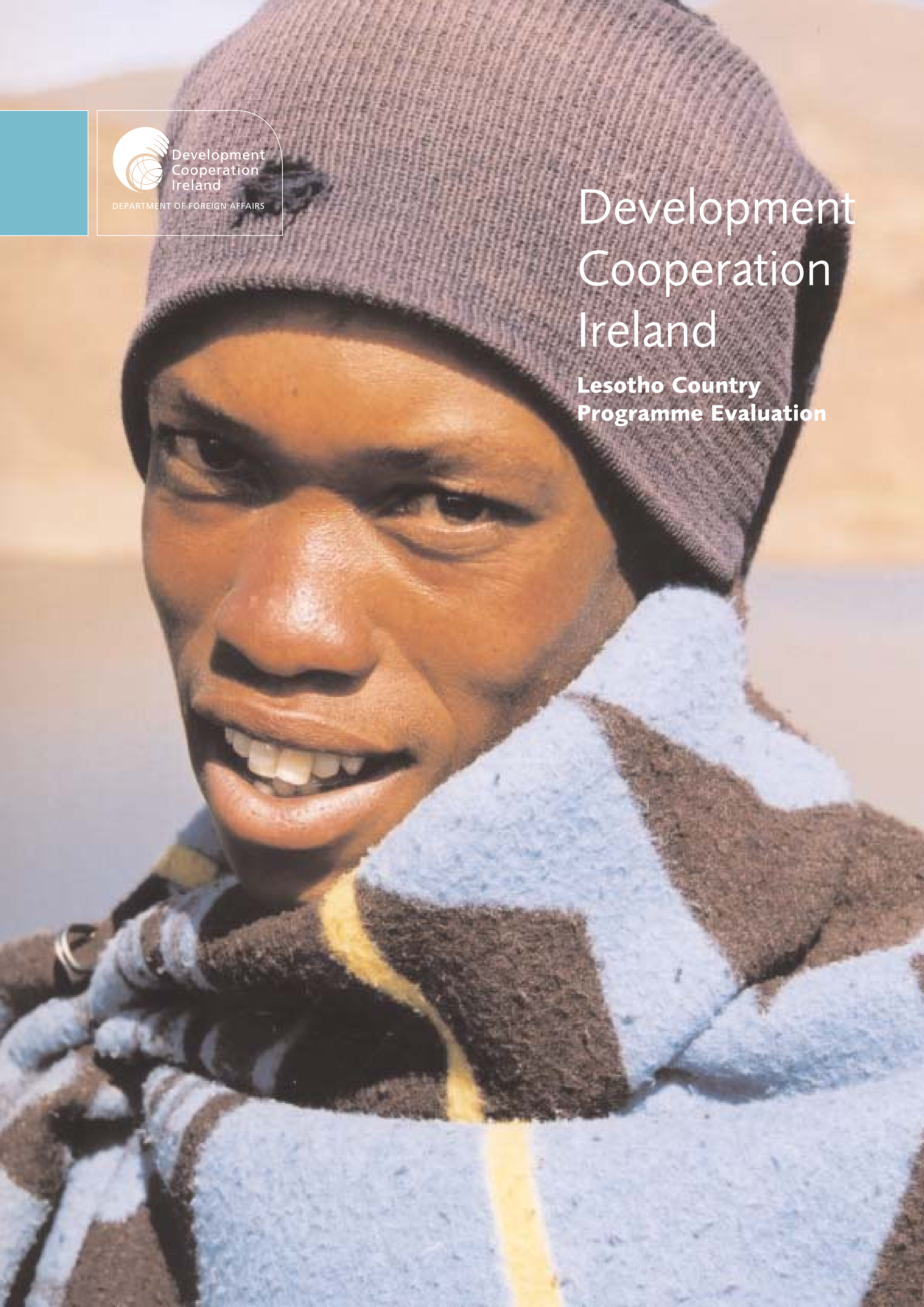

Development Cooperation Ireland
DEPARTMENT OF FOREIGN AFFAIRS

Development Cooperation Ireland

Lesotho Country Programme Evaluation

Front Cover: A herd boy in Lesotho. Courtesy Tara Shine

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Any errors remain the authors alone.

ACRONYMS

AGOA	African Growth Opportunity Act (of the USA)
AIDS	Acquired Immune Deficiency Syndrome
ATC	Agreement on textiles and clothing
BTL	Breakthrough to Learning
CHAL	Christian Health Association of Lesotho
CSP	Country Strategy Paper
DAC	Development Assistance Committee
DCI	Development Cooperation Ireland
DFID	Department for International Development (of the UK)
DRWS	Department of Rural Water Supply
GFATM	Global Fund to fight AIDS, TB & Malaria
GoL	Government of Lesotho
HIV	Human Immunodeficiency Virus
IEL	Independent Electoral Commission
ILO	International Labour Oganisation
IMF	International Monetary Fund
LAPCA	Lesotho AIDS Programme Co- ordinating Authority
LDC	Least Developed Country
MoFDP	Ministry of Finance and Development Planning
OECD	Organisation for Economic Cooperation & Development
PAEG	Programme Approval & Evaluation Group
PRGF	Poverty Reduction & Growth Facility
PSIRP	Public Sector Improvement Reform Programme
PRSP	Poverty Reduction Strategy Paper
RSA	Republic of South Africa
SACU	Southern African Customs Union
SME	Small Medium Enterprises
SWAp	Sector Wide Approach
VCT	Voluntary Counselling and Testing

EXECUTIVE SUMMARY

Lesotho is one of one seven countries[1] that are the main partners for Development Cooperation Ireland. This independent review (undertaken in May-June 2004) considers Development Cooperation Irelandís work in Lesotho during the period 1999-2004. It assesses whether assistance has been appropriate and consistent with Irish policy.

Why Lesotho receives donor assistance

Lesotho has unique challenges. A British protectorate to 1966, it is a small landlocked, mountainous Kingdom completely surrounded by South Africa. While the country has never been politically stable for long the successful elections in 2002 (supported by Ireland, among others) now see observers quietly confident about the immediate future.

Lesothoís two million people have one of the highest HIV/AIDS rates in the world (31% are infected). This is likely to undermine the gains made over recent decades to provide basic services such as education, water and healthcare. At present, whilst bad in comparison with Europe, access to such basic services is better than in the other countries that Ireland supports in Africa. Inequality in Lesotho is increasing, however, as the lowland urban areas develop faster than the mountainous interior. Lesotho's environment is also vulnerable, particular the farming land which is being rapidly eroded.

The country needs a wider variety of sources of income, and its people a wider range of jobs. Lesotho is economically dependent on its neighbours, and on a single trade agreement with the USA (for textiles). Whilst seven times more women now work in the textile industry than did in 1990, the number of men working as miners in South Africa halved in the last decade. Funds from a regional customs agreement (the Southern African Customs Union) make up a major part of the government's earnings; again there are concerns that the amount received is due to diminish as allocations change between countries in the region. As these changes and the impact of HIV/AIDS bite, it is likely the country will try to do more with less.

Donor Funding & Development Cooperation Ireland's support

Over the period 1999-2004, Development Cooperation Ireland supported a wide range of projects and activities in Lesotho. Funds were provided to strengthen education, healthcare and human rights. Support was also provided for building roads in rural areas and funding water supply systems, business development and improving the way the government works. In addition, support was given to respond to HIV/AIDS. The Lesotho programme, whilst diverse, was broadly consistent with Development Cooperation Ireland's objectives. It retained a poverty focus, targeting the weakest, assisting communities as much as possible. There is evidence in some areas of small projects making big changes, and of direct impact on the lives of the poor.

Development Cooperation Ireland plays an important and valued role, working with other providers of external funds, such as the European Union, World Bank, the United Kingdomís Department for International Development and the German government. Like their assistance, nearly all Irish aid goes to the Government of Lesotho. Ireland is the largest single country donor to the Kingdom. In the period 2001-2003, Ireland provided over €30m, one third of all Lesotho's external grants (the World Bank and African Development Bank provided loans). The majority of Irish money (61%) was used for building projects, mainly roads, bridges, schools and upgrading clinics. A further 15% was spent on training and workshops, and 10% on provisions such as books, medical supplies, furniture, and seeds.

Key Lessons from the programme

Arguably, all Development Cooperation Ireland's activities supported poverty reduction. Whilst the 1999-2004 programme built on considerable Irish experience in the country, for most of the time under review, Development Cooperation Irelands programme did not

1 Ethiopia, Lesotho, Mozambique, Tanzania, Uganda and Zambia and East Timor

fully support Lesotho's priorities. That is understandable; priorities were not clear. However, the evaluation finds that there could have been greater prioritisation and concentration on how Irish money was used. Since the 2002 election, the Government of Lesotho has set out its vision for the country (Vision 2020). This and the Poverty Reduction Strategy (required by the World Bank/IMF) will provide the agenda for donor assistance in the future.

During the period under review Ireland changed the way it gave aid to Lesotho, seeking to support government programmes rather than fund stand-alone projects. This was partially consistent with emerging best practice. However, achieving this was difficult, a result of weaknesses in government systems and Development Cooperation Ireland's management capacity. Building the fundamental skills and procedures in ministries that enables effective delivery of services is taking time. Development Cooperation Ireland could perhaps have been more realistic in its expectations as to how quickly the move to its new way of funding could be made. As a result the current programme retains much of the characteristics of project-based funding. The public at large, Non-Government Organisations and the private sector can play a significant role in service delivery, improving governance and creating employment. Focusing on government-only funding appears overly restrictive, and is not consistent with international learning.

Whilst peers and partners comment on Development Cooperation Ireland Lesotho being professional and responsive, the lack of clearly defined strategic objectives seems to have created a lack of discipline over some funding decisions. Criteria for allocating funds were set, but sometimes not kept to. Many programme activities were positive and many programmes retained their targeting of the most marginalised communities.

However, in some cases, when funding was used to fill gaps in governmentís budget it is not clear if they were the key gaps that needed to be filled.

Key Lessons on Financial Management

As a result of the Irish Government's commitment to increase levels of funding to overseas development assistance, annual funding to Lesotho grew considerably, but not uniformally, over the period.

The 2002 to 2004 programme projected the total commitment for the period to be €36.42m. However, during this period funding to Lesotho was 20% under original expectations, primarily as a result of allocations for overseas aid from Ireland's Department of Finance being less than projected.

Management of the programme demonstrates considerable flexibility. For instance, funds were shifted from the Health and Enterprise programmes to the Education and Water Programmes during the period. Such changes in funding result partially from the ability (or inability) of recipients to use the funds well. The HIV/AIDS programme is the only programme showing a budget gain despite marked low disbursement from Development Co-operation Ireland. It is also the programme that registered the lowest actual spending by partners against disbursements to them from the Lesotho office in 2003. This is a result of not fully considering the institutional constraints to spending.[2]

Management pressures to spend exert themselves in particular ways. Country-based staff feel that budgeted funds have to be disbursed by the end of the financial

	1999	2000	2001	2002	2003	2004
BUDGETED Annual change	€6.67m	€7.61m +14%	€10.35m +36%	€13.13m +27%	€11.29m -14%	€11.40m +1%
SPENT Annual Change	€6.60m	€7.56 +15%	€10.01m +32%	€10.85m +8%	€10.69m -1%	

Source: Annex D, Table 4.

2 Most funds were not lost, but transferred into recipient's bank accounts and then lay unused.

year or the money gets lost to other parts of Development Cooperation Ireland. If funds are not spent, the next year's budget might also be reduced. Clear evidence exists of skewed disbursements in the fourth quarter of several years. Purchases of equipment are more evident in these months, which may make only a marginal contribution to the overall objective of poverty reduction.

While the shift to funding through government was an important one for long term aid effectiveness and development, it carried a short term cost, since Lesotho's Government Departments often lack the capacity to absorb funds. However, given that all government spending is expected to come under more pressure in the near future (not least as a result of HIV/AIDS and reducing revenues) there may be room for Development Cooperation Ireland to reconsider its focus on capital investment.

Lessons for engagement

The Government of Lesotho sees Development Cooperation Ireland as a trusted friend. Other donors also recognise the Irish approach in Lesotho as a sensible and collaborative one. Ireland has sought to take a lead role in coordinating some donor efforts, particularly since 2003. It might be argued that Ireland could take even more of a leadership role given its history, understanding, contacts and presence in Lesotho.

Participation in setting Development Cooperation Ireland's strategy was mixed, although final ownership by local staff was good. The process built on past experience and activities, but did not fully consider how Irish money could best be spent. The Country Strategy Papers had only limited use to guide the approach, although they did define sectors for spending and the reprioritisation of the programme. They did not clearly set out the risks and assumptions that shaped decisions. Whilst the Country Plans committed Development Cooperation Ireland to identifying mechanisms for monitoring achievements, in practice this did not take place, nor were plans developed to wind the programme down, as had been expected.

Without effective performance management, it proved difficult to manage the programme in a cohesive way. The lack of a mechanism to link strategy to operational activities meant that some commitments were not upheld, while high levels of staff discretion operated in practice.

Recommendations

It is recommended that the next Lesotho Country Strategy seek to locate Irish assistance firmly within a clear set of principles for assistance. The strategy process should start from considering what are the most urgent development bottlenecks and problems in view of Lesotho's expressed priorities (such as the Poverty Reduction Strategy Paper and Vision 2020), and what is the most effective support that Development Cooperation Ireland can provide to address these, in the context of its overall objectives, competitive advantage and support from other donors.

In dialogue with the Government of Lesotho at the highest level, clear overarching objectives should be developed. Priorities for sectors (such as HIV/AIDS, education, rural roads etc.) should then fit into the overall strategy. The resulting programmes and activities should clearly contribute to the achievement of the objectives, and be linked to targets which are set for the Country Programme when the Country Strategy Paper is written. Mechanisms for monitoring performance indicators against targets should also be established by the time the Country Strategy Paper is approved. Mechanisms for yearly external monitoring of programme performance should be considered.

Development Cooperation Ireland should consider continuing to phase-in a reduction in the range of programmes and number of projects, and focus more on the quality of assistance and support. Exit strategies should be implemented over the period of the Country Strategy Paper for those sectors that are no longer a priority.

Where possible, Development Cooperation Ireland assistance seeks to support or leverage other donors' activities. Ireland should seek to further raise its profile in working with the European Union. Development Cooperation Ireland should continue to work towards sector-based assistance in collaboration with other donors. Where conditions do not allow funding of government, Development Cooperation Ireland should seek to strengthen fundamental institutional systems with capacity building, including, if necessary, providing expatriate Technical Assistance.

Funding and programme choices should seek, over the life of the next Country Strategy Paper, to rebalance spending away from the high proportion of capital transfers (given the Government of Lesotho's effective capital surplus). Capital transfers should only be approved if recurrent cost implications (such as maintenance) can be accommodated.

Development Cooperation Ireland Lesotho has a good human resource base. The depth of in-country staff provides local knowledge and continuity across changes of international staff. However, their location within narrow technical sectors creates incentives for the continuation of existing programmes which reduces the ability of Development Cooperation Ireland to respond strategically to the development challenge in Lesotho. All Development Cooperation Ireland Lesotho staff should be enabled to manage aid effectiveness as well as technically manage interventions within specific sectors.

These changes should not be applied inflexibly, but rather intelligently in discussion with the Government of Lesotho and other recipients.

Purpose of the Evaluation

This review of Development Cooperation Ireland's strategy for Lesotho has two principal objectives;

1. *to assess the degree of coherence of the Country Strategy with the national priorities and directions in Lesotho and with Development Cooperation Ireland's policies for the period 1999-2004; and*

2. *to provide a strategic input which will be used to guide the strategy for the next Country Strategy Paper (CSP), taking into account the development of national strategies currently being finalised.*

INTRODUCTION

Approach

The approach taken has been one of learning strategic lessons in order to inform possible future engagement. The review is neither an audit nor a detailed investigation of impact in each of the areas that Development Cooperation Ireland works within. Rather, this review seeks to identify whether the programme as a whole is consistent with Development Cooperation Ireland's objectives and appropriate to the needs of Lesotho.

Specific consideration of the HIV/AIDS response has been undertaken given the impact of the disease on the people of Lesotho.

The review covers two Country Strategies; 1999-2001, 2002-2004. Whilst the whole period has been addressed, the more recent period has received more focus. In particular, in order to understand spending patterns, detailed analysis of 2003 budget and expenditure was undertaken.

Young schoolboy in Maseru. Courtesy Tara Shine

1 BACKGROUND

Priorities for Irish Development Assistance

The Irish people have been providing support to the Kingdom of Lesotho since 1975. It was one of the first countries to receive overseas development assistance. During this period the amount and nature of Irish development assistance has changed, in Lesotho and throughout the world. In recent years, these changes have been significant.

Ireland has the largest in-country presence of any external funding partner in Lesotho. It provides approximately a third of total grants (approximately 2% of government's expenditure). Whilst the loan programmes of the IMF, World Bank and African Development Bank may be larger, they do not have an in-country presence.

In 1992 Ireland's total overseas aid spending was US$70m (€57m). By 2002 this figure had risen fivefold to US$398 (€324m), in line with the Government's commitment that by 2007 0.7% of national income should be spent on overseas development assistance (the United Nations target agreed by most developed countries).

"The Government's objectives in the field of Development Cooperation are -

- to reduce poverty and promote sustainable development in some of the poorest countries in the world;
- to assist in establishing and maintaining peace in developing countries by fostering democracy, respect for human rights, gender and social equality and protection of the environment;
- to respond promptly to emergencies and humanitarian disasters, both natural and man-made, as they occur, and to support preventive measures so that such emergencies may, so far as possible, be avoided;
- to contribute to building civil society and social solidarity"

Challenges and Opportunities Abroad", The White Paper on Foreign Policy, Government of Ireland, 1996

In 2002 the Ireland Aid Review[3] sought to build on the policy set out in the 1996 White Paper further. The Committee

- reinforced the commitment that **reducing poverty** is the "overarching objective" of Irish development assistance,
- emphasised that the **Millennium Development Goals** provide a valuable reference point[4] for focusing activities,
- highlighted the importance of **partnership** with developing countries so that activities are carried out with rather than for them, and
- noted that Ireland has the potential to assume a much higher profile on development issues, stressing an untapped **leadership potential**

The Committee also set out key principles guiding the work of Development Cooperation Ireland.

"Principles

The expanding programme should be underpinned by a number of key principles. These include effectiveness, value for money, transparency and accountability. The programme should also reflect the values cherished by Irish people, including our commitment to peace, human rights and democracy. It should incorporate a high degree of partnership with recipient countries, with the international donor community and with NGOs both at home and abroad. A holistic approach to the struggle against poverty is another important attribute. The programme should aim for sustainable development and also for policy coherence with other aspects of Irish foreign policy and other Government policies. Aid should remain completely untied. The programme should incorporate rigorous monitoring and evaluation, including the setting of clear performance indicators, as well as systematic risk management."

Report of the Ireland Aid Review Committee, Department of Foreign Affairs, Dublin, 2002

3 Report of the Ireland Aid Review Committee, Department of Foreign Affairs, Dublin, 2002
4 See http://www.developmentgoals.org for details.

The recent Peer Review of Irish Overseas Assistance by the Development Assistance Committee (DAC) of the Organisation for Economic Co-operation and Development (OECD) made some specific observations about how Development Cooperation Ireland should prioritise its work.

Ireland has a great asset in that its main bilateral partnerships are concentrated on a limited number of programme countries Ethiopia, Lesotho, Mozambique, Tanzania, Uganda and Zambia – all least developed countries in Sub-Saharan Africa – and, since March 2003, East Timor. In 2001-2, the then six programme countries received two-thirds of Ireland's bilateral ODA.

There are nevertheless signs of dispersion in the Development Cooperation Ireland programme as more than 85 other countries received ODA in 2001-2. Comparative experience in the DAC shows how difficult it can be to refocus once dispersion occurs. Ireland should consequently remain vigilant to ensure that high priority continues to be given to deepening its engagement in Development Cooperation Ireland's existing programme countries which have been severely affected by the HIV/AIDS pandemic.

Having put staff in the field to support implementation of an expanded and more strategic engagement, Ireland can reap an efficiency gain by scaling up further funding through pooled-funding arrangements where this is feasible. Ireland can also consider engaging more with local civil society organisations and supporting private sector development...

Development Assistance Committee Peer Review of Ireland's Development Assistance, 2003.

The review of the Lesotho programme seeks to evaluate Development Cooperation Ireland's country activities in the light of Ireland's national policies, principles and the views of the international community.

2 COUNTRY CONTEXT

The Development Challenge in Lesotho

Lesotho is a landlocked, mountainous country completely surrounded by South Africa. This provides particular challenges for development. Never part of its larger neighbour, Lesotho became independent from Britain in 1966 having been a British Protectorate since 1910. With historically fragile governance, most recently illustrated by insurrection in 1998 against contested election results, the country has never had the benefit of prolonged political stability. The dominance of its larger neighbour contributed to this instability, particularly during the Apartheid era. The involvement of troops from South Africa and Botswana in suppressing the civil unrest of 1998, and the economic dependence on the Southern Africa Customs Union and South Africa demonstrate the vulnerability of the Kingdom. As the Report of the Commonwealth Observer Group noted, successful 2002 elections "reflected the wishes of the people" and provided a firm legitimacy for the current government. As a result, external observers are quietly confident about the prospect for political stability in the immediate future. Many recognise that for Lesotho to reach its full potential, it will have to follow policies that make the most of its geographical location, while not undermining the proud heritage of Basotho independence. At the same time, specific social and economic challenges remain that inhibit development. (Details in Annex 1 & 2).

3 LESOTHO'S PRIORITIES FOR DEVELOPMENT

What the people of Lesotho consider to be the challenges and priorities facing the Kingdom are seen as being set out in two statements; the Government's own "Vision 2020 – National Vision for Lesotho" and the draft Lesotho Poverty Reduction Strategy Paper (PRSP).

"In his call from the Throne on 31 December 2000, His Majesty King Letsie III called on all Basotho to work together towards developing a National Vision to guide the country's economic development in the years to come. *"This mammoth task"* has become necessary because *"development in all aspects of our life has stalled."* Following this call, The Right Honourable the Prime Minister, met with all the leaders of political parties and secured their support for and commitment to the vision process."

National Vision 2020

"By the year 2020 Lesotho shall have a stable democracy, a united and prosperous nation at peace with itself and its neighbours. It shall have a healthy and well developed human resource base. Its economy will be strong; its environment well managed and its technology well established."

Vision 2020 "Empowerment for Sustainability Prosperity", Government of Lesotho 2004

Vision 2020 identifies three "critical uncertainties" for Lesotho's development prospects, and goes on to set an agenda for government to build each one.

1. **Development management capacity** (the ability of government to manage)
2. Local **investment** in the country and the prospect of **export markets**
3. **Political stability.**

In addition to this document, Lesotho is finalising the drafting of its Poverty Reduction Strategy Paper (PRSP).

Lesotho is one of 77 countries eligible for a Poverty Reduction and Growth Facility (PRGF) provided by the IMF. Eligible countries must have a PRSP in place in order to qualify for this facility. Other donors, notably the European Commission, link the disbursement of their funds to the PRGF.

Poverty Reduction Strategy Papers (PRSPs) are prepared by governments in low-income countries through a participatory process involving domestic stakeholders
as well as external development partners, including the IMF and the World Bank. A PRSP describes the macroeconomic, structural and social policies and programmes that a country will pursue over several years to promote broad-based growth and reduce poverty, as well as external financing needs and the associated sources of financing.

Source: The World Bank

PRSP's are meant to provide the policy framework that enables all donor assistance to be provided in a coordinated way. All donors are expected to align their assistance with the priorities of the PRSP. At the same time, in order to harmonise assistance where possible, they will also be expected to pool resources where possible.

The PRSP approach, initiated by the IMF and the World Bank in 1999, results in a comprehensive country-based strategy for poverty reduction. It aims to provide the crucial link between national public actions, donor support, and the development outcomes needed to meet the United Nations' Millennium Development Goals (MDGs), which are centered, inter alia, on halving poverty by 2015.

Source: The World Bank

Lesotho's PRSP has yet to be finalised. However, it has been compiled through what many observers see as a highly participatory process that involved over 20,000 people throughout the country.

Box 1 : Lesotho: A bottom-up PRSP process

The Lesotho PRSP preparation process, which was supported by Development Cooperation Ireland Lesotho through a pooled funding mechanism, is being recognised as a best practice example (for instance in World Bank and DFID documents). While the full PRSP preparation process has taken nearly 4 years – within which considerable delay was caused by the sensitive 2002 general elections – it is producing a document which is not only owned by those who drafted it, but by government generally. One of the factors in this ownership is the high level of awareness and interest by the general population.

Planning for the PRSP started in 2000. Three working groups -- a technical working group, a working group on consultations and one on poverty monitoring, supported by a secretariat guided the process. Altogether 45 people served on the working groups from government, civil society and the development partners. The PRSP process as a whole is funded from a funding pool to which several development partners contribute.

The consultations working group had responsibility for organising a broad-based bottom-up process to get views. The first step was to produce a manual. This was followed by the selection of fieldworkers and their training. Altogether 300 people were trained in participatory rural assessment, including semi-structured interviews, social mapping, ranking and scaling, trend analysis and interpretive skills. The fieldworkers were then deployed in 40 teams of 6 persons and a supervisor. Each team was sent to five villages (a total of 200 villages visited) and spent three days in each village, sleeping in residential accommodation, eating with the villagers and holding ongoing discussions. Each team included representatives of government and of civil society and a statistician, who captured the information and wrote the report.

The consultations centred on a limited number of questions, which included:

- What is poverty?
- How does it manifest itself?
- What can be done?
- What messages do you want to send to policy makers?

The reports were subsequently collated and analysed in cooperation with the Statistical Bureau of Lesotho. Based on the frequency of responses issue areas were ranked by the Statistical Bureau. The priority ranking was:

1. Employment creation
2. Food security
3. Governance
4. Infrastructure
5. Health
6. Education
7. Environmental degradation and weather change
8. Public Service Delivery.

At this point a PRSP road show was held, with visits back to each of the districts for consultative meetings with representatives from the villages to verify the findings.

The technical working group subsequently formulated the sector working groups. Rather than selecting specific sectors or issues on which to base working groups, the Lesotho process created a group for each functional area of government and a macro-economic group (which is now a permanent feature in government). The groups worked for two months to produce position papers. A retreat was held with the 45 people on the initial groups and any additional working group members to synthesise the position papers and participatory findings and develop a log frame of interventions. The first draft was produced out of this process in October 2003.

Whilst the final document is awaited, Government has already started allocating to PRSP priorities in the 2003/4 and 2004/5 budget process. One of the mechanisms used is that no new project is backed by the Ministry of Finance and Development Planning unless it is in the PRSP.

The PRSP process was not entirely smooth. One of the biggest difficulties was getting consistent quality of inputs to the working groups, and having a stable core of trained staff on the secretariat; of the original 17 members who were trained intensively, none is left.

The draft Lesotho PRSP highlights the following areas;

1. Combating HIV/AIDS
2. Gender, Youth and Children
3. Creating Employment
4. Improving Food Security
5. Deepening Democracy, Governance, Safety and Security
6. Infrastructure Development
7. Improve Access To Quality Essential Health Care and Social Welfare Services
8. Increasing Human Resource Capacity
9. Managing and Conserving the Environment
10. Improving Public Service Delivery.

However, whilst the last CSP was written with the intention of co-ordinating with the PRSP, the PRSP was not in place at any time during the CSP's lifespan. As a result, the strategy did not fit into an overall common policy framework set by government, nor was it consistently co-ordinated with partners, albeit that both were aspirations. Equally, Development Cooperation Ireland's Country Strategies did not expressly link its activities to the International Development Targets nor to the Millennium Development Goals.

Schoolboys in the highlands of Lesotho. Courtesy Tara Shine

4 ROLE OF DONOR RESOURCES IN LESOTHO

In the period 2001-2004, Development Cooperation Ireland provided 32.5% of all external grants transferred to Lesotho. From 2000/01 to 2003/4 all external funding grants (project funding and budget support) contributed 6.5% of Government of Lesotho's total non-principal expenditures, equalling 32.6% of capital expenditure. External financing over the same period contributed 5.6% of total expenditure including repayment of principal (See Annex 3).

In Lesotho, donor grant resources are not highly significant compared to overall available domestic resources. However, if one takes into account that up to 56% of Government of Lesotho resources are tied up in expenditures which are non-discretionary in the short term (establishment costs, debt costs, recurrent transfers), the value of grants in providing additional resources for investment and to implement programmes increases considerably.

Given the expected tighter medium to long term fiscal scenario the purposes and quality of grant spending is likely to become more important.

Grants, however, can result in costs to the recipients. It is calculated that across all countries and types of projects for every one million currency units invested, 35 000 units recurrent spending is required to operate the asset during its life[5]. This is affordable over the long term only if, for example, the investment is economically productive, increasing government revenues, or represents a real need and is of sufficient quality to realise savings on the expenditure side. Otherwise, capital invested becomes a drain on the economy of the country. Sound mechanisms to appraise capital investment over the life cycle of the resulting asset are therefore key in determining the value added against economic cost, as well as the sustainability of the investment. As will be seen, this is important for Development Cooperation Ireland since relatively high proportions of Irish Aid has been used to fund capital developments (such as roads or schools) or purchase of equipment.

The recurrent budget impact of donor-funded investment is not the only factor that should drive donor spending decisions. Lessons from recent cross-country findings emphasise that public expenditures on infrastructure or

Fungibility, Conditionality, and Earmarking

Aid is said to be **Fungible** when Government offsets donor spending on a particular purpose by reducing its own expenditure on the same purpose. For example, donor funding earmarked to health will not increase total health spending if Government reduces its own health spending, and uses the funds thus released for some other purpose.

Fungibility means that total public spending (both Government and donor financed) is adjusted to reflect the priorities of the national Government rather than the uncoordinated preferences which emerge from large numbers of donor projects. If Government and donors are in agreement on budget priorities, then fungibility is welcome, and ensures that the agreed budget priorities can be implemented.

If donors disagree with Government spending priorities, they can try to influence them through policy dialogue, through conditionality, or by earmarking their aid. Depending on the stage in the budget cycle at which earmarking takes place and Government reactions to it, it may be capable of changing allocations between or within sectors, or the extent to which aspects of the finally approved budget are actually executed. It requires strong assumptions regarding the efficiency of the budget process and the relative power of the finance ministry before donor earmarking is rendered entirely impotent.

Source Mick Foster and Jennifer Leavy, 2001 "Guidance for DFID on the Choice of Aid Instruments", Centre for Aid and Public Expenditure,

5 Hood et al, 2002, Recurrent expenditure requirements of capital project, World Bank Policy Research Working Paper.

investment in general, whether domestically or externally financed, are insufficient keys to economic growth – social and institutional infra-structure matters too. If investment is financed, the quality of investment is just as important as the quantity. Without improving the quality of investment with good policies and institutions, private and public capital will not be productive[6].

Put differently: aid is only effective if it is used effectively to build social and institutional, as much as physical, infrastructure.

The use of the 7% donor grant funding has the potential to be highly beneficial for the long-term development of Lesotho. Since Development Cooperation Ireland fund one third of these grants, spending on the right things, in the right way, is important.

Government capital spending absorptive capacity

These arguments become even more meaningful against Government of Lesotho ability to spend capital monies. In 2001/02 – the only year since 1996/7 for which audited accounts are available– the Government of Lesotho spent only 61% of authorised expenditure, i.e. line ministries were unable to spend 39% of cash made available by the Ministry of Finance for capital projects. At the same time it was able to spend 99% of authorised recurrent expenditure. However, this aggregate performance masks differences between ministries. Table One below shows Development Cooperation Ireland partner ministries' capital performance for that year, as well as the total across government.

Of its major spending partners, both education and natural resources ministries show over-expenditure on authorised amounts, while the other major partner, the health ministry, was able to spend only 81% of authorised capital amounts. The local government ministry, whose Development Cooperation Ireland funding was shifted to

Table 1 GoL Capital spending performance, 2001/2 (M million)

Selected Ministries	Appropriated amounts	Expenditure authorised by warrants	Actual Expenditure	Spend as a % of Authorised
Agriculture	62,534	19,146	18,916	99%
Health	54,616	23,792	19,385	81%
Education	139,233	44,218	65,801	149%
Finance	61,613	9,323	13,547	145%
Planning	15,023	8,953	8,823	99%
PMs Office	13,748	1,931	1,478	77%
Public Works	208,478	118,235	121,886	103%
Natural Resources	74,209	9,491	15,590	164%
Local Government	56,858	53,300	512	1%
Public Service	1,300	1,966	1,957	100%
Total across GoL	**856,616**	**530,864**	**323,645**	**61%**

N.B. This table only refers to selected ministries of importance to the Development Cooperation Ireland's Programme. Hence the discrepancy between the total and combined ministerial amounts.
Source: Kingdom of Lesotho, 2003: Report of the Auditor General for the year ended 31st of March 2002, Maseru

6 Deverajan, Easterly and Pack, 2000: Is investment in Africa too low or too high? Macro and Micro Evidence." World Bank Policy Research Working Paper.

other programmes after management difficulties, succeeded in spending only 1% of its capital allocation in the year under review.

Development Cooperation Ireland spend

Indicative data shows that over the period 2001 to 2004, Development Cooperation Ireland has provided 2.35% of total Lesotho expenditure (without principal repayments)[7]. Development Cooperation Ireland is the largest bilateral donor, with 32.5% of grant funding in this period. See details in Annex 3.

Table 2 Development Cooperation Ireland Lesotho spend 2001—2004

	2001/02	2002/03	2003/4	2004/5	Total
DCI spend (M Million)	74.4	100.5	84.5	87.2	346.5
DCI spend as % of budget	2.46%	2.75%	2.24%	2.03%	2.35%
DCI spend as % of grants	39.41%	33.91%	30.52%	28.65%	32.50%
DCI spend as % of capital spend	9.98%	12.05%	11.40%	10.76%	11.07%

View of Bokong Nature Reserve - situated 3000m above sea level

7 This data needs to be qualified in three ways and are therefore indicative: firstly the Lesotho and DCI fiscal years do overlap largely, but not exactly. Secondly, in 2001 not all funds were disbursed through government, although used in the provision of public goods. Thirdly, the DCI spend is calculated on disbursement data, which is provided in Euro, and converted for the purposes of the table using the average exchange rate for the year. Actual value in Maloti may therefore differ depending on the dates on which disbursements were made.

5 THE WAY DONORS PROVIDE ASSISTANCE

During the period under review, Development Cooperation Ireland intended to make a significant shift in the way it provided support to Lesotho. Whilst in the past most funds had been spent supporting a large number of technical specialists from Ireland through specific small projects, by 2002 the intention was, where possible, to support the activities of government. Phasing out of Irish Technical Assistance had started in the mid 1990s, and increasingly by 1999 funds were allocated to government projects. This continued, with a further shift from separate projects to more integrated programmes, with government theoretically managing spending. This also had an impact on where spending took place; whilst in the past Development Cooperation Ireland funding for all activities tended to be concentrated in particular districts, this is now less the case.

This intention was partially consistent with international trends to harmonise donors' agendas with those of government. Whilst Ireland has a long history of projectised NGO and humanitarian / welfare support, this kind of aid is now seen as (usually necessary) stop-gap measures. However, even 'humanitarian support' can be counter-productive, for instance if food aid is provided where not needed, food production skills and maintenance of the environment can very quickly disappear. Years of experience have demonstrated that sustainable development is only achieved where the policies and approaches of both donors and recipient governments are closely aligned.

The overarching goal of the 2002-2004 Country Strategy

"To support the GoL in its efforts to reduce poverty, build capacity and achieve sustainable development"

Donors generally, including Development Cooperation Ireland have sought to move from stand alone projects to more integrated programmes of support. Traditional project-type financing is costly. Project funding often does not produce the most needed goods and service, is unsustainable and above all, reduces recipient governments' ability to build systems which use all resources, whether internal or external, to optimal effect.

Ultimately, if policies and conditions are appropriate, donors might provide Direct Budget Support, where they transfer monies straight into governments' bank accounts.

Project
Financial aid, technical co-operation (or a combination of both) for the purposes of supporting a specified set of activities which are intended to achieve defined outputs and objectives.

Programme
At its simplest a programme can be one or more related projects It is "a logical construction from which separate coherent sets of activities, or projects, might be delivered. At the same time a programme is more than a set of projects. It is a system of activities delivering outputs, or merely facilitating or brokering complementary activities" DFID "Glossary of Development Terms"

Moving from project to more programmatic support aims at improving coherence between, and ownership of, activities and policies (whether funded by external or internal resources). It also seeks to reduce the cost of transferring the aid from development partner to recipient country. However, the speed at which the shift is accomplished needs to balance supporting the development of strong country policy and delivery management systems with donor and recipient government concerns over issues like corruption and wastage (fiduciary risk). Since it takes time to build the institutional capacity of partner governments, decisions on how funds are transferred also need to take into account the immediate need to provide particular services such as maintaining infrastructure, immunising children and preparing youth for the world of work.

For a donor such as Development Cooperation Ireland, there are a range of options for what is funded, who makes decisions and manages the aid and how the aid transfer is done. The four (stylised) approaches can be summarised as

1. Traditional **Project** Support,
2. **Programme** Support
3. **Sector** Support
4. Direct **Budget** Support.

As the capacity of the recipient increases, donors move down the list of options, with the objective that full-scale Direct Budget Support is the ultimate goal. These options can represent phases of assistance to a country. Identifying what option to choose on how to fund (the modality) depends on the individual circumstances in each country at a particular time.

Sector-Wide Approach (SWAP)

The defining characteristics of a SWAP are that all significant public funding for the sector supports a single sector policy and expenditure programme, under Government leadership, adopting common approaches across the sector, and progressing towards relying on Government procedures to disburse and account for all public expenditure, however funded. The working definition focuses on the intended direction of change rather than just the current attainment.

Source: Adapted from Brown, Foster, Norton and Fozzard (2001), The Status of Sector Wide Approaches, ODI Working Paper 142, January 2001

Moving to a more programmatic approach reduces the discretion from donors over what is funded. As a result, donors have an interest in ensuring that the policy capacity of government is sufficient to make the right choices, as well as that standards of probity are maintained. If circumstances require that aid is still transferred and managed through mechanisms outside of governments' own systems, progress is possible by ensuring that funding choices are more programmatic, or that reporting is streamlined. As a first step, donors often seek to co-ordinate their assistance through commonly agreed frameworks.

Annex 4 presents a stylised version of the options available, setting out the different characteristics of the four types of support.

As aid becomes more programmatic, better policies and information are needed. Systems for planning, budgeting, monitoring and evaluating the achievement need to improve, and be shared on a wider basis between donors and recipients. The intention is that donors should not duplicate systems that partners have in place, rather that they support their development.

It is important that goals and targets are set so that partners and funders can measure their achievements, and improve as required. There is, for example, the need to be able to answer whether there has been value for money for the Irish taxpayer of the aid given to Lesotho; has the money done what it was supposed to do – reduce poverty?

In Lesotho, Development Cooperation Ireland moved towards programme-based support through government without completely planning the process or setting clear criteria for decision-making. Whilst the move was in line with best practice, it might be argued that Development Cooperation Ireland applied the decision to change the modality of assistance too rigidly, without defining the necessary criteria that should underpin a decision (such as the level of policy or administrative capacity of partner ministries in government who were to receive funds). At the same time, such programmatic support required better co-ordination with other external funding partners, which has not always been evident in practice. It is often the case that there remains a role for civil society and non-state actors such as NGOs to receive funds rather than all funds being channelled through government, and that assistance might have been effectively provided to such non-governmental partners.

6 THE COUNTRY PROGRAMME'S PERFORMANCE AGAINST THE PLAN

Three mechanisms drive the allocation of funds and the activities Development Cooperation Ireland in Lesotho:

1. the Country Strategy Papers (CSPs),
2. Programme Approval and Evaluation Group decision documents (PAEG) and
3. funding decisions on the ground.

This section sketches how funding decisions follow through from the CSPs through the PAEG to support to specific activities. It was not possible within the scope of the review to track all 10 active programmes from strategy through to implementation over both CSP periods with any depth. Rather, the focus was on identifying trends in

i. whether funding was used as planned, and

ii. whether plans and/or deviations from plans were strategic.

Measuring the performance of Development Cooperation Ireland's funds is problematic for the period under review since no clear outcome targets were set at Country Programme level. However, it is possible to give an assessment of performance against strategic objectives and financial spending targets.

Tracking the performance of Development Cooperation Ireland Lesotho against plan has

i) a **substantive** aspect: *did Development Cooperation Ireland Lesotho fund activities that are in line with its strategic goals?*

ii) an **institutional** aspect: *did Development Cooperation Ireland Lesotho achieve a shift from alleviating poverty directly through the funding of projects, to supporting government to alleviate poverty through the funding of programmes?*

This section is supported by Annex 5, which tracks the HIV/AIDS programme in more depth, particularly to illustrate the difficulties of managing strategic choices within the current CSP.

It first sets out an overview of the achievements of the programme against the plan, then highlights key strategic lessons, followed by an assessment of financial performance.

Table 3 briefly sets out what Development Cooperation Ireland funded during the period under review, trends during the period and comments on priorities and impact as well as the alignment with Government of Lesotho, Development Cooperation Ireland and CSP policies and objectives.

This table identifies different activities for the two CSPs under review (the 2002-2004 CSP introduced a change in how Development Cooperation Ireland was disbursing funding in Lesotho, without changing substantively what was being done).

Programme Area	Funding activities in period	Trend Changes	Alignment with priorities and evidence of impact
EDUCATION 18% of budgeted programme spend 20% of actual disbursements	1999-2001 ■ Primary School construction in remote valleys ■ Teacher education and text books ■ Bursaries ■ Para-professional training ■ Supply of Breakthrough to Literacy (BTL) & other materials 2002-2004 ■ Primary School construction in remote valleys ■ Primary and Secondary Bursaries ■ Para-professional training ■ Supply of BTL & other materials ■ Dialogue with government on education management. Support to government to improve education management	■ Funding and implementation through government. ■ Geographical area of focus for school construction shifted in line with government priorities, but also keeping Development Cooperation Ireland focus on marginalised communities. ■ Number of schools constructed for available funding changed, since schools now comply with government standards. Life of school prolonged and maintenance costs reduced. ■ Bursary support through NGOs phased out ■ Engaged with government on how education is managed. Development Cooperation Ireland supported the development of a strategic plan, and supported the development of planning and management capacity in the Ministry. ■ Initiated dialogue with various partners to improve donor coordination.	The education programme is focused on supporting government to roll out free primary education, by providing school infra-structure to marginalised communities and removing bottlenecks in the system. The programme also supports the improvement of quality. This is in line with the *CSP objectives*. It supports Development Cooperation Ireland priorities insofar primary education is pro-poor, and specifically through the continued focus on marginalised communities and through support for bursaries for secondary education. The focus on primary education is in line with the education Millennium Development Goal and on equity with the gender equity Goal. It supports *Government of Lesotho priorities* directly, which is focused on the roll-out of free primary education. Overall there is evidence of successful impact. Schools are provided in remote communities, a cadre of para-professional teachers were trained with Development Cooperation Ireland funding, and BTL has been implemented in standard one. Equity is improving with improved gender balance in enrolment and across income groups. However, progress has been frustrated on engaging with the Ministry. Programme staff pointed to slow progress with the finalisation of the sector plan and weak capacity in the Ministry.

Programme Area	Funding activities in period	Trend Changes	Alignment with priorities and evidence of impact
HEALTH 21% of budgeted programme spend 18% of actual disbursements	1999-2001 ■ Improvement of Primary Health Care (PHC) Delivery Definition of district health package ■ MOU Government-Christian Health Association of Lesotho (CHAL) ■ Capacity Building Ministry of Health (MoH) / Projects account unit ■ Economic analysis of referral services ■ Improving PHC planning & monitoring meetings ■ Cold Chain equipment provision ■ Evaluation of national immunization policy ■ Training of community workers 2002-2004 ■ MOU Government-CHAL (not finalised) ■ Support for PHC – refurbishment of district clinics, procurement of basic equipment, training to district health teams, support to PHC nutrition, child survival and reproductive health. ■ Support for CHAL (training) ■ Support for project accounting unit ■ Demographic Health Survey (not started) ■ MoH headquarters (not started) ■ Driving progress towards SWAP/donor coordination	■ Funding and implementation more through government, although substantive support still to CHAL. ■ Focus on improving health care at district level: refurbishment of health clinics, training for district health teams ■ Funding for Health Ministry headquarters. ■ Focused support for aspects of primary health care. ■ Intensified engagement with government on health management. ■ Spearheads donor coordination initiatives within SWAP.	The Health Programme is focused on improving primary health care through government district health teams and through the district level health services of CHAL. Efforts are also made to integrate the parallel services of government and CHAL through a Memorandum of Understanding. Training is provided to improve health management, both in government and in CHAL. The programme supports Development Cooperation Ireland priorities insofar as primary health care is pro-poor, and as its focus is on precisely the target areas for the Millennium Development Goals (reduced child mortality, improved reproductive health) it supports GOL priorities, which is the implementation of the package of health reforms. Success in the programme, particularly against the CSP objectives of improving health management, is frustrated greatly by poor planning and poor communication within the Ministry of Health. These continue to be the key causes of low absorptive capacity and 'started but unfinished' projects. Development Cooperation Ireland is expending considerable advocacy effort to move overall health management issues along, progress with health sector reforms and moving towards a GoL/CHAL MOU. However programme staff reports very slow progress, but with recent improvements. It is unclear how the agreement to fund a Ministry of Health Headquarters (€2.4m) fits in with either Development Cooperation Ireland objectives, and overall Government of Lesotho objectives.

Programme Area	Funding activities in period	Trend Changes	Alignment with priorities and evidence of impact
RURAL WATER SUPPLY 20% of Development Cooperation Ireland budgeted programme spend 22% of actual spend	1999-2001 ▪ Support to Department of Rural Water Supply (DRWS) post 1997 focus on 3 districts, extended to 3 more in 2000 ▪ Supplies community water & latrines ▪ Support to sector wide review in 2001 2002-2004 ▪ Support integration of rural water supply, hygiene and sanitation. 2 pilot districts now extended to 5 districts ▪ Provided priority water points and pit latrines ▪ Trained private contractors to deliver services. ▪ Continued support for rural road subject to provision for maintenance and a framework for the transport sector ▪ Advocacy for standards suitable to Lesotho/support for the ILO study on standards for low volume roads	▪ Programme shifted to increased implementation through government with a decrease in technical decision making by Development Cooperation Ireland. Focus however remained on marginalised and most remote communities. ▪ Pilot projects to *integrate* rural water supply, hygiene and sanitation ▪ Two ministries now working together, albeit with great difficulty – reporting together ▪ Slow, but successful progress towards pooled funding in the sub-sector, supported by Development Cooperation Ireland.	Development Cooperation Ireland contributed significantly to increasing coverage of potable water in rural communities. This is in line with Development Cooperation Ireland *priorities* of poverty alleviation and the programme is in line with the Millennium Development for water and sanitation Goals. The shift to government is in line with Development Cooperation Ireland priority of partnership building and sustainable development. The sector activities show progress against *CSP objectives* of delivery of integrated water and sanitations services and in the establishment of a pooled funding mechanism. The pooled mechanism might be extended to the broader water sector. Insufficient attention however has been paid to issues of maintenance. The CSP set the requirement to ensure that maintenance issues are included in programming. While a maintenance plan has been prepared, it has as yet not been passed. Country programme staff noted issues of value for money.

Programme Area	Funding activities in period	Trend Changes	Alignment with priorities and evidence of impact
RURAL ACCESS 16% of budgeted spend 19% of actual spend	1999-2001 ▪ Support to DRR for construction of over 100km roads, 74 footbridges, 9 cross drainage structures ▪ 2001 review to the sector concluded well conceived and consistent with poverty focus, recommended further programmes 2002-2004 ▪ Continue to provide access through the provision of footbridges, cross drainage structures and rural roads ▪ Foster employment through the training and contracting of local contractors ▪ Continued support for rural road subject to provision for maintenance and a framework for the transport sector ▪ Advocacy for standards suitable to Lesotho/support for the ILO study on standards for low volume roads	▪ Programme focus shifted to increased implementation through government with a decrease in technical decision making by Development Cooperation Ireland. Focus remained on providing access to marginalised and remote communities. ▪ Contractors were trained and used on construction. ▪ Support to rural roads continued despite low provision for maintenance. ▪ Advocacy for finding suitable standards in order to extend the network continues, including funding for the ILO study.	The poverty focus of the programme received positive comment from a 2001 sector review, which is in line with Development Cooperation Ireland's focus on poverty alleviation. The development of infrastructure is a GoL priority, as expressed in the PRSP and the Vision 2020. However, it is not one of the top priorities: the PRSP process put employment creation, food security and governance at a higher priority than infrastructure. The continued programme showed progress against CSP objectives, particularly as regards providing a sustained workload for labour-based contractors and supporting a review of standards in Lesotho that would allow for a basic level of access to an extended network. However, in implementation the programme did not pay sufficient attention to ensuring that GoL makes provision for maintenance funds, or to upscale the rural footbridge component of the Development Cooperation Ireland budget.

Programme Area	Funding activities in period	Trend Changes	Alignment with priorities and evidence of impact
HIV/AIDS 7% of budgeted spend 7% of actual spend	1999-2001 ■ 3 year HIV/AIDS programme developed in 2000 ■ Support through government: Lesotho AIDS Programme Co-ordinating Authority (LAPCA) and District Task Forces ■ 3 community interventions supported ■ Baseline study on orphans funded 2002-2004 ■ Technical and financial support for LAPCA and new district task forces; Equipment for LAPCA and districts. ■ Key studies to improve information and understanding of HIV/AIDS and the miners and ex-miners ■ Support to Ministry of Agriculture and Education to mainstream HIV/AIDS into strategies and services, including exchange visits ■ Support for Positive Action for communication strategy ■ Purchase of home-based care kits, reagents, CD4 machines, maternity kits and basic drugs ■ Training for community and health workers ■ Care and Voluntary Counselling and Testing (VCT) activities	■ Strategy was aimed at supporting HIV/AIDS prevention, care and support through LAPCA. However, when LAPCA management was ineffective, and Development Cooperation Ireland funds were misdirected from approved activities, funding was stopped. Funding for HIV/AIDS activities continued through sector ministries and non-governmental organisations and projects. ■ Development Cooperation Ireland is taking leading role in coordinating donor activities around the establishment of effective HIV/AIDS structures, and a coordinated response to the HIV/Aids. However progress is slow. ■ Development Cooperation Ireland staff has been trained on HIV/AIDS and it is fairly well integrated across the programme.	Supporting HIV/AIDS activities are in line with Development Cooperation Ireland and GoL objectives. It also allies with the Millennium Development Goals. Achieving the CSP objectives was thwarted by a particularly difficult institutional environment. Institutional issues have dominated the ability of the government, and communities to respond to HIV/AIDS. The programme has advocated however for the strengthening of LAPCA and coordinated responses. HIV/AIDS was fully integrated into the PRSP process. The Development Cooperation Ireland response has however been projectised, rather than programmatic. Arguably Development Cooperation Ireland in Lesotho has not looked to address the underlying systemic issues relating to responding to HIV/AIDS (the health systems approach). Whilst they have been able to mobilize resource and funds for particular needs, there is a concern about the appropriateness of some of this spending. It is not clear what the opportunity cost is of the specific projects that have been chosen for support, or by which criteria those ones were chosen (e.g. scalability, optimal impact, coverage where no other services exist etc).

Programme Area	Funding activities in period	Trend Changes	Alignment with priorities and evidence of impact
GOVERNANCE AND PUBLIC SECTOR IMPROVEMENT 11% of budgeted spend 9% of actual spend	1999-2001 ■ Focus on supporting Public Sector Improvement and Reform Programme (PSIRP) ■ Focus on 2002 elections ■ Focus on strengthening local government 2002—2004 ■ Support for election, decentralisation, law reforms, human rights, anti-corruption measures, gender mainstreaming and public sector reform through supporting strategic plan development, training, furbishment of offices, procurement of IT equipment, exposure visits and direct support for programmatic activities (i.e. for Ombudsman road show, clearing of accounting backlog, logistical support to the Independent Electoral Commission (IEC) etc) ■ Advocacy for the implementation of the PSIRP ■ Partners include the IEC, the Ministry of Justice, Accountant General, Auditor General, the Ombudsman, the Ministry of Local Government.	■ Continuation and expansion of 1999-2001 plan ■ Focus on providing minimum capacity to undertake tasks (human capital, physical infrastructure, systems and plans) ■ Multiplicity of partners ■ Key transformational interventions: providing required additional funds to government budget to re-instate a functioning Accountant General's office, to raise profile of Ombudsman. ■ While PSIRP stalled Development Cooperation Ireland 'got on with it' and funded critical progress on changing the way the state works. ■ Success not always guaranteed: Ministry of Local Government, PSIRP coordinating committee breakdown of relationship due to fiduciary problems. ■ Further support to IEC stalled due to delay in local government elections ■ Gender issues under-developed, except for more generic capacity building support to Justice Ministry. ■ Suspension of support for civil society capacity-building while waiting for clearer guidance from Dublin.	The support to various partners and areas, while not directly related to poverty alleviation, is important insofar as it improves the capacity of the state to deliver goods and services effectively. Supporting the development of robust accountability systems in government and to the electorate is critical for improving the effect of spending in all the other Development Cooperation Ireland programmes, insofar they are delivered through the state. The programme is therefore in line with Development Cooperation Ireland priorities. It is also in line with the GoL priorities. Governance is one of the priority areas of the PRSP. The programme's success in meeting the CSP objectives was mixed. While the support to the Accountant General's and Ombudsman's offices is successful, the programme was far less effective in meeting the objectives set on decentralisation, gender and on the PSIRP. The reasons for these shortfalls are partly rooted in persistent delays in government itself. However, in the case of the Ministry of Local Government disputes with this Ministry prevented Development Cooperation Ireland from making meaningful progress. Programme would need to consider whether its support is not too fragmented across different governance areas and partners, and where the most critical interventions are likely to be in the next CSP.

Programme Area	Funding activities in period	Trend Changes	Alignment with priorities and evidence of impact
OTHER 2 % of budgeted spend 1% of actual spend	1999-2001 ■ Environment ■ Special Projects ■ Enterprise Development 2002—2004 ■ Enterprise Development: support for development of Small/Medium Enterprises (SME), through policy development support and capacity building ■ UNDP Advisor	■ Environment programme discontinued ■ Special projects – fund to support selected interventions -- discontinued ■ Enterprise programme scaled down significantly ■ Support for team to Para-Olympics (a post 2002 example of a special project) ■ Financial support for UNDP advisor in 2003	Enterprise development is a key component of GoL priorities, both in terms of the PRSP (where employment creation is the no 1 priority) and in Vision 2020. Through employment creation it is also a key component of poverty alleviation, the key Development Cooperation Ireland priority. However, Development Cooperation Ireland Lesotho has scaled down significantly the spending on this programme from the expected spend in the CSP, on account of lack of direction. It has decided on strategic engagement with the sector, and to hold back spending until there is clearer progress within government. This has not been forthcoming, thwarting support to the sector. Development Cooperation Ireland may consider whether government is the only and necessarily the best avenue of support for enterprise development. Its support in the programme went to the trade and industry ministry for policy development on SMEs – a process which is still underway in government, albeit very slowly – and support to the Basotho Economic Development Corporation. While the environment programme has been discontinued, it is a priority for the GoL. Support for the UNDP advisor was to increase the capacity of UNDP to engage with the GoL on strategic development issues, particularly HIV/AIDS. However, UNDP's engagement on these issues has been controversial, particularly amongst development partners.

Cross-cutting Issues	Activities and modalities for mainstreaming, 1999-2004	Comments
GENDER	As committed in the 2002 to 2004 CSP, Development Cooperation Ireland Lesotho did fund gender mainstreaming activities in the ministry charged with gender affairs. However, programme staff assessed the impact to have been limited. Overall, it is possible to track gender-positive impacts from Development Cooperation Ireland Lesotho spend: e.g. in education spending in remote valleys has a positive impact on boy child enrolment; rural footbridges cuts down on the time women spend to fetch supplies; provision of rural health clinics is gender-positive. However, programming is not explicitly linked to gender.	Mainstreaming of gender issues into all Development Cooperation Ireland Lesotho programmes can be improved. Significant gender issues face Lesotho currently, with the gender composition of the labour market changing as men are retrenched from South African mines and woman gain employment in the textile industry. This shift has marked social implications which would be important to address. Given the importance of gender in terms Development Cooperation Ireland priorities, it would be important to address these issues in a next CSP.
HIV/AIDS and PRSP	The cross-cutting nature of these activities are somewhat blurred in that they have specific programmes attached to them, with specific activities. While there is more evidence of the mainstreaming of HIV/AIDS in other programmes, the assumption is that the PSIRP is taken care of through the specific programme.	Development Cooperation Ireland Lesotho would need to find clarity on the balance between specific programming and mainstreaming cross-cutting issues into all programmes.

7 OVERALL PERFORMANCES AGAINST STRATEGIC OBJECTIVES

7.1 Impact

1) **The overall vision of the Country Strategy (and role of Irish Assistance) was partially maintained in practice;** a poverty focus, targeting the marginalised, assisting communities as much as possible. Key achievements were consistent with MDG targets (such as in health, education and support for water and sanitation) without explicitly making the link to them at programme level. It is difficult, unfortunately, to assess the impact on the country as a whole given the lack of clear outcome criteria.

2) **There is evidence in some areas of highly transformative assistance through specific small projects.** Across the programme, such transformative projects had varied impact; the majority of assistance remains on supporting discrete proposed activities, not on providing advice to reform the whole system so that it can best reduce poverty. Development Cooperation Ireland's assistance was most effective when working with Ministries that have strong leadership.

Box 2 Improving accountability: Support to the Office of the Accountant General

By December 2002 accounts for the years 1996/7 to 2001/2 had not yet been submitted to the Auditor General for auditing. Today, a year and a half later, the public accounts for the last two fiscal years have been completed, as well as below the line accounts for the years 1996/7 to 2000/1.

Development Cooperation Ireland Lesotho was instrumental in bringing about this change.

In response to a request from the Government of Lesotho Development Cooperation Ireland Lesotho provided critical support to the Office of the Accountant General (AG). Amongst others Development Cooperation Ireland supported

- The development of a strategic plan;
- The restructuring of the treasury;
- The training of staff, including exposure visits;
- The clearing of the accounting backlog (1996-2003 below the line accounts completed), the preparation of the 2001/02, 2002/03 public accounts;
- internal audit investigations;
- The office of the Accountant General & the head of fiscal policy and analysis unit

Completing the below the line accounts for 1996 to 2003 and the preparation of the 2001/2 and 2002/3 public accounts has however not been the only results from Development Cooperation Ireland support. When entering line ministries to complete the accounts for the missing years, the task teams set up by the AG found high levels of fraud. For example, in one district court false duplicates of receipts of fines were kept (M10 instead of M10 000), while the original showed the right amount. In response the AG launched several internal audit investigations. Aiming to improve cooperation between the police investigative services and his office, the AG arranged for members of the investigative branch to be seconded to his office in order to prepare the dossiers. When court backlogs caused long prosecution delays – which meant that suspended personnel could not be replaced – a special court was constituted to speed up the dispensation of cases. In effect the accounting cadre is being reconstituted and the informal 'rules of the game' changed.

When the Accountant General reforms were launched, funding from the 'usual' public sector reform development partners was still tied up in negotiations about the coverage, shape and sequencing of the Public Sector Reform and Improvement Programme. Development Cooperation Ireland's ability to be more responsive to the GoL for its 'in the meantime' requirements was critical in engineering the difficult organisational change that is required for the more technical reforms to take root.

7.2 Strategy

3) **Support has shifted comprehensively from project support disbursed to non-governmental implementing institutions, to funding activities through government (see Annx 4, Aid Modalities above).** However, the programme has retained some characteristics of project support. Funds are still tied to specific activities, although these are negotiated with recipient ministries.

4) **The overall portfolio of projects and activities is diverse.** Whilst much has been achieved through the programme, in contrast to the past when assistance was provided on a more area-based fashion, there is less evidence of coherence and complementarity under the more recent sector-based assistance. Integration of the programme is more evident within sectors. Fragmentation of the programme risks reducing overall impact and effectiveness.

5) **Whilst the strategy built on Development Cooperation Ireland's considerable experience in Lesotho, when programme components are compared to priorities set out in the draft PRSP and the Vision 2020 document it is possible to identify some mismatches.** Given that neither had been published at the time of the CSPs, this is understandable. However, it is not fully clear whether the prioritised areas arise from unique expertise of Development Cooperation Ireland. In some sectors, such as Rural Access and Water, Development Cooperation Ireland has a long track record of successful engagement.

6) **Focusing on government-only funding appears overly restrictive, given the role that civil society, NGOs and the private sector can play in service delivery, improving governance and creating employment.** In practice, some parts of the Development Cooperation Ireland programme have been funding non-governmental agencies throughout the life of the CSPs (such as CHAL in health). However, the lack of engagement in areas such as Enterprise Development because of weaknesses in government ignores other potentially fruitful partners for channelling assistance.

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7) **Whilst the 2002-04 strategy committed Development Cooperation Ireland to developing criteria for exit from Lesotho, none have yet been developed.**

7.3 Funding Decisions

8) **The lack of clear CSP objectives appears to have resulted in Development Cooperation Ireland responding favourably to many requests for funding within sectors, with few explicit criteria used to inform decision-making.** There would also appear to be spending decisions incurred in most sectors which do not strongly reflect a strategic focus.

9) **Some criteria for disbursement were set but not kept to** (such as a CSP commitment to only continue supporting the construction of roads if funding of maintenance was clarified). At the same time, lack of consistent or explicit partnering rules created and/or exacerbated potentially difficult situations (such as what information was required by Development Cooperation Ireland, what the particular interests of Development Cooperation Ireland were in funding particular activities?).

10) **Programme decisions demonstrated high levels of staff discretion.** This allows rapid response to immediate needs if they arise. However, discretion arose as a result of the lack of clear and consistent decision-making criteria, or a fully developed strategic framework for assistance linked to key outcomes. Decision-making appears at times ad-hoc as a result.

7.4 Prioritising support

11) **Development Cooperation Ireland funding effected key transformational spending.** For example, in the Governance and Public Sector Improvement Programmes funding has facilitated difficult reform efforts in the Ombudsman's office and the Accountant General's work on financial reform.

Box 3 Improving accountability: Support to the Office of the Ombudsman

The office of the Ombudsman is a constitutional institution and has been in place over 10 years. Its mandate is to receive and investigate complaints from the public in three main areas: public service delivery, human rights abuses and corruption.

Mr. Sekara S. Mafisa took office as the second Ombudsman in 2002. For eight years before that his predecessor, Mr Henry Nts'aba, had focused almost exclusively on the first mandate: the investigation of public service delivery complaints. However, Mr Mafisa saw the need to expand the work into the other two areas. This was not possible within his recurrent allocation from the central government budget: the funds required to raise the profile of his office in the other areas and to train the officers were not available.

In 2002 Mr Mafisa approached Development Cooperation Ireland Lesotho to fund the expansion of his programme. He was asked to prepare a business plan. "I showed them my budget and they took pity on me," remembers Mr Mafisa. Development Cooperation Ireland agreed to provide seed money to fund the development of a business plan. Finally, by the end of 2003, Development Cooperation Ireland agreed to provide funds to the Office of the Ombudsman for a road show to visit all 10 districts and to capacitate 6 investigation officers.

The result has been a much higher level of complaints. In 2002 and 2003 the Office received and handled a total of 300 complaints. In the first quarter of 2004 it has already received over 700 calls, "most of them valid". "We would never have been able to do it without the support from Development Cooperation Ireland," Mr Mafisa says.

The Ombudsman has also mounted two special projects since taking up office: a series of investigations into prisons and a public enquiry on the Lesotho Highlands Project. The report on the latter has already been published and found largely in favour of people affected by the project, whose disturbance allowance, minimum threshold, cash for arable land or delivery of compensatory grain had not been forthcoming in a timely manner.

The Ombudsman found in his investigation on prisons (amongst other):

- That the prisons are overcrowded
- That prisoners are not supplied with bedding
- That prisoners are not fed properly
- That prison inmates have no access to information.
- That there is need to investigate the spread of HIV/AIDS
- That prison officers are not given decent accommodation, uniforms, and the means to do their job
- That the Minister and Principal Secretary do not visit prisons to see for themselves the conditions.

The ombudsman also investigated acts of torture at Mohale's Hoek prison, and found them to be "criminal acts and violations of prisoner's basic rights" (Report on Complaints of the torture of prisoners at Mohale's Hoek Prison, p1).

12) **On the other hand, in some cases funding was used to fill gaps in government's budget.** It is not always clear that the gaps were the critical ones to be filled. A key example is the proposed commitment of €2.4m for building of a new Ministry of Health headquarters

13) **In other programmes Development Cooperation Ireland has retained its targeting of the most marginalised communities,** which may not have received basic water, sanitation and education services nor would have had access roads and drainage structures were it not for Irish support.

Box 4 Supporting the construction of headquarters for the Ministry of Health and Social Welfare

In February 2002 Development Cooperation Ireland Lesotho agreed to provide €2.4 million for the construction of a building for the Ministry of Health and Social Welfare (MoHSW). The PAEG document makes a convincing case why the current accommodation for the Ministry is unsuitable; the office space is inadequate; it is spread over a number of buildings; some of the buildings are sub-standard; it is partly housed in a hospital, which needs the space etc.

While the motivation for moving out of the current Ministry accommodation is convincing, the solution is less so.

1. The total budget for the project is M37 000 000 (€4.6 million). Of this Development Cooperation Ireland was to contribute 50% and the GoL 50%, in accordance with the PAEG. However, it transpires that the GoL contribution was to be provided through a quasi-Public Private Partnership, whereby the contractor, in partnership with a commercial bank, would finance the GoL half. This means in effect that the GoL would be borrowing at commercial interest rates. From a fiscal perspective there are two problems with this: firstly, if the money had come from the central budget it would have been financed with Treasury Bills, at a much lower rate of interest. Secondly, in effect the MoHSW would be acting outside of the government agreed fiscal framework.

2. While the construction of a new office building is a priority for the MoHSW, the MoHSW office building is not a priority for the GoL overall. There is a programme to improve government accommodation in phases. However, the MoHSW was not yet included due to the urgent requirement of other ministries, in particular following the destruction during the 1998 disturbances. By acquiring part-funding from Development Cooperation Ireland, the MoHSW found a lever with which to jump the queue and pry loose approval for earlier upgrading of its accommodation. More than that: the GoL had set aside funds to upgrade the old Treasury building (M2.1 million) for the Ministry of Health and Social Welfare. Armed with the Development Cooperation Ireland funds, the Ministry would now be able construct a new building.

3. It is not clear that overall the GoL needs further accommodation constructed. Between the property it owns and the property it is renting, it appears to have more space than required. It is therefore not certain that the construction of a new building for the MoHSW at a higher cost of capital than T-bill rates, is the optimal use of scarce resources.

The agreement to finance the building is a case where much benefit would have been derived from a proper project appraisal, assessing not only the cost benefit of the project (i.e. are the benefits more than the costs over the life of the project?), but its economic cost effectiveness (i.e. was it the best way to fulfil the objectives, were there cheaper solutions?).

7.5 Supporting the efforts of Government

14) **Implementation through government sometimes slowed down activity, but not equally in all sectors.** Pace of implementation was largely dependent on the capacity within the implementing ministries. A variety of assessments (from other donors such as DFID and the EC) have noted GoL's poor planning capacity overall, key deficits in the Ministry of Finance and Planning and the lack of Government accounts for 4 years. Whilst skills are comparatively good, systems are poor, with management challenges in many ministries. There would not appear to have been clear criteria to assess whether conditions were right for resource transfers, or if not, whether funds should be used to improve the policy environment so that future resource transfers could be made.

15) **Progress has been difficult towards strengthening the key mechanisms that would underpin more programmatic, sector and general budget support, and enable ministries to deliver services most effectively.**

Such key institutional mechanisms include;

a. greater coherence of policy across sectors,

b. strategic plans

c. improved planning and implementation and financial management capacity

d. pooled funding mechanisms to reduce the cost of aid transfer and

e. donor coordination.

Box 5 Transforming lives: a bursary for Keitumetse Shampene

Providing bursaries to deserving learners who are unable to afford school fees has long been a substantial part of the Development Cooperation Ireland Lesotho programme. Since 1999 to the end of 2003 Development Cooperation Ireland has provided approximately € 635,000 for bursaries. Many of these were disbursed through Save the Children Lesotho, the local arm of an international NGO, which operates mainly in 4 valleys in south-eastern highlands of Lesotho. These valleys are harder hit by HIV/AIDS due to their proximity to the KwaZulu-Natal province of South Africa. Girls from here are often married by age 15 and boys are taken out of school to look after the family herd of small farm animals, a key part of survival in food-scarce periods.

In 2002 Keitumetse Shampene wrote her Grade 12 examination, an opportunity which was only possible for her on account of a Development Cooperation Ireland Lesotho/Save the Children Lesotho bursary which had been paying her school fees for secondary school, and supporting her place in the school's hostel for girls. She achieved a second place overall and is now studying economics at university in Maseru. One of her peers Botatu Monoane, who would in all likelihood have spent his youth as a herdboy had it not been for a Development Cooperation Ireland Lesotho bursary, achieved 19th place in the same exam. He too has now entered tertiary education.

Keitumetse and Botatu are only two of many children who completed school with Development Cooperation Ireland bursaries, while the support to Save the Children Lesotho is being phased out.

8 FINANCIAL PERFORMANCE

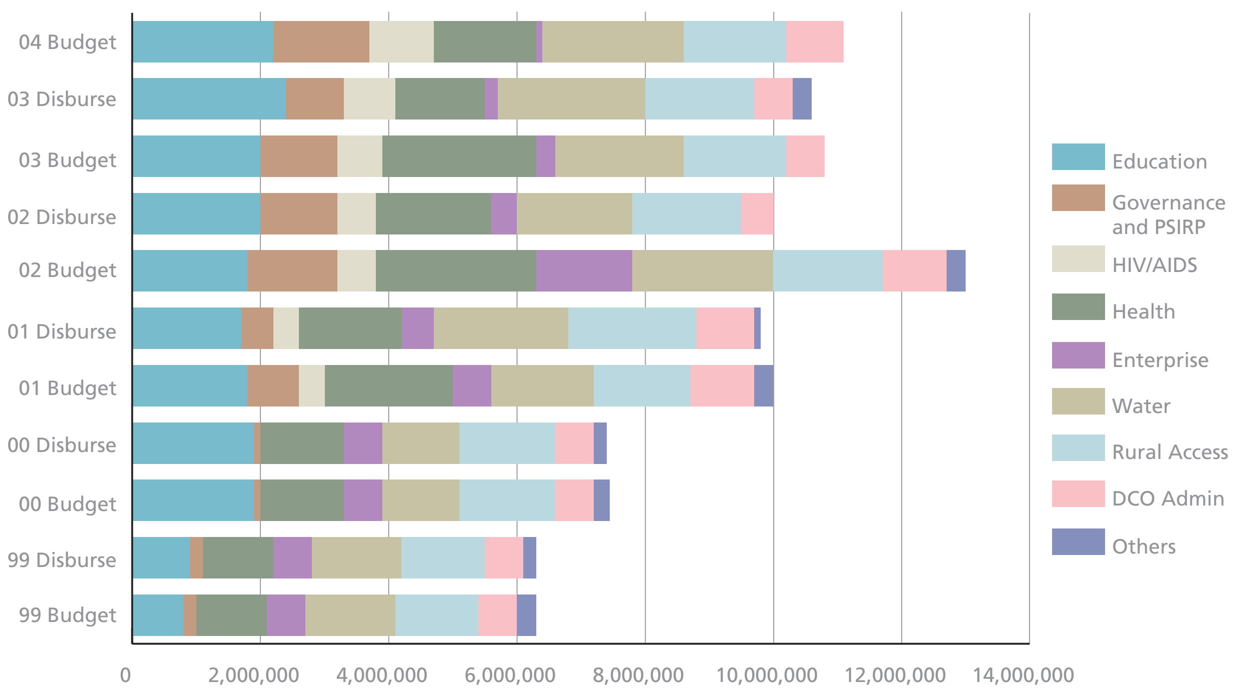
The overall financial performance of Development Cooperation Ireland Lesotho was reasonable. While its ability to disburse the funds allocated to it dipped from 97% in 2001 to 83% in 2002, it recovered in 2003 and succeeded in disbursing 93% of its original year-start budget. These aggregate financial results show a relatively smooth switch in financial terms from funding projects, to funding government to implement its policies, particularly given the poor policy and implementation environment in government. The achievement is made more remarkable considering that fund recipients were able to spend 98% of the 2003 disbursed amount.

However, there is room for concern that the purposes for which the funds were used were not always optimal, often on account of a poor policy environment in government combined with Development Cooperation Ireland pressure to disburse.

1) **DCI Lesotho disbursements are 11% less than budgeted, but 20% under CSP expectations:** The 2002 to 2004 CSP projected Development Cooperation Ireland Lesotho to spend €36,420,000 over the period of the CSP. However, due to budget changes from Dublin, which was at least partly driven by absorption difficulty in Lesotho, this was reduced over the three years by a total of €3 million, resulting in €33,018,000 beginning of year budgets being made available. Consistently over the period Development Cooperation Ireland Lesotho had further budget cuts in year, resulting in actual disbursements of approximately €20 million combined for 2002 and 2003 against beginning of year budgets of in total €22 million. On average, therefore, Development Cooperation Ireland Lesotho has been able to disburse 83% of the expected spend under the CSP, and 89% of its beginning of year budgets. The actual expenditure against budget trends are depicted in the graph below, which also shows the composition of expenditure by programme.

2) **The programme increased significantly between 1999 and 2001.** The graph also shows the increase in the size of the programme from 1999 to 2001. In 2001 Development Cooperation Ireland Lesotho disbursed over one and a half its disbursements of 1999. Its budget for 2004 provides a further 10% of resources over 2001.

Development Cooperation Ireland Lesotho Budgets and Disbursements Total and by Programme, 1999 to 2004



3) **Programme disbursements were more predictable for the 1999 to 2001 CSP than for the 2002 to 2004 CSP.** Against the 2002—2004 CSP indicative allocations there has been significant in-year prioritisation between programmes, with at the lowest end programmes receiving less than 50% and at the highest end more than 100% of their CSP allocations. On average programmes received 86% of their year start budgets. The previous CSP programmes received on average 96% of their year start budgets.

4) **Over the two years in the second CSP for which actual disbursement data are available, there is reprioritisation of disbursements away from the Health and Enterprise programmes to the Education and Water Programmes.** Table 4 below provides actual disbursements to programmes over 2002 to 2003 as a percentage of their year start budgets and as a percentage of their indicative CSP budgets. Only the Education, Rural Water and HIV/AIDS Programmes disbursed equal to or more than their expected and budgeted spending: all the other programmes disbursed less. The reasons for the shifts differ by sector, but include absorptive capacity, discontinuation of spending with key partners on account of misdirection of funds, as well as strategic choice by Development Cooperation Ireland Lesotho. For example, the low disbursements in the Enterprise Development Programme, the only one to receive less than 50% of its CSP indicative allocation, were on account of a decision by Development Cooperation Ireland Lesotho to withdraw from the sector on account of good coverage by other donors.

5) **Reduced overall budgets accounted for some of the inter-programme shifts.** Table 4 below does not take into account the effect of reduced budgets. Against beginning of year budgets, on average disbursements deviated by 15%. When expressed as percentage shares, Education, HIV/AIDS, Rural Water and Rural Access received a higher actual disbursement share over both their CSP indicative allocations and year start budgets. Health and Enterprise Development on the other hand, are the only programmes that received a lower share than planned in the 2002 to 2004 CSP and year start budgets.

6) **Intra-programme shifts were more marked.** For 2002 and 2003 on average across all the sub-programmes actual disbursements differed by 23% from the year start budgets, over and above the changes brought about by changes in available budget per programme[8]. These changes account for a further 8% of average deviation (totalling on average 31% deviation from budgeted share per sub-programme).

7) **In 2001 to 2003[9] pressure to disburse in 4th quarter across the programme is mediated somewhat by budget cuts already made, but must still influence programming choices in some programmes:** Although Development Cooperation Ireland Lesotho as a whole is not under significant pressure to disburse in the last quarter of the

Table 4: Winners and Losers: inter-programme shifts in disbursement against budget, 2002 to 2003

	Actual disbursements as a percentage of Year Start Budget	Actual disbursements as a percentage of CSP indicative budget
Education	115%	108%
Water	104%	102%
HIV Aids	100%	100%
Rural Access	97%	93%
Governance and PSIRP	81%	91%
DCO Admin	79%	92%
Health	70%	64%
Enterprise	33%	41%

8 Calculated as the average sub-programme disbursement deviation as a % of average budget per sub-programme, after controlling for changes in the budget per programme.

9 The years for which year to date expenditure by the end of the 3rd quarter was available.

Table 5: Programme disbursements against original and year end budgets

2001–2003	Disbursed by September % of Year Start Budget	% of Year End Budget
Education	90%	83%
Governance and Human Rights	38%	55%
HIV/AIDS	55%	52%
Health	54%	73%
Enterprise Development	34%	72%
Public Sector Improvement	80%	68%
Rural Access	63%	60%
Rural Water Supply	76%	71%
Total Development Cooperation Ireland programme	63%	69%

year (with on average 69% of the year end budget funds already disbursed for 2001 to 2003 against an ideal position of 75%), this is not true for all programmes and also reflects the fact that the budget has already been reduced at that point. For example, while 35% of 2003 overall spending happened in the 4th quarter, the bulk of office (70%) and technical equipment (63%) spending occurred in the fourth quarter, the combined effect of pressure to spend and a poor policy and implementation environment in government.

8) **Reallocation between programmes is at least partially, but not entirely driven by the ability to spend.** In 2001 to 2003 some programmes, notably HIV/AIDS and Governance and Human Rights, have a significant proportion of their budgets left to disburse in the last quarter (55% and 52% respectively). For the Governance programme, this pressure would have been even more marked if it still had its original amount to disburse, with end September disbursements against original budgets at 38%. Other programmes, notably Health and Enterprise Development, would have been under very significant pressure at this point over the three years, if they had not already lost budget share to other sectors (see table 5 above). On the other hand the last quarter typically brought renewed pressure to disburse for the Education and Public Sector improvement programmes, given their budget gains. For Rural Access and Rural Water Supply this trend is present, but reduced. The HIV/AIDS programme is in a unique position in that it is the only programme showing a budget gain despite marked low disbursement against original budget by end September. It is also the programme that registered the lowest actual spending against disbursements in 2003.

9) **The bulk of spending is on capital items:** In 2003 - the year for which the Evaluation collated more detailed actual expenditure information[10] - 61% of total Development Cooperation Ireland programme spending was on capital items, of which 91% provided physical infrastructure. The second largest spending item was the purchase of complementary programme inputs, such as learner support materials, drugs, home-based care kits, condoms and farming implements and seeds, and the third largest training. If the training and workshops budget lines are combined, they represent 15% of spending, which would make it the second largest component.

10) **Overall, there is a mismatch between actual spending and disbursements:** By the end of the fourth quarter in 2003 Development Cooperation Ireland's partners had spent 98% of the moneys disbursed to them from Development Cooperation Ireland. This however masks the in-year pattern. While Development Cooperation Ireland disbursed more than recipients spent for the first three quarters, in the fourth quarter spending by recipients significantly outstripped disbursements (at 120%), making up for time lost during the year.

10 More detailed actual expenditure information is collected by Development Cooperation Ireland Lesotho through the monthly and quarterly reporting system from partners. This information however is not systematically collated, but is filed separately by Development Cooperation Ireland fund recipient.

Table 6: 2003 - Distribution of Development Cooperation Ireland expenditure by types of spending

Budget Lines	Actual Expenditure	As a % of total expenditure
Recurrent support	€3,611,494	39%
Salary Support	€305,879	3%
Training	€808,168	9%
Workshops	€521,519	6%
Consultancy/Policy Development	€359,418	4%
Material Development and Distribution	€36,533	0%
Transport and Travel	€124,199	1%
Purchase of complementary inputs (learner materials, drugs, seeds etc)	€901,351	10%
Money Transfers to target population	€292,241	3%
Admin support/Programme costs	€232,240	2%
Monitoring and Evaluation	€29,945	0%
Capital Support	€5,756,126	61%
Physical Infrastructure Provision	€5,286,999	56%
Equipment	€430,257	5%
Of which IT Equipment	€104,513	1%
Technical equipment	€33,861	0%
Office equipment	€291,882	3%
Vehicles	€38,871	0%
Total	**€9,367,620**	**100%**

Table 7: Cumulative actual spend as a % of cumulative disbursements (2003)

	By end of 1st Q	By end of 2nd Q	By end of 3rd Q	By end of 4th Q
Amount disbursed for year by end of quarter	1,842,570	4,609,703	6,825,079	9,587,231
Amount actually spent by partners for year by end of quarter	1,804,539	4,006,506	6,043,080	9,367,620
Amount spent by end of quarter as a percentage of amount disbursed	98%	87%	89%	98%

Table 8: Actual spending as a % of disbursements across programmes

	Actual Spending	Disbursements	%
Education	€2,673,862	€2,313,921	116%
Health	€1,740,914	€1,568,078	111%
HIV/AIDS	€151,265	€795,000	19%
Rural Access	€1,646,998	€1,649,998	100%
Rural Water Supply	€2,199,998	€2,200,001	100%
Enterprise Development	€95,228	€94,804	100%
Governance	€273,408	€414,690	66%

However, these aggregate trends mask differences between programmes. Some programmes (Education, Health and Public Sector Improvement) spent more than the amounts disbursed to them, presumably on the back of positive balance at year start. Others, Rural Access, Rural Water Supply and Enterprise Development, spent exactly what was disbursed to them. All three were predominantly infrastructure programmes. HIV/AIDS and Governance however, spent significantly less than disbursed, at 19% and 66% respectively.

8.1 Financial management lessons

These financial trends highlight a number of key lessons regarding the distribution of spending and financial management practices:

While the shift to more programmatic funding through the State was an important one for long term aid effectiveness and development, it carried a short term cost. The loss in budget and higher virement between and within programmes are both the result of the difficulties Development Cooperation Ireland has encountered in funding through the GoL. There is an argument to be made that in sectors where government policy and delivery (absorptive) capacity is weak, an alternative route may have been to continue to fund through alternative delivery mechanisms, but to (i) ensure that government is consulted on which activities are undertaken and where (thus contributing to developing local public/private/NGO partnerships) and (ii) spend time, money and effort to build the capacity of the State. A likely result of the road chosen by Development Cooperation Ireland is that recipient communities suffer in the short term, that existing capacity outside of the State is truncated and that perverse incentives are created for the State, which is just about guaranteed funds, notwithstanding its effectiveness.

Given the more constrained fiscal environment there may be room for Development Cooperation Ireland to reconsider its focus on capital investment, albeit infra-structure or non-fixed assets. Aid is about supporting development, whether it is through investment in infrastructure, or investment in the human and social capital that will ensure that infrastructure is used optimally. While there is still a case to be made that Development Cooperation Ireland's contributions to capital infrastructure development is valuable in Lesotho, Development Cooperation Ireland Lesotho should take into consideration the following before committing itself to capital spending:

a. **The capital spending sufficiency in the sector it has prioritised:** If capital spending in any one sector outstrips the sector's ability to develop in terms of recurrent spending (the social and institutional infrastructure to make proper use of the capital infrastructure) Development Cooperation Ireland funds may very well be better applied in supporting the development of 'soft' infrastructure, or in supporting immediate recurrent transformational spending. Capital spending may outstrip other kinds of capacity on account of sustained years of capital spending or on account of large amounts from other development partners being made available. For example, in the education and water resources sectors large World Bank loans far outstrip Development Cooperation Ireland capital spend for the coming Country programme.

b. **GoL commitment to make available the recurrent funds for operational and maintenance costs of the new asset:** Even if capital sufficiency has not been reached in a sector, putting funds into capital assets without a commitment from the GoL that it will commit funds to operate and maintain the asset may be money wasted over the long term. There may be opportunity for Development Cooperation Ireland Lesotho to look at the status of the overall road network, for example, and provide funds to bring existing roads back to standard, rather than extend a network the GoL is already struggling to maintain.

It is clear that capital investment planning requires donor coordination mechanisms and proper project appraisal methods to be in place in a sector. Information on the planned spending of all development partners in a sector, matched against the strategic capital needs and proved capital spending capacity of the sector should be required before Development Cooperation Ireland makes a spending commitment. In addition, it should have peace of mind that the cost benefit and cost effectiveness assessments of the proposed asset are positive and that the GoL will be able to afford the recurrent cost of the asset in the long term.

The year end pressure to disburse or lose the money to other Development Cooperation Ireland support countries and have the budget reduced for the subsequent year creates perverse incentives, e.g. spending money on office and IT equipment of which the marginal benefit may be less than the marginal cost. There are two ways to remedy this: one is to change the rules of engagement in Lesotho to create pressure on programme managers and recipients to spend funds throughout the year. The other is to change Development Cooperation Ireland rules overall and allow roll-overs for funds that are committed by year end, but not expended, when there is demonstrable progress towards their use (effectively creating a 5th quarter).

The stability of the Development Cooperation Ireland programme over the six years assessed is marked. Not only do the sectors remain largely similar, the sub-programmes also are constant. The major change from 1999 to 2004 is that with the additional funds available, new programmes were added. There is evidence of discontinuation of programmes when Development Cooperation Ireland partners are not performing.

However, there is little evidence that Development Cooperation Ireland would discontinue a programme if its priority has reduced significantly but the partner is performing well. This is understandable: in an expanding resource environment prioritisation and rigorous assessment of effectiveness are not likely to be forthcoming. However, that is not to say that it should not prioritise. Development Cooperation Ireland should invest more effort in strategic budgeting, i.e. the top down allocation of resources in line with priorities rather than the allocation on account of bottom-up requirements by areas already in the play.

A related area is the need to be more explicit as regarding the criteria and rules for directing resources between and within programme areas. While the flexibility of Development Cooperation Ireland is one of its benefits in the Lesotho arena, too much flexibility undermines planning discipline by recipients and prevents exactly the type of capacity from developing that the GoL and its development partners are striving for. For example, if a ministry knows that it will be able to shift resources from one purpose to another by simply requesting it, it is more likely not to put too much effort into preparing the annual plan. The Development Cooperation Ireland Lesotho Programme may consider having an explicit flexibility mechanism in its budgeting processes: i.e. rather than budgeting for a sector to a level that it knows the sector is unlikely to absorb, create a contingency reserve which is disbursed as the year progresses to urgent needs from the GoL. The remainder of the resources can then be managed much more tightly against plans, under more explicit virement rules. If a sector is then in need of additional resources, for urgent (and hopefully unforeseen and unavoidable) activities, it can be funded from the contingency reserve.

Overall there is a need for Development Cooperation Ireland Lesotho to develop its capacity to manage its programmes through disbursements. Some programme managers confess to just passing on the quarterly financial reports to the accounting sector: managing a programme does not stop once the funds are disbursed. The overall actual expenditure trends need to be captured by programme and sub-programme, analysed overall and used in the internal management reports. Similarly, recipients should be asked to provide cash flow projections for the rest of the year each quarter, demonstrating how their overall budgets will be utilised. This will allow Development Cooperation Ireland Lesotho to spot problems much earlier and take corrective measures (rather than allow end of year pressure to develop). It will also create a conducive internal office management environment.

9 LESSONS LEARNED FOR THE LESOTHO COUNTRY PROGRAMME

The Government of Lesotho see Development Cooperation Ireland as a trusted friend. There was consistent praise for Ireland's presence when many other bilateral donors had relocated to South Africa or stopped their programmes altogether. Development Cooperation Ireland's flexibility was also noted (particularly the willingness to re-programme activities in year) as was the fact that Consulate staff were accessible, listened to government, and were professional in their approach. There was also recognition of the historical focus of the programme on the poorest and the most marginal communities.

Prior to 2002, Irish funds were focused on project related spending through a variety of partners. The 2002-2004 CSP intended to redirect funds through government and realign Development Cooperation Ireland's activities with the overall vision of government, an approach broadly in line with international practice. However, the timeframe for the realignment, implications on current activities and the overall strategic framework for supporting government spending were missing.

The 2002-04 CSP was also framed in terms of supporting an emerging national vision which had not yet been finalised, and in the context of recent considerable instability. The CSP was supportive of government activities, and identified the intention that government should take the leads in identifying priorities and activities. The intention was that direct resource transfer should be a higher proportion of spending, with technical assistance far less. The CSP was not specific about the conditions for assistance, in particular the criteria for transfer of funds to government.

9.1 Coordinating with other donors

Peer external funding partners identify Development Cooperation Ireland's approach in Lesotho as sensible and collaborative. They also note the flexibility of the programming and value the insights that long experience in country and high contact with projects on the ground brings. Staff are seen as highly knowledgeable of the local situation.

Development Cooperation Ireland has, particularly since 2003, sought to take a lead role in coordinating donor efforts in sectors, and donor advocacy for improved institutions. At the same time, there have been improved co-ordination efforts by other partners. Earlier in the life of the country strategies, such co-ordination appears less evident, and examples of Development Cooperation Ireland activities that may have undermined other donors' efforts were reported. Co-ordination in Lesotho is problematic, particularly since many agencies (including the World Bank) moved to Pretoria after South Africa's first democratic election in 1994. Other funders look to Development Cooperation Ireland to give a local lead since they are the largest bilateral in country.

The Country Strategy was primarily set out as bilateral relationship between the Governments of Ireland and Lesotho. Whilst clearly the principal relationship, there could perhaps have been more coherence with the work of Lesotho's external funding partners.

It might be argued that Development Cooperation Ireland could take more of a leadership role in helping define the broader agenda for donors in Lesotho given its history, understanding, contacts and presence. Several partners identified that Development Cooperation Ireland could use its in-country position to exert more influence on partners' policies in country. In particular, opportunities for influencing the EU could be made more of, given the size and influence of the EU country programme, and Ireland's locally important role compared to that of other member countries.

Other donors point out that they would like more information about what Ireland is doing, noting "they can be much more proactive". Explicit, transparent programming is important for co-ordination and integration.

9.2 Lessons for country strategic planning

The process of defining the Lesotho Country Strategy built on past experience and activities, but did not fully consider how Irish money could best be spent. Both the 1999-2001 and the 2002-2004 CSPs broadly continued work in the sectors where Development Cooperation Ireland had previously been involved. In both cases, the CSPs were built from the existing programme, and derived through consultations with partners in country. In effect they were built from the bottom up. Whilst rooted in the experience of working in Lesotho, there does not seem to have been an opportunity to fundamentally question where spending could be most effective. There is the appearance in both plans of expressing predetermined sectoral decisions, instead of assessing activities in the light of the overall strategy.

Participation in the CSP process was mixed, although final ownership by local staff was good. Finalisation of the plans was undertaken by a team of Dublin-based staff who visited Maseru. In the case of the 2002-4 plan, whilst the team officially had Government of Lesotho counterparts on it (from the Prime Minister's office and MOFDP), participation was limited due to time constraints. Local Development Cooperation Ireland staff also participated in the mission, and had prepared the way through a series of informal discussions with partners in government. Consultative meetings were held with government, NGOs, donors and other development partners. As is often the case with such missions, there was an element of inevitable (and arguably healthy) tension between the Dublin-based and local staff. Findings and the proposed country programme were presented at a workshop of stakeholders from government, NGOs and development partners chaired by Principle Secretary in the Ministry of Development Planning. Consultants were hired (locally in the case of the 2002-2004 plan) to draft the final documents.

The CSPs had limited use as a strategic document, although it did define sectors for spending and guided the reprioritisation of the programme. Notably, whilst the 2002-2004 CSP guided the shift of how the programme was spent, it did not set out clearly the strategic objectives for assistance, focussing on a realignment of the modalities of doing what were fundamentally the same things. Crucially, the CSP did not establish what the strategic goals and objectives for sectoral engagement and activities were to be. As a result it is input focused, containing statements of what will be done rather than what will be achieved. There was no definition of what the activities are meant to be contributing (particularly no statement of a link to the Millennium Development Goals).

The lack of a mechanism to link strategy to operational activities meant that some commitments were not held to. In addition, without effective performance management, high levels of discretion operated in practice. The lack of a "hierarchy of objectives" from national goal to strategy, from strategy to activities, and from there to individual managers' accountability makes evaluation of performance against the strategy somewhat problematic. This also makes it hard in practice to assess what has and has not been achieved through the Irish assistance to Lesotho in terms of development outcomes. The nature of much of the spending (infrastructure and equipment) mean that outputs (a road, a school) are more clearly evident. This perhaps is an issue for Development Cooperation Ireland more widely; the need to have more defined mechanisms of linking the CSP into the cascade of performance management (with milestones and more concrete objectives).

Whilst the CSPs committed Development Cooperation Ireland to identifying mechanisms for monitoring achievements, in practice this did not take place. The lack of a monitoring and evaluation component integral to the CSP (beyond financial monitoring) weakened the utility of the Country Strategy considerably. It also makes an evaluation of performance against the CSP difficult to assess. In the case of 2002-2004 CSP a commitment to set out monitoring indicators was not carried out. It is arguable that unless indicators are established when a Country

Strategy is written, it is unlikely that they will be defined. **The CSPs did not set out clearly the risks and assumptions.** In the case of the 2002-2004 CSP, perhaps too much was assumed in terms of the ability of the GoL to implement the PRSP and to absorb and effectively use funds. The underlying institutional assessment could have been stronger, and the CSP assumed a government-wide reform programme to be imminent. It has not yet taken place, but is expected. It is not clear what other risks and assumptions were implicit in the strategy adopted of shifting all support through government. Since risks were not properly assessed, and the assumptions in the CSP not tested so that if future conditions varied from the assumption, there were no strategic options for reprogramming.

9.3 Issues for the next country strategy

Development Cooperation Ireland has much that it can continue to contribute to in Lesotho. The potential impact of the HIV/AIDS epidemic alone makes a good case for continued engagement. Add this to the other vulnerabilities, and Lesotho, whilst demonstrating considerable improvements in key Human Development Indicators in recent years, is a country at risk. Development Cooperation Ireland's relationship with government, position among other donors, and knowledge on the ground mean that Ireland's presence in Lesotho can continue to be of benefit to the country. It is also likely the time and experience to date means that that per Euro, Irish aid in Lesotho can be more effectively spent in Lesotho than in new countries.

Strategic engagement

Given Ireland's experience of economic development and growth, there are other ways in which the partnership between Lesotho and Ireland could be developed further. The Lesotho government places high priority on building opportunities for investment, management capacity and a productive human resource base. It finds itself economically dependent on but much less developed than its large neighbour. Given recent Irish experience of creating opportunity and carving itself a position of higher economic security within the larger Europe, there are many ways in which Lesotho could benefit from Irish assistance, which has as much to do with the transfer of knowledge and expertise, as with the transfer of cash. **This might involve:**

- Engaging with the Lesotho Government at a strategic and political level (something the Bretton Woods institutions cannot do, given their technical and sectorally divided mandates) to address the wider long-term issues. Such dialogue should aim at broadening the debate on development to address the long term realities and the need for closer dialogue with Republic of South Africa (RSA). Incentives might include the need for large scale down-sizing of the Lesotho Government as customs revenues fall can be used as an incentive to engagement in strategic dialogue).
- Act as honest broker in opening strategic discussions with South Africa on the future economic relations with Lesotho. These could concentrate on the question of what could Lesotho offer in a freer labour market (e.g. the possibility of focusing technical training in Lesotho on skill gaps in the wider RSA economy as part of a package of eased labour movement.) These discussions should recognise that Lesotho's position is different from (and much less favourable than) the other countries in the region (Botswana, Swaziland, Namibia).
- Lesotho should be encouraged to develop its vision for what the economic relations in the region might look like in 15 years time. This could then form the basis for defining what Lesotho could bring to the table, and what forms of support would eventually strengthen Lesotho's bargaining position.

Financial Engagement

It would appear that there have already been discussions on the continuation of support for some sectors, for instance.

- PRSP: that Development Cooperation Ireland will continue to contribute to PRSP fund
- PSIRP: expectation that Development Cooperation Ireland will contribute to this programme,
- Education: already discussions about supporting moves to a SWAP and continuation in sub-sectors.

Whilst commitments may not be formalised, the lack of a systematic exit strategy and the past habit of continuing more of the same means there may be unhelpful moral and financial commitments which could reduce strategic options. **It is recommended** that the next Lesotho Country Strategy seeks to locate Irish assistance within a clear set of **principles** for assistance.

Table 9: Principles for assistance

a. That the strategy process starts from considering what are the most urgent development bottlenecks and problems in view of Lesotho's expressed priorities (such as the PRSP and Vision 2020), and what is the most effective support that Development Cooperation Ireland can provide to address these, given its corporate objectives, competitive advantage and support from other donors,

b. That it formulates clear overarching objectives, in dialogue with the GoL, in view of these factors and strategies to achieve them,

c. That it is clearly demonstrated how the resulting programmes and activities directly contribute to the achievement of the objectives,

d. That useful expected achievement targets and indicators are set for the Country Programme when the CSP is written,

e. That frameworks and mechanisms for monitoring performance of the programme against targets are established by the time the CSP is approved,

f. That ,where possible, Development Cooperation Ireland assistance seeks to support or leverage other donor's activities

g. That exit strategies are developed to be implemented over the period of the CSP for those sectors that are no longer a priority.

In addition, it is recommended that:

a. Development Cooperation Ireland should consider continuing to phase-in a reduction in the range of programmes and number of projects and focus more on the quality of assistance and support.

b. Development Cooperation Ireland Dublin should consider mechanisms for monitoring programme performance in year, against key output and outcome targets.

c. Funding and programme choices seek, over the life of the next CSP, to improve the planning modalities for capital spending and if needed, rebalance spending away from the high proportion of capital transfers (given the Government of Lesotho's effective capital surplus).

d. As a matter of urgency, Development Cooperation Ireland should only approve capital transfers contingent upon the analysis and clear accommodation of recurrent cost implications.

e. The principle underpinning the choice of modality of assistance should remain to progress towards sector-based assistance in collaboration with other donors. Where conditions are not appropriate for resource transfers to government (all donors spoken to during this evaluation indicate significant concerns about budget support) Development Cooperation Ireland should seek to strengthen fundamental institutional systems with capacity building elsewhere, including if necessary well designed Technical Assistance that will focus on long-term sustainability and skills transfer.

f. Programme staff should be enabled to manage aid effectiveness rather than solely technically manage interventions within specific sectors. Development Cooperation Ireland Lesotho has a good human resource base. The country staff provide in depth local knowledge and continuity across changes of international staff. However, their location within narrow technical sectors creates incentives for the continuation of existing programmes which reduces the ability of Development Cooperation Ireland to respond strategically to the development challenge in Lesotho.

g. The top level CSP programme achievement targets are translated into outcome and impact targets for programmes, with a hierarchy of objectives and expected results to funded activities. Accountability for managing activities that seek to achieve each target needs to be given to individual staff members. Logical frameworks should be used to support this process, linked to appraisal objectives.

Conclusion

Development Co-operation Ireland has an opportunity to increase the quality of its engagement in Lesotho. Ideally the recommendations set out in the evaluation would not be applied inflexibly, but rather intelligently in discussion with the GoL and other recipients. The objective is to support staff systemically to improve the effectiveness of Development Cooperation Ireland assistance to Lesotho, not to turn Development Cooperation Ireland into a standard rule-driven donor. That would mean losing precisely those qualities for which it is valued.

Sorghum terracing in the mountains of Lesotho. Courtesy Tara Shine

ANNEX 1

Lesotho's performance against the Millennium Development Goals

Lesotho is faring better than other countries in Africa supported by Development Cooperation Ireland when comparisons are made using the United Nation's key Millennium Development Goal indicators[11]. A range of the most recent data available is set out below[12].

Lesotho's population (approximately 2million) is small. It remains a poor country, and retains Least Developed Country status accorded by the United Nations, which now recognises Landlocked States as being particularly vulnerable. In Lesotho, the inaccessible interior of the country's mountains contains a much higher proportion of the Kingdom's poor than the lowland urban areas. While 93% of the population in the lowlands had access to water in 1994, only 27% in the mountains had. In the lowlands 87% of adults were literate, in the mountains only 66%. Whilst there are concerns about food security (with WFP warning of potential shortfalls in 2004-5), food shortages tend to be moderate rather than severe.

Access to education is comparatively good (primary schooling is now free), literacy rates among the highest in Africa (higher than other Development Cooperation Ireland supported countries) and significantly more girls and women benefit from education than boys and men. In contradiction to many situations, it is the men who are disadvantaged in terms of education (albeit not necessarily in access to resources).

Millenium Development Goal 1

Halve, between 1990 and 2015, the proportion of people who suffer from hunger	Lesotho 2000	Lesotho 2002	Mozambique 2000	Uganda 2000	Uganda 2002	Ethiopia 2000	Ethiopia 2002	Zambia 2001	Zambia 2002
Children under 5 moderately or severely underweight, per cent (UNICEF estimates) [MDG]	18%		26%	23%		47%		28%	
Children under 5 severely underweight, per cent (UNICEF estimates)		4%			5%		16%		7%

Millenium Development Goal 2

Achieve universal primary education	Lesotho 2000	Mozambique 2000	Uganda 2000	Uganda 2002	Ethiopia 2000	Zambia 2000
Education enrolment ratio, net, primary level, both sexes (UNESCO) [MDG]	78.4%	54.4%	109.5%		46.7%	65.5%
Literacy rates, aged 15-24, both sexes, per cent (UNESCO) [MDG]	90.5%	60.6%	78.7%	80.9%	55.0%	88.2%

11 Data only for these countries. Tanzania not available.

12 Most recent comparable data. See http://millenniumindicators.un.org/unsd/mi/mi_goals.asp for details.

Millenium Development Goal 3

Promote gender equality and empower women	Lesotho 2000	Mozambique 2000	Uganda 2000	Uganda 2002	Ethiopia 2000	Zambia 2000
Girls to boys ratio, primary level enrolment (UNESCO) [MDG]	1.02	0.77			0.68	0.93
Girls to boys ratio, secondary level enrolment (UNESCO) [MDG]	1.18	0.65	0.75		0.66	0.80
Girls to boys ratio, tertiary level enrolment (UNESCO) [MDG]	1.74	0.79	0.52		0.27	0.46

Source: United Nations Statistic Division 2004

Millenium Development Goal 4

Reduce child mortality	Lesotho 2001	Lesotho 2002	Mozambique 2001	Mozambique 2002	Uganda 2000	Uganda 2001	Ethiopia 2000	Ethiopia 2002	Zambia 2000	Zambia 2002
Children under five mortality rate per 1,000 live births (UNICEF estimates) [MDG]	91	87	208	205	145	141	176	171	182	182
Infant mortality rate (0-1 year) per 1,000 live births (UNICEF estimates) [MDG]	67	64	130	128	85	83	116	113	102	102
Children 1 year old immunized against measles, per cent (UNICEF estimates) [MDG]		70%		58%		77%		52%		85%

Millenium Development Goal 5

Improve maternal health	Lesotho 2001	Lesotho 2002	Mozambique 2001	Mozambique 2002	Uganda 2000	Uganda 2001	Ethiopia 2000	Ethiopia 2002	Zambia 2000	Zambia 2002
Maternal mortality ratio per 100,000 live births (WHO, UNICEF, UNFPA) [MDG]	550		1000		880		850		750	

Source: United Nations Statistic Division 2004

Lesotho is also achieving better in comparison with other Development Cooperation Ireland supported countries with regard to health indicators. In absolute terms, however, performance is not good. For instance, in Ireland six infants die for every thousand live births. In Lesotho the number is 87, and whilst the number of children under five who die per 1,000 live births in Ireland is 0.4, 87 die in Lesotho.

The Kingdom's principal immediate development challenge is HIV/AIDS. Lesotho's HIV prevalence rates are among the highest for countries receiving Development Cooperation Ireland assistance (31%). To date only 100 of this third of this access to Anti-retrovirals (with the aim of 4,000 by the end of 2004). Associated with such high prevalence rates are problems of aids orphans, social dysfunction and a potential erosion of the productive capacity of the country.

Millenium Development Goal 6

Combat HIV/AIDS, malaria and other diseases	Lesotho 2001	Lesotho 2002	Mozambique 2001	Mozambique 2002	Uganda 2000	Uganda 2001	Ethiopia 2000	Ethiopia 2002	Zambia 2001	Zambia 2002
HIV prevalence among pregnant women,aged 15-24, in major urban areas (UNAIDS -WHO-UNICEF) [MDG]		22.03		16.13				15.06		
HIV prevalence among pregnant women,aged 15-24, outside major urban areas (UNAIDS-WHO-UNICEF) [MDG]		16.13		7.93				12.76		
HIV prevalence among pregnant women,aged 15-24, all areas (UNAIDS-WHO-UNICEF) [MDG]		16.13		12.53						11.6
HIV prevalence rate, aged 15-49, per cent (UNAIDS estimates)	31		13			5	6.4		21.5	
AIDS estimated deaths (UNAIDS estimates)	25,000		60,000		84,000		160,000		120, 000	
Malaria death rate per 100,000, ages 0-4 (WHO) [MDG]	549		1,159		650				721	
Malaria death rate per 100,000, all ages (WHO) [MDG]	84[13]		232		152		198		141	
Tuberculosis prevalence rate per 100,000 population (WHO) [MDG]	401	449	512	547	540	550	440		860	588
Tuberculosis death rate per 100,000 (WHO) [MDG]	48	54	56	61	62	63	52		92	68

Source: United Nations Statistic Division 2004

13 2000 figures

Millenium Development Goal 7

Ensure environmental sustainability Target 10	Lesotho 2000	Mozambique 2001	Uganda 2000	Ethiopia 2000	Zambia 2000
Water, percentage of population with access to improved drinking water sources, urban (WHO-UNICEF) [MDG]	88%	81%	80%	81%	88%
Water, percentage of population with access to improved drinking water sources, rural (WHO-UNICEF) [MDG]	74%	41%	47%	12%	48%
Water, percentage of population with access to improved drinking water sources, total (WHO-UNICEF)	78%	57%	52%	24%	64%
Sanitation, percentage of population with access to improved sanitation, urban (WHO-UNICEF) [MDG]	72%	68%	93%	33%	99%
Sanitation, percentage of population with access to improved sanitation, total (WHO-UNICEF)	49%	43%	79%	12%	78%
Sanitation, percentage of population with access to improved sanitation, rural (WHO-UNICEF) [MDG]	40%	26%	77%	7%	64%

Source: United Nations Statistic Division

Access to water and (particularly) sanitation is also a challenge, especially for rural communities. However, trends are good; in 1990 only 34% of the population had access to sanitation, latest figures put this as now over 50%. Access to safe drinking water also improved over the period from 64% of the population having it in 1990 to 78% now.

Environmental degradation, limited productive agricultural land, and the impact of the Lesotho Highlands Water Project (supplying water to South Africa) all remain a concern. Although the population is small, inequality between the urban and rural areas is reportedly increasing, albeit that access to the country's interior is increasing as up to 100km of new roads are built each year.

Lesotho's indicators are deceptive. Whilst there have been successes in improving key human development indicators, HIV/AIDS has the potential to drastically undermine most gains. As well as the dominance of the HIV/AIDS epidemic, other risks are built into both the society and the economy which make Lesotho highly vulnerable to external and internal shocks. These are discussed further in Annex 2.

ANNEX 2

Lesotho's economic and fiscal performance[14]

Despite an overall positive economic performance during the eighties, early nineties and since 2000 (a real annual average GDP growth rate of 4.2%, 1980 to 2002), Lesotho remains a poor country with a GDP per capita of US$340 in 2002. Over the period 1998 to 2002 the real Gross National Income per capita[15] has declined slightly (-0.6% in 1998 prices), with 2002 performance (a real per capita increase of 3.9%) regaining some of the ground lost in the previous three years.

The Lesotho economy is vulnerable to external shocks, and its future growth prospects will continue to depend on the external economic environment. Lesotho's currency (the Loti) is pegged to the South African Rand. Its economic development centres on its membership and participation in activities of the Southern African Customs Union (SACU), the Common Monetary Area (CMA), the Southern African Development Community (SADC) and its status under the United States African Growth Opportunity Act (AGOA).

In the last five years economic development has been slowed by a sharp drop in mining jobs from South Africa, a high HIV/AIDS prevalence rate and declining agricultural productivity on account of declining soil conditions and climate change. Changes in employment patterns have also had social implications. Almost all the migrant workers in South Africa were male mineworkers from the rural areas. By 2004, 54,000 women are employed in the textile and clothing sector, mainly living in the capital Maseru. People within Lesotho's interior are becoming more, not less vulnerable.

Economic development was also adversely affected by the civil unrest of 1998, which resulted in negative growth for that year of -4.6%. On the other hand, overall economic growth was made possible by growth in the construction, manufacturing (see discussion below on the textile industry), financial intermediation, trade, education and hotels and restaurants sub-sectors. The table below

Formal non-agricultural employment by sector

	1990	1995	2000	2001	2002
Public Service	28,571	31,262	31,930	31,337	35,338
Migrant workers in SA	127,400	103,700	64,900	61,400	62,200
Textiles and clothing sector	7,400	14,261	18,690	32,605	38,780

Source: Ministry of Public Service and Lesotho National Development Corporation, as quoted in IMF, 2003/4: Statistical Annex for Staff Report for Article IV consultation.

Lesotho: Sectoral Shares of Economic Activities in percent of GDP (1990—2002)

	1990	1995	2000	2001	2002
Primary industries	26.8	17.9	19.7	19.3	18
Secondary industries	32.6	39.2	39.2	39.8	41.1
Manufacturing	12.4	16.6	16.1	16.9	17.5
of which textiles and clothing	*3.1*	*5.8*	*5.8*	*6.6*	*8.2*
Utilities and construction	20	22.4	23.1	22.9	23.5
Tertiary industries	40.7	41.7	41.1	40.9	41

Source: MOFDP, 2004

14 Main sources for this section include the MOFDP, 2004, Background to the Budget; Bank of Lesotho, 2003: Quarterly Review (XXII, 4); and IMF, 2003: Staff Report for the 2003 Article IV Consultation.

15 For Lesotho, which receives significant resources from outside of its boarders in the form of remittances and Southern African Customs Union resources gross national income is a better measure of available economic resources than GDP.

provides the sectoral shares of economic activity.

Between 1994 and 2001/2 Lesotho has succeeding in attracting sizable inflows of Foreign Direct Investment of which about 90% has gone into the textile industry on the back of preferential access to markets, as well as government efforts and investment promotion activities. Significant improvement in the current account was recorded between 1997 and 2001, but a rapid increase in imports in 2002, somewhat counterbalanced by exports from the textile industry, meant that the Balance of Payments deteriorated by nearly 50% in 2002. Between 1997 and 2000 the Capital and Financial account recorded a decline in the net inflow of resources, reversed by increases of over 20% in 2001 and 2002, on the back of capital grant transfers to the government budget and foreign direct investment. After four years of steadily increasing reserves, the significant appreciation against the major reserve currencies by the end of 2002 reduced reserves from 12.2 months to 7.2 months, slightly below 1997 levels.

Lesotho's economy is marked by an exceptionally high share of general government revenue and expenditure in GDP, made possible by high level of flows from the Southern African Customs Union. This flow has allowed the Government of Lesotho to record consistent fiscal surpluses for the first three quarters of the 1990s. However, the political unrest of 1998 reversed this trend. The impact on government revenues of the resulting reduction in economic activity and the cost of reconstruction was exacerbated by other extra-ordinary expenditures (costs to restructure Lesotho Bank prior to sale and redemption of commercial loans of the Lesotho Highlands Development Authority) resulting in unprecedented deficits in 1998/99 and 1999/00. The brief reversal to lower deficits in 2000/01 and 2001/02 (respectively 3% and 0.7% of GDP) was followed by a sharp increase in 2002/3 on the back of one-off election expenses and significant growth in the recurrent budget. The latter particularly is likely to create expenditure pressure in future years.

Significant vulnerabilities remain. At an aggregate level Lesotho has shown positive economic and fiscal performance over the last one and a half decades, apart from the economic and fiscal consequences of the 1998 civil unrest. However, several issues threaten its long-term fiscal stability and the continuation of the recent economic recovery post 1998. Chief amongst these are the long-term prospects of the textile industry, the impact of the likely decline in SACU revenues on fiscal sustainability and the impact of HIV/AIDS. We briefly discuss each of these.

The ability of the textile industry to create jobs and wealth is at risk. In 2002 the manufacturing sector (comprising mostly the textile industry) grew by an average of 6.9% and accounted for around 8% of GDP, making a significant contribution to the overall positive growth (see table on sector GDP shares above). Access to the international textile and clothing markets, particularly through the United States African Growth Opportunity Act (AGOA) has allowed employment in manufacturing to exceed 45,000 in 2003 (from 7,400 in 1991), the largest sector employment in the economy. Exports to the United States have grown annually by an average of 54% between 1999 and 2002.

However, the sector's role in the economy is volatile and likely to remain so over the medium term. Already declining orders from clothing retailers in the US, possibly on the back of lower competitiveness due to the strengthening Loti to the US dollar, has put the sector's production output in rapid decline since the third quarter of 2002, with approximately a third less output consistently by quarter on the previous year. Its potential for recovery is threatened by the uncertainty surrounding Lesotho's status as a Less Developed Country (LDC) under AGOA beyond 2004 and the phasing out of the multi-fibre quota regime under the Agreement on Textiles and Clothing (ATC). The latter will bring the industry up against fierce competition from low-cost producers in Asia. A long-term future for the industry is dependent on its ability to

- realise production cost savings and/or output quality improvements to increase its competitiveness;
- diversify downstream to remain competitive as the country of origin rules come into full play; and
- diversify into other products to maintain output as its LDC status is phased out

A long-term future for the industry – sustaining its economic and fiscal role (as a driver of growth) and social role (through high labour-intensive employment) - would be supported further by the free trade agreement, under discussion between the United States and the Southern African Customs Union region. This agreement would allow unfettered access to hundreds of products, including textiles to the US. The benefits from this agreement may counterbalance the effects of changing terms of trade under AGOA and ATC, but would still depend on structural improvements within the industry.

Revenues from the South African Customs Union may reduce. Two factors affect the flow of SACU revenues to Lesotho: changes to the revenue sharing formula and the multiple trade-negotiations between SACU and its trading partners. While the new 2002 SACU agreement is more democratic in the way it is structured, it comes at a cost to Lesotho, Botswana, Namibia and Swaziland. It is expected to come into effect

17 The 1996 agreement distributed the revenue through a formula that calculates revenue shares for each country (bar South Africa) with South Africa's share as a residual, on the basis of extra- and intra SACU imports and excisable goods consumed within the union. The formula contained a compensation that enhanced the non-South Africa countries' revenue receipts by 42%, and a stabilization provision that guaranteed 17% of the total SACU imports and excisable value to these countries.

18 IMF, 2004: Statistical Annex to the 2003 IMF Staff Report for Article IV Consultations.

in 2005/6. The new agreement[17] provides for a revenue sharing formula comprising three parts, a customs component (distributing customs duties in proportion to countries' share of intra-SACU imports), an excise

process that takes into account per capita GDP). An IMF simulation of the likely fiscal impact of the new formula combined with an expected reduction in trade tariffs (with the EU, US and the Common Market of the South) showed an annual revenue loss to Lesotho of about 6% of GDP per year. In the medium term, however, windfall revenues on the back of 2002 bumper imports will boost revenues in 2004/5 and 2005/6, easing the fiscal constraint temporarily.

HIV/AIDS is likely to have a significant negative impact on the economy and poverty reduction. An IMF simulation shows an additional deterioration of the overall fiscal balance by 5% of GDP by 2010, based solely on the impact of lower GDP growth in a scenario where government expenditure does not decline. The projection does not take into account possible upward pressures on government expenditure, assuming that development partners, international NGOs and the private sector will fund antiretroviral roll-out and other care and support programmes. Nor does it take into account a possible lowering of the revenue GDP ratio on account of reduced revenue collection efficiency.

In view of these factors, the medium to long term fiscal outlook indicates a reversal of the fiscal surpluses of the 1990s, with upwards pressure on budgets and reducing revenues. This may lead to rising domestic debt and interest payments, with commensurate fiscal and economic impacts, unless the GoL succeeds in containing non-priority spending, improving the efficiency of public investment and redirecting public expenditure to priority areas.

Lesotho's Fiscal Framework

Table 1: Aggregate Fiscal Framework, 2000/01 to 2006/7

M Million	2000/01[19] Actual	2001/02 Actual	2002/03 Actual	2003/04 Revised Actual	2004/05 Projected	2005/06 Projected	2006/07 Projected
Total Revenue and Grants	2721.3	2976.9	3331	3636.6	4537	4641.2	4659.5
Domestic Revenue	2625.1	2788.1	3034.7	3359.8	4232.8	4333.8	4348.7
Grants	96.2	188.8	296.3	276.8	304.2	307.4	310.8
Total Expenditure	**3286.6**	**3284.5**	**3878.7**	**3970.5**	**4540.3**	**4711.6**	**5003.3**
Total non-Principal Expenditure	2899.2	3024.5	3659.1	3764.5	4286.3	4435.9	4709.9
Of which capital expenditure	*473*	*745.6*	*833.9*	*740.9*	*810.1*	*900.7*	*955.8*
Principal Repayment	387.4	260	219.6	206	254	275.7	293.4
Deficit	565.3	307.6	547.7	333.9	3.3	70.4	343.8
Financed by							
External Financing	149.1	205.7	276	180.1	210.1	275	302.5
Domestic Financing	416.2	15.6	271.7	153.8	66.2	-204.6	41.4
Grants as a % of total non-Principal Expenditure	*3.32%*	*6.24%*	*8.10%*	*7.35%*	*7.10%*	*6.93%*	*6.60%*
Grants as a % of capex	*20.34%*	*25.32%*	*35.53%*	*37.36%*	*37.55%*	*34.13%*	*32.52%*
External financing as a percentage of total expenditure	*4.54%*	*6.26%*	*7.12%*	*4.54%*	*4.63%*	*5.84%*	*6.05%*

Source: MFDP, 2004: Background to the Budget.

19 2000/01 data is preliminary and may be revised when public financial statements are made available.

ANNEX 4 – AID MODALITIES

Feature 1: Improving aid effectiveness by changing what is funded and who makes programming choices

By moving towards budget support in terms of *what* is funded, the likelihood of ownership and policy coherence increases, in turn increasing the likelihood of long-term progress towards developmental goals.

Key Question	Project Support	Programme Support	Sector Support	Budget Support
What does the development partner fund and at which level?	Project support ties funding to a project, i.e. a series of activities at sub-programme level with a singular set of objectives, designed to produce a specific output or outcome within a limited time-frame.	Programme support does not tie funding to a specific set of activities, but rather to a programme, i.e. a series of related projects, usually within an overarching objective, treated as a unit for policy or administrative management purposes.	Sector support ties the funding to a sector, without specifying either the activities or the programmes within which it may be used, but making it available for use against a strategic, time-bound and performance oriented plan.	Budget support unties the funding completely, and provides it at a central ministry level.
Who receives the funds, makes programming choices and implements?	The donor decides what will be funded and liaises with a project implementation unit, or a designated implementation organisation.	Funds are made available to the relevant ministry to make programming choices, limited to activities within the designated programme. The ministry manages implementation.	Funds are made available to relevant ministry to use within the sector. The ministry manages implementation.	Funds are made available to government as a whole, who programmes and manages it together with internal resources.
Whose criteria drive what is funded?	Project support is donor driven, i.e. the donor's objectives drive decisions	Programme support is more recipient-driven, i.e. the uses of funds are aligned with the policy priorities and objectives of the recipient. However, donor objectives still count in that aid is tied to a specific	Sector support is only driven by donor objectives insofar the donor decides to invest in a specific sector. What is prioritised within the sector for funding, however, is determined by the priorities of	Budget support is driven entirely by the priorities of the recipient government as a whole.

Feature 2: Improving aid effectiveness by changing how aid funds are transferred and managed

As *how* the aid is managed moves towards budget support, the institutions and mechanisms puts government in the driving seat and reduces the time and money cost of transferring the aid.

Key Question	Project Support	Programme Support	Sector Support	Budget Support
Who manages the money?	A project implementation unit manages the money with a separate bank account, or the donor manages directly. Funds are disbursed up front, or against proof of expenses.	The recipient ministry manages the money, still through separate bank accounts for each donor. Funds usually are disbursed up front.	The recipient ministry manages the money. Usually a pooled funding mechanism is in place, with one bank account and one set of accounts. Sector-delimited budget support goes one step further managing funds through government's accounts.	Government manages the money. Funds are paid into the single treasury account/central revenue fund. Use of sector-benchmarks may influence allocation of funds.
Who accounts for the money and how?	The donor accounts for the money, using its own accounting systems and external auditors.	The ministry accounts for the money, using its own accounting systems and capacity. Audits are done by the SAI . Reports are produced according to specific donor requirements.	The ministry accounts for the money, using its own accounting systems and capacity. Audits are done by the SAI. One set of reports is produced for use by all donors.	Government accounts for the money within its accounting system. Audits are done by the SAI. No donor or aid-specific reports are produced.
How do donor-recipient relations work?	The donor works mainly with the project implementation unit, who may liaise with a relevant ministry.	The recipient ministry liaises with each donor separately.	The recipient ministry coordinate donors, who liaise with the ministry through a singular mechanism, eg by having a joint steering committee or a designated lead donor.	The donor liaises with the centre of government, usually as a group.
How is value for money ensured?	Donor sets project targets and funds and/or does project evaluation.	Donors initiate and manage evaluation mechanisms. Each donor does so separately, against a set of benchmarks agreed with the recipient, but separately for each donor.	The ministry provides financial reports, but also reports against the agreed benchmarks set in the sector strategic plan or in the sector funding agreement. .The ministry initiates joint evaluation mechanisms, usually through joint sector reviews.	Evaluation is only done insofar as government as a whole does it. Continuation of BS contingent on achieving macro-level benchmarks.

Feature 3: What needs to be in place?

Moving towards more budget support type modalities of aid is linked to certain minimum conditions being in place, to ensure that the twin objectives of continued benefits to communities and strengthened internal policy and delivery systems are met.

To be read cumulatively across columns	Programme Support	Sector Support	Budget Support
Moving to the right is linked to the systems it is intended to strengthen. Improving aid modalities is therefore about moving when systems are sufficient, but not necessarily complete, while working with governments towards them.	Time-bound, performance oriented strategic plans; Policy capacity; financial management capacity; procurement systems and capacity; distribution and delivery systems.	Donor coordination mechanisms; pooled funding mechanism; Monitoring and evaluation systems	Credible budgets (MTEF) Sound financial management systems Regular audit reports Good governance

ANNEX 5

The HIV/AIDS Programme

Development Cooperation Ireland is clearly demonstrating its global commitment to increase funds available for HIV/AIDS initiatives in Lesotho. This section briefly addresses the programmatic support for HIV/AIDS activities. It is indicative rather than comprehensive, and is based on what took place in practice. It is expected that a more detailed evaluation of the HIV/AIDS programme across Development Co-operation Ireland will be undertaken in 2004-5.

Background to programme

Within country, the Global Fund for HIV/AIDS, TB and Malaria is active, and funds have already been released to the Ministry of Finance and then on to 3 local partners. There is a clear political commitment from Government to address HIV/AIDS, albeit its approach raises some concerns. Whilst UNAIDS are present in Lesotho, the national response is significantly influenced by UNDP who are taking the UN lead and wrote a document forming the basis of the official government policy. Concern centres on the intention to ensure universal testing for the population within one year, which, in operation appears to be at odds with UNAIDS international policies. At the same time, it would appear that the policy lacks the support of the Ministry of Health.

Institutional co-ordination for the national response to HIV/AIDS has been difficult. A National HIV/AIDS Commission (NAC) has yet to be established, and the Lesotho AIDS Prevention and Control Authority (LAPCA) has proved weak and ineffectual. At district level, co-ordination is beginning, but not yet fully established.

Institutional issues have dominated the ability of the government, and communities, to respond to HIV/AIDS. Whilst faith-based organisations are supportive and have mobilised across the country, much scope for improved community level co-ordination remains. Large international NGOs such as CARE, and local groups such as the Church Hospitals Association of Lesotho provide direct care through their programmes. However, the many local groups at work are not co-ordinated fully, and the information they are gathering about the pandemic is not yet being systematically collated and used to influence

Mohales Hoek Supporters Group

In the south of Lesotho at Mohales Hoek, home-care training is given by a Support Group under the guidance of two Basotho Roman Catholic Nuns and an American Peace Corps Volunteer. Development Cooperation Ireland provided a small grant to assist them in their work. In all, 205 people have been taught how to care for those living with HIV/AIDS. People Living with AIDS also receive direct support in learning how to garden and grow food at a house donated by the local Archbishop.

Each person trained as a carer on a one week course might end up looking after up to five people in the late stages of AIDS. Whilst each receives a Home-Based Care Kit (containing supplies used to look after a person with late-stage AIDS), as yet there is no system to restock items such as disinfectant and gloves when they run out. Development Cooperation Ireland has been supporting the provision of Home-Based Care Kits through the MOH.

the response.

The Government of Lesotho has, through emerging policy frameworks (supported in the main by Ireland) committed itself to both programmatic responses to the pandemic, as well as mainstreaming responses across government (including a 2% budget allocation per Ministry). Whilst the PRSP has not yet been published, drafts demonstrate a commitment to the response. However, GoL are pursuing an aggressive policy of testing public servants and the general public, and it would appear that little attention has yet been paid to deciding whether and how to provide therapies. This policy is internationally contentious, and there are varying opinions between donors (notably the UN theme group and others) on the appropriate ways to support government.

The lack of a fully co-ordinated international position to supporting HIV/AIDS in Lesotho is problematic. Whilst Development Cooperation Ireland maintained relationships with other partners over the review period, there was no clear common framework of assistance to HIV/AIDS such as a sub-sector-wide approach or pooled funding.

Development Cooperation Ireland's Response

Development Cooperation Ireland Lesotho's response to the HIV/AIDS pandemic has been projectised in practice rather than programmatic, and has resulted in disproportionate spending on capital items such as vehicles and equipment. In addition, large proportions of the funds remained unspent in 2003, the one year for which the review compiled actual expenditure against disbursement information: in fact, the HIV/AIDS programme had the largest proportion of unspent disbursements by year-end. There is no evidence of learning by the Lesotho office or the creation of a learning-based local policy that seeks to use the programme to inform activities. Arguably, Development Cooperation Ireland in Lesotho has not sought to address the underlying systemic issues relating to responding to HIV/AIDS (through a health systems approach, which is even more important in a context of a weak or failing health system).

While these problems are partly related to the difficult institutional environment for HIV/AIDS activities in Lesotho, it is also related to the way in which funds are being programmed. The paragraphs below explore some of these issues.

A history of the programme

The approach is currently to include HIV/AIDS issues across the programme in all activities, as well as provide specific programming for HIV/AIDS. At the same time, HIV/AIDS is seen as an important issue for staff in the office. Development Cooperation Ireland HIV/AIDS programme commenced in 1999 with the strengthening of HIV/AIDS testing services as a stand-alone intervention. This was followed by two PAEGs, the first for the period 2000 to 2002 and the second for 2003 to 2005. Table 1 below provides a best possible mapping from the CSP through the second PAEG to activities actually undertaken in the programme. Tables 2 to 4 provide financial history of the programme.

The tables and graphs highlight the following problems with assessing the Development Cooperation Ireland

HIV/AIDS programme for consistency with CSP goals and managing in-year Development Cooperation Ireland spend:

1. *Misalignment between CSP and PAEG timeframes:* the first HIV/AIDS PAEG spanned both the 1999 and 2002 CSPs, as the second PAEG (2003 to 2005) is likely to bridge the current and new CSP. This has the effect of weakening the potential for a CSP process to challenge current programming and undermines the CSP as an overarching strategic document. As a result, what happens within the sector is more dependent on the PAEG than the CSP (as illustrated in Table 1 below).

2. *Unclear relationship between the CSP and the PAEG:* the CSP sector undertakings appear as lower level commitments to specific activities rather than a broader strategic commitment to support objectives or broad programme areas, within which specific

budgets and financial reports on how funding has been applied: the financial tables relied on easily accessible financial information, namely the record of budgets and disbursements held by Development Cooperation Ireland Lesotho, partner reports and annual audit reports. Whereas programme documentation is mostly at the sub-programme and (incomplete) activity level, partner financial reports and the available audit reports are at the object of expenditure level (i.e. the kinds of outputs that were purchased with the funds) or at a lower activity level ('workshops' instead of 'preparing a communication strategy'). Overall mapping financial shifts to changes in activities and the strategic decisions between sub-programme areas is not consistently possible.

Rural landscape near Mahobong in Northern Lesotho. Courtesy Tara Shine

6.

CSP undertakings	2003 to 2005 PAEG objectives	2003 to 2005 PAEG activity areas (Sub-programme area in bold)	Activities actually undertaken
Will continue to support the activities outlined in the existing (i.e. 2000 to 2002) PAEG approved document			Further PAEG developed (2003—2004), continuing main programme areas in previous PAEG.
Programme also advocate for ▪ the strengthening of LAPCA ▪ for HIV/AIDS to be fully integrated in to the PRSP process ▪ greater coherence among development agencies.	To improve coordination of HIV/AIDS interventions at national and district level.	**Coordination and refocusing national interventions:** ▪ Technical and financial support for LAPCA and new district task forces. ▪ Engage communication, evaluation and monitoring experts on two-year contracts. ▪ LAPCA to engage consultants to assist with the revision of the national Strategic Plan. ▪ Support workshops for developing communication strategy. ▪ Support salaries and equipment for LAPCA and districts. ▪ Key studies to improve information and understanding of HIV/AIDS and the miners and ex-miners, followed by a multi-sectoral programme.	▪ Development Cooperation Ireland funding was used to strengthen LAPCA but this support stopped in early 2003 when it was realised that the funds were being used for un-programmed activities. Supported procurement of office equipment & vehicles; establishment of District task forces & their training; training of LAPCA and line ministry staff including exposure visits to various countries. ▪ HIV/AIDS is one of the priority areas in the PRSP. ▪ Development Cooperation Ireland joined the extended UN-theme group on HIV/AIDS, the national multi-sectoral task force and other. ▪ Miner study completed
Support will also be provided to enable the Government to access resources from the Global Fund for AIDS, TB and Malaria			Government secured US$29 million for HIV/AIDS and US$5 million for TB from the GFATM. Development Cooperation Ireland supported establishment of thematic groups that worked on the preparation of the document. The thematic groups are multi-sectoral and multidisciplinary and have been maintained to facilitate implementation. Development Cooperation Ireland is a member of the Country Coordination mechanism.

CSP undertakings	2003 to 2005 PAEG objectives	2003 to 2005 PAEG activity areas (Sub-programme area in bold)	Activities actually undertaken
Provide financial and technical support for mainstreaming of HIV/AIDS through key sectors, with particular focus on health and education, as well as other sectors such as rural access, agriculture and water.		**Prevention:** Support to Ministry of Education to engage all education strategies to increase in-depth knowledge of HIV/AIDS. Support to the Ministry of Agriculture to use extension services to reach out of school youth, herd boys and ex-miners. Support to Positive Action for an interactive communication strategy to reach other populations, e.g. street kids, urbanised out of school youth and taxi industry. Document best practices.	
Consider funding some exchange visits in relation to orphan care and best practice in mainstreaming.			Exposure trips were taken to other countries including Uganda, Botswana and Thailand and South Africa
Will explore other areas for additional support including support to LAPCA in the area of Information, Education and Communication	To strengthen HIV/AIDS education and behavioural change amongst young girls and boys; males and females generally and bridging populations.		Positive Action Interactive communication strategy supported

CSP undertakings	2003 to 2005 PAEG objectives	2003 to 2005 PAEG activity areas (Sub-programme area in bold)	Activities actually undertaken
Areas for additional support include technical support for HIV/AIDS activities through CHAL.	To improve provision of clinical care and support for the infected and affected males and females	**Prevention:** providing seeds and farm implements to poorest families. **Care and Support:** Joint support with other donors for care and VCT activities for those infected and affected by HIV/AIDS. Procurement of reagents, rapid testing kits, CD4 count machine, laboratory reagents, maternity kits, basic drugs for opportunistic infections, counselling and home-based care kits. Training of community workers volunteers, youth and health care workers. Support in-house research and development. Support for Planned Parenthood VCT activities.	Nutrition and household food securit (key holde plots) introduced in Butha-Buthe & Quthing
	To improve awareness, responsiveness, and effectiveness of Ireland Aid to HIV/AIDS as a developmental issue.	Consultant to be engaged to conduct training needs analysis and run workshops.	
Continued focus on social sectors		Could possibly refer to continued support to education, health and agriculture.	

Programming provides little guidance when plans do not work out: Table 4 below provides actual spend in the HIV/AIDS programme for 2003. For the year 25% of disbursed funds were actually used. The programming hierarchy provides little guidance as to how to redirect funds within the programme if they are unspent at a certain point in the year. By the end of the 3rd quarter of that year less than a quarter of the year-start budget had been disbursed. It is therefore no wonder that only 25% of disbursed funds were spent by year end, given that close to three quarters of the total budget were disbursed in the last quarter. If there were proper risk assessments done when the funds were first programmed, and if better management information systems were in place, it may have been more possible to address the problem much earlier in the programming/spending cycle.

Table 2 Development Cooperation Ireland HIV/Aids spending in Lesotho

Euro	2001		2002		2003		2004	Total Actual Spending 2001 to 2003
HIV AIDS	Budgeted	Actual	Budgeted	Actual	Budgeted	Actual	Budgeted	
Integration and Coordination	132,053	149,032	240,000	321,963	200,000	10,484	325,000	481,479
Voluntary testing and counselling	40,632	21,586	90,000	2,826	0	26,501	0	50,913
Care and Support	132,053	214,427	194,000	224,050	200,000	411,931	230,000	850,408
Data Collection and Surveillance	76,184	74,927	60,000	81,209	0	0	0	156,136
Prevention	0	0	0	0	400,000	346,084	445,000	346,084
Strengthening LAPCA	0	0	65,000	23,663	0	0	0	23,663
Total	380,922	459,972	649,000	653,711	800,000	795,000	1,000,000	1,908,683
% of Development Cooperation Ireland total budget/spending	4%	4%	6%	9%	6%	7%	9%	5%

Source: Development Cooperation Ireland Lesotho

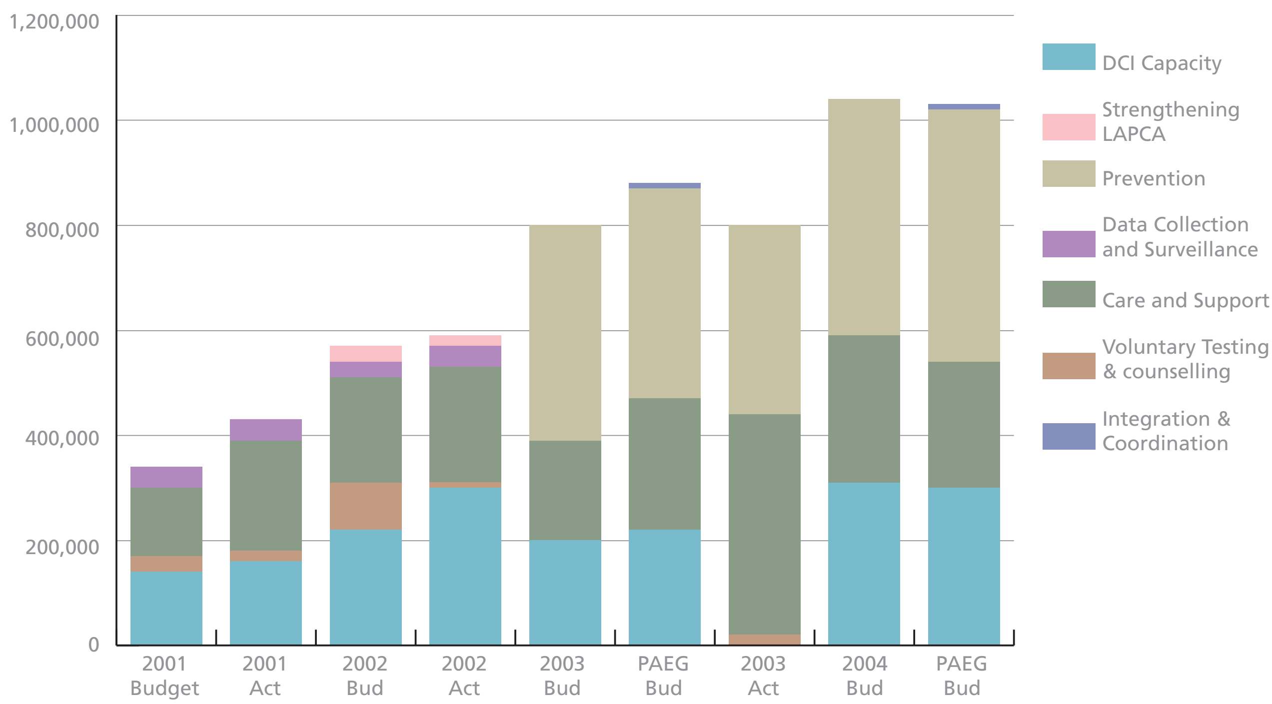


Table 3: Development Cooperation Ireland HIV/AIDS spend by objects of expenditure 2002

Expenditure purpose	Total (Maloti)	Share of total
Salaries	8,448.00	0.1%
Travel, per diems, workshops	1,079,377.00	15.8%
Campaigns/district task forces	537,704.00	7.9%
Office refurbishment and equipment	332,044.00	4.8%
Data collection	20,557.00	0.3%
Home-based care kits	2,280,445.00	33.3%
District coordinator's vehicles	2,324,640.00	34.0%
Other costs	258,200.00	3.8%
Total	**6846415.00**	

Source: PMB Auditors Development Cooperation Ireland Audit Reports 2002

Table 4 Development Cooperation Ireland HIV/AIDS spend by objects of expenditure and quarter 2003

Euros	1st quarter	2nd quarter	3rd quarter	4th quarter	Total	As % of total
Recurrent support	1,363	2,133	31,434	113,185	148,116	98%
Salary Support	0	0	0	0	0	0%
Training and Workshops	0	0	0	0	0	0%
Workshops	0	0	21,402	36,348	57,751	38%
Consultancy/Policy Development	0	2,133	0	30,924	33,057	22%
Material Development and Distribution	0	0	10,032	26,501	36,533	24%
Transport and Travel	1,363	0	0	0	1,363	1%
Purchase of complementary inputs (learner materials, drugs, seeds etc)	0	0	0	17,595	17,595	12%
Money Transfers to target population	0	0	0	0	0	0%
Admin support/Programme costs	0	0	0	0	0	0%
Monitoring and Evaluation	0	0	0	1,817	1,817	1%
Capital Support	0	0	0	3,149	3,149	2%
Physical Infrastructure Provision	0	0	0	0	0	0%
Equipment	0	0	0	3,149	3,149	2%
Of which IT equipment	0	0	0	0	0	0%
Technical equipment	0	0	0	3,149	3,149	2%
Office equipment	0	0	0	0	0	0%
Vehicles	0	0	0	0	0	0%
Total	1,363	2,133	31,434	116,334	151,265	100%
Percentage of total	1%	1%	21%	77%	100%	

Financial Data

In total Development Cooperation Ireland has spent € 1.9 million on HIV/AIDS related programmes in Lesotho from 2001 to 2003, equalling 5% of its total spend. An additional € 1 million is budgeted to be spent in 2004.

DCI Lesotho has consistently been increasing in-year the share of HIV/AIDS programme spending in its overall programme. Given that in both 2002 and 2003 the overall programme was allocated less than budgeted for at the start of the year, this trend shows up a de facto protection of the sector from the budget cut, despite severe absorption difficulties. In 2001 and 2002 Development Cooperation Ireland in fact spent more in absolute terms on HIV/AIDS than budgeted (by € 80,000 and €13, 000 respectively). The graph below illustrates this trend, as well as the greater streamlining on sub-programme areas that took place after the 2003 – 2005 PAEG.

The graph also illustrates the shifts that took place from budget to implementation between the sub-programmes. In 2002 (when strengthening LAPCA was still budgeted for separately from Integration and Coordination) support for LAPCA was replaced with much higher activities under Integration and Coordination. In 2003, funds were moved from Integration and Coordination into VCTs (although not budgeted for separately) and into Care and Support.

Usage of funds within sub-programmes

Data on how funds were used in each of the sub-programme areas are not easily accessible. Where it is accessible, the relationship between programme areas, activities and inputs are not clear. The two tables below shows the use of funds for 2002 (from the Audit reports) and 2003 (from partner financial reports).

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