
President's report
Proposed loan
Kingdom of Lesotho
Wool and Mohair Value Chain Competitiveness Project

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Action: The Executive Board is invited to approve the recommendation contained in paragraph 55.

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- I. Negotiated financing agreement (to be made available prior to the session)
- II. Logical framework
- III. Integrated project risk matrix

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Map of the project area



The designations employed and the presentation of the material in this map do not imply the expression of any opinion whatsoever on the part of IFAD concerning the delimitation of the frontiers or boundaries, or the authorities thereof.

Map compiled by IFAD | 14-07-2022

Financing summary

Initiating institution:	International Fund for Agricultural Development
Borrower/recipient:	Kingdom of Lesotho, represented by the Ministry of Finance
Executing agency:	Ministry of Agriculture, Nutrition and Food Security
Total project cost:	US\$72.644 million
Amount of IFAD loan 1 (performance-based allocation system):	US\$15.2 million
Terms of IFAD loan 1:	Blend
Amount of IFAD loan 2 (Borrowed Resource Access Mechanism):	US\$5 million
Terms of IFAD loan 2:	Ordinary terms: Maximum maturity period of 35 years, including a maximum grace period of 10 years, subject to maximum average maturity of 20 years
Cofinanciers:	Organization of the Petroleum Exporting Countries (OPEC) Fund for International Development (OPEC Fund) Global Environment Facility (GEF)
Amount of cofinancing:	OPEC Fund: US\$20 million GEF: US\$5.2 million
Terms of cofinancing:	OPEC Fund loan GEF grant
Contribution of borrower/recipient:	US\$8.061 million
Contribution of beneficiaries:	US\$7.381 million
Financing gap:	US\$11.802 million
Amount of IFAD climate finance:	US\$4.130 million
Cooperating institution:	Directly supervised by IFAD

I. Context

A. National context and rationale for IFAD involvement

National context

1. The Kingdom of Lesotho is governed by a coalition government and has experienced a decade of relatively unstable leadership, with parties and coalitions often changing, and, at times, causing governments to collapse. This affects the country's development dynamics. Lesotho exports water, diamonds and textiles as its main commodities. Of these exports, only textiles generate significant employment.
2. The agricultural sector is a major source of livelihoods, engaging approximately 71 per cent of the rural Basotho population.¹ Livestock accounts for the largest share of the agricultural GDP. Wool and mohair are the two largest agricultural commodities, accounting for an estimated 60 per cent of agricultural exports. Since Lesotho's classification as a lower-middle-income country in 2019, lending terms for development finance have hardened. This poses a significant development challenge for the country and makes increasing private sector-oriented development and enhancing the resilience of commercial value chains (VCs) a key priority.
3. Wool and mohair are natural fibres predominantly used in the apparel industry and the high-end fashion market. The raising of wool sheep and mohair goats contributes significantly to the livelihood of about 45,000 rural Basotho families. Wool and mohair are biodegradable, renewable and eco-friendly, which position them as niche "green" fibres. As these commodities are influenced by consumer retail spending, their viability is dependent on consumer preferences and end-market requirements.²
4. Lesotho's wool and mohair sector faces key constraints, including mistrust and limited VC coordination; lack of data for management, policymaking and planning; limited access to finance; and sub-optimal management of critical public assets (shearing sheds, sheep and goat studs for improved breeds). Furthermore, heavy dependence on South Africa for input procurement and access to services constrains individual farmers, associations and larger private sector actors. The dominance of paper-based reporting constrains the certification of products.
5. The industry's economic performance is further hampered by a recent split in the major producer organization,³ a relatively ad hoc modification of marketing regulations and limited systematic upgrading outside of development projects.

Special aspects relating to IFAD's corporate mainstreaming priorities

6. In line with IFAD's mainstreaming commitments, the project has been validated as:
 - Including climate finance;
 - Youth-sensitive;
 - Including adaptive capacity. **Climate change.** Lesotho is experiencing increased frequency of extreme weather events such as floods and droughts, and suffers from significant topsoil erosion and reduced soil fertility. These trends negatively affect livestock production/productivity and producers' livelihoods.

¹ Ukraine crisis impact: Price of feedstuffs is expected to rise in the short and medium terms. Farmers need to be trained to use local resources for animal feed (from appropriately managed pastureland), including by adding value to crops and industrial by-products (cereal and pulse straw, maize stalk, spent grains from breweries, etc.). Fuel prices have increased in Lesotho, driving up projects' operating costs.

² Liako Mofo, *Trade & Industrial Policy Strategies – Regional Wool Value Chain* (2021).

³ The two predominant producers' organizations are the Lesotho National Wool and Mohair Growers Association and the Skylight Wool and Mohair Association.

8. **Social inclusion.** Lesotho has a low Human Development Index ranking (165th out of 189 countries).⁴ Despite the country's progress in poverty reduction in previous years, high levels of economic vulnerability persist among the rural population. Lesotho has the second highest HIV prevalence in the world (23 per cent). With an unemployment rate of 32 per cent, a significant share of the population lacks access to steady income and cannot mobilize working capital, productive assets or financing to invest in rural livelihoods.

Rationale for IFAD involvement

9. IFAD is currently the largest and longest-standing development partner for the Government and for the wool and mohair industry in Lesotho. Building on the Wool and Mohair Promotion Project (WAMPP) and continuing to work with the estimated 45,000 wool and mohair farmers is strategic and recommended to consolidate the outcomes of WAMPP and achieve deeper impacts. The project also features a pro-poor approach, as production of wool and mohair remains concentrated in those districts recording high levels of poverty.
10. The sector offers a strong opportunity to mitigate climate risks and incorporate climate and environmental aspects such as the sound animal and landscape management practices promoted under the increasingly requested responsible production standards. IFAD can leverage global knowledge and experience to bring in climate finance and prepare the subsector to potentially attract further climate finance for inseting and related investments.
11. From consultations with the Government, it has become clear that an effective means to promote a more inclusive and self-sufficient wool and mohair VC in the country is to build a stakeholder-led consortium to facilitate VC governance, regulation and service provision. IFAD's global knowledge will be helpful in supporting the VC stakeholders in Lesotho in building and operating VC systems through a trust fund-trust company (TF-TC) consortium.

B. Lessons learned

12. The Wool and Mohair Value Chain Competitiveness Project (WaMCoP) design builds on a range of lessons learned from previous interventions, including:
- (i) Sustainability and project-exit are considered from the onset, hence the formation of the TF-TC.
 - (ii) Attention is given to building a viable, sustainable and business-oriented digital ecosystem.
 - (iii) VC governance and coordination are identified as key limitations under WAMPP and addressed through adequate institutional strengthening, accompanied by regulatory and policy work.
 - (iv) Continuation of the culling and exchange programme and digitization of the breeding plan scale up significant achievements and strengthen systems for reliable genetic supply from within Lesotho.
 - (v) The productive alliance approach and reduced use of matching grants for three windows only build on the Smallholder Agriculture Development Project (SADP I) evaluation and SADP II implementation experience.
 - (vi) A multi-phase approach and triggers related to financial management and outcome performance build on IFAD-supported projects, such as the Regeneration of Landscapes and Livelihoods Project (Lesotho), the Shared-risk Agricultural Financing Incentive Mechanism Support Project (Togo) and the Kayonza Irrigation and Integrated Watershed Management Project (Rwanda).

⁴ This corresponds to a Human Development Index value of 0.527, based on the 2020 Lesotho country profile.

II. Project description

A. Objectives, geographical area of intervention and target groups

13. The project's overall goal is to increase the economic and climate resilience of wool and mohair farmers' livelihoods. The development objective is to promote inclusive and sustainable economic growth and private sector-led job creation from wool and mohair production. The project will target about 45,000 households (approximately 225,000 persons) over a seven-year period (2023–2030), including 50 per cent women and 35 per cent youth.
14. While the project will be national in scale, it will place special emphasis on the highland areas, which have a high incidence of poverty and limited market access but high numbers of sheep and goats. All component 1 activities, excluding the promotion of cottage industries, will be national from the start.⁵ To facilitate start-up and to ensure a poverty-reduction focus, several component 2 activities will initially target specific geographical areas.
15. The target group will be predominantly smallholder wool and mohair farmers. The project's operational entry point will be shearing sheds, and therefore members of wool and mohair farmers associations at the shearing shed level will be the main target group.

B. Components, outcomes and activities

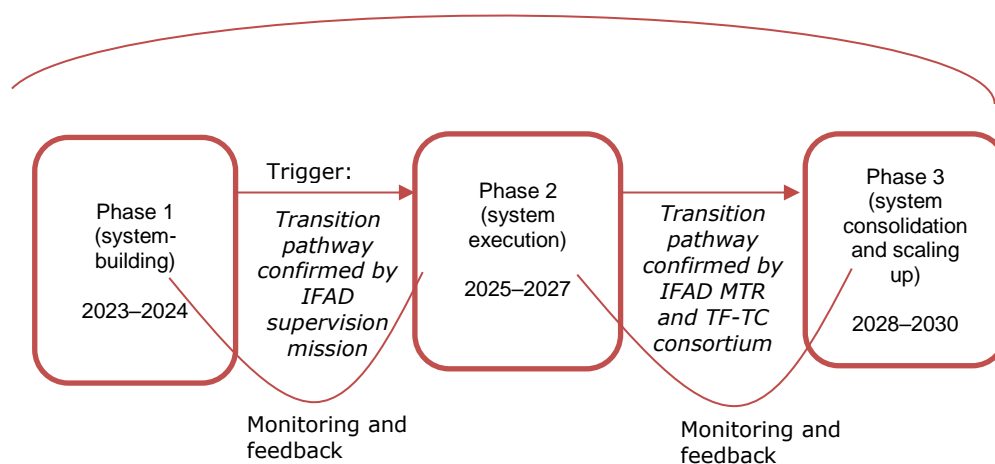
16. The project will have three components: (i) support for building VC systems; (ii) climate-smart VC operation and coordination; and (iii) project management.
17. **Component 1: Support for building VC systems.** This component will support the establishment and upgrading of the systems that enable VCs to thrive. It has three subcomponents: (1.1) VC governance and sector strategy; (1.2) responsible wool and mohair production; and (1.3) business development and fashion industry. Led by the project coordination unit (PCU), this first component will support government and VC players in improving sector governance, regulation and compliance with certification requirements by establishing national systems, guidelines and regulations. Under subcomponents 1.2 and 1.3, WaMCoP will further channel funds to rural producers for flock-level upgrading (culling and exchange) and for strengthening critical national supply chains through productive alliances (animal feed, breeding and animal health services).
18. **Component 2: Climate-smart VC operation and coordination.** This component will support the operation and improvement of these locally grounded VC systems, enabling them to become self-sustaining. The component has two subcomponents: (2.1) access to productive finance and services; and (2.2) responsible VC production. The sector strategy calls for strengthening of the emerging TF-TC consortium. As a not-for-profit enterprise comprising all VC stakeholders, with a board of trustees, this organization will drive VC development and coordination, like the model operating in South Africa. Following capacity-building, assets will be entrusted to the company to manage and operate under performance-based contracts. In addition, a revolving fund, to be set up to finance farmers' small- and medium-scale investment needs in the VC, will allow a limited selection of in-kind loans and fill a critical gap in on-farm investment.
19. **Component 3: Project management.** This component will support the effective and efficient implementation of the project. The component has two subcomponents: (3.1) communication for behaviour change and monitoring for learning; and (3.2) project coordination. Activities will focus on monitoring and

⁵ This approach is influenced by the foundational work already put in place under WAMPP, upon which the bulk of the component 1 activities will build. Cottage industry development will be targeted in Berea and Leribe and will be gradually scaled up to other districts.

evaluation, communication and knowledge management functions. The PCU will handle traditional fiduciary activities and consult with stakeholders throughout project implementation.

20. **Strategy for project implementation and phased approach.** WaMCoP will be implemented in three phases. Phase 1, with a duration of 18 months, will be the start-up and system-building period; phase 2, with a duration of 2 years, will be the implementation and system execution period; and phase 3 will be the scaling-up, consolidation and post-project phasing out period. Supervision and implementation support missions will review progress between phases 1 and 2 and the midterm review (MTR) mission will review the transition from phase 2 to phase 3.
21. There are five performance-related triggers for the transition from phases 1 and 2: (i) the business plan for TF-TC is developed and validated by VC players and the governance structure is established; (ii) TF-TC fiduciary systems, monitoring software and secretariat are established and validated; (iii) TF-TC develops a business plan for each asset entrusted to it by the Government; (iv) TF-TC finalizes the delivery mechanism for the revolving fund, in particular the software system, the financing manuals and the eligibility criteria; and (v) a service provider is contracted to identify, establish and support savings groups.

Figure 1
Three phased multi-programmatic approach



C. Theory of change

22. The project aims to build sustainable VC systems and strengthen and develop institutions to operate these systems in a sustainable manner, so that producers can benefit economically and rely on more resilient production and market systems. In practical terms, Lesotho needs strong institutions and organizations to support and upgrade its wool and mohair production in response to changing market demands, and to ensure that national upgrading of fibre production occurs in accordance with market requirements for ethical fashion. In the absence of strong national institutions and without being integrated into the South African wool and mohair VC, with some key players based in South Africa, Lesotho aspires to build a national TF-TC consortium as a major institutional anchor. The project will support the country in realizing that aspiration.
23. Moreover, the project will support digitization of transactions to create an ecosystem for transparent, data-based governance, planning and investment in the Basotho VC. Support to critical supply chains for feed, genetic material and animal health services will be strengthened through the productive alliance approach, and genetic upgrading of a significant number of animals will be promoted through the culling and exchange programme.

D. Alignment, ownership and partnerships

24. The project is aligned with Lesotho's national priorities with regard to smallholder agriculture, wool and mohair VC development, enhanced capacity of farmers and enhanced productivity, as presented in the National Strategic Development Plan II and the comprehensive national agricultural policy. The project's development objective and interventions are aligned with these two strategic plans and will contribute towards the achievement of their objectives.
25. Overall, WaMCoP is aligned with and will contribute to the achievement of the following Sustainable Development Goals (SDGs): SDG 1 (no poverty); SDG 2 (zero hunger); SDG 8 (decent work and economic growth); SDG 9 (industry, innovation and infrastructure); SDG 10 (reduced inequalities); SDG 13 (climate action); and SDG 15 (life on land).
26. The project design is based on objectives and principles outlined in the IFAD country strategic opportunities programme 2020-2025 for Lesotho and aligns with IFAD's Strategic Framework 2016-2025, which encourages inclusive and sustainable rural transformation.

E. Costs, benefits and financing

27. The financing gap of US\$11.802 million may be sourced through subsequent performance-based allocation system cycles and/or through the Borrowed Resource Access Mechanism (BRAM) (under financing terms to be determined and subject to internal procedures and subsequent Executive Board approval) or by cofinancing identified during implementation.
28. Project components 1 and 2 are partially counted as climate finance. As per the multilateral development banks' methodologies for tracking climate change adaptation and mitigation finance, the total amount of IFAD climate finance for this project is estimated as US\$4.130 million, representing 20.4 per cent of IFAD total project costs.

Project costs

29. The total project costs, including price and physical contingencies, are estimated at US\$72.644 million (1,162.299 million maloti) over the seven-year project implementation period. The costs by project component are as follows: (i) support for building VC systems, US\$42.109 million (58 per cent); (ii) climate-smart VC operation and coordination, US\$24.862 million (34.2 per cent); and (iii) project management, US\$5.672 million (7.8 per cent).

Table 1

Project costs by component and subcomponent and financier

(Thousands of United States dollars)

<i>Component and subcomponents</i>	<i>IFAD loan</i>		<i>IFAD-BRAM</i>		<i>OPEC Fund</i>		<i>GEF</i>		<i>Financing gap</i>		<i>Beneficiaries</i>		<i>Borrower/recipient</i>		<i>Total</i>	
	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>
Component 1: Support for building VC systems																
1.1 Value chain governance and sector strategy	195	1.6	2 100	17.6	1 000	8.4	-	-	2 000	16.8	126	1.1	6 501	54.5	11 921	16.4
1.2 Responsible wool and mohair production	2 014	9.8	-	-	10 660	52.1	3 000	14.7	3 781	18.5	524	2.6	470	2.3	20 448	28.1
1.3 Business development and fashion industry	3 757	38.6	-	-	3 631	37.3	-	-	1 952	20.0	380	3.9	20	0.2	9 740	13.4
Subtotal	5 966	14.2	2 100	5.0	15 290	36.3	3 000	7.1	7 733	18.4	1 030	2.4	6 991	16.6	42 109	58.0
Component 2: Climate-smart VC operation and coordination																
2.1 Access to productive finance and services	5 514	29.3	2 900	15.3	1 593	8.4	-	-	3 938	20.6	4 924	26.0	60	0.3	18 929	26.1
2.2 Responsible value chain production	1 310	22.1	-	-	984	16.6	2 200	37.1	-	-	1 427	24.1	13	0.2	5 933	8.2
Subtotal	6 823	27.6	2 900	11.7	2 577	10.4	2 200	8.8	3 938	15.7	6 351	25.5	73	0.3	24 862	34.2
Component 3: Project management																
3.1 Communication for behaviour change and monitoring for learning	1 059	57.3	-	-	633	34.2	-	-	-	-	-	-	156	8.4	1 848	2.5
3.2 Project coordination	1 352	35.3	-	-	1 500	39.2	-	-	131	3.4	-	-	841	22.0	3 824	5.3
Subtotal	2 411	42.5	-	-	2 132	37.6	-	-	131	2.3	-	-	997	17.6	5 672	7.8
Total	15 200	21.0	5 000	6.9	20 000	27.5	5 200	7.2	11 802	16.2	7 381	10.2	8 061	11.1	72 644	100.0

Table 2
Project costs by expenditure category and financier
(Thousands of United States dollars)

<i>Expenditure Category</i>	<i>IFAD loan</i>		<i>IFAD-BRAM</i>		<i>OPEC Fund</i>		<i>GEF</i>		<i>Financing gap</i>		<i>Beneficiaries</i>		<i>Borrower/recipient</i>		<i>Total</i>	
	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>
Investment costs																
A. Civil works	116	1.4	-	-	3 460	40.3	-	-	1 506	17.6	-	-	3 500	40.8	8 583	11.8
B. Vehicles, equipment and materials	4 966	23.7	-	-	5 813	27.7	5 000	23.8	3 400	16.2	1 178	5.6	629	3.0	20 987	28.9
C. Technical assistance	1 801	15.0	2 550	20.8	5 928	48.3	200	1.6	617	4.7	1 005	8.2	162	1.3	12 262	16.9
D. Training/workshops	2 085	53.4	450	11.5	1 354	34.7	-	-	15	0.4	-	-	-	-	3 904	5.4
E. Credit and guarantee funds	3 976	21.5	2 000	10.8	1 504	8.1	-	-	5 528	29.9	2 492	13.5	3 001	16.2	18 500	25.5
Total investment costs	12 944	20.2	5 000	7.8	18 060	28.1	5 200	8.1	11 066	17.2	4 675	7.3	7 292	11.4	64 236	88.4
Recurrent costs																
A. Salaries and allowances	2 075	27.2	-	-	1 941	25.4	-	-	736	9.6	2 662	34.8	228	3.0	7 641	10.5
B. Operating costs	182	23.7	-	-	-	-	-	-	-	-	44	5.7	541	70.6	767	1.1
Total recurrent costs	2 257	26.8	-	-	1 941	23.1	-	-	736	8.8	2 706	32.2	769	9.1	8 408	11.6
Total	15 200	21.0	5 000	6.9	20 000	27.5	5 200	7.2	11 802	16.2	7 381	10.2	8 061	11.1	72 644	100.0

Table 3
Project costs by component and subcomponent and project year
 (Thousands of United States dollars)

<i>Component and subcomponent</i>	<i>2023</i>	<i>2024</i>	<i>2025</i>	<i>2026</i>	<i>2027</i>	<i>2028</i>	<i>2029</i>	<i>Total</i>
Component 1: Support for building VC systems								
1.1 Value chain governance and sector strategy	188	6 560	2 047	47	3 035	22	22	11 921
1.2 Responsible wool and mohair production	4 185	7 221	3 439	3 222	972	783	625	20 448
1.3 Business development and fashion industry	1 341	1 953	1 465	1 465	1 465	1 405	645	9 740
Subtotal	5 715	15 735	6 951	4 734	5 473	2 209	1 292	42 109
Component 2: Climate-smart VC operation and coordination								
2.1 Access to productive finance and services	1 431	2 576	2 981	3 436	3 190	2 845	2 470	18 929
2.2 Responsible value chain production	911	1 282	1 171	854	838	638	238	5 933
Subtotal	2 341	3 858	4 152	4 290	4 029	3 484	2 709	24 862
Component 3: Project management								
3.1 Communication for behaviour change and monitoring for learning	371	177	178	373	164	200	385	1 848
3.2 Project coordination	556	670	468	486	506	525	613	3 824
Subtotal	927	847	646	859	669	726	997	5 672
Total	8 983	20 440	11 749	9 884	10 171	6 418	4 998	72 644

Financing and cofinancing strategy and plan

30. The core start-up activities and critical investments will be financed with IFAD resources. The OPEC Fund has further committed to a co-investment of at least US\$20 million, which has been programmed. With a strong focus on biodiversity, soil health and regenerative practices, the project qualifies for resources under the eighth replenishment of resources for the GEF Trust Fund (GEF-8), and a GEF-8 project identification form for US\$5.2 million has been prepared jointly by IFAD and the Government. Government cofinancing has been approved by the Public Sector Investment Committee and the Lesotho National Development Cooperation (LNDC) Board of Directors. Private sector cofinancing will be leveraged through contributions during implementation.

Disbursement

31. Project funds will flow through a designated account in United States dollars at the Central Bank of Lesotho, held separately from the Treasury Single Account system to avoid potential liquidity constraints.

Summary of benefits and economic analysis

32. The project's economic rate of return (ERR) is estimated at 13.5 per cent, with a net present value of US\$ 16.819 million. These figures indicate that, based on an opportunity cost of capital of 10 per cent, WaMCoP will generate a satisfactory ERR and is more than justified on economic grounds. The sensitivity analysis, based on 10 per cent, 20 per cent and 50 per cent increases in project costs, shows rates of return of 12.4 per cent, 11.5 per cent and 9.2 per cent, respectively.
33. Overall, the ERR remains satisfactory. These rates and stability would be explained by increased productivity of targeted activities because of the adoption of efficient and resilient productive systems, including cultural techniques and efficient plant and animal biological materials. Through these various measures, the farmers are expected to fetch a premium for their wool and mohair.

Exit strategy and sustainability

34. WaMCoP's sustainability and exit strategy are embedded in the project design. It is expected that the TF-TC consortium will sustain the use of entrusted physical and financial assets to progressively improve VC coordination functions and increase equitable service delivery to farmers and other VC players. The TF-TC consortium will take up the governance and operations of key VC activities and act as a sectoral body for the entire VC.

III. Risks

A. Risks and mitigation measures

35. The overall inherent risk rating is substantial. After mitigation measures, the residual risk is moderate. The risk subcategories rated highest are: (i) country context; (ii) environment and climate context; and (iii) procurement. The residual risk after accounting for mitigation measures for the selected risk subcategories is broadly moderate.

Table 4
Overall risk summary

<i>Risk areas</i>	<i>Inherent risk rating</i>	<i>Residual risk rating</i>
Country context	High	High
Sector strategies and policies	Moderate	Low
Environment and climate context	Substantial	Moderate
Project scope	Moderate	Low
Institutional capacity for implementation and sustainability	Moderate	Low
Financial management	Substantial	Moderate
Project procurement	Substantial	Moderate
Environment, social and climate impact	Moderate	Low
Stakeholders	Moderate	Low
Overall	Substantial	Moderate

B. Environment and social category

36. The preliminary environment and social category for WaMCoP is moderate.

The project focuses on productivity and the enabling environment for the wool and mohair VC, and some of its activities may have adverse impacts on the environment and increase pressure on natural resources. However, the potential negative environmental and social effects are limited, site-specific, predictable and mostly reversible and can be managed with appropriate mitigation measures.

C. Climate risk classification

37. The climate risk classification is substantial.

There is the potential for widespread impacts from climate change. The main climate change risks facing the smallholders in the WaMCoP target areas include rising temperatures and rainfall variability, with more intense rainfall in some areas, shorter rain seasons and potential droughts in some locations. However, risk management activities are likely to increase the resilience and adaptive capacity of households, infrastructure, communities and ecosystems.

D. Debt sustainability

38. Lesotho's external debt risk is moderate, with limited space to absorb shocks, unchanged from its status two years ago.⁶ External debt accounts for 82 per cent of total public debt and is predominantly owed to multilateral partners on concessional terms. It is assumed that concessional external borrowing will remain critical for financing large investment projects. However, concessionality is expected to decline gradually over the long term as Lesotho grows and is expected to graduate from International Development Association eligibility. Both the external and total debt-to-GDP ratios are close to high-risk thresholds, leaving limited space to absorb further shocks.

IV. Implementation

A. Organizational framework

Project management and coordination

39. A project steering committee (PSC) will be established to provide policy guidance and oversight of project implementation. The PSC and the project itself will also be supported by a consultative technical committee, which will comprise directors and focal points of key stakeholder agencies, including government departments.
40. The PCU will lead day-to-day coordination and project management. It will be housed within the Ministry of Agriculture, Nutrition and Food Security and will be

⁶ International Monetary Fund, "Kingdom of Lesotho: 2022 Article IV Consultation-Press Release; Staff Report; and Statement by the Executive Director for Kingdom of Lesotho," (2022). <https://www.imf.org/en/Publications/CR/Issues/2022/06/08/Kingdom-of-Lesotho-2022-Article-IV-Consultation-Press-Release-Staff-Report-and-Statement-by-519018>.

adequately staffed with competitively recruited professionals from the market. The PCU will coordinate and support component 1, and the TF-TC consortium will primarily execute component 2. This pluralistic model of delivering project activities is consistent with well-established implementation principles of VC development projects.

Financial management, procurement and governance

41. **Financial management.** Both the PCU and the TF-TC consortium will have appropriate structures with experienced staff to manage the project finances. They will prepare annual workplans and budgets (AWPBs) and withdraw advances from IFAD, based on the AWPB and cash forecast for the next period. While the PCU will be audited by the Office of the Auditor General (OAG), as mandated by Lesotho law, the TF-TC consortium and the Ethical Fashion Initiative-linked social enterprise will be audited by a private audit firm supervised by the OAG.
42. **Procurement.** Overall, the institutional procurement risk is rated as medium. WaMCoP's specific assessment, based on planned programme operations, indicates a need for improvement in the following areas: (i) procurement regulatory framework; (ii) standard bidding documents; (iii) procurement monitoring; and (iv) access to procurement information. IFAD will provide technical assistance both remotely and in country to build procurement capacity.
43. **Governance.** Lesotho's inherent country risk is high. According to the 2019 Country Policy and Institutional Assessment – 2020 World Bank rating, Lesotho is a medium policy performer (score 3.3) and ranks 17th out of 40 sub-Saharan countries (average score 3.1). Its main areas of weakness are fiscal policy (score 2.5), quality of budgetary and financial management (score 2.5) and quality of public administration (score 2.5), where lack of appropriate controls resulted in escalation of the wage bill in 2019 (about 41 per cent of government spending).

Target group engagement and feedback and grievance redress

44. Farmer associations will appoint representatives and experts to represent them in the TF-TC consortium as trustees and board members. This is a critical feature of target group engagement. WaMCoP will regularly collect the views and opinions of its target group on project performance and share these with the Government. WaMCoP will use regular focus groups, core outcome indicator (COI) surveys and annual georeferenced WhatsApp surveys to gather views and feedback.

Grievance redress

45. Since the implementation of the agricultural activities will be community-based, negotiation and agreement by consensus will be the main channel to resolve grievances for those whose land and properties might be affected. However, a more formalized grievance redress mechanism will also be implemented (with appropriate sensitization). Those affected will have the option of choosing one of two parallel systems: a community-based system or a formal system. The community-based route will involve informal courts handled by traditional leaders.⁷ The formal route will involve the WaMCoP grievance redress mechanism.

B. Planning, monitoring and evaluation, learning, knowledge management and communications

46. Planning and budgeting will be integrated in the Government's processes and will be based on AWPBs, applying a bottom-up approach. The WaMCoP logical framework will guide the development of the AWPB and the reporting and monitoring system.

⁷ Village headmen, chiefs, principal chiefs, district councils.

47. The monitoring and evaluation system will generate timely and reliable information to support decision-making and adaptive management. Data on outcomes and impact will be collected through baseline, midterm and completion surveys, in accordance with the IFAD COI Measurement Guidelines. Data on resilience will be collected at baseline and at completion through the IFAD resilience scorecards.
48. The project will also carry out qualitative studies and produce knowledge management products on impact areas.

Innovation and scaling up

49. WaMCoP's major innovations include support for and institutional strengthening of the TF-TC consortium, which is envisioned to be a sustainable VC-based mechanism that will scale up and further develop successful strategies beyond the seven year project life cycle; promotion of responsible production and certification, low emissions and biodiversity enhancement; digitization of the VC; upgrading of the national breeding programme; establishment of a disease response and surveillance system; and partnership with private sector players.

C. Implementation plans

Implementation readiness and start-up plans

50. WaMCoP will build on WAMPP activities, and while the Government and IFAD have agreed to select the new PCU through a competitive process, there is a high likelihood that staff from WAMPP will contribute to the start-up of WaMCoP. IFAD and the Government of Lesotho have committed to dedicate resources to recruitment and start-up to allow for swift implementation of the project. The TF-TC consortium is being developed under WAMPP and with key sector players. WaMCoP will hence further the development of a nascent organization but not one that is starting from scratch.

Supervision, midterm review and completion plans

51. Missions will be organized jointly by IFAD and the Government. Supervision will involve annual joint supervision missions and periodic desk reviews to ensure that implementation is proceeding at an adequate rate. The MTR will take place midway into the project life cycle and will critically evaluate whether the project is on track to achieve its goal and development objective. Project completion will be overseen by the Government, focusing on progress, lessons learned and the sustainability of interventions.

V. Legal instruments and authority

52. A financing agreement between the Kingdom of Lesotho and IFAD will constitute the legal instrument for extending the proposed financing to the borrower/recipient. A copy of the negotiated financing agreement will be made available prior to the session.
53. The Kingdom of Lesotho is empowered under its laws to receive financing from IFAD.
54. I am satisfied that the proposed financing will comply with the Agreement Establishing IFAD and the Policies and Criteria for IFAD Financing.

VI. Recommendation

55. I recommend that the Executive Board approve the proposed financing in terms of the following resolution:

RESOLVED: that the Fund shall provide a loan on blend terms to the Kingdom of Lesotho in an amount of fifteen million two hundred thousand United States dollars (US\$15,200,000) and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

RESOLVED FURTHER: that the Fund shall provide a loan on ordinary terms to the Kingdom of Lesotho in an amount of five million United States dollars (US\$5,000,000) and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

Alvaro Lario
President

Negotiated financing agreement

(To be made available prior to the session)

Logical framework

Results Hierarchy	Indicators				Means of Verification			Assumptions	
	Indicator Name	Baseline	Mid-term*	End target	Source	Freq.	Resp.		
Outreach	CI 1 Persons receiving services promoted or supported by the project⁸								
	# total people	0	22,500	45,000	MIS	Monthly	PMU	Project implementation takes place as planned	
	CI 1a. Corresponding number of households reached								
	# households	0	22,500	45,000	MIS	Monthly	PMU		
	CI 1b. Estimated corresponding total HH members								
	# people	0	112,500	225,000	MIS	Monthly	PMU		
Goal	Households reporting increased resilience								
<i>Improved livelihood resilience for smallholder wool and mohair farmers in targeted areas</i>	% of households reporting increased climate resilience	0	40%	70%	Survey using resilience scorecard	Baseline and completion	PMU/outsourced	Improved macro-economic conditions, no external shocks, stable prices	
	% of households reporting increased economic resilience	0	40%	70%					
Development Objective	Households reporting an increase in incomes from wool and mohair								
<i>Inclusive and sustainable economic growth and private-led job creation from wool and mohair</i>	# households	0	13,500	30,000	Survey	Baseline, midline, completion	PMU/outsourced	Improved macro-economic conditions, no external shocks, stable prices	
	% of households	0	30%	67%					
	Number of households with increased assets								
	% of households	0	20%	45%	Survey	Baseline, midline, completion	PMU/outsourced	Participation in saving groups and subsidized access to cooking stoves promotes asset building	
	SF 2.1 Households satisfied with project-supported services								
	# of households	0	18,000	36,000	COI survey	Baseline, midline, completion	PMU/outsourced	Project implementation takes place as planned and project services in line with needs and preferences of target group	
	% of households	0	40%	80%					
	# of household members	0	90,000	180,000					
	SF 2.2 Households reporting they can influence decision-making of local authorities and project-supported service providers								
	# of households	0	18,000	36,000	COI surveys	Baseline, midline, endline	PMU/outsourced	Local authorities support the move towards a more transparent and inclusive management of the wool and mohair value chain	
% of households	0	40%	80%						
# of household members	0	90,000	180,000						
IE. 2.1 (Number) Percentage of individuals demonstrating an improvement in empowerment⁹									
# total persons	0	11,250	22,500	COI surveys	Baseline, midline, endline	PMU/outsourced	Associations of wool and mohair farmers are willing to accept new members and to give more voice to women and youth		
% total persons	0	25%	50%						
Outcome 1.1	CI 2.2.4: Number (Percentage) of supported rural producers' organization members reporting new or improved services provided by their organization¹⁰								

⁸ Indicator is disaggregated by gender, age and people with disabilities.

⁹ Indicator is disaggregated by gender and age.

¹⁰ Indicator is disaggregated by gender and age.

<i>Inclusiveness and transparency of value chain governance have improved</i>	# of members	0	15,000	30,000	COI surveys	Midline, end-line	PMU/Outsourced	The Trust Company model functions well in the Lesotho context
Outcome 1.2 <i>Sustainable sector strategy adopted</i>	Policy 3: Number of existing/new laws, regulations, policies or strategies proposed to policy makers for approval, ratification or amendment							
	# of documents	0	1	2	Project records	Annually	PMU	Policy makers willing to adopt reforms in the wool and mohair sector
Outcome 1.3 <i>New employment opportunities are promoted in wool and mohair input supply (veterinary services) and value addition (cottage industry)</i>	CI 2.2.1 New jobs created¹¹							
	# of people	0	200	400	EFI records on new jobs in cottage industry	Yearly	PMU	International markets offer opportunities for Lesotho cottage production.
Output 1.1 <i>Trust Company established and operational</i>	Number of assets sustainably entrusted to Trust Company							
	# of assets	0	20	60	MIS	Once	PMU	Trust company successfully set up by WAMPP project
Output 1.2 <i>National systems (breeding, disease surveillance, testing, certification) enhanced to support the improvement of Lesotho clip quality</i>	Number of users of studbook/surveillance app							
	# of users of studbook	0	60	120	MOAFS records	Annual	PMU	Ministry of Agriculture takes the lead in designing and operating the system
	# of users of surveillance app	0	12,500	25,000				
Output 1.3 <i>Farmers provided with access to culling & exchange and to subsidized efficient cooking stoves</i>	CI 3.1.3 Persons accessing technologies that sequester carbon or reduce greenhouse gas emissions¹²							
	# of total persons accessing technologies	0	8,500	16,600	Reports from association implementing the Culling & Exchange and from African Clean Energy (ACE) for the cooking stoves	Annual	PMU	Continued strong demand for improved animals and efficient cooking stoves
Output 1.4 <i>Productive alliances have been installed</i>	CI 1.1.3: Rural producers accessing production inputs and/or technological packages¹³							
	Total rural producers	0	15,000	30,000	Trust Fund Records	Annual	PMU	National providers of wool and mohair inputs and services are willing to collaborate with the project
	CI 2.1.3: Rural producers' organizations supported¹⁴							
	Total rural producers	0	60	120	Trust Fund Records	Annual	PMU	National providers of wool and mohair inputs and services are willing to collaborate with the project
Output 1.5 <i>Cottage industries supported with equipment and marketing services</i>	People in cottage industries supported with equipment and marketing services¹⁵							
	# of total persons	0	200	400	Ethical Fashion Initiative (EFI) records	Annual	PMU	Women, youth, and PwD continue showing interest for employment in cottage industries
Outcome 2.1 <i>Smallholder production of wool and mohair has sustainably increased in quality and quantity</i>	CI 1.2.4 Households reporting an increase in production							
	# of households	0	13,500	27,000	COI survey	Baseline, midline, completion	PMU/outsourced	No external shocks, stable prices
	% of households	0	30%	60%				
	Total number of household members	0	67,500	135,000				
Outcome 2.2	CI 3.2.2: Households reporting adoption of environmentally sustainable and climate-resilient technologies and practices							
	# household	0	19,000	38,000	COI survey		PMU/outsourced	Certification induces farmers to adopt environmentally sustainable practices
	% of households	0	42%	84%				

¹¹ Indicator is disaggregated by gender, age, and people with disabilities.

¹² Indicator is disaggregated by gender, age, and people with disabilities.

¹³ Indicator is disaggregated by gender and age.

¹⁴ Indicator is disaggregated by gender and age.

¹⁵ Indicator is disaggregated by gender, age, and people with disabilities.

<i>Wool and mohair farmers have adopted environmentally sustainable rangeland-management practices</i>	# of household members	0	95,000	190,000		Baseline, midline, completion		
	CI 3.2.1: Number of tons of greenhouse gas emissions (CO2e) avoided and/or sequestered¹⁶ (<i>Nota bene: to be filled when carbon analysis is finalised</i>)							
	Hectares of land - Area (ha)	0	?	?	GLEAM -I and EX -ACT. Tools by FAO			
Output 2.1 <i>In-kind loans disbursed to farmers and saving groups established</i>	CI 1.1.5: Persons in rural areas accessing financial services¹⁷							
	# total persons accessing loans	0	15,000	30,000	Trust Fund records (for loans), and reports from Implementing partners (for savings)	Monthly	PMU	Continued demand for in-kind loans and continued interest in participation in savings groups
	# of total persons accessing savings	0	5,000	10,000				
	# of persons accessing financial services	0	20,000	40,000				
	CI 1.1.7 Persons in rural areas trained in financial literacy and/or use of financial products and services¹⁸							
# total persons	0	5,000	10,000	Trust Fund records (for loans), and reports from Implementing partners (for savings)	Monthly	PMU	Continued demand for in-kind loans and continued interest in participation in savings groups	
Output 2.2 <i>Digital platform established and operational</i>	Number of value chain actors registered on the platform uploading data on the shared digital platform							
	% of farmers	0	50%	80%	Digital Platform	Monthly	PMU	Value chain actors consider the digital platform useful
	% of traders	0	50%	80%				
	% of input suppliers	0	50%	80%				
Output 2.3 <i>Certification system established and operational</i>	Percentage of Lesotho clip produced by beneficiaries meeting responsible standards							
	% of clip	0	20%	60%	BKB records	Annually	PMU	Market prices continue providing incentives for responsible production

¹⁶ Indicator is further disaggregated by, tCO2e/ha, tCO2e/ 20 years, CO2e/ha/year.

¹⁷ Indicator is disaggregated by gender and age.

¹⁸ Indicator is disaggregated by gender and age.

Integrated project risk matrix

Risk Categories and Subcategories	Inherent	Residual
Country Context	High	High
Political Commitment	High	High
<p>Risk(s): Lesotho will hold national elections in October 2022, and this has the potential of increasing instability in the country and further undermining the reform progress in the country. The ongoing in-fighting within the ruling party, poses a risk to post-election instability and ultimately contributes to a general climate of macro-uncertainty.</p>		
<p>Mitigations: At a macro level, Lesotho's parliament is under increasing diplomatic pressure to pass a reform bill that would in principle, undermine the institutional instability that has plagued the political sphere (i.e., random floor crossing). This bill is currently before parliament and could be passed prior to elections, which could curb some of the projected instability. At the portfolio level, the Lesotho country team will also proactively engage with the new government once it is installed. Dedicated meetings and briefing sessions with new decision makers will be sought and stronger integration with the UN system on engaging government will be adopted. While the potential of WaMCoP to respond to such a risk remains limited, the project will advance the following approaches:</p> <ul style="list-style-type: none"> • Develop strong director level buy-in, as these bureaucrats often act as the institutional anchors in times of change. • The WaMCoP has carved out substantial space for enhanced private sector participation and implementation, therefore, providing a bulwark against some of the expected uncertainties in the political climate. • Contribute to policy development and capacity building under component 1 of the project. 		
Governance	High	Substantial
<p>Risk(s): The fragility and uncertainty in Lesotho is manifesting in weakened governance and policy coherence. Transparency International's Country Corruption Perception places Lesotho at high risk in terms of corruption (38/100). The 2020 Afro Barometer SDG scorecard also highlights a decline in trust amongst Basotho, in their own public institutions. Lesotho is equally undertaking a national reforms process that is geared towards improved governance and strengthening of democratic institutions. A number of bills have been passed to parliament for their review.</p>		
<p>Mitigations: One of the embedded safeguards in the project against governance risks is the promotion of private sector participation and implementation in the project. The project is also working alongside key service providers (EFI) that contribute to enhanced service delivery and equally, institutional stability. Therefore, insulating the project from the macro-level governance issues flagged. Moreover, IFAD procurement rules and financial best practice will feature strongly to ensure rigorous compliance throughout the project life cycle. The recruitment of key staff, notably, the project director and financial manager, will be</p>		

competitive and transparent, which should contribute to a culture of effective governance.		
Macroeconomic	High	Substantial
Risk(s): Growth in Lesotho has been subdued for several years, even prior to the pandemic in 2020. The macroeconomic outlook for the country is contingent on the performance of South Africa and the United States. However, transfers from the Southern African Customs Union (SACU) which account for around half of the total tax take, will continue to reduce due to the economic contraction in the SACU region. This will require further economic adjustments in Lesotho and could very well see limited counterpart financing.		
Mitigations: Notwithstanding the importance of counterpart finance from the Government of Lesotho, the project is taking strides to mobilise counterpart finance from the private sector. This should insulate the project to some degree from the uncertainties embedded in the macroeconomic climate of the country. Experience has also shown that on-going projects have considerable leverage to advocate government to advance outstanding counterpart finance and this experience will feed into the legal agreement and equally into discussions with government.		
Fragility and security	High	High
Risk(s): The Kingdom of Lesotho has an unfortunately long history with political instability and security concerns. The spectre of fragility and security should be considered high, especially as the country will see the 2022 general elections taking place later this year. Moreover, the country is highly vulnerable to frequent and severe weather events, particularly flooding and drought.		
Mitigations: The strong promotion of a trust company that underpins the wool and mohair value chain, is an attempt to create a robust pocket of stability within Lesotho's civil society landscape.		
Sector Strategies and Policies	Moderate	Low
Policy alignment	Moderate	Low
Risk(s): The policy environment surrounding WaMCoP is favourable, as the comprehensive national agricultural policy, the national strategic development plan, and the livestock development policy all underscore key tenants of the project. However, the wool and mohair sector is still not underpinned by a clear and predictable sectoral strategy and this does pose some degree of risk, as ad-hoc policy decisions (i.e., marketing regulations of 2018) have often been undertaken in the vacuum of clear policy orientation.		
Mitigations: Under component 1 of the project, there will be concerted effort in supporting a sectoral strategy that will underpin key interventions in the sector. The sectoral strategy will be evidence-based and will look to create greater strategic and policy coherence in the wool and mohair sub-sector. Moreover, it is envisioned that the Trust Company will also be a player that drives policy development and can engage with the government on substantive issues.		

Policy development & implementation	Moderate	Low
Risk(s): Lesotho suffers from a deficit in policy coordination and a lack of financial support that ensures key targets are met. Policy formulation is also not based on scientific research, which often makes it a subjective exercise.		
Mitigations: The project will specifically look to intensify the support it provides to key sector actors in driving formidable policies, with accompanying implementation plans. The project will specifically champion, multi-stakeholder policy formulation and implementation accountability under improved value chain governance.		
Environment and Climate Context	Substantial	Moderate
Project vulnerability to environmental conditions	Moderate	Low
Risk(s): The environmental vulnerabilities for WaMCoP activities include erosion, which may increase due to cultivation on slopes and sheep rearing. This will lead to land degradation and possible siltation of water channels. The current soil fertility conditions entail increased use of agro-chemicals for the desired levels of fodder production, which will lead to diffuse sources of pollution in some locations. Discharge of poor-quality effluent from slaughter slabs and other wool and Mohair value chain processing will result in point sources of pollution at these sites.		
Mitigations: The risks resulting from environmental conditions will be managed through the capacity building of the smallholders in environmental management and efficient resource use, including agro chemicals, erosion control measures such as vegetated contours, water conservation and focus on rehabilitation of existing rangelands.		
Project vulnerability to climate change impacts	Substantial	Moderate
Risk(s): The main climate change risks to reaching the WaMCoP objectives include rising temperatures and rainfall variability with more intense rainfall in some areas, shorter rainy seasons and potential droughts in some locations. High temperatures may lead to decreased yields and quality of fodder and degradation of grazing rangelands, increased pests and diseases incidences, poor drainage in low-lying areas and soil erosion that results in reduced water holding capacity and soil fertility.		
Mitigations: Climate change adaptation measures under WaMCoP include capacity building for the producers on husbandry activities and resource use efficiency, water use efficient irrigation systems. The infrastructure developed under WaMCoP will be climate resilient to improve water use efficiency and harvest rainwater for productive use.		
Project Scope	Moderate	Low
Project relevance	Moderate	Low
Risk(s): The risk is flagged as moderate due to the dynamic nature of the wool and mohair sector; however, the project has received extensive inputs from government and civil society representatives. There has also been alignment sought with government policies and IFAD internal frameworks.		
Mitigations: As indicated above the project has received extensive inputs from several officials spanning government, private and		

civil society sectors. Moreover, the project will go through a robust review cycle through the Public Sector Investment Committee (PSIC). Moreover, a key pillar of the project will see the "compacting" of value chain actors under a trust company, this should further contribute to an evolving "relevance" of the project, especially as the trust company will lead implementation of key activities.		
Technical soundness	Low	Low
Risk(s): WaMCoP will naturally build on the key lessons accumulated through the existing Wool and Mohair Promotion Project. However, The Trust Company and its key role in driving the project is a risk to be acknowledged. And naturally, a trust company that has a weak operational thrust in implementing selected activities, could undermine the effectiveness of the project.		
Mitigations: The Trust Company (which will be established before the project) will receive a robust evaluation of its ability to act as an implementing entity and where need be, will be supported to ensure it is able to carry out certain functions. Moreover, an 18-month implementation plan coupled with clear contingency plan will serve as guiding frameworks in the project design report and related annexes.		
Institutional Capacity for Implementation & Sustainability	Moderate	Low
Implementation arrangements	Moderate	Low
Risk(s): The ministerial level risk here is quite minimal, as the line ministry is currently implementing two IFAD-supported projects. However, the ministry does have a deficit in terms of comprehensive institutional capacity and human resources that allow it to effectively deliver against its objectives. A risk related to the Trust Fund-Trust Company set-up is the delay in its establishment. There is also a risk that there could be a delay in establishing the input supply-pre financing system through the revolving fund		
Mitigations: WaMCoP has been conceptualised in such a manner, that the envisioned risk is managed. These necessary steps embedded in the project's concept include: <ul style="list-style-type: none"> • An efficient PCU that will undertake all day-to-day operational functions related to the project • A steering committee that will strengthen oversight and provide guidance when called upon • The Line Ministry will be further capacitated, especially as the project intends to advance a sectoral strategy that will advance the wool and mohair value chain. With respect to the Trust Fund-Trust Company delays, the following measures will be introduced: <ul style="list-style-type: none"> • The Lesotho National Development Corporation will be requested to take over key activities related to the financing of the value chain, in line with their capabilities and strengths. • The project coordination unit lead key component 2 related activities, namely the roll-out of the certification system and supporting the digital platform. • The Trust Fund-Trust Company model will be evaluated in line with the phased approach and where necessary, a 		

<p>project level restructuring will take place to account for the delays. This might involve changing the implementation arrangements and empowering LNDC and the PCU to lead project implementation and making the Trust Fund-Trust Company set-up a key outcome of the project.</p> <p>In the event there are delays in establishing the input supply-pre financing system through the revolving fund, the following measures will be applied:</p> <ul style="list-style-type: none"> The PCU and LNDC will sign a performance agreement contract that will see LNDC manage the revolving fund, while reporting to the project coordination unit. This will aim to fast-track any delays experienced if the input supply mechanism does experience substantial delays. <p>These mitigation measures strongly align with discussions with LNDC, in particular, its role as a fall-back option in the project.</p>		
M&E arrangements	Moderate	Low
<p>Risk(s): This risk emanates from the executing agency's M&E processes and systems are weak or inefficient, resulting in a limited ability to monitor, validate, analyse, and communicate results, capture lessons, and adjust implementation to seize opportunities and take corrective actions in a timely manner.</p>		
<p>Mitigations: WaMCoP will be staffed by an M&E officer, M&E assistant, and KM and communication officer. A robust M&E system will be linked to the project's Management Information System (MIS) and data on outcomes and impact will be collected through a set of three surveys (baseline, mid-line, and completion). Moreover, the WhatsApp yearly surveys piloted by ROLL, will be integrated into WaMC-P and this will provide another layer of assessing the delivery of project services and related lessons learned.</p> <p>The digital platform will also provide another critical feedback loop that will inform the decision making of the project and fundamentally, assist in taking corrective measures if the occasion arises.</p>		
Procurement	Substantial	Moderate
Legal and regulatory framework	High	Moderate
<p>Risk(s): No procurement law exists, as the procurement framework consists of the 2007 Public Procurement Regulations and Procurement Manual. No national standard bidding documents currently exist. There is no reliable record/database for either monitoring procurement management or tracking procurement activities and methods used. Public access to procurement information is insufficient.</p>		
<p>Mitigations: In 2018, the government released "The Public Procurement Policy", the first step towards a new and more comprehensive and efficient public procurement framework. Specifically, the government set the development of public procurement policies, legislation, guidelines and processes as a primary objective. As of June 2022, no progress in the rolling out of the new public procurement framework was noticed. As a transitional measure until an updated and complete national public procurement framework is rolled out in the country, procurement under WaMCoP will follow IFAD's project procurement framework, resulting in the full adoption of IFAD's</p>		

<p>Project Procurement Guidelines, Project Procurement Handbook and Standard Procurement Documents. WaMCoP will be set up on the Contract Monitoring Tool (CMT) function of ICP, thus allowing for efficient tracking of contracts, including data on what has been procured, value of procurement and identity of suppliers, contractors, consultants and service providers. IFAD will periodically carry out a review of the quality of data inserted in the CMT to ensure it is accurate and up to date. IFAD can strongly encourage government through policy dialogue to accelerate the completion of the PPAD website, and it is recommended that it do so through the COSOP consultations with the government. Once completed, the PPAD website will grant full access to information concerning audit reports, compliance reports, procurement statistics, standard bidding documents, complaints & appeals, blacklisted firms, annual procurement plans, bid notices and contract awards.</p>		
<p>Accountability and transparency</p>	<p>Substantial</p>	<p>Moderate</p>
<p>Risk(s): the country lacks publicly available information on the procurement complaints management, specifically concerning cases being heard and applicable procedures. While Lesotho presents a medium Country Corruption Perception Index Score (38/100), the local authority responsible for investigating corruption allegations is not independent from the government and no systematic debarment system is in place. Furthermore, there is an unclear relationship between the procurement units, the Procurement Policy, and Advice Division (PPAD) and the Directorate on Corruption & Economic Offence (DCEO), which is Lesotho’s anti-corruption authority. The risk is that accountability, transparency and oversight arrangements could be inadequate to safeguard the integrity of project procurement and contract execution, leading to potential cases of mis procurement and unintended use of funds.</p>		
<p>Mitigations: The Revised IFAD Policy on Preventing Fraud and Corruption in its Activities and Operations shall apply to all projects, vendors and third parties, in addition to the relevant national anticorruption and fraud laws. Pursuant to said Policy, IFAD has the right to sanction firms and individuals including by declaring them ineligible, either indefinitely or for a stated period of time, to participate to any IFAD-financed and/or IFAD-managed activity or operation. IFAD also has the right to unilaterally recognize debarments by any of the International Financial Institutions that are members to the Agreement for Mutual Enforcement of Debarment Decisions if such debarments meet the requirements for mutual recognition under the Agreement for Mutual Enforcement of Debarment Decisions. IFAD can strongly encourage government through policy dialogue to accelerate the adoption of the Public Procurement Bill, 2018, which provides the establishment of an autonomous Public Procurement Authority tasked with debarring suppliers, contractors or consultants from participating in public procurement/ IFAD/ All years of project implementation. IFAD can also strongly encourage government through policy dialogue to publicly share information concerning cases being heard by the Procurement Tribunal, as well as a copy of the rules governing the proceedings of the Procurement Tribunal, and it is</p>		

recommended that it do so through the COSOP consultations with the government.		
Capability in public procurement	Moderate	Low
Risk(s): The recruitment process of project staff may not guarantee the standards of competition, fairness and transparency required by IFAD. The selected staff may need capacity buildings in donor-funded procurement and the IFAD project procurement framework.		
Mitigations: IFAD will monitor the recruitment process of WaMCoP's procurement staff, to ensure competition, fairness and transparency. The Procurement Officer and Procurement Assistant to be invited to the BUILDPROC, the procurement certification programme launched by IFAD and the ITCILO. The BUILDPROC focuses on the integration of safeguards into procurement and on challenges faced by borrowers/recipients in their local markets. IFAD will provide in-person and remote trainings on its project procurement framework and international procurement practice from the start-up phase of WaMCoP. The Procurement Unit, Tender Panel and Technical Units of MAFS should attend said trainings together with the relevant members of the PMU.		
Public procurement processes	Low	Low
Risk(s): Currently, foreign companies are required to pay cash to collect bidding documents from the procurement office. There is a risk that procurement plans will be submitted for IFAD's no-objection late, that is when the corresponding financial year has already begun. Additionally, it has been observed that PMUs tend to react to IFAD's comments to the procurement plan with considerable delay, which further delays IFAD's No-Objection. Procurement staff may not be adequately or timely involved during the planning phase of the AWPB. One key risk that affected the earlier IFAD-funded project implemented by MAFS (WAMPP) was the expiration of the bid validity period before contract award, which resulted in a number of procurement processes having to be repeated. The contracts awarded following an ICB process are advertised on UNDB online. For other procurement methods, advertising is not always done. Another key risk for the project is contract administration and management. In fact, WAMPP's PCU exhibited instances of weak contract management, causing a number of contracts to expire before completion and without a timely extension. This was further exacerbated by WAMPP failing to keep contract data updated on the CMT. Therefore, this may also constitute a risk for WaMCoP. Substantial delays with works contracts have been noticed with WAMPP, with contractors abandoning the construction site in some cases. For WAMPP, record retention was found to be needing improvement with reference to procurement processes carried out by entities other than the PCU (e.g. (e.g., the LNWGMA). This may constitute a risk for WaMCoP as well, considering that the identified implementing partners will carry out procurement process directly.		
Mitigations: WaMCoP will ensure that access to bidding documents by foreign firms is also available online. To that end, WaMCoP will set up its own website, where a GPN and tender opportunities will be advertised. The provisions of the financing agreement stating that the Lead Project Agency shall submit a		

<p>draft AWPB and procurement plan to IFAD no later than sixty days before the beginning of the relevant project year must be enforced. The calendar of IFAD’s implementation support missions could be adjusted to precede the project’s planning period, thus providing timely support and not impeding the planning process. Additionally, the PMU will be encouraged to be more proactive in addressing IFAD's comments to the procurement plan and to implement simple upgrades as soon as possible, even pending more serious matters that will require an overhaul of the plan. This will allow the PMU to receive a timely IFAD's No-Objection to the procurement plan, while working on further improving the same during the financial year. The procurement unit must be adequately consulted during the planning phase before the beginning of each financial year. This will allow the procurement unit to provide feedback on whether procurement activities are achievable within the targets of the AWPB. The PIM will define the rules of engagement for procurement staff during the annual planning process. Given the delays often affecting evaluation of bids, the PMU of WaMCoP will be cautioned to closely monitor the bid validity period of all ongoing procurement processes. This will also be captured in the PIM. WaMCoP will publicly advertise all contract award on its website. The PIM of WaMCoP will clearly state responsibilities for contract management and the procurement unit must ensure that each contract signed clearly mentions the assigned contract manager. IFAD’s Contract Monitoring Tool (CMT) will be deployed from the start-up phase of the project and the ESA Procurement Team will follow up with the procurement team to ensure that contract data inserted therein is accurate and up to date. For civil works, the contract manager will be the project engineer, who will be competitively recruited. The PIM will also encourage the PMU to engage in formal correspondence with contractors whenever performance delays occur. Additionally, the PIM will require the PMU to apply all remedies available under the contract and to timely extend contracts about to expire when the related works are still outstanding. The PIM of WaMCoP will clearly state that copies of all contract administration records will have to be kept at the PMU offices, regardless of the implementing agencies. To that end, adequate filing space must be allocated at the PMU offices.</p>		
<p>Financial Management</p>	<p>Substantial</p>	<p>Moderate</p>
<p>Organization and staffing</p>	<p>High</p>	<p>Moderate</p>
<p>Risk(s): The Lead Project Agency, MAFS, has previously implemented some IFAD -funded projects. The LPA will establish a PMU to manage component 1 and component 3 activities while a Trust Fund and Trust Company will be formed to lead Component 2 activities. Considering that there will be multiple implementing agencies with fiduciary responsibilities, there is a risk of complexity in reporting lines and logistical set up which may lead to inadequate FM organisational arrangements.</p>		
<p>Mitigations: One Finance Manager and one Accountant will be competitively hired at the PCU level. Additionally, one Accountant will be competitively recruited for the Trust Fund/Company to support the Trust’s technical/operational staff, overseeing the financial transactions and will have a functional reporting line to</p>		

PMU Finance Manager. FM capacity on IFAD's practices will be built through regular training courses for project staff.		
Budgeting	Moderate	Low
Risk(s): Low budget credibility arising during implementation due to unrealistic estimates and un-clarity in roles and responsibilities in the planning process. Risk in timely budget submission to IFAD due to lengthy consolidation processes		
Mitigations: Start drafting the budget in the 3rd quarter of each year to allow for timely consolidation and sharp scrutiny for realistic estimates. Effective budget-module installed to monitor deviations. WaMCoP PCU to manage the process so that final revisions are agreed upon timely to facilitate PCU's submission of final consolidated AWPB within 60 days before the beginning of each year.		
Funds flow/disbursement arrangements	High	Moderate
Risk(s): Risk in timely flow of resources to the Trust Fund /Company due to the complex organizational structure. Also, irregular submission of WA may disrupt access to funds, leading to cross-financing practices and delay in implementation.		
Mitigations: WaMCoP PCU's quarterly submission of Interim Financial Reports (IFR) inclusive of cash forecast for the next two quarters will ensure prompt liquidity phasing. Implementing partners, through memorandum of understanding (MoUs) and strong reporting framework, will secure that fund financed by IFAD will flow to beneficiaries for the intended purposes of the project and that any residual funds will be returned to IFAD through WaMCoP PCU.		
Internal controls	Substantial	Moderate
Risk(s): Understaffed internal audit unit at the LPA unable to undertake regular internal audits. Also, the organizational set up with cross reporting lines may pose challenges to the internal control flow.		
Mitigations: Use of external assurance service providers to conduct WaMCoP's internal audits twice a year supervised by Project Steering Committee (PSC). Performance audits for the Trust Fund and Trust Company performed on six-monthly basis by reputable external assurance audit services provider supervised by the Office of Auditor General (OAG) to report on key operational milestones including evidence of strong management and proper functioning of the Trust Fund and Trust Company. Finalizing the first draft of the PIM, including the finance manual section, before implementation start WaMCoP PIM/FMM with clarity on the financial coordination roles by the PCU which will include: (i) budget planning, preparation and monitoring in close coordination with Finance Manager and M&E Specialist, (ii) budget execution and treasury management, (iii) financial reporting to Government and IFAD, (iv) accounting software implementation and customization, (v) coordination of internal/external audit, (vi) compliance with IFAD's processes and procedures and (vii) securing FM operational continuity relating the opening and the closing of projects.		
Accounting and financial reporting	High	Moderate

Risk(s): Lesotho Government currently uses Integrated Information Management Systems (IFMIS) for financial accounting and reporting. IFMIS can provide adequate audit trail, regulate access control, and budget vs actuals reports. However, donor project accounting is done outside IFMIS because of operational issues such as incomplete records and unreconciled items. Need to accurately record and account for in-kind contributions		
Mitigations: Timely contracting for an off-the-shelf accounting software with the adoption of the chart of accounts of the Ministry of Finance so that once the operational issues of IFMIS are resolved, the project can transition to IFMIS. The software shall have an effective budget module and reporting capacity aligned to IFAD's minimum requirements at the PCU and for all implementing agencies with fiduciary responsibilities. WaMCoP PCU prepares consolidated financial reports for the purposes of monitoring and reporting to IFAD (IFRs and AFS).		
External audit	Moderate	Low
Risk(s): Delayed /inadequate external scrutiny of WaMCoP-P. Also, WaMCoP-P will work with private sector implementing agencies with fiduciary responsibilities (Trust Fund/ Company and Ethical Fashion) which will manage some key aspects of the project. According to the Office Auditor General, Trust Funds and Companies with less than 50% Government shareholding are not subject to OAG audit.		
Mitigations: Early engagement of OAG for exploring availability/capacity to include WaMCoP into yearly OAG work plan. Trust Fund Company and Ethical Fashion to be audited by a private audit firm but supervised by the OAG.		
Environment, Social and Climate Impact	Moderate	Low
Biodiversity conservation	Moderate	low
Risk(s): The expansion of agricultural activities, e.g. establishment of sheep studs, sheep sheds and improvements of grazing areas is likely to have adverse impacts on biodiversity conservation depending on the current use of the land to which the expansion will occur. Additional risks also result from the infrastructure development that will also potentially entail land use change and clearance of vegetation.		
Mitigations: The expansion of agriculture areas will target degraded areas that can be rehabilitated as much as possible. The expansion and infrastructure development will be in non-sensitive areas and rehabilitation will be promoted in areas where vegetation will be removed.		
Resource efficiency and pollution prevention	Moderate	Low
Risk(s): Activities targeting improved productivity will result in increased use of agro-chemicals and water resources for the different value chains. The increased use of agro chemicals will result in point pollution for the land and some water sources.		
Mitigations: The capacity building for the smallholders will include optimal use of agrochemicals with safe handling and disposal. Water resource use efficiency will be promoted through the soil and water conservation activities as well as the efficient irrigation systems.		

Cultural heritage	Low	Low
Risk(s): Natural features, antics and relics may be destroyed in the project area e.g., during excavations for foundations for agriculture infrastructure.		
Mitigations: (i) Conduct feasibility studies, fencing, introduce proper antiquity education programmes; (ii) Come up with a Physical cultural resources' management plan; (iii) Establish procedure for chance finds.		
Indigenous Peoples	Low	Low
Risk(s): Lesotho consists almost entirely of the Basotho people (99.7%) and the other subgroups are poorly defined and essentially part of the Basotho people.		
Mitigations: All people (Basotho) to be treated equally regardless of possible different ethnic origin.		
Community health and safety	Low	Low
Risk(s): Workers (i.e., shearing shed workers) contracting diseases at work. Risks are also likely to result from zoonotic diseases considering that WaMCoP is a livestock intervention.		
Mitigations: To mitigate the risks the following approaches will be adopted: <ul style="list-style-type: none"> Promote safe work through Standard Operating Procedures, training and awareness raising Encourage and enforce the use of PPE Supporting first-aid box and to provide minimal level of training; Enlisting the names and numbers of village doctors in nearby community places/shops; Encourage regular workplace cleaning 		
Labour and working conditions	Moderate	Low
Risk(s): Poor working conditions at sheep sheds.		
Mitigations: <ul style="list-style-type: none"> Ensure contractors adopt principles of decent work and the associated work programme in Lesotho. Monitor execution of cash-for-work programmes Ensure grievance mechanisms are known and accessible to workers Promotion of nutrition-sensitive meals during working hours Supporting first-aid box and to provide minimal level of training 		
Physical and economic resettlement	Low	Low
Risk(s): No physical resettlement is envisaged. However economic resettlement may occur if: <ul style="list-style-type: none"> If the project embarks on establishing additional sheep and goats breeding studs, land consolidation and/or clearing of bona-fide occupants of government land could occur. If the project pilots larger fodder production and land-consolidation (either at sharecropping or through formal block-farm building, this could also trigger land-re-allocation in principle. 		

<ul style="list-style-type: none"> Depending on the types of activities that will be employed, the improved grazing rangeland management may result in deprivation of members of the community from accessing some resources. 		
<p>Mitigations: Enforce the implementation of the Resettlement Plan Framework.</p> <p>Avoid any subprojects that will entail any physical displacement of people.</p> <p>Minimise any potential economic displacements.</p>		
Greenhouse gas emissions	Low	Low
<p>Risk(s): Emissions may emanate from accumulations of Sheep and Goats dung (nitrous oxide) if not properly managed especially at sheep and goats studs.</p>		
<p>Mitigations: Use of sheep and goats' dung as farm manure since it gets assimilated into the soils and broken down by bacteria if it is spread out in the fields.</p>		
Vulnerability of target populations and ecosystems to climate variability and hazards	Substantial	Moderate
<p>Risk(s): Most of the WaMCoP target beneficiaries depend on rain-fed agriculture for their livelihoods. This dependency increases their vulnerability to variable climate. Some of the WaMCoP locations are also water stressed, which increases the vulnerability of the ecosystems.</p> <p>There is also the risk of accelerating land degradation and the total loss of topsoil on sloping rangelands.</p>		
<p>Mitigations: CSA investments will reduce the vulnerability to climate variability. The CSA investments that will reduce the risks include the following:</p> <ul style="list-style-type: none"> Building capacity and developing Knowledge and decision support systems to manage the risks. Efficient water management including use of alternative water sources to contribute to addressing water stress and incidents of drought. Establishing off farm enterprises to supplement livelihoods for the farmers. Shifting crop calendars to fit into changing climate. Enhance community level irrigation to bolster fodder production Development of new crop varieties and technologies to support farming. Investing in disaster risk reduction and management (DRR/M) and improved monitoring and early warning systems. <p>To manage the risk of further land degradation, WaMCoP will partner with ROLL to:</p> <ul style="list-style-type: none"> Invest in proper land use planning and management including greening, afforestation, and rangeland management. Through the land management plans of the responsible standards use that as an operational entry point support institutional structure, such as grazing associations to better manage the rangelands. Support the implementation of the rangeland management act and the enforcement of grazing rules and related fines 		

Stakeholders	Moderate	Low
Stakeholder engagement/coordination	Low	Low
Risk(s): Envisioned risks relate to the following: <ul style="list-style-type: none"> level of participation of all relevant stakeholders during project planning and designing lack of ownership of the project by the locals. 		
Mitigations: <ul style="list-style-type: none"> All relevant stakeholders should be continuously involved and attend meetings from planning to implementation. Integrate gender sensitive approaches into all activities including training. Inform and encourage beneficiaries to use project's SEA-Grievance and Redress Mechanism (GRM) to report any misconduct. Conduct all-encompassing and continuous Stakeholder Engagement to keep all stakeholder abreast with the project progress. 		
Stakeholder grievances	Moderate	Low
Risk(s): Grievance redress mechanism not availed to project stakeholders. And channels for lodging complaints not clarified to stakeholders		
Mitigations: GRM should be well publicised to all potential PAP. <ul style="list-style-type: none"> The access point for impacted/concerned people should be as closest to them as possible and at all WaMCoP offices. 		