lesotho and the LHWP and to witness the increase in capacity and commitment needed for effective implementation of the LHRF. I want to thank Pamela Cox, John Roome and the country team for their efforts and for being so responsive to our inquiries about the project and the CAS.

2. Dealing with Lesotho’s high level of poverty has been the central policy objective of the Government and of the Bank’s 1996 CAS. The CAS states that Bank support in Lesotho is having a favorable development impact, but that the impact of the Bank’s program on poverty reduction remains unclear, in part because of a lack of data. I noted that the client survey found that respondents did not see much impact from the Bank’s lending program on poverty reduction. The CAS also states that the Government has been unable to make significant progress in implementing programs to radically address poverty. Causes of poverty include unemployment, lack of adequate agricultural land, environmental disaster, and ill health.

3. The CAS mentions that in the medium-term, continuing rapid population growth and limited employment opportunities in South Africa, in turn, could exacerbate unemployment and poverty, leading to increased pressure on the limited land base (as agriculture remains a fall back source of income) and informal non-farm activities. This statement concerns me because Phase 1b will have an impact on arable and grazing land and on peoples’ source of income.

4. With the LHWP as the centerpiece of this CAS, how can we work with the government to ensure that the revenues of this project actually are applied toward sustainable poverty reduction? The CAS indicates that the civil service has continued weaknesses in its capacity to design and implement programs to deal with poverty reduction. What can the Bank do to strengthen government capacity in this regard? Does EDI have a role here?
5. The public expenditure review planned for FY99 seems critical because of the potentially large effects of improved management of the government budget on poverty alleviation. I would appreciate staff comment on the opportunities for the PER to tie into the debate over the uses of the new revenue flows from the LHWP, as the majority of the revenues will flow into the general government budget rather than into the development-specific Lesotho Highlands Revenue Fund (LHRF).

6. The planned reforms for the LHRF are essential to maximize the development impact from the water project. The CAS heading “What did not Work Well” should have acknowledged the problems encountered with the LHRF. When the Learning and Innovation Loan which is to support the reforms of the LHRF comes to the Board in July, I hope it will provide a much clearer picture of what the Bank thinks has to happen for the Fund to become a viable instrument for development and poverty alleviation. I would like to request that the Board receive a progress report on the reforms of LHRF in one year.

7. Our embassy in Maseru points out the disconnect between the government’s focus on poverty alleviation and its failure to free up the economy for private sector activity. This has to be an important element of the policy dialogue between the Bank and government. Currently, the government dominates the economy, controls all utilities, and is the single largest employer. Commercial Banks are not friendly to private entrepreneurs. I would appreciate staff comment on the status of the proposed new investment promotion law and what initiatives might create more public understanding of the link between an improved private sector climate and employment and economic opportunity.

8. The CAS points out the need for more regional economic integration. Would Lesotho benefit from a World Bank analysis of cross-border barriers to trade and investment?

9. The lack of progress in civil service reform potentially seriously jeopardizes ability to deliver on the goals of this CAS. The CAS indicates that civil service reform is envisaged in the context of multi-donor cooperation, through the government’s PFP, with UNDP in the lead. What is the role of the Bank and what progress has been made? How well is the UNDP/Bank partnership working?

10. On understanding the Bank’s work in the context of total donor activity, we appreciated the chart provided as Attachment V. However, this list provided no indication of the magnitude or terms of support of various donors and thus was less informative than should be the norm.

11. I cannot reconcile the CAS report that there has been a lack of progress on structural reforms, sectoral policies, civil service reform, privatization and poverty reduction with the CAS statement that “Lesotho is a high performing country which has received less than its per capita share of IDA”. The reference to high performing must refer to macro-economic policy because the institutional capacity of the government is weak and political leadership is unclear. What are the implications of the recent elections? Does the Government have the implementation capacity to absorb additional IDA resources? I would appreciate staff comment on this point.
12. With regard to the specifics of the LHWP, we continue to have concerns about the technical justification of proceeding with the project at this time. Some studies have indicated that Phase 1b could be delayed for 4 to 11 years or longer if demand measures are emphasized. More detailed demand management studies have been called for by some, but others strongly believe, and the PAD points out, the economic rationale for proceeding now. We can accept the recommendation to proceed but want to stress the importance of full compliance with all implementation provisions, including environmental and social impact mitigation measures.

13. I commend Bank staff for making a strong, good faith effort to deal with the most difficult components of this project, particularly the resolution of the resettlement problems from Phase 1A and design of the resettlement plans for Phase 1B.

14. We have continuing concerns about prospects for income restoration and resettlement. This is in part due to dearth of economic activity in the highlands. Only a portion of the royalties for relatively few years is dedicated for social purposes and viable livelihoods may not be afforded for affected people. Therefore, the development activities associated with this project and the development impact of the Revenue Fund are very important and will need to be closely monitored. We would prefer to see the achievement of measurable income and economic activity goals as benchmarks before royalty earmarks reduction.

15. The environmental effects of the project in Lesotho and South Africa include the likely extinction of fish species and dewatering and augmentation of river systems with reservoir water of potentially poor quality. There are major informational and institutional constraints on the ability of the relevant institutions to manage these effects. We have particular concerns about efforts to maintain wild populations of the Maluti Minnow. We urge added vigilance in these areas.

16. My authorities strongly believe that the downstream effects should have been studied prior to the commencement of this project. I do note that the dam design has now built in new flexibility to alter water releases. I also understand that the Instream Flow Requirements Study has to be finished and Lesotho has to create a plan of action for downstream releases acceptable to the Bank prior to the filling of the Mohale Reservoir.

17. Our concerns on the environment and resettlement point to the importance of Bank supervision. Adequate resources from the Bank for the supervision of this loan are indispensable because of the institutional weaknesses of the Lesotho Highlands Development Authority. The Bank has identified reforming the operations of the Lesotho Highlands Revenue Fund as a top priority. We strongly concur because the uses of the revenues from this project will determine the lasting development effects for Lesotho. The Fund must be capable of supporting the poverty alleviation objectives of the Government of Lesotho.

18. Lesotho and South Africa are rightly looking at regional cooperation in such important areas as water management. We believe the Bank should support these regional efforts. We hope that the
country assistance strategy for South Africa will consider the management of regional water resources. In view of the fact that water demand studies and downstream effects studies are underway, and in view of the need to test demand management strategies in South Africa, we strongly believe the Bank should not provide support to any future phases of this water project until the studies are completed and their implications discussed.

19. This project highlights the increasing prominence of water resources management issues for the Bank’s borrowers. The Bank does not now have water demand management experts on its staff. This gap should be filled in order to provide the Bank with the resources to properly analyze water issues and shape water projects. In this regard, we would appreciate comment on how the region and the ESSD network have cooperated in the dialogue on water resource management issues.

20. Finally, with regard to the Inspection Panel Claim, we await the Inspection Panel’s review and have confidence that the region will cooperate fully with the Panel in providing guidance to the Board as soon as possible. Some issues arose in the submission of this claim which point up the need to train staff on how to handle Inspection Panel inquiries. This, however, can be discussed in the context of our review of the claim itself.