

The World Bank Mission has come and gone

The World Bank's supervision mission of the Lesotho Highlands Water Project (LHWP) from 4-12 April, 2005 was a crucial step towards winding up supervision of the LHWP, extended to December, 2005. The Bank rated the LHWP Moderately Satisfactory due to impending resettlement, compensation, environmental and institutional issues. "Other ratings are expected to be Satisfactory, with the accepted of Administration and Capacity Building and project management," submitted Andrew Macoun, the mission's team leader. The LHWP Implementation Completion Report has to be done by December, 2005.

The Bank's assessment of prevailing workplace atmosphere is that the restructuring process at the LHDA is not going well in the sense that too few managers have been recruited (4 against a total of 12), many key staff have left the LHDA and there is much uncertainty looming for those still with the LHDA. The mission is not happy that the Commission is still involved in day-to-day management of LHDA. This causes confusion and therefore blurring roles and responsibilities stipulated under the Protocol VI "We have also received reports of tension and lack of co-operation between the LHDA Board and the Commission as well as between the LHDA Chief Executive and Lesotho Chief Delegate to the Commission", said Macoun.

Issues at center stage with the Bank are In-stream Flow Requirements (IFRs), the Environmental Action Plan which dwells on ensuring that development programmes do benefit those directly affected by the LHWP. The HIV/AIDS scourge is also a concern and LHDA has been requested to undertake studies to determine on the actual HIV/AIDS status in the project areas. The Bank believes that proportions of the epidemic may be out of scope in project area. The Bank had reinforced their team with a Specialist on HIV/AIDS, Dr. Peter Okwero, from Uganda. It is hoped that between the health professionals, Drs. Okwero, Inambao, a member of the Panel of Expert (POE) and LHDA Public Health Specialist, Dr. Wilson Kisubi, a framework for achieving targeted outputs will be achieved with relative ease.

Macoun's team comprised Dr. Peter Watson, Mr. Dan Aronson, Ms. Roxanne Hakim and Dr Peter Okwero. Messrs John Ambrose and Jonathan Nyamukapa were expected to come later in the month. Also in a complimentary mission were members of the Panel of Experts on Resettlement and Environment, Drs John Ledger, Mike Mentis and Professor Bob Hitchcok. They presented their findings in a workshop where the LHDA management attended. The workshop was characteristic by sound and constructive debate on impact of dams on downstream communities.

The World Bank Mission Findings- Selected snippets

In-stream Flow Requirements

Hydrological Year. It had been agreed by the January 2005 mission that procedures for determining the hydrological year to be used as a basis for determining IFR releases would in future be:

- i. The hydrological year (Plus 2 (extreme wet, 80-100 percentile), Plus 1 (wet, 60-80 percentile), Average (mean, 40-60 percentile), Minus 1 (dry, 20-40 percentile) and Minus 2 (extreme dry, 0-20 percentile)) will be adjusted every quarter;
- ii. The actual hydrological condition for each quarter shall be used as a prediction for the next quarter, and each quarterly adjustment is limited to a maximum of 2 hydrological year classes.

IFR Procedures. The mission reviewed the proposed Edition 2 of the IFR Procedures dated 30th November 2004. The most significant comment is that incremental inflows from the catchment between Mohale Dam and IFR site 7 are far below expectations. Adjustments are being made to releases from the dam to ensure that the deficit at Site 7 is reconciled between projected and actual releases in compliance with the IFR policy. Whereas the Procedures are based on 59% of the flow at site 7 coming from the incremental catchment, evidence to date suggests it is more like 23%. The mission recommends reverting to the 27.5% agreed and implemented in mid-2004 in accordance with the Procedures clause 2.5.6.2.1 that provide for exactly this outcome. Nothing prevents further adjustment at any future date. It is clear from the record that runoff from the incremental catchment is

relatively much greater immediately after heavy rain indicating more flood runoff and less base flow than from the Mohale Dam catchment.

It was agreed that a final draft of the revised IFR Procedures would be submitted to the Bank by April 30, 2005. This timeline has been achieved.

Compensation in Proximal Reaches¹--Technical Support for Community Cooperatives and LLEs. During the January 2005 mission, LHDA reported that the LHWC had approved the hiring of four persons to constitute the Technical Assistance Unit, two for Katse and two for Mohale, with the proviso that they should support both upstream and downstream community compensation activities. At the same time, the mission field investigations revealed that the LLEs are very concerned that they are not receiving the assistance they require to undertake investment projects.

The mission believes that the continuing delays in establishing the Technical Assistance Unit, which was called for under the IFR Policy approved in December 2002, may seriously compromise the ability of LHDA to ensure that affected people in the proximal downstream reaches are not negatively affected by the LHWP. Two Technical Assistant unit 's members are in place. Placement of the other two is being finalised.

Compensation in Distal Reaches. As agreed in January 2005, the Panel of Experts had prepared a paper providing its justification for their finding that woody growth had increased in downstream reaches. A workshop was held with LHDA, the LHWC, the Panel of Experts, the Bank mission and a representative of Southern Waters, Dr. Cate Brown, in attendance. All participants congratulated the Panel on a lucid paper and a lively debate towards resolution of this matter.

The Southern Waters representative noted that the findings of the Panel did not come as a surprise to her since the original study had allowed for the expansion of woody growth into "newly suitable" areas, such as the alluvial fans and islands where the Panel had detected increased woody growth. The reason for this, as confirmed by the Panel, was that the reduced floods under the IFR regime would fail to scour out the sediment deposits from tributaries and the seedlings would establish in the new areas. She also noted that the Panel's evidence had led her to the conclusion that Metsi Consultants had underestimated the time that it would take for this to take place.

At the end of the workshop, the Lesotho Chief Delegate to the Commission concluded the Panel's findings as follows:

- i) That their findings did not call for any immediate action with respect to the proximal reaches, since the compensation for woody growth would be reviewed at the end of the ten-year period, which would give ample time to determine whether the Panel's findings would be confirmed or not.
- ii) That the findings did not provide a justification for changing the IFR Policy to make immediate payments to potentially affected people in the distal reaches as there is no conclusive evidence of the loss to the communities.

It was agreed, however, that the Panel's finding that "unless flow-related effects are strong or overwhelming, they would be practically impossible to demonstrate in the distal reaches", called for a more precise statement of the Project stance on distal reach compensation. Since the predicted effects are small, a precise determination of the magnitude of losses would not be likely. The LHWC has resolved, therefore, that:

- i. monitoring would be undertaken to determine the trend in woody growth; and
- ii. at the point where the trend confirmed a decrease in woody growth, the LHWC would authorize the payment of compensation for losses in the amount originally predicted by the Metsi study around M3million.

This conclusion is encapsulated in the "Decision Rules" for the payment of any additional compensation in both the proximal and distal reaches which were agreed under the leadership of the LHDA Chief Executive with the World Bank, POE and Dr. Cate Brown of Metsi Consultants/Southern Waters

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Given the fact that the adoption of Decision Rules may well set a precedent for other dam developments in the Lesotho lowlands, the Lesotho Water Commissioner be invited to comment on the rules.

Bio-physical Monitoring.

Bio-Physical monitoring is about collecting data and information on the impacts of changed river morphology resulting from reduced and regulated flows. The information will provide clues on trends in the changes and determine the extent of the impact on the natural vegetation as well as aquatic communities ecology. It will also provide insights into addressing related responses. Consultants are being engaged to carry out the study.

The mission recommended that the following issues be included in the negotiations with the would-be consultants:

- i. Advice on possible impacts of missed flood releases that LHDA had intended to contract separately to Southern Waters;
- ii. An investigation on how to determine compensation payments should negative impacts real
- iii. The value of utilizing the deficit volume of water to increase future IFR releases;
- iv. A recommended IFR regime for 'Muela releases; and
- v. A package of undetermined assistance so that Southern Waters could be "on-call" to provide timely assistance on IFR matters without having to go through the lengthy procurement and decision making processes.

Draft IFR Annual Report. LHDA has prepared a draft of the first IFR Annual Report for the period up to September 2004. The mission reviewed the draft in detail. LHDA will revise the report in the light of the mission's comments and submit a revised report to the Bank by 30th April 2005. The report confirms that releases have been significantly less than prescribed by the IFR Policy and Procedures; that flood releases have been missed; and that releases have been frequently changed without apparent justification. The mission continues to advocate adaptive management of IFR releases but rigorous adherence to the agreed policy and procedures.

Operation and Maintenance

Emergency Releases to the Caledon River. The mission received a 'Final Draft' dated 30/3/05 of the Principles and Procedures for the Release of Water from the LHWP into the Caledon River for Use by Lesotho or South Africa. The mission emphasized that approval by the parties represented by the Commission must be based on agreement by all involved agencies. The mission was assured that the Lesotho Commissioner of Water and the RSA Department of Water Affairs and Forestry (DWAF) were in agreement with the proposals. It was agreed that a further draft would be prepared and circulated to all involved agencies and the Bank by April 31, 2005. Signature was anticipated by May 31, 2005

Nqoe River IFR. Based on a consultant's report, the mean annual runoff of the Nqoe River at 'Muela had been agreed at 5 MCM. The Commission had approved a reduction of the releases from Muela to 25% of MAR (1.25 MCM) as a result of LHDA's report Proposed Flow Release Regime from 'Muela Dam. It was agreed that LHDA would revise that report based on comments provided by the Bank and in particular recommend whether, and how, releases should be varied throughout the year.

It was agreed that the revised report would be submitted to the Bank by May 15, 2005.

LHDA-LEC Issues. LEC has been included in the World Bank privatisation program, and LEC was run by an Interim Management Task Force and then the decision was made to have it run as a public concession by a private operator. Bids are currently being sought for potential concessionaires. These positive developments for LEC have unfortunately not been accompanied by any significant progress on all related issues that were agreed to enable the 'Muela Hydropower Project (MPH) to operate on commercial principles and ensure long-term financial viability. As a result, the conversion of the

European Investment Bank (EIB) loan into equity has not yet taken place. The EIB has granted an extension to Feb 2006 based on GoL's commitment to clear all barriers by March 31, 2005. The terms of the GOL's domestic loan have not been finalised, and MHP is still being run by subvention from GoL. As mentioned in previous aide memoires, this situation is unsatisfactory as it creates considerable uncertainty for LHDA and LEC, and running by subvention clearly is undermining the aim of moving towards a commercial entity. The mission was informed that the consultant (Sales Advisory Group) preparing the Power Sales Agreement had been provided with LHDA's tariff proposal and that LEC had provided comment and alternative proposals. The Government has engaged a consultant² to review and resolve the different tariff proposals and submit their proposal by April 30, 2005. The Power Sales Agreement has eventually been agreed upon signature.

Utilisation of Royalties. A key feature of the LHWP was the use of project revenue to reduce poverty in Lesotho. One vehicle was the Lesotho Fund for Community Development, which resulted from the reformulation of the Lesotho Highland Revenue Fund (LFCD). The mission requested the Ministry of Finance, Planning and Economic Development to prepare a report for the next mission tentatively scheduled for September 2005, and which would set out:

- a time series showing the royalties received in the context of the evolution of the GOL budget;
- the transfers to the LFCD, together with the projects funded by the fund, their geographical distribution, and their poverty reduction impact;
- the volume of royalties allocated to other poverty reduction programs, together with the uses to which they have been put and their poverty reduction impact;
- the volume of resources transferred to the GOL budget, together with an assessment of the proportion of GOL budget expenditures that support poverty reduction programs and their poverty reduction impact; and
- an overall assessment—quantified if possible--of the impact that LHWP royalties have had on poverty reduction in Lesotho.

This report would form an important component of the Lesotho contribution to the project Implementation Completion Report,

² Synex, the same consultant who carried out the Muela Options Study.