
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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Project delivery team

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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 and Development Planning (MFDP)
Executing agency:	Ministry of Agriculture, Food Security and Nutrition (MAFSN)
Total project cost:	US\$72.644 million
Amount of IFAD loan 1 (performance-based allocation system):	EUR14.2 million
Terms of IFAD loan 1:	Blend
Amount of IFAD loan 2 (Borrowed Resource Access Mechanism):	EUR 4.68 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

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.

significant topsoil erosion and reduced soil fertility. These trends negatively affect livestock production/productivity and producers' livelihoods.

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 the wool and mohair fund and wool and mohair enterprise (WMF-WME) 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 WMF-WME.
 - (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

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

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).

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 wool and mohair fund and wool and mohair enterprise. As a not-for-profit enterprise comprising all VC stakeholders, with a board of directors, 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

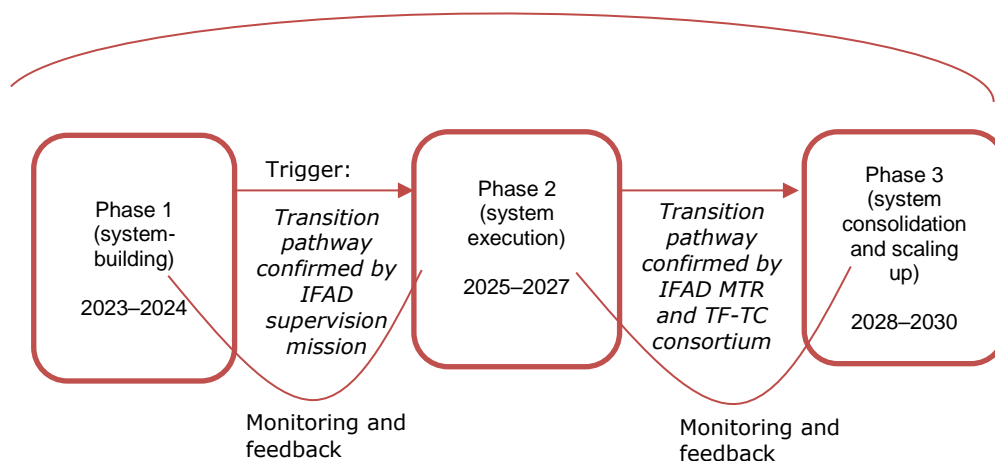
⁵ This approach is influenced by the foundational work already put in place under WAMPP, upon which the bulk of the component 1 activities will build. Cottage industry development will be targeted in Berea and Leribe and will be gradually scaled up to other districts.

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 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 the WMF-WME is developed and validated by VC players and the governance structure is established; (ii) WMF-WME fiduciary systems, monitoring software and secretariat are established and validated; (iii) WMF-WME develops a business plan for each asset entrusted to it by the Government; (iv) WMF-WME 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 WMF-WME 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 at 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 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 1</i>		<i>IFAD loan 2</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 1</i>		<i>IFAD loan 2</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 Wool and Mohair 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. 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 WMF-WME 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 WMF-WME 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	Substantial	Moderate
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.

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>.

40. The PCU will lead day-to-day coordination and project management. It will be housed within the Ministry of Agriculture, Food Security and Nutrition and will be adequately staffed with competitively recruited professionals from the market. The PCU will coordinate and support component 1, and the WMF-WME 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 WMF-WME 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 WMF-WME 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 and other value chain actors will appoint representatives and experts to represent them in the WMF and serve on the board of directors. 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.

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

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.
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 WMF-WME 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 the Government and IFAD have agreed to select the new PCU through a competitive process. IFAD and the Government of Lesotho have committed to dedicate resources to recruitment and start-up to allow for swift implementation of the project. WaMCoP will therefore 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 is attached as appendix I.
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 fourteen million two hundred thousand euros (EUR 14,200,000) 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 four million six hundred and eighty thousand euros (EUR 4,680,000) 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: "Wool and Mohair Value Chain Competitiveness Project"

(Negotiations concluded on 7 June 2023)

Loan No: _____

Loan No: _____

Project name: Wool and Mohair Value Chain Competitiveness Project (the "WaMCoP"/ "the Project")

Kingdom of Lesotho (the "Borrower")

and

The International Fund for Agricultural Development (the "Fund" or "IFAD")

(each a "Party" and both of them collectively the "Parties")

WHEREAS the Borrower has requested a loan from the Fund for the purpose of financing the Project described in Schedule 1 to this Agreement;

WHEREAS, the Fund has agreed to provide financing for the Project;

WHEREAS the Borrower has undertaken to provide additional support, financially or in kind that may be needed to the Project;

WHEREAS the Project has an estimated financing gap of eleven million seven hundred and fifty two thousand United States dollars (USD 11 752 000). The Parties endeavour to secure funds to fill the financing gap within the first five years of the Project's implementation.

WHEREAS the Parties are jointly submitting a proposal to the Global Environment Facility (GEF) to support the technical components of the Project by advancing a "greening" of the value chain.

For avoidance of doubt, IFAD's intentions stated herein in regards to supporting the effort to secure funds to meet the financing gap or submitting the proposal to GEF to secure financing for the Project shall not be construed as a commitment or agreement to provide said financing to the Borrower.

NOW THEREFORE, the Parties hereby agree as follows:

Section A

1. The following documents collectively form this Agreement: this document, the Project Description and Implementation Arrangements (Schedule 1), the Allocation Table (Schedule 2), and the Special Covenants (Schedule 3).

2. The Fund's General Conditions for Agricultural Development Financing dated 29 April 2009, amended as of December 2022, and as may be amended hereafter from time to time (the "General Conditions") are annexed to this Agreement, and all provisions thereof shall apply to this Agreement. For the purposes of this Agreement the terms defined in the General Conditions shall have the meanings set forth therein, unless the Parties shall otherwise agree in this Agreement.

3. The Fund shall provide a Loan (the "Financing") to the Borrower, which the Borrower shall use to implement the Project in accordance with the terms and conditions of this Agreement.

Section B

1. A. The amount of the Loan eligible to blend terms (BT Loan) is fourteen million, two hundred thousand EUR (14 200 000 EUR).
- B. The amount of the Loan eligible to ordinary terms (OT Loan) is four million, six hundred and eighty thousand EUR (4 680 000 EUR).
2. The blended terms Loan shall be subject to interest on the principal amount outstanding and a service charge as determined by the Fund at the date of approval of the blended terms Loan by the Fund's Executive Board. The interest rate and service charge determined will be fixed for the life cycle of the loan and payable semi-annually in the Loan Service Payment Currency, and shall have a maturity period of twenty-five (25) years, including a grace period of five (5) years starting from the date of approval of the Loan by the Fund's Executive Board. The principal of the blended terms Loan will be repaid in equal instalments.
3. The Loan granted on ordinary terms shall be subject to interest on the principal amount outstanding of the Loan, at a rate equal to the IFAD Reference Interest Rate including a variable spread, payable semi-annually in the Loan Service Payment Currency, and have a maturity period of twenty eight (28) years, including a grace period of ten (10) years, starting from the date as of which the Fund has determined that all general conditions precedent to withdrawal have been fulfilled.
4. The Loan Service Payment Currency shall be in EUR.
5. The first day of the applicable Fiscal Year shall be 1 April.
6. Payments of principal, interest and service charge shall be payable on each 15th June and 15th December.
7. There shall be a Designated Account in EUR, for the exclusive use of the Project opened in the Central Bank of Lesotho. The Borrower shall inform the Fund of the officials authorized to operate the Designated Account.
8. There shall be Project Operational Accounts in local currency opened at a local commercial bank and details would be communicated to IFAD. Separate Project accounts will be maintained for the different Project co-financiers.
9. Once operational the Wool and Mohair fund shall open two separate Operational Bank Accounts at a local bank and details communicated to the Fund to facilitate the implementation of Component 2. One Operational Bank Account shall be used for IFAD funds and the other for Government of Lesotho contributions. The funds received from IFAD shall be used for the sole purpose of paying for eligible expenses of the Project.
10. The Borrower shall provide counterpart financing for the Project, in cash and in kind. The in-kind contribution will be in the form of assets transferred to the Wool and Mohair Enterprise, contribution towards civil works, administrative support and foregone taxes and duties on all Project inputs that involve funding from IFAD. The cash contribution will amount to an equivalent of three million United States dollars (USD 3 000 000) and in-kind contribution equivalent of five million United States dollars (USD 5 000 000).

Section C

1. The Lead Project Agency shall be the Ministry of Agriculture and Food Security and Nutrition (MAFSN).
2. The following are designated as additional Project Parties:
 - (a) Lesotho National Development Corporation (LNDC)
 - (b) The National Farmer Associations (LNWMGA and Skylight)
 - (c) Ethical Fashion Initiative
 - (d) Textile Exchange
 - (e) GS1 South Africa
 - (f) Africa Clean Energy
 - (g) The Wool and Mohair fund and Wool and Mohair Enterprise (once established and operational)

Additional Project Parties are described in Schedule 1 section 9. The above list is not exhaustive and the Parties may agree on additional Project Parties from time to time.

3. A Mid-Term Review will be conducted as specified in Section 8.03 (b) and (c) of the General Conditions; however, the Parties may agree on a different date for the Mid-Term Review of the implementation of the Project.
4. The Project Completion Date shall be the seventh anniversary of the date of entry into force of this Agreement and the Financing Closing Date shall be 6 months later, or such other date as the Fund may designate by notice to the Borrower.
5. Procurement of goods, works and services financed by the Financing shall be carried out in accordance with procurement methods and any other measures identified by IFAD.

Section D – administration and supervision

The Fund will administer the Financing and supervise the Project.

Section E – Withdrawal conditions and cancellation

1. The following are designated as additional grounds for suspension of this Agreement:
 - (a) The Project Implementation Manual (PIM) and/or any provision thereof, has been waived, suspended, terminated, amended or modified without the prior agreement of the Fund and the Fund, after consultation with the Borrower, has determined that it has had, or is likely to have, a material adverse effect on the Project.
 - (b) In the event that the Borrower does not request a disbursement of the Financing for a period of at least 12 months without justification.
2. The following are designated as additional grounds for cancellation of this Agreement:
 - (a) In the event that the Borrower did not request a disbursement of the Financing for a period of at least 12 months without justification.

3. The following are designated as additional conditions precedent to withdrawal:
 - (a) The IFAD no objection to the Project Implementation Manual shall have been obtained.
 - (b) The Key Project personnel have been appointed as per section 10 Schedule 3 of this Agreement.
 - (c) IFAD approved accounting software has been procured and installed.
4. The following are the designated representatives and addresses to be used for any communication related to this Agreement:

For the Borrower:

Minister for Finance and Development Planning
Finance House, Government Complex
Maseru, Kingdom of Lesotho

For the Fund:

The President
International Fund for Agricultural Development
Via Paolo di Dono 44
00142 Rome, Italy

If applicable, the Parties accept the validity of any qualified electronic signature used for the signature of this Agreement and recognise the latter as equivalent to a hand-written signature.

This Agreement, has been prepared in the English language in two (2) original copies, one (1) for the Fund and one (1) for the Borrower.

KINGDOM OF LESOTHO

Adelaide Retselisitsoe Matlanyane
Minister for Finance and Development Planning

Date: _____

INTERNATIONAL FUND FOR
AGRICULTURAL DEVELOPMENT

Alvaro Lario
President

Date: _____

Schedule 1

Project Description and Implementation Arrangements

I. Project Description

1. *Target Population.* The Project shall target smallholder wool and mohair farmers, particularly members of wool and mohair farmers associations. The project will target about 45,000 households (approximately 225,000 persons).
2. *Project area.* The Project will be national in scale and will place a special focus on the highland areas (*the "Project Area"*).
3. *Goal.* The goal of the Project is to increase the economic and climate resilience of wool and mohair farmers' livelihoods.
4. *Objectives.* The objective of the Project is to promote inclusive and sustainable economic growth and private sector led job creation from wool and mohair.
5. *Components.* The Project shall consist of the following Components:

5.1 Component 1: *Support to building value chain systems*

This component will support the establishment and up-grading of the wool and mohair systems, enabling the value chains to thrive. It will support government and value chain players to improve sector governance, regulation, and compliance with certification by establishing national systems, guidelines, and regulations. It will be implemented by the Project Coordination Unit (PCU) and will have three sub-components as follows:

- 5.1.1 *Sub-Component 1.1:* Value chain governance and sector strategy, which consists of two interventions aiming at improving the sector's policy and regulatory framework and building the capacity of value chain stakeholders to operate under the new private sector led sector governance system.
- 5.1.2 *Sub-Component 1.2:* Responsible wool and mohair production, which will see the promotion of sustainable intensification of wool and mohair production through improvements in animal breeding, animal nutrition and animal health, and provides interlinked support for the rehabilitation of rangelands and carbon accounting. In partnership with African Clean Energy (ACE), energy efficient cooking stoves will be promoted to ensure a reduction of deforestation ultimately supporting soil carbon sequestration efforts.
- 5.1.3 *Sub-Component 1.3:* Business development and cottage industry, which will support the business development of critical supply chains of the wool and mohair value chains through the promotion of productive alliances. Moreover, national value will be promoted through transforming cottage industries into commercial fashion production. The Ethical Fashion Initiative has been selected as a strategic partner to implement the development of Lesotho fiber processing and market linkages.

Under sub-components 1.2 and 1.3, the Project will channel funds to rural producers for flock level upgrading (culling and exchange), and to strengthen critical national supply chains through productive alliances (animal feed, breeding, and animal health services).

5.2 Component 2: *Climate smart Value Chain operation and coordination*

This component will support the operation and improvement of locally grounded value chain systems, towards self-sustainability.

This component will have two sub-components as follows:

- 5.2.1 *Sub-Component 2.1:* Access to productive finance and services, which aims to ensure farmers' access to financing services as well as inputs. It consists of three

interventions led by the Wool and Mohair fund and Wool and Mohair Enterprise (hereinafter Consortium): (i) Consortium provides services to farmers by managing entrusted physical and financial assets; (ii) roll-out a revolving fund to provide in-kind loans to farmers; and (iii) collaborate with a service provider to promote financial literacy and saving groups, targeting poorer households.

- 5.2.2 *Sub-Component 2.2*: Responsible value chain production - under this sub-component, the Consortium will lead the roll-out of the responsible production system (set-up under sub-component 1.2) and support the certification of shearing shed-linked farmer associations who have benefitted from other financial and non-financial support under the other project sub-components. The textile exchange has been selected as a strategic partner to assist in developing a model for certification in Lesotho. To support certification efforts and further promote value chain efficiencies, a digital platform will be established and will operate for the whole value chain. Moreover, the Consortium will coordinate the implementation of all activities required to meet the responsible production standards, as well as carbon sequestration and biodiversity enhancement.

The Wool and Mohair Enterprise (WME) will be a collaboration between key value chain players of the wool and mohair value chain and will act as a sectoral body. Its aim is to govern and coordinate value chain operations, manage critical value chain assets, and equitably deliver required services to all players. The Wool and Mohair fund (WMF) will be the financial entity that will channel finance to the wool and mohair sector. It will ensure farmers' access to financing services as well as inputs. The WMF will consist of an endowment fund and a revolving fund. The capital growth generated from investing the funds from the endowment fund will be used to finance the operations of the Consortium and support sector development. The revolving fund is aimed at providing in-kind input loans to farmers. The Wool and Mohair Enterprise will report to the Wool and Mohair fund. The WME and the WMF will be established during the Projects implementation.

The Consortium will comprise of cooperating partners/shareholders including but not limited to the Borrower, Lesotho National Development Corporation (LNDC) and key value chain players including relevant farmer associations, significant brokers and trader's associations. The partners/shareholders of the Consortium will be agreed upon by the Parties from time to time. It will be formed based on Memorandums of Understanding between the cooperating partners and will operate under a corporate management system that meets international standards and IFAD requirements, as well as follow a defined roadmap that will be determined jointly by the Parties. The Consortium's ability to implement will be determined following the fulfilment of performance related triggers to transition the Project from phase 1 to phase 2 as outlined in the PIM. The Consortium will primarily execute Component two.

Following capacity building, and through performance-based contracts, assets will be entrusted to the Consortium to manage and operate.

5.3 *Component 3: Project Management*

This component will support the effective and efficient implementation of the project. It has two sub-components as follows:

- 5.3.1 *Sub-Component 3.1*: Communication for behaviour change and monitoring for learning; and
- 5.3.2 *Sub-Component 3.2*: Project coordination. Activities will focus on monitoring and evaluation, communication, and knowledge management functions. Moreover, the PCU will handle traditional fiduciary activities and consult with stakeholders throughout project implementation.

II. Implementation Arrangements

6. *Lead Project Agency.* The Lead Project Agency shall be the Ministry of Agriculture, Food Security and Nutrition (MAFSN). The responsible department for the Project will be the Department of Livestock Services (DLS), supported by the Department of Marketing (DOM).

7. *Project Steering Committee.* A Project Steering Committee (PSC) will be established to provide policy guidance and oversight of Project implementation. It will be convened and chaired by Principal Secretary MAFSN or an authorised representative, with membership open to the Ministry of Defence, National Security and Environment, Ministry of Trade, Industry, Business Development and Tourism, Ministry of Local Government, Chieftainship, Police and Home Affairs, Ministry of Finance and Development Planning, the LNDC, producer organisations and other relevant stakeholders as required. The PSC will meet quarterly or on a need's basis, provided three representatives call for a meeting. The PSC and broader Project will also be supported by a Project Consultative Technical Committee (PCTC), which will comprise of directors and focal points of key stakeholder agencies including Government departments. The PCTC will meet quarterly and will provide technical and operational guidance, including preparation of the PSC meetings. For the Consortium a light secretariat will be established that will oversee the day-to-day operations of the institution. The composition and descriptive role of the light secretariat will be established during the formation of the WME and WMF.

8. *Project Coordination Unit.* The Project Coordination Unit (PCU) will lead the day-to-day coordination and project management for the Project. It will be housed in MAFSN and adequately staffed with professionals recruited competitively from the market. The PCU will be responsible for Project implementation including fiduciary aspects (including audits); knowledge management/communication (including public awareness campaigns); grievance redress mechanism; citizen engagement; and monitoring the implementation of safeguard related measures. The PCU will consolidate the financial reports from the Consortium and other implementing agencies before submitting to IFAD. The PCU will share regular reports with the PSC and other relevant technical departments within the line Ministries. The PCU will be staffed as outlined in Schedule 3 section 10.

9. *Implementing partners.* The key implementing partners include:

- (a) Ministry of Agriculture and Food Security and Nutrition (MAFSN)
- (b) Lesotho National Development Corporation (LNDC)
- (c) The National Farmer Associations (LNWMGA and Skylight)
- (d) Ethical Fashion Initiative (EFI)
- (e) Textile Exchange
- (f) GS1 South Africa
- (g) Africa Clean Energy
- (h) The Wool and Mohair fund and Wool and Mohair Enterprise (once established and operational)

The above list is not exhaustive and the Parties may agree on additional Project Parties from time to time.

10. *Monitoring and Evaluation.* The Project will set up a solid Monitoring and Evaluation (M&E) system, which will generate timely and reliable information to support decision-making and adaptive management. To promote the use of M&E data for project management, the logframe will be a standing agenda point in PCU's quarterly reflection meetings. Data collection, verification and use will be a joint task by all project stakeholders. The primary responsibility for the M&E system will lie with the M&E Unit within the PCU. The M&E focal point for the Consortium will closely interact with the PMU's

M&E officer. All contracts and Memorandums of Understanding (MoUs) signed by the PCU will include details on implementing partners' data collection responsibilities.

11. *Knowledge Management.* The Project will carry out qualitative studies and produce Knowledge Management products on impact areas including changes in interactions among value chain actors, and changes in access to value chains and benefits from the Project promoted innovations for the most vulnerable. The Project's Knowledge Management officer will also liaise closely with the Consortium and capture key aspects of its functioning.

12. *Project Implementation Manual.* A comprehensive Project Implementation Manual (PIM) will be prepared, together with an AWPB, procurement plan and terms of reference for various service providers to be procured, and to ensure implementation readiness. Any revisions to the PIM and AWPB shall have to be previously approved by the Fund.

13. *Project Co-financing.* The Project shall be capable of receiving co-financing contributions from other institutions. The Borrower will enter into co-financing agreements with the co-financiers to provide financing for the Project.

Schedule 2

Allocation Table

1. *Allocation of Loan Proceeds.* (a) The Table below sets forth the Categories of Eligible Expenditures to be financed by the Loan and the allocation of the amounts to each category of the Financing and the percentages of expenditures for items to be financed in each Category:

Category	Blend Term Loan Allocated (Expressed in EUR)	Ordinary Term Loan Allocated (Expressed in EUR)	Percentage net of taxes
I. Civil Works	90 000		100%
II. Vehicles, Equipment and Materials	4 180 000	2 530 000	100%
III. Technical Assistance	3 280 000		100%
IV. Credit	3 350 000	1 680 000	100%
V. Recurrent Cost	1 900 000		100%
Unallocated	1 400 000	470 000	
TOTALS	14 200 000	4 680 000	

(b) The terms used in the Table above are defined as follows:

- (i) Technical Assistance category include eligible expenditures for costs associated with training and workshops.
- (ii) Recurrent Costs include eligible expenditures for cost associated with operating cost, salaries and allowances of Project staff.

2. *Disbursement arrangements*

- (a) *Start-up Advance.* Withdrawals in respect of expenditures for start-up costs incurred before the satisfaction of the general conditions precedent to withdrawal shall not exceed an aggregate amount of four hundred and seventy thousand Euros four hundred and seventy thousand (EUR 470 000). Activities to be financed by Start-up Costs will require the no objection from IFAD to be considered eligible.
- (b) *Start-up Costs.* Withdrawals in respect of expenditures for start-up costs (in Category(ies)) incurred before the satisfaction of the general conditions precedent to withdrawal shall not exceed an aggregate amount of EUR 470 000 equivalent. Activities to be financed by Start-up Costs will require the no objection from IFAD to be considered eligible and should be in line with the approved start-up budget.

Schedule 3

Special Covenants

I. General Provisions

In accordance with Section 12.01(a)(xxiii) of the General Conditions, the Fund may suspend, in whole or in part, the right of the Borrower/Recipient to request withdrawals from the Loan/Grant Account if the Borrower/Recipient has defaulted in the performance of any covenant set forth below, and the Fund has determined that such default has had, or is likely to have, a material adverse effect on the Project:

1. Within nine (9) months of entry into force of the Financing Agreement, the Project will enter into Memorandum of Understandings (MoU) with implementing partners, as outlined in the project implementation manual, that will structure the collaboration, define roles, responsibilities and duties with regards to implementation, financial management, accounting and reporting. The MoUs shall be shared with IFAD for No Objection.

2. *Planning, Monitoring and Evaluation.* The Borrower shall ensure that (i) a Planning, Monitoring and Evaluation (PM&E) system shall be established within twelve (12) months from the date of entry into force of this Agreement. The project has to launch the procurement process for the baseline within the first six (6) months.

3. *Gender.* The Project shall ensure that it develops a gender and youth strategy and action plan to facilitate equitable participation of women and men to the economic opportunities and benefits generated by the Project.

4. *Indigenous People (IP) Concerns.* The Borrower shall ensure that the concerns of IPs are given due consideration in implementing the Project and, to this end, shall ensure that:

- (a) the Project is carried out in accordance with the applicable provisions of the relevant IP national legislation;
- (b) indigenous people are adequately and fairly represented in all local planning for Project activities;
- (c) IP rights are duly respected;
- (d) IP communities, participate in policy dialogue and local governance;
- (e) The terms of Declarations, Covenants and/or Conventions ratified by the Borrower on the subject are respected;
- (f) The Project will not involve encroachment on traditional territories used or occupied by indigenous communities.

5. *Land tenure security.* The Borrower shall ensure that the land acquisition process has already been completed and that compensation processes were consistent with international best practice and free prior and informed consent principles.

6. *Anticorruption Measures.* The Borrower shall comply with IFAD Policy on Preventing Fraud and Corruption in its Activities and Operations.

7. *Sexual Harassment, Sexual Exploitation and Abuse.* The Borrower and the Project Parties shall ensure that the Project is carried out in accordance with the provisions of the IFAD Policy on Preventing and Responding to Sexual Harassment, Sexual Exploitation and Abuse, as may be amended from time to time.

8. *Use of Project Vehicles and Other Equipment.* The Borrower shall transfer relevant vehicles and equipment from the IFAD supported WAMPP project to support Start Up activities. The specifications of the vehicles and equipment to be transferred will be clarified to IFAD by the Borrower prior to the Start Up period.

9. *IFAD Client Portal (ICP) and Contract Monitoring Tool (CMT)*. The Borrower shall ensure that a request is sent to IFAD to access the project procurement Contract Monitoring Tool in the IFAD Client Portal (ICP). The Borrower/Recipient shall ensure that all contracts, memoranda of understanding, purchase orders and related payments are registered in the Project Procurement Contract Monitoring Tool in the IFAD Client Portal (ICP) in relation to the procurement of goods, works, services, consultancy, non-consulting services, community contracts, grants and financing contracts. The Borrower/Recipient shall ensure that the contract data is updated on a quarterly basis during the implementation of the Project.

10 *The Key Project Personnel are*: Project Coordinator, Procurement Officer and Contract Manager, Financial Management Officer, Financial Accountant, M&E and KM/communication officer, and Senior Project Assistant. In order to assist in the implementation of the Project, the PCU, unless otherwise agreed with IFAD, shall employ or cause to be employed, as required, key staff whose qualifications, experience and terms of reference are satisfactory to IFAD.

The Parties agree that the preferred method of staffing the Key Project Personnel shall be competitive recruitment. The recruitments shall be under a consulting contract following the individual consultant selection method in the IFAD Procurement Handbook, or any equivalent selection method in the national procurement system that is acceptable to IFAD. At the request of the Borrower and subject to IFAD modalities, government officials may be seconded, provided they meet clear performance metrics.

The recruitment of Key Project Personnel is subject to IFAD's prior review as is the dismissal of Key Project Personnel. Key Project Personnel are subject to annual evaluation and the continuation of their contract is subject to satisfactory performance. Any contract signed for Key Project Personnel shall be compliant with the national labour regulations or the ILO International Labour Standards (whichever is more stringent) in order to satisfy the conditions of IFAD's updated SECAP. Repeated short-term contracts must be avoided, unless appropriately justified under the Project's circumstances.

II. SECAP Provisions

1. The Borrower shall carry out the preparation, design, construction, implementation, and operation of the Project in accordance with the nine standards and other measures and requirements set forth in the Updated Social, Environmental Climate Assessment Procedures of IFAD ("SECAP 2021 Edition"), as well as with all applicable laws and regulations to the Borrower/Recipient and/or the sub-national entities relating to social, environmental and climate change issues in a manner and substance satisfactory to IFAD. The Borrower/Recipient shall not amend, vary or waive any provision of the SECAP 2021 Edition, unless agreed in writing by the Fund in the Financing Agreement and/or in the Management Plan(s), if any.

2. For projects presenting high or substantial social, environmental and climate risks, the Borrower/Recipient shall carry out the implementation of the Project in accordance with the measures and requirements set forth in the Environmental and Social Impact Assessments (ESIAs)/Environmental, Social and Climate Management Frameworks (ESCMFs) and/or Resettlement Action Plans/Frameworks (RAPs/Fs) and Environmental, Social and Climate Management Plans (ESCMs) for high risk projects and Abbreviated ESIAs and/or Abbreviated RAP/F and ESCMs for substantial risk projects and Free, Prior and Informed Consent (FPIC) Plans, FPIC Implementation Plans, Indigenous Peoples Plans (IPPs), Pesticide Management Plans, Cultural Resources Management Plans and Chance Finds Plans] (the "Management Plan(s)"), as applicable, taken in accordance with SECAP requirements and updated from time to time by the Fund.

The Borrower shall not amend, vary, or waive any provision of the ESCMPs and Management Plan(s), unless agreed in writing by the Fund and if the Borrower/Recipient has complied with the same requirements as applicable to the original adoption of the ESCMPs and Management Plan(s).

3. The Borrower shall not, and shall cause the Executing Agency, all its contractors, its sub-contractors and suppliers not to commence implementation of any works, unless all Project affected persons have been compensated and/or resettled in accordance with the specific RAP/Abbreviated RAP, FPIC and/ or the agreed works and compensation schedule.

4. The Borrower shall cause the Lead Project Agency to comply at all times while carrying out the Project with the standards, measures and requirements set forth in the SECAP 2021 Edition and the Management Plan(s), if any.

5. The Borrower shall disclose the draft and final ESIA reports and all other relevant Management Plan(s) with Project stakeholders and interested parties in an accessible place in the Project-affected area, in a form and language understandable to Project-affected persons and other stakeholders. The disclosure will take into account any specific information needs of the community (e.g., culture, disability, literacy, mobility or gender).

6. The Borrower shall ensure or cause the Executing Agency and Implementing Agency to ensure that all bidding documents and contracts for goods, works and services contain provisions that require contractors, sub-contractors and suppliers to comply at all times in carrying out the Project with the standards, measures and requirements set forth in the SECAP 2021 Edition, ESCMPs and the Management Plan(s), if any.

7. The Borrower will ensure that a Project-level grievance mechanism is established that is easily accessible, culturally appropriate, available in local languages, and scaled to the nature of the Project's activity and its potential impacts to promptly receive and resolve concerns and complaints (e.g. compensation, relocation or livelihood restoration) related to the environmental and social performance of the Project for people who may be unduly and adversely affected or potentially harmed if the Project fails to meet the SECAP standards and related policies. The Project-level grievance mechanism needs to take into account indigenous peoples, customary laws and dispute resolution processes. Traditional or informal dispute mechanisms of affected indigenous peoples should be used to the greatest extent possible.

8. This section applies to any event which occurs in relation to serious environmental, social, health & safety (ESHS) incidents (as this term is defined below); labor issues or to adjacent populations during Project implementation that, with respect to the relevant IFAD Project:

- (i) has direct or potential material adverse effect;
- (ii) has substantially attracted material adverse attention of outside parties or create material adverse national press/media reports; or
- (iii) gives rise to material potential liabilities.

In the occurrence of such event, the Borrower shall:

- Notify IFAD promptly;
- Provide information on such risks, impacts and accidents;
- Consult with Project-affected parties on how to mitigate the risks and impacts;

- Carry out, as appropriate, additional assessments and stakeholders' engagements in accordance with the SECAP requirements; and
- Adjust, as appropriate, the Project-level grievance mechanism according to the SECAP requirements; and
- Propose changes, including corrective measures to the Management Plan(s) (if any), in accordance with the findings of such assessment and consultations, for approval by IFAD.

Serious ESHS incident means serious incident, accident, complaint with respect to environmental, social (including labor and community), health and safety (ESHS) issues that occur in loan or within the Borrower/Recipient's activities. Serious ESHS incidents can comprise incidents of (i) environmental; (ii) occupational; or (iii) public health and safety; or (iv) social nature as well as material complaints and grievances addressed to the Borrower/Recipient (e.g. any explosion, spill or workplace accident which results in death, serious or multiple injuries or material environmental contamination, accidents of members of the public/local communities, resulting in death or serious or multiple injuries, sexual harassment and -violence involving Project/Programme workforce or in relation to severe threats to public health and safety, inadequate resettlement compensation, disturbances of natural ecosystems, discriminatory practices in stakeholder consultation and engagement (including the right of indigenous peoples to free, prior and informed consent), any allegation that require intervention by the police/other law enforcement authorities, such as loss of life, sexual violence or child abuse, which (i) have, or are likely to have a material adverse effect; or (ii) have attracted or are likely to arouse substantial adverse attention of outside parties or (iii) to create substantial adverse media/press reports; or (iv) give, or are likely to give rise to material potential liabilities).

9. The Borrower shall ensure or cause the Executing Agency, Implementing Agency, contractors, sub-contractors and suppliers to ensure that the relevant processes set out in the SECAP 2021 Edition as well as in the ESCMPs and Management Plan(s) (if any) are respected.

10. Without limitation on its other reporting obligations under this Agreement, the Borrower shall provide the Fund with:

- Reports on the status of compliance with the standards, measures and requirements set forth in the SECAP 2021 Edition, ESCMPs and the management plan (if any) on a semi-annual basis - or such other frequency as may be agreed with the Fund;
- Reports of any social, environmental, health and safety incidents and/accidents occurring during the design stage, the implementation of the Project and propose remedial measures. The Borrower/Recipient will disclose relevant information from such reports to affected persons promptly upon submission of the said reports; and
- Reports of any breach of compliance with the standards, measures and requirements set forth in the SECAP 2021 Edition and the Management Plan(s) (if any) promptly after becoming aware of such a breach.

11. The Borrower shall fully cooperate with the Fund concerning supervision missions, midterm reviews, field visits, audits, and follow-up visits to be undertaken in accordance with the requirements of SECAP 2021 Edition and the Management Plan(s) (if any) as the Fund considers appropriate depending on the scale, nature and risks of the Project/Programme.

12. In the event of a contradiction/conflict between the Management Plan(s), if any and the Financing Agreement, the Financing Agreement shall prevail.

GENERAL CONDITIONS FOR AGRICULTURAL DEVELOPMENT FINANCING

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, end-line	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%						

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

⁹ Indicator is disaggregated by gender and age.

Outcome 1.1 <i>Inclusiveness and transparency of value chain governance have improved</i>	CI 2.2.4: Number (Percentage) of supported rural producers' organization members reporting new or improved services provided by their organization¹⁰							
	# of members	0	15,000	30,000	COI surveys	Midline, end-line	PMU/Outsourced	The wool and mohair enterprise 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>Wool and Mohair Enterprise established and operational</i>	Number of assets sustainably entrusted to Wool and Mohair Enterprise							
	# of assets	0	20	60	MIS	Once	PMU	Wool and Mohair Enterprise 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	Wool and Mohair 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	Wool and Mohair 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	

¹⁰ Indicator is disaggregated by gender and age.

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 households	0	42%	84%		Baseline, midline, completion		Certification induces farmers to adopt environmentally sustainable practices	
	# of household members	0	95,000	190,000					
	CI 3.2.1: Number of tons of greenhouse gas emissions (CO2e) avoided and/or sequestered¹⁶ (Nota bene: to be filled when carbon analysis is finalised)								
	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	Wool and Mohair 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	Wool and Mohair 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	Substantial	Moderate
Political Commitment	Substantial	Substantial
<p>Risk(s): Lesotho held elections in October 2022 and a new three-party coalition is leading the government. The new administration is still trying to plan, organise and set-up delivery mechanisms. Several ministries have been reconfigured and the human capacity too, this process has produced some uncertainty in the short term that needs to be managed.</p>		
<p>Mitigations: At the macro level, the new government is broadly continuing with the same priorities as the previous government. 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. Several 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 competitive and transparent, which should contribute to a culture of effective governance.</p>		
Macroeconomic	Substantial	Moderate

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	Substantial	Moderate
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 Wool and Mohair Enterprise 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 Wool and Mohair Enterprise 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 Wool and Mohair		

Enterprise , this should further contribute to an evolving “relevance” of the project, especially as the Wool and Mohair Enterprise 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 Wool and Mohair Enterprise and its key role in driving the project is a risk to be acknowledged. And naturally, a Wool and Mohair Enterprise that has a weak operational thrust in implementing selected activities, could undermine the effectiveness of the project.		
Mitigations: The Wool and Mohair Enterprise (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 Wool and Mohair Fund-Wool and Mohair Enterprise 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 Wool and Mohair Fund-Wool and Mohair Enterprise 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 Wool and Mohair Fund-Wool and Mohair Enterprise model will be evaluated in line with the phased approach and where necessary, a 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 Wool and Mohair Fund- 		

<p>Wool and Mohair Enterprise 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 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</p>		

<p>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 recommended that it do so through the COSOP consultations with the government.</p>		
<p>Capability in public procurement</p>	<p>Moderate</p>	<p>Low</p>

<p>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.</p>		
<p>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.</p>		
<p>Public procurement processes</p>	<p>Low</p>	<p>Low</p>
<p>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., the LNWMGA). This may constitute a risk for WaMCoP as well, considering that the identified implementing partners will carry out procurement process directly.</p>		
<p>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 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</p>		

<p>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 Wool and Mohair Fund and Wool and Mohair Enterprise 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 Wool and Mohair Fund/Company to support the Trust’s technical/operational staff, overseeing the financial transactions and will have a functional reporting line to PMU Finance Manager. FM capacity on IFAD’s practices will be built through regular training courses for project staff.</p>		
<p>Budgeting</p>	<p>Moderate</p>	<p>Low</p>

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 and 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 Wool and Mohair Fund/Enterprise 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 Wool and Mohair Fund and Wool and Mohair Enterprise 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 Wool and Mohair Fund and Wool and Mohair Enterprise . 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 (Wool and Mohair Fund/ Enterprise and Ethical Fashion) which will manage some key aspects of the project. According to the Office Auditor General, Wool and Mohair Fund 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. Wool and Mohair 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. 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.		
Mitigations: Enforce the implementation of the Resettlement Plan Framework. Avoid any subprojects that will entail any physical displacement of people. Minimise any potential economic displacements.		
Greenhouse gas emissions	Low	Low
Risk(s): Emissions may emanate from accumulations of Sheep and Goats dung (nitrous oxide) if not properly managed especially at sheep and goats studs.		
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.		
Vulnerability of target populations and ecosystems to climate variability and hazards	Substantial	Moderate
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. There is also the risk of accelerating land degradation and the total loss of topsoil on sloping rangelands.		
Mitigations: CSA investments will reduce the vulnerability to climate variability. The CSA investments that will reduce the risks include the following: <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. To manage the risk of further land degradation, WaMCoP will partner with ROLL to: <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

<p>Risk(s): Envisioned risks relate to the following:</p> <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. 		
<p>Mitigations:</p> <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
<p>Risk(s): Grievance redress mechanism not availed to project stakeholders. And channels for lodging complaints not clarified to stakeholders</p>		
<p>Mitigations: GRM should be well publicised to all potential PAP.</p> <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. 		