

# Lesotho Development Authority

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annual report 2000/2001



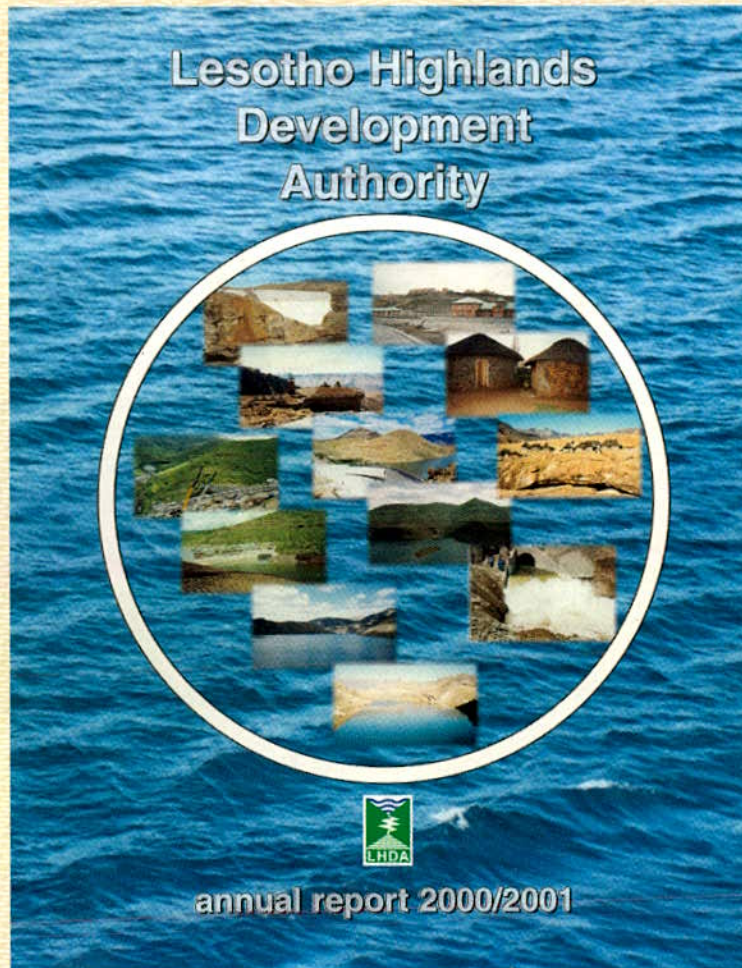


## LESOTHO HIGHLANDS DEVELOPMENT AUTHORITY

### *Our Mission Statement*

*The Lesotho Highlands Development Authority,  
in providing its customers with quality services,  
will efficiently and effectively implement and  
manage on a sustainable basis the Lesotho  
Highlands Water Project, in accordance  
with the Treaty and the Order, to the benefit  
of the people, the environment and the  
economy of Lesotho.*





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## MEMBERS OF THE LHDA BOARD OF DIRECTORS



**Mrs M Rapolaki**  
*Principal Secretary –  
Ministry of Planning*



**Mr J T Metsing**  
*Chairman and Principal Secretary –  
Ministry of Natural Resources*



**Mrs M Ramakoe**  
*Principal Secretary –  
Ministry of Defence*



**Mr M D Rantekoa**  
*Principal Secretary –  
Ministry of Industry,  
Trade and Marketing*



**Mr S Kikine**  
*Principal Secretary –  
Ministry of  
Foreign Affairs*

## AUDIT SUB-COMMITTEE



**Mr M Mohafa**  
*Principal Secretary –  
Ministry of Home Affairs*

**Mr Ben Pekeche** – *Chairman*  
**Mr Setai Ramonaheng** – *Member*  
**Mr Tankiso Hlaoli** – *Member*  
**Mr Matsobane Putsoa** – *Member*  
**Mr Mohlomi Tseppe** – *Member*



**Mrs M Mphutlane**  
*Principal Secretary –  
Ministry of Finance*



**Mr B Leleka**  
*Principal Secretary –  
Ministry of Works*



**Mr M Marumo**  
*Chief Executive of LHDA*



**Mrs S Seeiso**  
*Board Secretary*



## CORPORATE GOVERNANCE

The Board of Lesotho Highlands Development Authority subscribes to the values of good corporate governance. In so doing, the Board and the management recognise the need to conduct the enterprise with integrity in line with the provisions of paragraph 17 of Article 7 of the Treaty which states that "The LHDA shall carry out its functions in accordance with Internationally Recognised Standards of managerial and technical competence..."

## AUDIT COMMITTEE

The Audit Committee was established four years ago as part of good governance. It is a sub-committee of the main board of directors, and it is composed of five independent members drawn from finance, engineering, legal and audit disciplines.

## INTERNAL AUDIT

Reporting to the Audit Committee, internal audit assists management in the achievement of organisational objectives by reviewing systems of internal controls, with a view to recommending improvements as necessary. During the past year, the audit strategy was revised to encompass Control Risk Self Assessment.

## CORPORATE CODE OF CONDUCT

The LHDA is committed to the highest standards of ethical behaviour, and the Authority's Code of Conduct gives clear guidance on the expected behaviour of all employees. The code is contained in a Code of Conduct for directors and in Personnel Regulations for all other employees.

## OPERATING PROCEDURES

Operating procedures encompassing all LHDA operations have been developed. When approved, these will provide essential guidance and standards to all employees in the operation of LHDA's systems.



## CHAIRPERSON'S STATEMENT

It is once more a pleasure to present to the project authorities and the stakeholders the state of progress in implementation of the Lesotho Highlands Water Project (LHWP).

The LHDA Board has duly undertaken its oversight function as required by the Governance and throughout the year critical questions have been asked. LHDA management has been exhorted to focus on delivery in terms of the key performance measures as set out in the 2000/01 business plan.

Works on the Mohale Dam and Matsoku Weir and Tunnel have progressed very well. A major issue relating to the major works contract that will need keeping a close watch on is the schedule and cost of the Mohale Tunnel and its impact on the impoundment of the Mohale Reservoir.

Major components of the LHWP works are the socio-economic and environmental issues. The authority is committed to assuring that the negative impacts of the project are mitigated. Issues around resettlement and Instream Flow Requirements (IFR) are many and require vigilance.

LHDA has carried out its activities with an eye on sustainability of the operations. The acid test for the Lesotho Highlands Water Project is the extent to which it is effectively and efficiently implemented to carry out its water delivery, power generation and ancillary development activities. Closely related is the overriding imperative to maintain the project very competitive and providing real value for money for the citizens of both countries.

The day to day project operations are carried out within a context of a growing debate on the effects of the dam building industry. This is a clarion call for all of us to take stock and judiciously address the issue raised therein. It is encouraging to note the heightened level of consultations that have already been taking place in the country and also in South Africa on this matter.

The findings and recommendations of the WCD report have far reaching implications on the policies and decision making processes regarding ongoing dams and any

future dams. The five core values raised in the report namely, equity, sustainability, efficiency, participatory decision making and accountability have raised important questions. These and many other related issues have informed the decisions that are being taken.

The acceptance by both Parties of the new governance model and streamlined decision making roles will make the implementation of the Project more effective and efficient. The early years of implementation of the new governance will require a spirit of mutual understanding and support from all the main players concerned. The experience to date has been satisfactory and therefore I am optimistic about the future.



*Mr J T Metsing – Chairperson*

The Board has noted the on-going comprehensive institution building initiatives. These will hopefully prepare the LHDA to rise up to the challenges that lie ahead and I wish the LHDA management and staff the success they deserve.

Presiding over the Board of such a complex undertaking such as the LHWP is a very tall order. I am fortunate to work with people of very high integrity and the tenacity and incisive analysis of the many intricate and often delicate issues we have had to deliberate upon. This has enabled me to happily and willingly discharge

both my fiduciary and oversight duties. I am grateful to the members of the Board.

On behalf of the Board I wish to place on record the invaluable support we received from the two governments of the Kingdom of Lesotho and the Republic of South Africa, the Lesotho Highlands Water Commission, the Financiers and several other strategic partners. We look forward to another fruitful year as we collectively negotiate the intricacies of the rugged, hilly and undulating hills and mountains that lie ahead of us.

As sketched briefly above the territory that lies ahead presents some very serious challenges but I am confident we will once more rise to the occasion. To all my colleagues in the Board I therefore wish to acknowledge and commend your support and dedication to duty. I invite you once more to join me in the interesting journey ahead.



# CHIEF EXECUTIVE'S STATEMENT

With each passing year, the Project is steadfastly bringing to bear fruit and advance some of the noble ideals as envisaged by the two Parties at the inception of this shining example of regional collaboration. This annual report is but one of the several focused and deliberate strategic channels of communication we employ. Our strategic intent is to provide a fair, transparent and accurate presentation of the status of project implementation. The twelve months ending 31st March 2001 have been yet another eventful journey we took together with all our stakeholders and this report is an account of some of the highlights of that journey.

## Institutional issues

The LHDA management recognises the crucial role of certain factors in successful management of the Lesotho Highlands Water Project. Key of these have been identified as strategic leadership, a strong organisational culture, highly skilled and performing staff and enabling policies, systems and processes and tenable relationships with the key stakeholders.

We have continued to fine-tune and sharpen our managers' abilities to holistically and collectively envision and implement in accordance with the Treaty obligations. We have instituted an enhanced approach to the process of planning and management of performance. This investment is beginning to bring in returns and is energising the forward drive of the organisation.

I am particularly happy to report that LHDA leadership has consistently challenged the staff to keep alive the new beliefs, values and principles that we co-created with the stakeholders in the historic June 1998 external stakeholders' conference. We have gone further and towards the end of the year we began to run in-house sessions with managers which highlighted the central role these values play in ensuring the success of our performance management system. This will continue in the following years, rolling out to other levels in the hierarchy.

By giving such a markedly high performance rating since we began the annual rating process three years

ago, our stakeholders have given us their vote of confidence. However we will not rest on our laurels. Building up performance level is a challenging uphill struggle and the trip downhill is always conceivable if performance is not sustained.

Yet another major achievement for the year was the completion on time of the mid term review of the LHWP. The findings were subsequently discussed with several of our strategic partners including the World Bank during the November 2000 supervision mission.

## Engineering achievements

Following the successful completion and handing over of all the major works under Phase 1A in the past reporting period, work has continued in earnest on Phase 1B.



*Mr M Marumo – Chief Executive*

Progress on Phase 1B major contracts has had mixed results. Encouraging progress was noted on the construction of the Mohale Dam and the Matsoku tunnel and weir. Rockfill placement on the Mohale Dam continued to be satisfactory. By the end of March 2001 a total of about 6,3 million m<sup>3</sup> out of the final volume of 8 million m<sup>3</sup> had been placed with the construction of the first stage of the concrete face slab completed on schedule in

the first quarter of 2001. Work on the compensation Intake Structure and the spillway was on schedule.

By the end of March 2001, a short length of the 5,6km long Matsoku Tunnel remained to be excavated with the scheduled completion date of June 2001. The 180m long and 20m high Matsoku weir was largely complete with only minor surface buildings to be finalised. Dry commissioning was successfully carried out in January 2001.

Compared to the combined 8km advance by both Tunnel Boring Machines during the previous reporting period, this year the TBMs advanced a further 18kms. This leaves about 12,5kms remaining to be excavated.

However the operation on the 32km long tunnel inter-connecting the Mohale and Katse Dams has fallen



behind schedule. Encounters of water bearing fissures and TBM breakdowns were some of the key challenges. Remedial measures are being implemented. Amongst other factors, the delays on the Mohale Tunnel will impact on the original date of impoundment of the Mohale Dam. It is our hope and prayer that, due to the good rains and the high levels of water in Katse Dam, the scheduled water deliveries of water to South Africa will be met.

### **Operations and Maintenance Issues**

#### **Water Deliveries**

During the period under review Lesotho successfully delivered a total of 580 million m<sup>3</sup> of water to RSA (506 million m<sup>3</sup> in 1999/2000) bringing the total volume delivered to date at slightly above 1,685 million m<sup>3</sup>. The Royalty revenues generated amounted to M158 million (M144 million in 1999/2000).

To date there is no major case for concern regarding the quality of water. Water quality monitoring is regularly carried out. However, the sedimentation in the 'Muela reservoir calls for a closer watch. Management is closely monitoring developments for implementation of control measures as appropriate.

#### **Electricity Production and related issues**

While electricity production at 365 GWh was 14% higher than the previous year's figure, total sales at M44 million (M41,4 million in 1999/2000) fell short of the forecasts. As explained in the report, this was largely due to losses in the maximum demand tariff component following the planned outages.

A notable achievement during the year was the admission of Lesotho as a member of the Southern Africa Power Pool (SAPP) in April 2000. This development paves the way for LHDA to participate in the regional market for trading of energy.

Yet another commendable highlight was the taking over by the Lesotho Government of the M50 million LEC's debt to LHDA. This debt had accumulated between September 1998 to January 2000. The debt was taken over as part of the financial restructuring of Muela Plant and this markedly improves the plant's balance sheet.

#### **Safety issues**

Testifying to the attention management has paid to the occupational health and safety standards, the Muela plant was awarded a 4-star National Occupational Safety Association (NOSA) rating at the very first

attempt. An intensive programme has already been put into place to position the plant to secure the ultimate 5-star rating. It is management's view that this is an achievable target.

### **Environment and Social Issues**

#### **The Environmental Action Plan Implementation**

The compensation programme for the year was implemented as scheduled. A related activity during the period was the work on verification of compensation related complaints.

The resettlement of the affected households has been programmed in two main stages viz. stage 1 – preconstruction and stage 2 – pre impoundment. The 99 households already resettled under stage 1 were supplied with water tanks as an interim measure while the long term water supply programme was in progress. These households were also supplied with stoves and resettlement disturbance allowances were duly paid out. Work continued in preparation for the resettlement of the 256 households under stage 2. This includes verification of the affected properties and securing of the resettlement sites.

Simultaneously with the replanning of the Environmental Action Plan (EAP), intensified efforts continued to improve service delivery. As covered in detail further in the report, the areas of intervention covered a wide spectrum and the impact of the EAP has varied from programme to programme. Management will be intensifying efforts in the next reporting cycle to better refocus and target the various programmes under both the Phase 1A and Phase 1B EAPs.

#### **Mohale feeder roads**

Project design in Phase 1B has taken into account that there will be impeded access once the Mohale Dam is impounded. Provisions have therefore been made for construction of feeder roads to provide access routes to the villages surrounding the Mohale reservoir. Establishment of the Rapokolana camp and provision of access to the three bridges was almost complete. During the next reporting period the access roads together with the bridges will be the main priority.

#### **Monitoring and evaluation of project impact**

The second round of the socio-economic surveys as well as the participatory and monitoring and evaluation components were completed with the releases of the draft final report being awaited. Another report still outstanding was that related to the surveys undertaken earlier on.



**Financing issues**

Adding to the existing portfolio of funds, two new sources of funding were secured during the year. These are namely the M120 million loan from DBSA and the M38 million equivalent loan from AFDB. In the case of the latter, access to the funds was conditional to fulfilling outstanding conditions precedent.

Some of the major sources of funds during the year included the World Bank loan, the EIB loan and the funding from RSA capital markets.

**Concluding remarks**

Once again I would like to commend my associates in LHDA for the dedication and commitment they showed to the vision and mission of the LHDA. Furthermore, the

continued support and understanding from our stakeholders have proved immensely valuable. We are thus grateful for the cooperation from the Project Authorities, our cooperating partner TCTA in South Africa, various ministries and departments of the Lesotho Government, financing institutions, the affected communities and other partners. We remain poised to tackle the challenges that lie ahead and are very optimistic.

Lastly, the project is already making strategic assessments of the requirements of the period beyond Phase 1. Various scenarios are possible. As the two Parties, namely the Lesotho Government and the South African Government set the long term direction we will continue with implementation of the Project to the best of our abilities.



# SALIENT FEATURES OF THE LESOTHO HIGHLANDS WATER PROJECT FOR THE YEAR 2000/2001



*Phase 1A. The Katse Dam spilling for the second time in 2001. The first spill was in 1998.*

## 1. INSTITUTIONAL DEVELOPMENT

The Authority concentrated its efforts in finalising the alignment of all the policies and procedures to the new Governance. The LHDA Order was amended during the year to reflect the new Governance.

An employee support centre that is intended to offer various services to assist those employees that experience trauma either through the transformation process or new work place challenges was opened during the year.

Progress was made in the further development of an outcome based performance environment with performance agreements with all staff now in place.

Industrial relations in general have gone well during the year. With the imminence of completion of Phase 1B Construction activities the Authority is reviewing its long-term requirements and seeking to minimise tensions created by the resultant uncertainty.

## 2. CORPORATE SERVICES GROUP

### 2.1.1 Information Systems

LHDA continues to source external support with respect to the SAP P/3 information

system. The level of such external support has progressively reduced as internal capacity improved. LHDA will continue with this support on a diminishing scale.

LHDA continues to improve its internal systems and has implemented an internet site to facilitate access to corporate information such as policies and human resource data. This is a continuing exercise.

### 2.1.2 Corporate Wide Planning and Performance Monitoring

During the reporting period, a new approach to the annual business planning process was adopted, and that involves a top down and bottom up business planning approach. The process first determines the corporate objectives and strategies at a high level and these are then translated into Group business plans and Branch work plans. This process was being tied to performance management systems. Several working sessions were held for managers.

To reinforce the new approach, as the year drew to a close the Authority was preparing for a general staff meeting whose theme would be annual business plans and annual operational targets. In addition, measures were going to be developed to ensure that each of the business units and individuals in them meaningfully contribute to the corporate strategic goals.

While the process of business planning has improved, absence of a documented long term strategic plan remains an issue of concern to LHDA management. Plans are already afoot to address this area. This includes rolling out a process of engaging the highest levels of the Project and the Authority in establishing the long term direction and increasing the planning capacity through the recruitment of a Business Planning Specialist.

On corporate performance review side, the LHWP mid term review was successfully completed in September 2000 in time for the November World Bank supervision mission's visit. The highlight of the year was when the stakeholder's conference of June 2000 gave LHDA a rating of 80% (up from 40% rating given in June 1998 conference). This is one of the indicators of improving relationships with the stakeholders.

## 2.2 Legal Services

The preparations for the arbitration on Contracts 123 scheduled for September 2001 progressed well. The arbitration has actually taken place and LHDA awaits the outcome before the end of December 2001.

In April 2000, LHDA won the appeal on the corruption case lodged by the first Chief Executive, Mr M Sole. LHDA will



pursue the recovery of costs relating to this case. LHDA won the long-drawn Swissborough case in October 2000, and is pursuing recovery of costs, failing which, LHDA will order that Swissborough be liquidated.

A summary judgement application by Acres International was decreed in favour of the LHDA. The case on the merits is to now proceed.

## 2.3 Human Resources

Considerable progress was made in the development of 2000/2001 training plan. Work continued on corporate wide staff capacity building programmes of various kinds, developing manpower plans, refinements to the organisational structure in line with the changing stages of the Project. Furthermore the management applied more efforts on the systems and tools of performance management including training sessions for managers, updating, revision and issuing new performance contracts.

A critical issue that continued to receive attention was the search for a long term medical aid provider.

## 3. ENGINEERING GROUP

### 3.1 Construction Branch Phase 1A

The Defects Liability Certificates (DLC) for 'Muela Power Station was issued during the year. Additional work for the replacement of cheek plates on the turbines is however required. This will be done under a new Contract (2050) in September 2001 when the power demand is normally at the minimum. At Katse Dam extra drainage holes and instrument holes were being installed. The Defects Liability Certificates (DLC) for Katse Dam has not yet been issued, however it is expected to be issued in the next reporting period.

### 3.2 Phase 1B Major Works contracts

#### (i) Contract LHDA 2007 – Mohale Tunnel



At the end of March 2001 the Intake and Outlet Tunnel Boring Machines (TBMS) had completed 10.1 and 8.1kms respectively. Both TBMs progress was severely disrupted in the first quarter of 2001 by numerous water bearing fissures which had to be grouted up before TBMs could be advanced.

There are 12.5Kms of tunnel remaining to be excavated.

#### (ii) Contract LHDA 2008 – Matsoku Diversion

At the end of March 2001 there was only 120m of the 5.6km long tunnel remaining to be excavated. Tunnelling operations are expected to be completed in June 2001.

① Phase 1B Contract No. LHDA 2007 – Mohale Tunnel. The tunnel boring machine showing the cutter head and the rest of its body before being launched at the Mohale Tunnel intake.

② Large cranes assemble the water pipeline.

③ The Matsoku Tunnel outlet at Kutu-Kutu.

④ Phase 1B Contract No. LHDA 2008. The Matsoku Weir with tunnel intake on the right of the concrete structure.





① **Phase 1B Contract No. LHDA 2009 – Mohale Dam.**  
An upstream view of the Mohale Dam.

② The National Control Centre at Mabote in the outskirts of Maseru. Electricity from 'Muela is distributed at this point by the Lesotho Electricity Corporation nationwide.



③ View of a substation – power distribution point.



The weir is all but complete with only minor surface buildings to be finished-off. Dry commissioning was successfully carried-out in January 2001 whilst full commissioning will be done after the tunnel has been completed.

### (iii) Contract LHDA 2009 – Mohale Dam

Rockfill placement on the Dam has been progressing very satisfactorily within the budget and on schedule. The total volume placed up to the end of March 2001 was 6.25 million m<sup>3</sup> out of a final volume of 7.5 million m<sup>3</sup>.

Construction of the first stage of the concrete face slab (to elevation 2040 masl)

was completed on schedule in the first quarter of 2001. This represents 57% of the full face area.

Good progress was also made at the compensation Intake Structure and on the spillway: both are on schedule.

### 3.3 Power and Tele Communications

#### Construction Power

LHDA and the Lesotho Electricity Corporation (LEC) have agreed on a draft Operation and Maintenance Agreement, Contract LHDA 2019, and the hand over

of the Phase 1B infrastructure to LEC was scheduled for the 1st June 2001.

The draft Phase 1B Tariff Agreement between LHDA and LEC is complete, the only outstanding issue is for the two authorities to agree on which tariff to use in billing the Phase 1B contractors.

#### Telecommunications

The LHDA/Communications Operations and Maintenance (O & M) technician team has successfully completed its on-the-job training and has so far managed to keep the network reliable. However, the Operations and Maintenance Agreement between LHDA and Tele-com Lesotho



(Pty) Ltd (TCL) [formerly Lesotho Telecommunications Corporation] has not been signed as the contract document had to be negotiated with the new management.

From preliminary meetings between the management of the two organisations, it appears as if TCL will purchase the Phase 1A and 1B LHWP networks from LHDA. This will however, be subject to the Project authorities' approval.

The feasibility study on the provision of a data link to Katse is complete, and has been submitted to the LHDA management, whilst the data link to 'Muela has been indefinitely suspended. A more economical alternative of implementing these two projects, i.e. sharing the project costs with other stakeholders such as VCL Communications (local cellular network company), TCL and Radio Lesotho, is being explored.

### 3.4 Police Facilities

A contract for the construction of Police Facilities at 'Muela, Mants'onyane, Ha Khabo, Mohale, and Pitseng will be awarded in May 2001. LHDA's Construction Branch role in these works is only as a project manager.

## 4. OPERATIONS AND MAINTENANCE GROUP

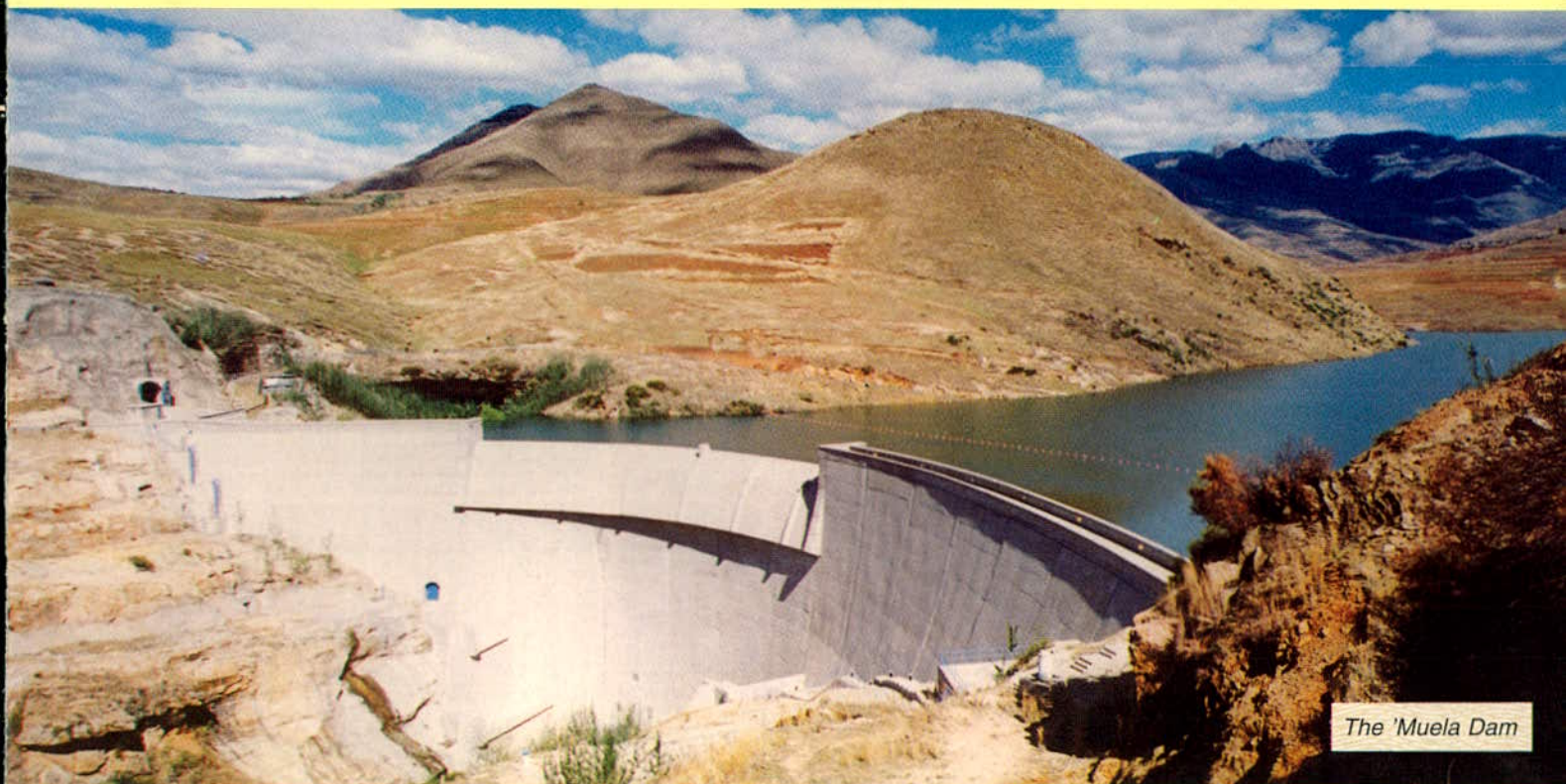
During the year under review, the Group participated actively in negotiating and concluding Lesotho's operating membership to the Southern African Power Pool (SAPP). The agreement between SAPP operating members was signed on the 11th April 2000 at the SAPP executive committee meeting that was held in Gaborone, Botswana. The signing facilitated Independent Power Producers (IPPs) such as LHDA to participate operationally in SAPP trading activities. The membership also ensures that bilateral power sales agreements are streamlined towards SAPP principles.

The Group also played an active role in the review of the Electricity Import and Export Agreement between the Lesotho Electricity Corporation and ESKOM. The agreement was signed in November 2000 retroactively to September 1998, when 'Muela Hydropower Project (MHP) came into commercial operation. Following the signing, 'Muela energy exports to ESKOM amounting to M2.5 million, for the

period October 1998 to March 2001, have been paid.

Following the Lesotho Cabinet's approval in late 1999 of LHDA's proposal for the refinancing and reorganisation of the MHP, LEC's cumulative debt to LHDA totalling M50.5 million was officially taken over by Government of Lesotho in August 2000. The amount represents cumulative debt for the period September 1998 to January 2000. LEC has been making significant progress on its bulk power purchases from LHDA since. Furthermore, in line with the implementation programme of the refinancing proposal, the Group participated in the exercise to formulate the Terms of Reference (TOR) for the "Muela Options Study". The purpose of the study is to recommend a commercially efficient organisational setup for Muela to become a self sustaining and viable business entity. By the end of March 2001, the recommended study consultant was awaiting a 'no objection' from the EU, the donor agency.

The Group's efforts on staff development were once again heightened to upgrade technical skills in line with industry standards. A total of 496 man-days were spent on training at an average 5.8 training man-



The 'Muela Dam



days per employee. 90% of the training was tailor made in-house modules on various business management courses. This rapid programme was aimed at assisting employees to develop requisite skills for effective participation in the overall strategy implementation at LHDA.

Overall, the Group's business performance for the year has compared very favourably with industry standards. The reliability of the water transfer infrastructure has been consistent at 100% even under full operating and ultimate test conditions. 580 million m<sup>3</sup> of water were delivered to RSA at a small variance of < 0.3% between planned (agreed) and actual deliveries. Royalty revenue from water deliveries in the same period was M158 million, 1.7% higher than the annual projected amount.

The annual target of ≥95% Hydropower Plant's capability and availability performance for the year was achieved. The final inspections of 'Muela Hydropower plant took place in November 2000 under the consultant's/contractor's retention period for MHP defects liability.

Total electricity production for 2000/2001 was 365 GWhr, a 14% increase from the previous year. Electricity sales for the year totalled M44 million, 20% lower than the forecast. 94% of the revenue losses were due to losses in the Maximum Demand (M.D.) tariff component resulting from a number of station interruptions to address

several defects that were identified during the November 2000 final inspections. During outages, emergency power was sourced from ESKOM in RSA.

## **4.1 Operations & Maintenance Branch**

### **4.1.1**

In general, performance indicators in the areas of: plant performance, production, productivity and human resources were all on target for the year. Negative variances of up to 20% were experienced on financial and efficiency performance indicators relating to electricity production. Improvements in electricity unit cost could not be realised as a result of Maximum Demand losses mentioned above. This prompted consideration for energy based tariff, which should be concluded before December 2001. Following the take over of both the hydropower and water transfer infrastructure from consultants in 2000, the Branch experienced a marginal increase in maintenance costs.

### **4.1.2**

In October 2000, there was a mechanical equipment malfunction at the Katse Dam Low Level Outlet used for emergency reservoir draw-downs. The grappling beam of the outlet channel failed to unhook during the normal operation of lowering the stoplogs at approximately 120m below the Dam's full supply level. A successful rescue operation involving

underwater cameras and a 'rescue bracket' was carried out in November 2000 to bring the grappling beam above water. The problem was identified as shearing of the pins on the grappling beam. The review of the gate mechanism was made and a lasting solution to the problem will be implemented during fiscal 2001/2002.

### **4.1.3**

The 540 kW Katse Mini-Hydro Power Plant was turned over to the full responsibility of the Group in August 2000. The mini-hydro has since been operated as an isolated generating station to supply the Katse Dam power requirements, which average 200kW. The plant is scheduled to be connected to LEC grid by 2003 to avoid interference with Phase 1B power supply requirements. When connected, the mini-hydro can be continuously operated at 500 kW power output.

### **4.1.4**

The safety record of the 'Muela Station so far exceeds industry standards. The NOSA (National Occupational Safety Association) 5-Star audit was carried out in August 2000 following a number of internal pre-audits exercises. Pre-Audits are conducted to determine safety awareness and evaluate processes at site in line with both the NOSA and Lesotho Labour Code (Clause 92). The MHP was awarded a 4-Star rating out of a possible rating of 5-Star on the very first attempt, indicating high safety awareness, and strict conformance to established safety regulations. A



*The Katse Reservoir*



comprehensive programme aimed at ensuring improvements in the established rating during subsequent audits has been under implementation since.

## 4.2 Operations Planning Branch

### 4.2.1

An improved Royalty Invoicing Procedure for monthly water deliveries to South Africa was implemented in the 4th quarter of the reporting year. Corrections were made to previous invoices that were billed RSA, according to the agreed adjustments of the revised procedure.

### 4.2.2

The Branch participated in the LHDA Water Management Team set up to recommend a realistic IFR (In-Stream Flow Requirements) quantities to be released from Katse Dam, Matsoku Weir, 'Muela Dam and Mohale Dam.

### 4.2.3

The monitoring of pollution in the reservoirs has not revealed any cause for concern. Water quality has consistently met the agreed standards. The physical, chemical and biological parameters measured at 14 sampling sites have all complied with the standards. A total of 1,660 samples were tested in 2000/2001 with a 100% pass rate. A 15% increase in the number of samples is anticipated for 2001/2002 with the inclusion of new IFR sites under the responsibility of the Branch.

Water quality monitoring programme within the project area is not limited to reservoir, but includes river sampling points within the four Catchments i.e. Kao, Mohale downstream of Katse & 'Muela reservoirs. Characterisation of the quality of water in these rivers is through the physical, chemical and biological measurements on monthly basis. With the exception of the Kao system, all catchments for natural systems provided quality water ideal to sustain the well functioning ecological health.

The total of sampling sites of the water catchments is 32 IFR sites inclusive.

### 4.2.4

The sediment survey report on the Katse and 'Muela Reservoirs for the 2000/2001

fiscal year has been published. The report identified sediment deposition patterns and rates within the reservoirs. In general, the survey results indicate no significant deposition of sediment in the Katse Reservoir. The measured sedimentation in the 'Muela Reservoir however, may trigger the implementation of a catchment management programme within the Nqoe River catchment. The sediment monitoring activity will continue in 2001/2002 and a clear recommendation made in the next report.

### 4.2.5

The Branch concluded the exercise of identifying laboratory facilities in Lesotho for LHDA's Water quality Analysis during the review period. The facilities at the Chemistry Department of the National University of Lesotho (NUL) have been identified as suitable to meet the needs of LHDA. The programme implementation will be finalised in 2001/2002.

## 4.3 Dam Safety & Surveillance Section

### 4.3.1

During the review period, no structural cracks or deteriorations that warranted concern were observed at both Katse and 'Muela Dams. 100% and >98% of all instrumentation installed at 'Muela and Katse Dams respectively, were available during the period.

### 4.3.2

Good progress was made with the implementation of the EPP in all districts affected by the LHWP. EPP awareness campaigns were carried out in all areas during 2000. The EPP Radio Broadcast element was initiated during 2000/2001. The programme is being implemented on a 50:50 cost sharing arrangement with the Ministry of Communications of the Lesotho Government. The Project involves installation of Radio Masts in the Lesotho Highlands that will ensure that all communities are easily reached by radio.

### 4.3.3

Katse Reservoir Management. The 1,950 million m<sup>3</sup> Katse Reservoir has performed to design even under the ultimate test conditions, which coincided with the Reservoir reaching its full capacity. The first Dam spillage was in March 1998 when it was ascertained that the Dam spillway performed to design. The two subsequent spill of March 2000 and March-April 2001 were managed in a controlled way to minimise undesired environmental consequences downstream of the dam.

Since the first water deliveries to RSA in 1998 to March 2001, a total 2,085 million m<sup>3</sup> have been delivered to the RSA. The Katse Reservoir has consistently been greater than 85% capacity except in September 1999 when the volumes fell to 82%.

Chart 1: 4-year reporting period (1997 – March 2001) Katse Reservoir Variations

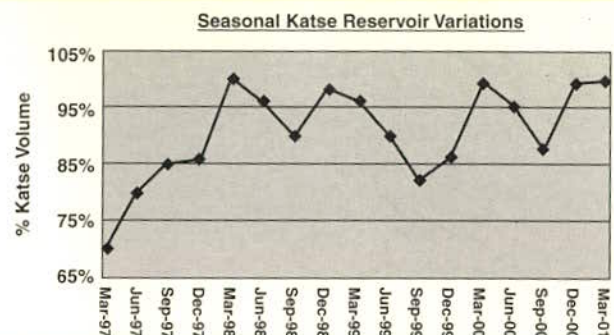
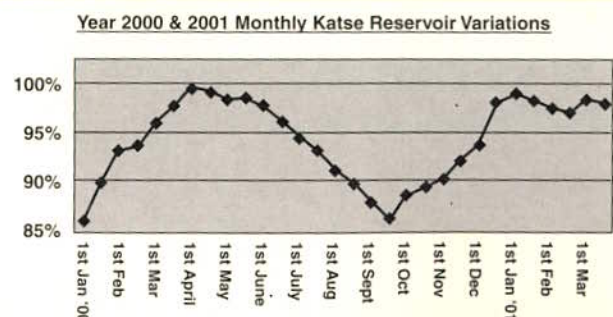


Chart 2: Monthly Katse Reservoir Variations





## 5. ENVIRONMENT AND SOCIAL SERVICES GROUP

### 5.1 Compensation and Resettlement

The 1997 Compensation Policy is being implemented. During the 2000/2001 fiscal year, the compensation implementation activity outputs included the annual compensation deliveries where the overall procurement and distribution of annual grain stood at 1,222 tons of maize and 39.11 tons of pulses, at a cost of M1,250,000.00, distributed to 1,200 households, who had opted for in-kind compensation. 801 households opted for the annual cash compensation, with payments totaling M1,391,496.25. Lump sums for households opting to utilise their cash option for income generation projects was paid out as follows: 4 households at Mohale received lump-sum compensation: 2 for loss of trees, and 2 for fuel and fruit trees, while 31 households received once-off payment for arable land loss of less than 1,000 square metres. At Katse 25 households got compensated

with M15,657 for 89 fruit trees, 22 households received M42,761.60 for gardens, 43 households received M22,400 for 41 kraals and 20 households received M64,013 for 23 stables.

Compensation-related complaints were lodged across all the FOBs and inventoried accordingly, bringing the annual total to 431. 336 had been verified out of which 191 had reached final resolution and 95 have to be followed up.

For Phase 1B Stage 2 resettlement programme activities, adjudication exercise continued with resurveying and verification of properties for compensation packaging purposes. This includes 571 fields, 65 trees, 9,497 individual trees and 21 graves. Furthermore 56 fields, 1 reed cluster and 18 trees were counted ahead of the planned survey which provides accurate details. With respect to Stage 1 resettlement, 99 water tanks were supplied to 99 resettlee households. Those households were also paid their due resettlement disturbance allowances. A total of 24 stoves were fitted to replacement houses at 'Muela and 74 at Lejone. In Phase 1B Stage 1 resettlement, provision of 99 stoves to resettling

households was 85% complete. 114 resettlement sites were secured, surveyed and allocated for Stage 2 housing construction.

### 5.2 Development

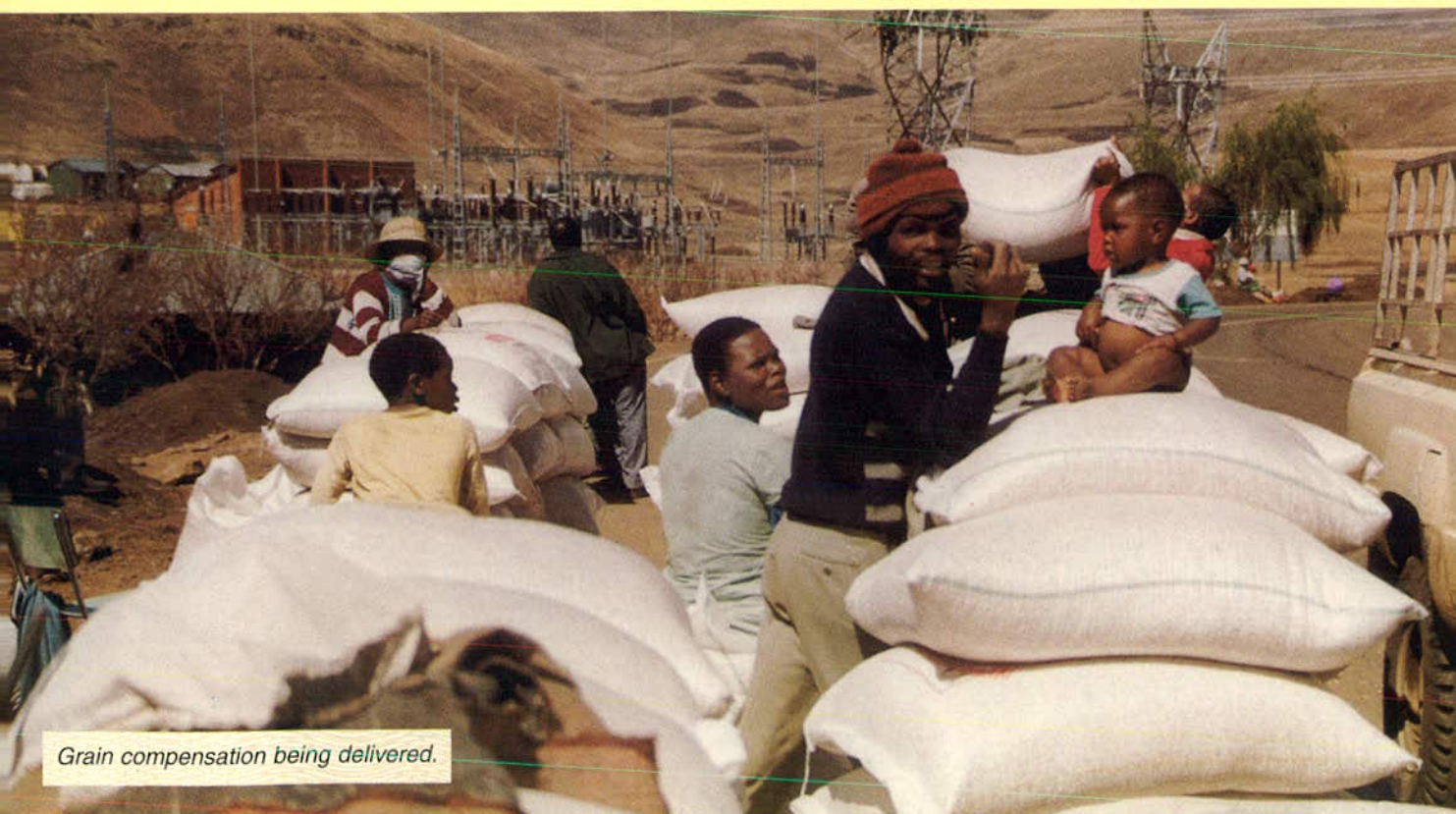
#### 5.2.1 Mountain Horticulture & Field Crops

**5.2.1.0 The objective of the following programmes is to increase food security at household level and market excess production.**

##### 5.2.1.1 Vegetables & Fruit Trees

Fruit tree activity focused on treating Alphids infestation, where farmers in Phase 1A were supplied with training and assistance on the application of pesticides. Farmers were also trained in fruit tree pruning. In Phase 1B area, individual farmers planted 7,280 fruit trees, while at Lejone 3,000 rootstocks were provided to 2 farmers to start private nurseries.

On the vegetables production side, 661 trays of vegetable seedlings were produced in the 2 greenhouses at Lejone



Grain compensation being delivered.





*Poultry farming – farmers pose for a photo with their instructor Ms Senate Molapo second from left.*

(Poli: 221 and Lejone: 440) and sold to 50 farmers who planted 11.9 hectares. In Phase 1B area, 125,000 fruit and vegetable seedlings were distributed to promote subsistence and large-scale production of vegetables and fruit. Also in Phase 1B, 250 farmers were mobilised to plant high value cash crops such as Paprika and Garlic, while at Lejone 150 farmers planted 365 trays (43 ha.) of Paprika.



*Plants being nurtured in green houses.*

#### 5.2.1.2 Field Crops

For Highlands Maize seed production, the harvested crop was 24 metric tons from 32 hectares planted by 30 farmers. For seed potato production, harvest was 44 metric tons. For the new season, 364 pockets of seed potato were distributed to farmers for planting.

### 5.2.2 Range and Livestock

#### 5.2.2.1 Intensive Livestock

At 'Muela, milk production remained at 16 litre per cow per day despite efforts to increase it to average 18 litres per cow

per day. To improve animal health, 104 cows were dipped and dosed. Newly born calves numbered 25 at the end of the reporting period.

As for poultry, 130 on-site trainings on broiler and layer management were conducted at 'Muela. Egg production was 186,000 eggs. A total of 10 poultry associations were formed at 'Muela, while 3 were formed at Lejone. To improve animal health at 'Muela, 41,600 broiler and 600 layer birds were vaccinated against diseases. At Lejone 5,200 broilers and 600 layers were procured for 48 farmers.

#### 5.2.2.2 Range Management

Two Range Management Areas (RMA's) have been established at Lejone, where activities included monthly meetings with farmers, and summer rotational grazing was one of the issues being discussed. 96 cattle were sold through six livestock auctions. To maintain animal health, three drugs procurement were undertaken for the 2 RMAs. All 273 cows at the RMAs had calves, and livestock numbers were being compiled.



### 5.2.3 Community Forestry

This project under CARE LESOTHO and based at Lejone, has a nursery where it produced 30,437 tree seedlings, bringing the total to-date to 262,848. Some 52,635 trees were planted. For tree loss compensation purposes, 414 households planted 17,315 trees in 23 villages. On the general community tree planting aspect, 117 hectares of land were planted with trees – with the survival rate of 44%.

### 5.2.4 Fisheries

The fisheries contract (Contract No. LHDA 625A), operated by JLB Smith Institute of Ichthyology and based at Lejone, undertook further training of 30 fishermen from 6 villages. Having helped to draft and operationalise Fishing Regulations of

Lesotho, it is currently overseeing the issuing of fishing permits where 201 were issued during the reporting period. Fisheries monitoring continued, including inventory taking of Katse fish stocks where 3,309 yellow fish, 1,190 mudfish and 185 trout were netted. Trout catch numbers are low, indicating a requirement for fingerling stocking.

## 5.3 Public Health

Routine occupational health monitoring, including site inspections and meetings continued on the Mohale Intake Tunnel, Katse Outlet Tunnel and Matsoku Weir contracts. For the general community health, and on preventive health aspects, a total of 208,449 condoms were distributed to Lejone (25,675), Mohale (48,146) 'Muela (53,590) and Katse (81,038). Distribution of IEC materials stood at 1,400 for Lejone 2,396 for Katse, 2,739, for 'Muela and 6,327 for Mohale. Nutrition education continued at all FOB's. At Mohale 6 nutrition groups were established and 30

village health workers were trained in various health aspects including nutrition.

With regard to Water Supply and Sanitation programme, 285 latrines were completed at 'Muela while at Lejone 60 cubicles and six VIPs were constructed at three schools. Water Supply and Sanitation programme at Mohale, undertaken through a contractor (Contract No. LHDA 1055), was about to produce the inception report.

The Leribe Trauma Unit facility treated 581 emergency and trauma cases in the reporting period. There were 981 non-emergency surgical treatments, and Unit assisted Motebang Hospital with 608 physiotherapy cases, 1,351 anaesthetic expertise services, and 19,601 laboratory tests. Cost recovery was 200 percent above target, mainly due to newly introduced financial management systems.

## 5.4 Natural Environment and Heritage (NEH)

The activities under NEH included the eco-tourism where all 3 nature reserves development were near completion. Facilities construction at Liphofung, Bokong and Ts'ehlanyane was 92 percent complete. The ADB loan had

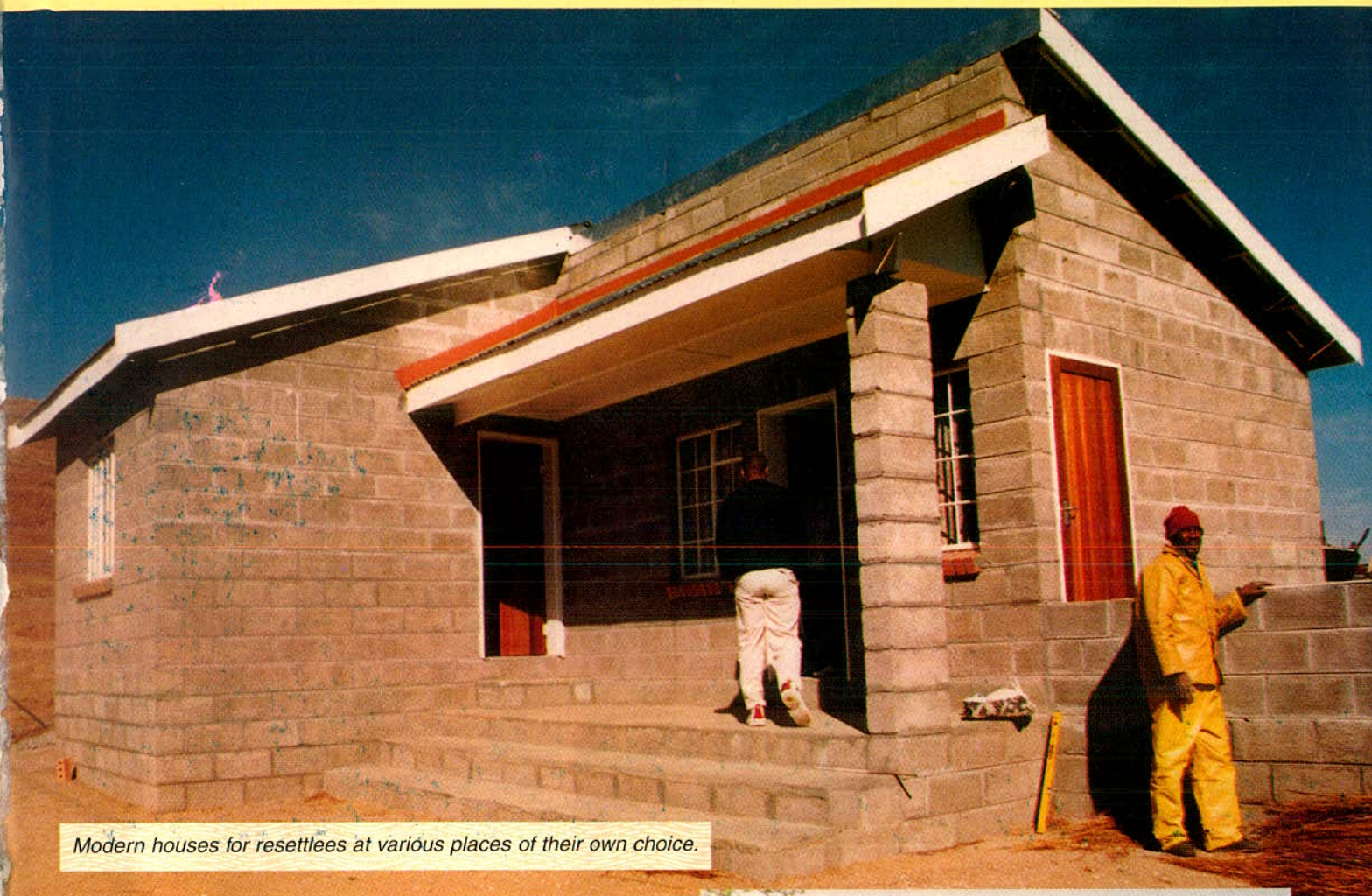


*Liphofung Cultural and Heritage Site with Liphofung Cave in the foreground.*



*Bokong Visitors Centre near Lepaqa Gorge.*





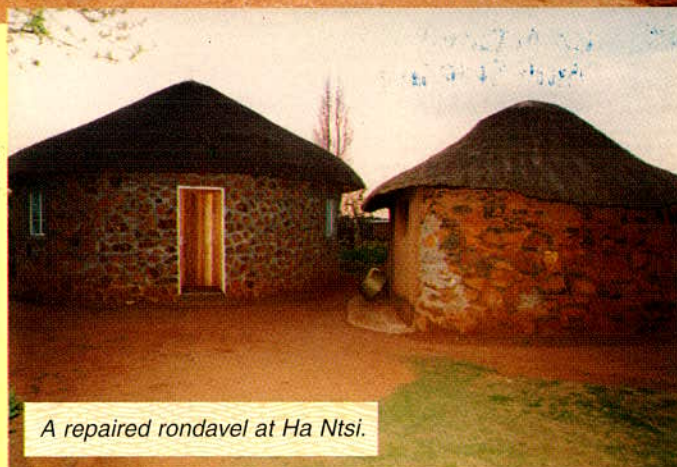
*Modern houses for resettlers at various places of their own choice.*

been approved, and the management team structure had been created, although no funds have been disbursed under this loan yet. The Biology Conservation programme activities at Katse Botanical Garden had 2,753 plants belonging to 224 plant species collected and planted, and 2.2kg wet weight of 32 various plant species collected. Also produced were seedlings which numbered 2,375 of 45 different plant species.

Furthermore, 55 plant species have been pressed for herbarium and 500 files have been purchased. The nursery building and the greenhouse were 95% complete. Up to 305 visitors visited Katse Botanical garden during the period under review. Regarding medicinal plants, the inception reports had been submitted, and the Mohale plant rescue was ongoing with 50% area covered, 450 voucher specimen (1,350 plants) were collected for herbarium at Katse Botanical Garden (121 species) and NUL Garden (65 species).

With respect to Environmental Awareness, and Solid Waste Management programme, garbage receptacles continued to be constructed at all FOBs. Bags of used cans continued to be collected. Environmental awareness workshops were held for school children, VDCs, communities and herd boys.

With regard to conservation of Maloti Minnow, (Contract No. LHDA 1041) alternative sanctuary sites had been surveyed, and genetic analysis is ongoing. With regard to erosion measures, through in-house activities 3.9 kilometres of diversion furrows at 'Muela were constructed, as well as grassing and reseeding of disturbed land above the 'Muela Dam. On the Construction



*A repaired rondavel at Ha Ntsi.*

Environmental Monitoring programme, 3 site inspections were carried out, with one annual audit for the Mohale Intake site.

With the Instream Flow Requirements (IFR) programme, Contract No. LHDA 648 report with strategy, 2 control sites and monitoring manual had been received. The internal LHDA Water Management Team had been established to oversee the implementation of recommendations.





*The 'Muela Reservoir*

## 5.5 Community Infrastructure

The Community Infrastructure Branch supports programmes' implementation on the side of facilities construction, currently being in the areas of resettlement, feeder roads, and water supply and sanitation provision. On the resettlement construction aspect, 27 resettlement houses had been completed at Makotoko, Nazareth and Maseru. Associated water supply systems for Nazareth and Makotoko had been completed and the Ratau one was ongoing.

As for Feeder Roads in Phase 1B, tender processes for bridge construction were complete, while roads designs were ongoing. Pioneering of accesses to bridge sites were almost complete, and aerial photography aspect was 50 percent complete. A 13 kilometre road from Thaba Putsoa to Ha Rapokolana, as well as construction of Rapokolana camp was substantially complete.

With respect to Mohale Water Supply and Sanitation (Contract No. LHDA 1055), fast-tracked programme designs had

been completed at Dinizulu, Bothobapelo, Ts'iu, Letsatseng and Mahooaneng. Construction is due to start in April 2001.

## 5.6 Monitoring and Information

The Monitoring and Information programme consist of information management, cadastral surveys, impact, effects and programme implementation monitoring and evaluation, and planning coordination and information dissemination – all of which are geared towards serving the whole ESSG. On the information management side, achievements include: addition of 150 properties to the database, meeting 66 information requests, upgrading of digitiser, plotter memories, arc Infor and IBM PC. Aerial survey was 80% complete, while 70% of Mohale meta-database had been revised. Furthermore, baseline had cover map of Mohale had been completed, as well as slope analysis for Katse and Mohale zoning footpaths of Katse Botanical Garden, 3 properties and 65 resettlement sites, 174 remaining fields and 58 tree clusters at Mohale, 6 repeater stations and 41 piezometer station sites.

With respect to monitoring and evaluation, on the impact side, second round work on socio-economic surveys as well as participatory monitoring and evaluation had been completed and draft final reports were awaited. Synthesis report of the first round of survey had been finalised, while the consultant's first round final reports were still awaited. As to "effects monitoring", request for proposals document for consultancy procurement had been submitted to LHWC for comment.

Regarding all ESSG programme implementation monitoring and evaluation, the 1999/2000 M&E performance report was completed, so was the 2000/01 one at mid-term. On the planning and communication side, annual work plans for the year 1999/2000 had been completed, and so was the one for 2000/01. Monthly and quarterly reports as well as associated Board Information Papers had also been duly produced. The business plan for 2000/01 was produced while the one for 2001/02 is still underway. Communication strategy production is underway and due to be completed in October 2001.



## 6. PROJECT FINANCING

### 6.1 IBRD

LHDA continued to utilise funding from International Bank of Reconstruction and Development. This facility had been declared effective in June 1999. The purpose of this loan as previously indicated was to fund foreign expenditures for major works supervision contracts, individual service contracts for consultants and training required in connection with the Mohale Dam and Tunnel Project. A component amounting to USD 500,000 of the loan to be utilised for international Training became effective in the current financial year.

### 6.2 EIB

In the period under review only a Bond Issue of R100 million had been made in respect of Euro 54 million loan from the EIB. It is anticipated that during reporting period the 2nd tranche will be made in USD. A total of Maloti equivalent M + 160 million has already been expended for the Matsoku Diversion and it is expected that about M40 million will be drawn to the end

of August, 2001 when the project is expected to be complete.

### 6.3 RDP (Rural Development and Infrastructure Project)

A DBSA loan for the amount of M120 million was signed and became effective during the reporting period. This loan has been secured to fund some portions of Environmental Action Plan (EAP) which include feeder roads and resettlement.

### 6.4 Funding from the Capital Markets

The South African Capital Markets have continued to provide an effective source of Rand based financing. This funding has been provided under the LHWP stocks bonds, namely WS01, WS02 and WS03. During the current year M50 million had been raised out of WS02.

### 6.5 African Development Bank (ADB) – Eco-Tourism

The Government of Lesotho has identified tourism as one of the priority sectors for

development. Emerging opportunities for development of Eco-tourism and conservation associated with Lesotho Highlands Water Project have been identified. In this connection, during the reporting period, a loan in the amount of UA 4.49 million, which is equivalent to M38 million was signed between Government of Lesotho (GOL) and ADB and the fulfillment of condition precedent is a major priority.

### 6.6 'Muela Hydropower Project- Restructuring

The Government of Lesotho approved the refinancing proposal on November 2000. The Memorandum of Understanding between GOL and LHDA has been finalised and is expected to be signed in the near future.

### 6.7 Phase 1A – Water Transfer

Work under this Phase is virtually complete. However, a number of significant commercial matters remain to be finalised pending the issuance of the final certificate. Discussions with the relevant contractors are ongoing and proceeding satisfactorily.



*The Katse Reservoir*



# FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2001



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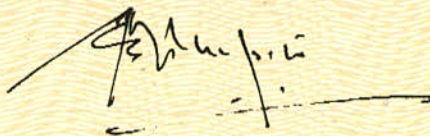
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### DIRECTORS' APPROVAL

The financial statements which appear on pages 22 to 36 were approved by the Board of Directors on 30 July 2001 and are signed on its behalf by:



JT Metsing  
CHAIRMAN



ER Mapetla  
CHIEF EXECUTIVE a.i.



# **REPORT OF THE INDEPENDENT AUDITORS**

*To the members of the Board of the Lesotho Highlands Development Authority*

We have audited the annual financial statements set out on pages 22 to 36.

## **Respective responsibilities of directors and auditors**

These financial statements are the responsibility of the Authority's Directors. Our responsibility is to report on these financial statements.

## **Basis of opinion**

We conducted our audit in accordance with Generally Accepted Auditing Standards. These standards require that we plan and perform the audit to obtain reasonable assurance that, in all material respects, fair presentation is achieved in the financial statements. The audit included an evaluation of the appropriateness of the accounting policies, an examination, on a test basis, of evidence that supports the amounts included in the financial statements, an assessment of the reasonableness of significant estimates and a consideration of the appropriateness of the overall financial statements presentation. We consider that our audit procedures were appropriate to enable us to express our opinion presented below.

## **Opinion**

To the best of our knowledge and belief and on information supplied to us, the financial statements reflect a true statement of the assets and liabilities of the Authority at 31 March 2001 and the deficits for the year ended on that date.

KPMG  
Chartered Accountants (Lesotho)

**30 July 2001**



# STATEMENT OF ACTIVITIES AND ACCOUNTING POLICIES

*For the year ended 31 March 2001*

## 1. Statement of Activities

The Authority is entrusted with the responsibility for the implementation, operation and maintenance of the Lesotho Highlands Water Project as defined in the Treaty on the Lesotho Highlands Water Project signed by the Government of the Kingdom of Lesotho and the Government of the Republic of South Africa on 24 October 1986.

The Authority is also conferred with general functions in relation to Water Resources, electricity, education and training of its employees, monitoring activities and land transactions.

The principal physical features of Phase 1A, now complete, are :

- (a) A 182 metre high concrete arch dam on the Malibamats'o River at Katse.
- (b) A 45km transfer tunnel north from the Katse reservoir to the Hydropower complex at 'Muela.
- (c) A 72 MW underground Hydropower complex at 'Muela.
- (d) A 17km delivery tunnel north from 'Muela to the Mohokare (Caledon) River which forms the border between the Kingdom of Lesotho and the Republic of South Africa. This tunnel will link up through an underground syphon at this location with the South African portion of the transfer tunnel system.
- (e) Associated infrastructure, including construction of new roads, upgrading and rehabilitation of existing roads, three major road bridges, upgrading of border crossing facilities and new river crossings, camps, communications, power supply, communication systems etc.
- (f) Associated conservation, environmental and rural development activities.

The year saw the second full year of operations for both Hydropower and Water Transfer activities.

The principal physical features of Phase 1B which is still under construction, are:

- (a) The 146m high Mohale Dam.
- (b) A 30km transfer tunnel from the Mohale intake to the Katse Reservoir.
- (c) The Matsoku Weir and a 6km diversion tunnel from the weir to the Katse Reservoir.

- (d) Associated infrastructure, including construction of new roads, upgrading and rehabilitation of existing roads, camps, communications and power supplies.
- (e) Associated conservation, environmental and rural development activities.

## 2. Principal Accounting Policies

The financial statements are prepared on the historical cost basis and incorporate the following principal accounting policies:

### 2.1 Completed Works

Capital work-in-progress is transferred to Completed Works upon completion of the works and thereafter subject to depreciation. Financing costs are no longer capitalised once the works are complete.

### 2.2 Capital work-in-Progress

Costs incurred on the implementation of the Lesotho Highlands Water Project, including costs incurred prior to the establishment of the Authority on 24 October 1986, are capitalised and shown as fixed assets on the Balance Sheet of the Authority. These are transferred to completed works when the work is completed.

Costs comprise all attributable costs of bringing the asset or group of assets to working condition for their intended use, and include inter alia:

- (a) All costs of investigations, surveys, feasibility studies, Engineering studies, preparation of designs, construction, construction supervision, procurement and commissioning;
- (b) the establishment and administration costs of the Authority;
- (c) the costs of any land or interest in land, and any improvements to such lands;
- (d) the costs of measures taken in order to ensure that members of local communities in Lesotho are not adversely affected by Project related activities, including the cost of providing compensation;
- (e) all finance charges (including interest payments, financing and foreign exchange cover charges and other charges) relating to finance raised to fund capital expenditure.

All costs incurred are apportioned to one or more of the following activities:



- (i) generation of hydro-electric power in the Kingdom of Lesotho ("Hydropower")
- (ii) delivery of water to South Africa ("Water Transfer")
- (iii) ancillary developments in the Kingdom of Lesotho ("Ancillary Developments")

The Government of the Kingdom of Lesotho is, by way of Cost Related Payments, responsible for the costs of the Hydropower and Ancillary Development Activities. The Government of the Republic of South Africa is, by way of Cost Related Payments, responsible for the costs of the Water Transfer activities.

### 2.3 Depreciation

Depreciation is provided on a straight line basis over the estimated useful life of the assets as follows :

Civil Works	50 years
Plant	25 years
Office Furniture & Equipment	6 years
Motor Vehicles	4 years
Computer Equipment and Software	3 years

### 2.4 Investments

Investments are stated at Market Value

### 2.5 Foreign Currencies

Assets and liabilities in foreign currencies are translated to Maloti at rates of exchange ruling at the end of the Financial Year, or, where applicable, at forward cover rates.

Transactions in foreign currencies are translated to Maloti at rates of exchange ruling at the date of the transaction; or where applicable, at forward cover rates.

Premiums on forward exchange contracts are amortised over the period of the contract.

Under the terms of the Treaty covering the project and the Ancillary Agreements to the Treaty of 31st August 1992 and 30th December 1999, the Government of the Republic of South Africa is obligated to effect debt service payments on all loans guaranteed by it.

The forward cover contracts have been effected by the Government of the Republic of South Africa.

Exchange differences are allocated to the cost of the related activity.

### 2.6 Cost Related Payments

Cost Related Payments from the Governments of Lesotho and South Africa are recognised and credited to the Capital Fund on the date due for payment. Those arising from payment of financing costs on loans pertaining to completed works, or for Operations and Maintenance are transferred to the Income Statement.

Cost Related Payments become due when the relevant cost falls due for payment; provided that Cost Related Payments may be paid directly to Contractors or consultants, or, where costs have been financed by way of loans shall be due for payment at the time such loans become redeemable.

Funds obtained by the Government of Lesotho on concessionary terms for the Water Transfer component are, for the purpose of Cost Related Payments, deemed to be loans at the interest rate and redemption terms applicable to loans of the International Bank for Reconstruction and Development.

### 2.7 Royalties

Royalties arising from the Lesotho Highlands Water Project, including advance royalty payments received as payments through the Southern Africa Customs Union, accrue to the Government of Lesotho and are therefore not reflected in the financial statements of the Authority.

### 2.8 Other Income

Other Income arising, such as interest earned, exchange gains and miscellaneous income, is credited to the cost of the activity to which it relates. Income from Sales of electrical power is credited to the income statement.

### 2.9 Funds from Capital Markets

The LHDA utilises the South African Capital Market purely for the raising of finance for the Lesotho Highlands Water Project and does not trade in bonds once they have been issued.

The finance raised through the Capital Markets is therefore treated as long term funding and accrued interest not serviced through the semi-annual coupon payments is capitalised into the bond account.



## INCOME STATEMENTS

For the year ended 31 March 2001

	2001 M'000	2000 M'000
<b>HYDROPOWER</b>		
Sales of Electrical Power	44 114	43 936
Less: Cost of Sales	(75 474)	(159 323)
Net loss for the year	<u>(31 360)</u>	<u>(115 387)</u>
Cost of Sales comprises:		
Operations and Maintenance Costs	(19 001)	(17 551)
Financing Costs	(22 384)	(108 071)
Depreciation	(34 089)	(33 701)
	<u>(75 474)</u>	<u>(159 323)</u>
Deficit – at 31 March 2000	115 387	–
Loss for the year	31 360	115 387
Deficit – at 31 March 2001	<u>146 747</u>	<u>115 387</u>

## WATER TRANSFER

Deficit for the year	<u>(891 405)</u>	<u>(884 812)</u>
This comprises:		
Operating and Maintenance Costs	(18 462)	(17 162)
Financing Costs	(718 448)	(711 791)
Depreciation	(154 495)	(155 859)
	<u>(891 405)</u>	<u>(884 812)</u>
And is funded as follows:		
Transfer from Capital Fund	<u>891 405</u>	<u>884 812</u>

Note: The allocation of Financing Costs between the capital and the Hydropower and Water Transfer operating components of the Project where common funding sources have been utilised is subject to the agreement of the Treaty Parties.



## BALANCE SHEET AT 31 MARCH 2001

	Notes	2001 M'000	2000 M'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Completed works and capital work in progress	1	11 538 034	10 903 063
Project taxes refundable by the Government of Lesotho	12	15 123	222 040
		<b>11 553 157</b>	<b>11 125 103</b>
<b>CURRENT ASSETS</b>			
Inventories		3 801	3 490
Advance payments		82 776	142 959
Other receivables and prepayments		123 583	146 133
Cash and cash equivalents		108 449	93 965
		<b>318 609</b>	<b>386 547</b>
<b>Total assets</b>		<b>11 871 766</b>	<b>11 511 650</b>
<b>FUNDS AND LIABILITIES</b>			
<b>Funds and long term liabilities</b>			
Capital fund	3	4 516 022	4 225 204
Government of Lesotho Fund	4	84 818	100 050
Government of Republic of South Africa Fund	5	10 735	1 304
Long Term Liabilities	6	2 635 308	3 042 121
Funds from Capital Market	7	3 690 195	3 604 243
Deficit – Hydropower		(146 747)	(115 387)
<b>Total funds and long term liabilities</b>		<b>10 790 331</b>	<b>10 857 535</b>
<b>Current Liabilities</b>			
Contract payables and accruals		230 549	140 484
Retentions		77 064	81 436
Other payable and accruals		241 178	190 079
Current portion of long term liabilities	6	532 644	242 116
<b>Total current liabilities</b>		<b>1 081 435</b>	<b>654 115</b>
<b>Total funds and liabilities</b>		<b>11 871 766</b>	<b>11 511 650</b>



## CASH FLOW STATEMENT

For the year ended 31 March 2001

	2001 M'000	2000 M'000
<b>Operating activities</b>		
Hydropower – net loss for the year	(31 360)	(115 387)
Water transfer – deficit for the year	(891 405)	(884 812)
	(922 765)	(1 000 199)
Less: Depreciation	188 584	189 560
	(734 181)	(810 639)
Decrease in advance payments	60 183	61 418
Decrease in other receivables and prepayments	22 550	32 860
Increase in inventories	(311)	(3 490)
Increase/(Decrease) in contract Payables and accruals	90 065	(138 576)
(Decrease)/Increase in retentions	(4 372)	22 010
Increase in other payables and accruals	51 099	7 368
Increase/(Decrease) in current portion of long term liabilities	290 528	(150 739)
<b>Cash utilised by operating activities</b>	<b>(224 439)</b>	<b>(979 788)</b>
<b>Investing activities</b>		
Expenditure on capital works and work-in-progress	(828 496)	(686 069)
Expenditure on ancillary development	(61 338)	(61 793)
<b>Cash utilised by investing activities</b>	<b>(889 834)</b>	<b>(747 862)</b>
<b>Financing activities</b>		
Government of Lesotho	99 793	462 657
Government of Republic of South Africa	1 136 147	1 295 298
Project taxes refunded by Government of Lesotho	232 551	–
Decrease in long term liabilities	(425 686)	(429 554)
Funds from capital market	85 952	411 840
Proceeds from redemption of Zero coupon bonds	–	1 999
<b>Cash flows from financing activities</b>	<b>1 128 757</b>	<b>1 742 240</b>
Net increases in cash and cash equivalents	14 484	14 590
Cash and cash equivalents at beginning of year	93 965	79 375
<b>Cash and cash equivalents at end of year</b>	<b>108 449</b>	<b>93 965</b>



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2001

	Balance 1.4.00 M'000	Prior Year Reallocation M'000	Movement During the Year M'000	Balance 31.3.01 M'000
<b>1. COMPLETED WORKS AND CAPITAL WORK IN PROGRESS</b>				
<i>Completed Works</i>				
Hydropower Civil Works at cost	810 745	–	5 497	816 242
Less: Accumulated Depreciation	(16 214)	–	(16 328)	(32 542)
	794 531	–	(10 831)	783 700
Hydropower Plant – at cost	434 209	–	1 195	435 404
Less: Accumulated Depreciation	(17 368)	–	(17 418)	(34 786)
	416 841	–	(16 223)	400 618
Net Book Value – Hydropower	1 211 372	–	(27 054)	1 184 318
Water Transfer Civil Works at cost	7 999 711	–	87 173	8 086 884
Less: Taxes refundable by the Government of Lesotho	(213 440)	–	(9 404)	( 222 844)
	7 786 271	–	77 769	7 864 040
Less: Accumulated Depreciation	(310 643)	–	(154 152)	(464 795)
Net Book Value – Water Transfer	7 475 628	–	(76 383)	7 399 245
Total Net Book Value – Completed Works	8 687 000	–	(103 437)	8 583 563
Vehicle and equipment at Cost	1 421	–	1 843	3 264
Less: Accumulated Depreciation	(235)	–	(687)	(922)
	1 186	–	1 156	2 342
<i>Capital Work in Progress</i>				
<b>Phase 1A</b>				
Hydropower	1 244 954	458	6 234	1 251 646
Less: Completed Works	(1 244 954)	–	(6 692)	(1 251 646)
	–	458	(458)	–
Ancillary Development	299 377	1 033	44 223	344 633
Less: Transferred to Capital Fund	(299 377)	–	(45 256)	(344 633)
	–	1 033	(1 033)	–
Water Transfer	7 999 711	(118)	87 291	8 086 884
Less: Completed works	(7 999 711)	–	(87 173)	(8 086 884)
	–	(118)	118	–





## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2001

### COMPLETED WORKS AND CAPITAL WORKS IN PROGRESS (Continued)

	Balance 1.4.00 M'000	Prior Year Reallocation M'000	Movement During the Year M'000	Balance 31.3.01 M'000
<b>Phase 1B</b>				
Ancillary Development	87 349	1 586	17 115	106 050
Less: Transferred to Capital Fund	(87 349)	—	(18 701)	(106 050)
	—	1 586	(1 586)	—
Water Transfer	2 223 477	(2 959)	756 441	2 976 959
Less: Tax refundable by the Government of Lesotho	(8 600)	—	(16 230)	(24 830)
	2 214 877	(2 959)	740 211	2 952 129
Total Capital work in progress	2 214 877	(2 959)	740 211	2 952 129
<b>GRAND TOTAL FIXED ASSETS</b>	<b>10 903 063</b>	<b>—</b>	<b>634 971</b>	<b>11 538 034</b>

Included in financing of Phase 1A Fixed Assets is M81 924 000 representing the finance costs attributable to funds obtained on concessionary terms of the Water Transfer Component, deemed to be loans with interest rates and redemption terms applicable to loans of the International Bank for Reconstruction and Development.

The above allocation of costs between Hydropower, Ancillary Development and Water Transfer is subject to agreement by the parties to the Treaty. Such agreements are reflected as prior year reallocations.

### 2. AUDIT FEES

The audit fee for the year ended 31 March 2001 was M595,000 (2000 – M729 000).



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2001

### 3. CAPITAL FUND

	Government of Lesotho M'000	Government of South Africa M'000	Total M'000
Balance at April 1 2000	725 748	3 499 456	4 225 204
Cost related payments:			
Hydropower and Ancillary Development	119 464	—	119 464
Water Transfer	—	1 126 716	1 126 716
	<u>845 212</u>	<u>4 626 172</u>	<u>5 471 384</u>
Less:			
Ancillary Development costs	(63 957)	—	(63 957)
Transferred to Income Statement	—	(891 405)	(891 405)
Balance at 31 March 2000	<u>781 255</u>	<u>3 734 767</u>	<u>4 516 022</u>

Certain long term loan facilities which are direct with the Government of Lesotho, and which were utilised to fund the 'Muela Hydropower Implementation, were shown as long term liabilities prior to December, 1999. As from December 1 1999, the Government of Lesotho has taken over responsibility for these facilities, as well as the investment which was used as security for a loan.

Loans taken over	220 855
Less: investment security	<u>29 136</u>
	<u>191 719</u>

Total Water Transfer costs capitalised or incurred in support of operations (excluding depreciation) at 31 March 2001 amount to M13 063 642 000 of which M6 445 863 000 has been paid by way of cost related payments.

The balance of M6 617 779 000 will be discharged through future cost related payments.

Total Hydropower costs capitalised or incurred in support of operations (excluding depreciation) and Ancillary Development costs at 31 March 2001 amount to M1 870 968 000 of which M1 231 938 000 has been paid by way of cost related payments.

The balance of M639 030 000 will be discharged through future cost related payments or will be met from power income.





## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2001

### 4. GOVERNMENT OF LESOTHO FUND

	2001 M'000	2000 M'000
Balance at beginning of year	100 050	50 326
Amounts provided by Government of Lesotho	110 352	473 181
Net financing income accrued	4 439	5 227
Cost related payment received from Government of South Africa	(10 559)	(10 524)
Cost related payments on Hydropower and Ancillary Developments transferred to Capital Fund	(119 464)	(418 160)
Balance at end of year	<u>84 818</u>	<u>100 050</u>
 This Balance comprises:		
Government of Lesotho Contributions	47 889	57 001
Funding of water transfer costs	18 383	22 601
Concessionary finance income	18 546	20 448
	36 929	43 049
	<u>84 818</u>	<u>100 050</u>

M36 929 000 will be discharged by future cost related payments by the Government of South Africa.



# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2001

## GOVERNMENT OF LESOTHO FUND (Continued)

The total amount provided by the Government of Lesotho during the period is analysed by original source as follows:

### Analysis of funds provided by the Government of Lesotho

	Balance 1 April 2000 M'000	Increase during the Year M'000	Balance 31 March 2001 M'000
European Development Fund	217 672	43	217 715
European Investment Bank	11 189	—	11 189
Government of France	70 723	—	70 723
Government of Lesotho	569 211	107 798	677 009
International Development Association	25 311	—	25 311
Department for International Development	47 964	2 125	50 089
United Nations Development Programme	2 664	—	2 664
U S A I D	612	—	612
Centre for International Migration	764	—	764
Government of Ireland	375	—	375
Svenska Handelsbanken	57 833	—	57 833
Credit Nationale	25 828	386	26 214
	<u>1 030 146</u>	<u>110 352</u>	<u>1 140 498</u>





## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2001

### 5. GOVERNMENT OF SOUTH AFRICA FUND

	2001 M'000	2000 M'000
Balance at start of year	1 304	1 304
Cost related payments during the year on water transfer paid to:		
– Government of Lesotho	10 559	10 524
– Third Parties	1 125 588	1 284 774
Cost related payments on water transfer transferred to Capital Fund	(1 126 716)	(1 295 298)
Balance at end of year	<u>10 735</u>	<u>1 304</u>

This balance comprises funds contributed for Hydropower and Ancillary Developments and will be discharged by future cost related payments by the Government of Lesotho.



# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2001

## 6. LONG TERM LIABILITIES

	2001 M'000	2000 M'000
<b><u>Facilities for which foreign exchange forward cover contracts have been effected</u></b>		
(i) Facilities specific to Katse Dam and appurtenant works, Transfer Tunnels and Delivery Tunnel South	1 415 266	1 642 226
(ii) Facility specific to provision of Communication systems to the project	—	2 901
(iii) Facilities for implementation of Phase 1B	294 762	225 852
<b><u>Facility for which contracts for partial foreign exchange forward cover have been effected</u></b>		
(iv) Facility specific to provision of Consultancy, Training and Project preparation	455 665	382 387
	2 165 693	2 253 366
Less: Provision for unamortised cost of forward cover	179 272	263 699
	<b>1 986 421</b>	<b>1 989 667</b>



# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2001

## LONG TERM LIABILITIES (Continued)

	2001 M'000	2000 M'000
<b><u>Facilities for which foreign exchange forward cover contracts have not been effected</u></b>		
(v) Facilities for provision of Infrastructure and Institutional Support	522 037	538 113
(vi) Facilities for overall project implementation	97 354	280 179
(vii) Facilities for implementation of Phase 1B	32 468	52 031
(viii) Facilities for 'Muela Hydropower implementation	225 339	237 040
(ix) Eurobond	89 724	—
	<u>2 953 343</u>	<u>3 097 030</u>
Less: Hydropower Loan obligations assumed by the Government of Lesotho	225 339	233 956
	<u>2 728 004</u>	<u>2 863 074</u>
 (x) <b>LOAN FROM THE GOVERNMENT OF LESOTHO FOR 'MUELA HYDROPOWER IMPLEMENTATION</b>	 185 952	 186 040
	<u>2 913 956</u>	<u>3 049 114</u>
Less: Current portion	532 644	242 116
	<u>2 381 312</u>	<u>2 806 998</u>
Liability for future compensation costs	253 996	235 123
	<u>2 635 308</u>	<u>3 042 121</u>



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 March 2001

### 7. FUNDS FROM CAPITAL MARKET

The authority initiated the issue of Capital Market bonds in 1993 "in association" with the Trans Caledon Tunnel Authority (TCTA), and guaranteed by the Government of South Africa. The TCTA, as the Registered issuer, issues bonds on LHDA's instructions on behalf of the Authority, the proceeds of which are utilised by LHDA to repay other borrowing obligations. The bonds are redeemable by TCTA. During the 2000/2001 year this joint capital market funding programme was continued with the TCTA.

No new capital market issues were registered during the current year. The stocks currently registered therefore remain as follows :

Stock	Coupon	Registered Nominal M'000	Maturity
WS01	12.5%	5 000 000	1 December 2005
WS02	12.5%	3 000 000	15 April 2002
WS03	13.0%	8 000 000	15 September 2010
Total		<u>16 000 000</u>	

The nominal values of the stocks issued to date and the proceeds received therefrom are as follows:

Issued on behalf of LHDA :

Stock	Cumulative Nominal Value of LHWP Stock Issued		Cumulative Net proceeds from LHWP Stock Issued inclusive of Capitalised Finance Costs	
	2001 M'000	2000 M'000	2001 M'000	2000 M'000
WS01	2 006 558	2 006 558	1 870 521	1 851 365
WS02	927 000	877 000	912 126	849 449
WS03	998 000	998 000	907 548	903 429
Total	<u>3 931 558</u>	<u>3 881 558</u>	<u>3 690 195</u>	<u>3 604 243</u>



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

*For the year ended 31 March 2001*

### FUNDS FROM CAPITAL MARKET (Continued)

#### 8. FORWARD COVER

All foreign currency denominated loans, except those for 'Muela Hydropower Implementation, are the subject of forward cover contracts. However, in respect of the foreign currency denominated Hydropower loans, the Government of Lesotho has assumed the repayment obligations, and hence the foreign exchanges risks, in exchange for a fixed Maloti obligation by the Authority to the Government.

#### 9. CAPITAL COMMITMENTS

Outstanding capital expenditure contracted for at 31 March 2001 amounted to M759 million. Finance has been secured as at 31 March 2001 to meet all of these commitments, including current liabilities.

#### 10. CONTINGENT LIABILITIES

The Authority has been notified of the intention by various Contractors to submit claims for additional costs, currently estimated by them at M809.31 million.

The Authority is of the opinion that the results of ongoing discussions and representations are likely to substantially set aside such claims.

#### 11. TAXATION

In accordance with Section 29(1) of the Lesotho Highlands Development Authority Act (No. 23) of 1986, the Authority is exempt from Sales Tax Payable under the Sales Tax Act 1995, tax on any income or profits, transfer duties payable under the Transfer Duty Act 1966, stamp duties payable under the Stamp Duties Act 1972 and any fees payable under the Deeds Registry Act 1967.

#### 12. PROJECT TAXES REFUNDABLE BY THE GOVERNMENT OF LESOTHO

Protocol V to the Treaty was signed on June 4, 1999. Under this Protocol Taxes paid by LHDA and its contractors at rates in excess of those provided for in this Protocol are repayable together with interest at 15% per annum. The total refunds made, including interest, up to 31 March 2001 were M232,551,027. The total including interest, outstanding at 31 March 2001, is M15,123,255.



# LHDA ORGANISATIONAL STRUCTURE



**Mrs S Seeiso**  
*Corporate Secretary*

## BOARD OF DIRECTORS Lesotho Highlands Development Authority



**Mr M Fako**  
*Chief Internal Auditor*



**Mr T Moeketsi**  
*Acting Public  
Relations Manager*



**Mr M Marumo**  
*LHDA Chief Executive*

**Assistant  
to Chief  
Executive**



**Mr R Mapetla**  
*General Manager:  
Corporate Services  
Group*



**Mrs M Mothepu**  
*Acting General  
Manager:  
Environment and  
Social Services Group*



**Mr S Nthako**  
*General Manager:  
Engineering Group*



**Mrs R Tlali**  
*General Manager:  
Finance and  
Commercial Services  
Group*



**Mr B Rafoneke**  
*General Manager:  
Operations and  
Maintenance Group*



