A. Country and Sector Background

1. Lesotho has embarked up on a series of progressive reforms within the water sector over the past decade. These were aimed at enabling the country to better capitalize on development opportunities afforded by an abundance of water and a geographically strategic location. With a population of around two million and fully surrounded by the Republic of South Africa (RSA), development of Lesotho’s water sector represents part of the Government’s efforts to diversify the economy and improve the provision of essential services.

2. Annual per capita GDP growth of over three percent over the past two decades has largely been driven by manufacturing exports and, more recently, construction, water, mining and services. Exports now account for nearly 30 percent of GNP. Most of this comes from the garment industry which has been established through foreign direct investment encouraged by the United States’ African Growth and Opportunity Act (AGOA). The garment industry includes more than 50 firms employing approximately 40,000 people, mainly in the greater Maseru area. These industries have resulted in an almost four-fold increase in exports since 2000 and contributed US$567 million in foreign exchange earnings in 2006 (38 percent of GDP).

3. Water and wastewater services are essential to the continued contribution of these industries to the economy. They currently account for half of all water consumed in Maseru and the lack of water and wastewater infrastructure presents a major constraint to continued economic growth. The growth of the garment industry has stimulated an increase in urban migration. Although only 20 percent of the population, roughly 400,000 people, inhabits formal urban areas, there has been a significant urban shift over the last decade, and extensive peri-urban development has blurred the formal urban/rural divide. Furthermore, many households
divide their time between rural homesteads and urban dwellings close to employment in textile mills. This trend is expected to continue, and the urban population is predicated to be well over 25 percent by 2015. The capital city of Maseru experienced 5.5 percent growth per year between 1996 and 2006, increasing to over 350,000 people. Continued growth is expected to see another 37,000 people move into the city over the next three years.

4. To meet increasing demands for water, the Government has recognized that the need to provide a secure source of water supply for the fast-growing, urban Lowland areas of Lesotho is central to continued socio-economic development. Currently the only source of raw water for treatment and supply to Maseru is derived from a single intake on the Mohokare (Caledon) River, which is unreliable, inadequate and of inferior quality. The river, part of which forms the border with the RSA, has been severely degraded over the last 20 years due to over use. Drought is a recurrent phenomenon seriously undermining the security of supply, particularly during the dry winter months when flows are frequently inadequate to meet the city's needs and emergency releases have been required from the LHWP in order to supplement flow in the Mohokare River and augment urban supply to Maseru.

5. To address the need for long-term, secure water supplies to the Lowlands, the GoL commissioned a feasibility study of the Lesotho Lowlands Water Supply Scheme (LLWSS) in 2004 with support from the European Development Fund. This was aimed at determining an optimum program of investments to secure medium- and long-term water supply for human and industrial consumption in urban and peri-urban demand centers in the Lowlands. The feasibility study, as well as a separate study financed by the Arab Bank for Development in Africa (BADEA) undertaken in 2003, identified the least-cost, long-term solution for bulk supply to Maseru and the surrounding Lowlands areas to be the Metolong Dam and Water Supply Program (MDWSP).

6. The MDWSP will make available 75,000 m$^3$ of treated water per day, enabling Maseru to meet domestic and industrial requirements for at least the next 40 years. Coupled with this is implementation of legislative provisions to safeguard sustainability of the water sector. The Water Resources Act of 2008 requires a number of measures to be developed, including specific guidelines and instruments for the water sector. The Government has also committed to expanding the mandate of the Lesotho Electricity Authority (LEA) to enable it to assume regulatory responsibility for urban water supply services. The associated transformation of WASA into a company will ensure continued development of the sector, provision of services, and security of supply in support of socio-economic development objectives at the national level.

B. Rationale for Bank Involvement

7. The Bank has been directly involved in water supply issues in Lesotho for several decades and support for the provision of a long-term source of water for urban areas of Lesotho has been part of the Bank’s long-term strategy in the sector. Following the Bank’s management of environmental and social safeguards of Phase 1A of the LHWP (approved in 1991), Bank support to Phase 1B of the LHWP (approved in 1998) included studies to investigate potential sources of water supply to the Lowlands. The Water Sector Improvement Project (WSIP: approved in 2004) was then explicitly designed as a two-part Adaptable Program Loan (APL) to first address underlying institutional weaknesses and improve urban service delivery under Phase 1, and to then provide direct support for increased water supply under Phase 2. The Bank’s long
history in the sector, its support for strategy development and implementation, and its ongoing cooperation with domestic water agencies makes it an invaluable partner in the sector.

C. Program Objective and Key Indicators

8. The MDWSP is a multi-donor funded program aimed at improving the supply of water to Maseru and nearby towns in support of the GoL’s efforts to sustain socio-economic growth and development. The MDWSP is comprised of five principal investments: (i) advance infrastructure; (ii) the Metolong Dam and pump station; (iii) the water treatment works and downstream conveyance system; (iv) an environmental and social management program; and (v) institutional support. IDA’s contribution to the MDWSP is supported through Phase 2 of the WSIP. The project will support the environmental and social management program for the entire MDWSP, along with part of the MDWSP conveyance system through the transmission line to the town of Teyateyaneng. In addition to the MDWSP, Phase 2 of the WSIP will continue institutional and policy support to the GoL’s ongoing process of reforms in the water sector.

9. The Development Objective of the MDWSP is to improve sustainable access to safe water supply in Maseru and surrounding Lowland areas through construction of the Metolong Dam and downstream bulk conveyance systems in an environmentally sound, socially responsible, and financially viable framework. The program specifically targets the towns of Maseru, Roma, Morija, Mazenod, and Teyateyaneng for improved water supply.

10. Key program indicators for the MDWSP include:
   i) Provision of 75,000 $\text{m}^3$ per day of additional treated water;
   ii) Successful implementation of the Environmental Management Plan (EMP);
   iii) Successful implementation of the Resettlement Action Plan (RAP);
   iv) Provision of safe water supply to 80 percent of the greater Maseru area; and,
   v) Maintenance by WASA of an operational cost ratio (operating revenues / operating expenses) of 1, or 100 percent.

D. Project Development Objective and Key Indicators

11. Phase 2 of the WSIP will support achievement of the Program Development Objective through supporting specific interventions and activities. The Project Development Objective of Phase 2 is to support the GoL in: (i) developing and sustaining an environmentally sound, socially responsible, and financially viable framework for the MDWSP; (ii) increasing the quantity of safe, bulk water supplied to Teyateyaneng; and, (iii) strengthening institutions and related instruments in the water sector.

12. Key project indicators for Phase 2 of the WSIP include:
   • Cultural Heritage Plan in the catchment area is successfully implemented.
   • Environment Flow Requirements (EFRs) established and monitored;
   • Livelihood restoration program successfully implemented;
   • Water supply to Teyateyaneng increased; and
Independent urban water regulation implemented.

13. PDO outcomes for Phase 2 of the WSIP will be demonstrated by the following outputs:

Component 1: Environmental and Social Management
- Number of cultural heritage sites identified and recorded
- EFR determined, incorporated into design, and operationalized
- No deterioration in standard of living among Project-Affected Persons due to the MDWSP
- Number of reservoir crossing established

Component 2: Extension of the Teyateyaneng bulk water supply pipeline
- Number of kilometers of transmission pipeline to Teyateyaneng laid and operational

Component 3: Institutional Strengthening and Capacity Building
- Maintenance by WASA of an operating ratio (operating revenues/operating expenses) of 1, or 100 percent
- State of Water Resources Report prepared and made publicly available

E. Description and Project Components

14. The project will finance the following three components: Component 1: environmental and social management of the MDWSP; Component 2: engineering support and transmission line to Teyateyaneng under the MDWSP; and Component 3: institutional and policy support within the water sector.

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<th>Components</th>
<th>IDA</th>
<th>GoL*</th>
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<tr>
<td>Component 1 - Environmental and Social Management</td>
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<td>Component 2 – Engineering and Transmission Line to Teyateyaneng</td>
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<td>Component 3 – Institutional and Policy Support</td>
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<td><strong>Total Cost - US$ millions</strong></td>
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15. Component 1 will finance activities aimed at addressing environmental, social and cultural heritage protection in accordance with the MDWSP Environmental and Social Management Program. These activities fall under three broad sub-components – environmental, social, and governance communications.

16. Component 2 will support the water supply works program through (i) the construction of an estimated 28km of transmission mains to supply the town of Teyateyaneng with water from the Metolong reservoir, and (ii) financing the position of engineering manager within the project implementing agency.

17. Component 3 will build on Phase I of the WSIP, continuing to support the Commissioner of Water in policy analysis and capacity building assisting in the implementation of measures outlined in the 1999 Water Policy, the Water and Sanitation Policy of 2007, and the revised Water Resources Act of 2009, while also providing support to the Lesotho Electricity Authority to strengthen capacity to assume responsibility for the regulation of urban water supply services.
F. Financing

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G. Safeguard Policies (including public consultation)

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<td>Projects on International Waterways (OP/BP 7.50)</td>
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</tbody>
</table>

H. List of Factual Technical Documents


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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*