



The World Bank

Lesotho Integrated Transport, Trade and Logistics Project (P502125)

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Project Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 30-Apr-2024 | Report No: PIDIA00460



BASIC INFORMATION

A. Basic Project Data

| | | | |
|---|--|--|---|
| Project Beneficiary(ies) Lesotho | Region EASTERN AND SOUTHERN AFRICA | Operation ID P502125 | Operation Name Lesotho Integrated Transport, Trade and Logistics Project |
| Financing Instrument Investment Project Financing (IPF) | Estimated Appraisal Date 08-Apr-2024 | Estimated Approval Date 06-Jun-2024 | Practice Area (Lead) Transport |
| Borrower(s) Ministry of Finance and Development Planning | Implementing Agency Ministry of Agriculture Food Security and Nutrition, Ministry of Trade, Industry and Small Business, Ministry of Public Works and Transport, Revenue Services Lesotho | | |

Proposed Development Objective(s)

The Project Development Objective (PDO) is to improve climate resilient regional connectivity on the Katse to Thaba-Tseka road corridor and reduce the costs of trade at three of Lesotho's commercial borders with South Africa.

Components

Road Corridor Infrastructure Development
Regional Integration, Trade, and Logistics Services
Technical assistance, capacity building, and project management

PROJECT FINANCING DATA (US\$, Millions)

Maximizing Finance for Development

Is this an MFD-Enabling Project (MFD-EP)? No

Is this project Private Capital Enabling (PCE)? Yes

SUMMARY

| | |
|----------------------|-------|
| Total Operation Cost | 80.00 |
|----------------------|-------|



| | |
|--------------------------|--------------|
| Total Financing | 80.00 |
| of which IBRD/IDA | 80.00 |
| Financing Gap | 0.00 |

DETAILS**World Bank Group Financing**

| | |
|---|-------|
| International Development Association (IDA) | 80.00 |
| IDA Credit | 57.30 |
| IDA Shorter Maturity Loan (SML) | 22.70 |

Environmental And Social Risk Classification

Moderate

Decision

Other

Other Decision (as needed)

B. Introduction and Context

Country Context

1. **The Kingdom of Lesotho is a lower-middle-income country and one of Southern Africa's poorest economies.** With a population of about 2.3 million, the country is entirely encircled by the Republic of South Africa, which provides Lesotho with access to global markets, its migrants with livelihoods, and affects its national currency, the Loti, which is pegged 1:1 to the South African Rand. Lesotho faces high unemployment, business informality, inequality, and poverty. Gross Domestic Product (GDP) growth has decelerated from a peak of 6.3 percent in 2012 to -5.6 percent in 2020. As a result, GDP per capita declined by 12 percent from 2016 to 2020. Unemployment is estimated at 22.5 percent in 2019. While the poverty rate fell from 56.6 percent to 49.7 percent between 2002 and 2017, economic vulnerability persists with more than 75 percent of the population either poor or vulnerable to poverty. Lesotho is among the top 20 percent of countries worldwide with the highest inequality, with a Gini index coefficient of 44.6, though it has become less unequal than its neighbors. The poor private sector performance has been the result of compounding factors including large skill gaps, high costs of doing business, and difficulties in access to credit, which are both contributing factors to the large informal sector. As a small economy, Lesotho is vulnerable to the performance of its trading partners, including South Africa, while the US and Belgium account for over 90 percent of its goods exports composed mostly of textiles, garments diamonds and mineral water. In particular, the underperformance of regional partners such as South Africa



weighs on Lesotho's economic performance. Recurrent climate shocks have constrained growth, draining fiscal resources,¹ while a high public sector wage bill has inhibited spending on key development objectives, including on infrastructure investment.

2. Lesotho's topography presents a challenge to poverty reduction and economic equality. The spatial distribution of poverty is intertwined with topography, with remote rural highland communities impacted most. Poverty rates in urban areas, particularly Maseru, declined between 2002 and 2017 from 41.5 percent to 28.5 percent, while the rates remained almost the same or increased in rural foothills, rural mountains, and the Senqunyane river valley area. Equal access to economic opportunities is a challenge due to a lack of connectivity between rural and urban areas. The government, through its Second National Strategic Development Plan (NSPD II) 2018/19-2027/2028, noted that road infrastructure connectivity is a binding constraint to tackling spatial poverty variation.

3. Lesotho remains largely agrarian with 70 percent of its population living in rural areas. Agriculture remains the primary income source for most population. The topography and climate make it mostly a livestock-rearing country with coarse grains and meat representing a large part of the remote rural diet. Over the past two decades, there have been efforts to increase food production to reduce dependency on food imports and promote export-oriented commercial farming products. The programs have led to increasing horticultural production in most communities with the objective of improving nutrition, while also allowing relatively small farms to operate on-farm activities that can generate sustainable livelihood income for farming households. However, fresh horticultural produce is perishable, and depends on proper logistics chain to bring produce to market, improved road access is a critical element of this chain.

4. Given its unique geographical position, Lesotho needs to strengthen its regional integration, especially with South Africa, to accelerate growth through export promotion.²³ The need to combine financing of physical infrastructure with policy and trade reforms to create regional markets and address diseconomies of scale remains a key requirement for achieving regional integration in Africa. The Southern Africa Development Community (SADC) – of which the Kingdom of Lesotho is a part – was ranked as the least integrated sub-region in 2020. While the continent has made significant progress in ensuring free movement of people across countries, it continues to struggle with integration of production of goods and regional infrastructure connectivity. Road connectivity to primary borders is essential to enhance linkages to regional and domestic markets. Growth through export promotion is a part of the government's strategy to reduce dependence on Southern Africa Customs Union (SACU) revenues. These SACU revenues, coming from customs duties, currently makeup around 40 percent of the government's revenue generation, which leaves the budget vulnerable to the yearly volatility of trade volumes.

5. Lesotho and the broader SACU community also have significant potential to increase regional trade through implementation of the African Continental Free Trade Agreement (AFCFTA) and taking further advantage of preferential trade agreements. Recent World Bank analysis has estimated that a significant proportion of the estimated \$450 billion of income gains available from increased intra-regional trade can be realized by improving trade facilitation and addressing non-tariff barriers (NTBs). SACU countries are expected to increase exports by 17.6 percent and imports by 24.7 percent by exploiting the AFCFTA.⁴ Lesotho has taken advantage of trade preferences under the African Growth and Opportunity Act (AGOA) to build its garments sector. The AGOA as well as the Everything but Arms (EBA)

¹ The average annual cost of disaster response is estimated at \$19.3 million, or 1.6 percent of the total budget expenditure in the 2019/20 fiscal year.

² Lesotho's Second National Strategic Development Plan (NSPD II) 2018/19-2027/2028

³ World Bank: Supporting Africa's Recovery and Transformation: Regional Integration and Cooperation Assistance Strategy Update for the period FY21–FY23 (December 7, 2020).

⁴ Maliszewska, et al., 2020



agreements (with the United States and European Union), provide Lesotho further opportunity for trade in new potential export sectors.

6. **Impact of climatic shocks to the transport sector.** Since the 1980s, Lesotho has been affected by 22 economic shocks, 90 percent of which were climatic. Frequency of intense precipitation events is likely to increase leading to heightened risks of flooding, increased aridity, temperature extremes, and droughts.⁵ In 2020-2021, Lesotho declared two states of emergencies (the COVID-19 pandemic and heavy rains). The latter severely impacted businesses due to damage to road infrastructure disrupting trade logistics. The vulnerability to temperature extremes, flooding, and drought is expected to increase with climate change, are serious challenges to the transport sector, highlighting the importance of strengthening its climate resilience, including much-needed attention to road infrastructure rehabilitation, upgrading, and new construction.

Sectoral and Institutional Context

7. **Lesotho's connectivity to its neighbors through the regional trunk road network (RTRN) is critical.** Moshoeshoe I International Airport (MIA) is the only international airport, connecting Maseru to Johannesburg only, through daily scheduled flights. Mokhotlong and Qacha's Nek airports serve as the two domestic airports, while several aerodromes are spread throughout the country. The only rail service is a freight line from the Maseru Railway Station to Bloemfontein. As part of the Southern Africa Trans-frontier Conservation Area (TFCA) treaty,⁶ Lesotho has identified the Maloti Drakensberg Transfrontier Corridor (MDTC) as critical to the SADC regional integration. MDTC includes four road corridors covering the eastern portion of the country, including the proposed Katse to Thaba-Tseka road project (part of Corridor 3 of the MDTC) (annex 7). Further, a "Bi-national Commission treaty" signed between the governments of Lesotho and South Africa in November 2021 has identified several areas of cooperation including development of economic corridors, trade and logistics, border management, and implementation of the MDTC.

8. **The Government of Lesotho (GOL) recognizes that robust economic growth, regional integration and trade, and improved service delivery are the main drivers of poverty reduction.** Thaba-Tseka district has the highest poverty rate and weak service delivery. The development of transport infrastructure in the remote mountain regions (such as Thaba-Tseka), is part of the strategy to reduce poverty by promoting economic growth and improving access to socio-economic services such as education, health, social welfare, and administrative services. Improving access for major population centers to key border posts and supporting logistical infrastructure to develop productive sectors in lagging regions is a key strategic objective of the government. The investment will also result in better integration of domestic and regional markets. Thaba-Tseka district will be connected with improved road networks with other districts and international borders, including the Maseru Bridge and Maputsoe-Ficksburg borders, therefore presenting a clear linkage between the road and border investments proposed in the project. Improving connectivity by developing the road adds to climate resilience by providing redundancy to Lesotho's outlets to markets.

9. **Investment in climate resilient roads is a government priority to connect key productive sectors.** The road network accounts for more than 70 percent of domestic transport needs. The total road network is approximately 6,906 kilometers (kms) in length, of which 1,799 kms are paved. Of the remainder, 3,831 kms are gravel roads and 1,277 kms are earth tracks. The NSDP II requires the update of the current design standards for roads, bridges, and culverts, accounting for the expected impacts of climate change and applying the revised standards in rehabilitating existing roads

⁵ Climate Change Knowledge Portal: For Development Practitioners and Policy Makers

⁶ The Southern Africa Tran-frontier Conservation Area (TFCA) treaty was founded on the realization that natural resources straddling boundaries between the SADC destinations are shared assets that contribute to regional integration, socio-economic development, and biodiversity conservation.



and developing new roads and bridges. Currently, the road subsector faces multiple challenges. The average condition of the road network considered ‘poor’. In its current condition, the Katse to Thaba-Tseka road is vulnerable to annual floods and landslides resulting in damages to road structures (including bridges and culverts) and landscape degradation. The project design and construction will adopt climate resilient methods as proposed in a recent study.⁷

10. Lesotho’s economic prospects depend on trade and improving intra-regional transport, logistics, and customs facilities, which are central to reducing Lesotho’s costs and lead times of regional trade. Transport and logistics constitute 6 percent GDP⁸. Comparatively, South Africa’s combined total is 16 percent (\$39 billion in 2019), while Africa’s average is 16.2 percent. Lesotho performs poorly in terms of logistics, as measured by the World Bank Logistics Performance Index (LPI)⁹, particularly on infrastructure (primarily trade and transport related infrastructure), customs (efficiency of the clearance process by border control agencies), and international shipments (ease of arranging competitively priced shipments). Efficiency in logistics translates to competitiveness in transport and trade and Lesotho is already at a relative disadvantage by being a landlocked country. Lesotho’s costs to key overseas markets (e.g. China and the United States) are at least three times higher than those with South Africa. The difference in costs can be attributed to the fact that Lesotho goods must transit through South Africa to third country markets. This provides rationale for investing in smart border management systems in alignment with South Africa.

11. Lesotho’s goods and services trade is highly dependent on South Africa, a market for Lesotho’s products, and a conduit to/from international markets. Lesotho has nine border crossings with South Africa for commercial trade. Among which, three borders (Maseru Bridge, Maputsoe-Ficksburg, and Caledonspoort) operate 24 hours a day. The Maseru Bridge crossing in the west and the Maputsoe-Ficksburg crossing in the northwest handle most of the activity. Trade routes to the east and south are constrained by high mountains and undeveloped road infrastructure. Thus, under the proposed project, the Katse to Thaba-Tseka road investment would close the missing link from the Thaba-Tseka district to the Leribe district, opening up economic and export opportunities for Thaba-Tseka’s population. Improved border infrastructure with harmonized digitally enabled joint border procedures with South Africa could minimize time and costs at the two main borders. Investment at the Qacha’s Nek border, the only commercial border in the east, would provide improved access from eastern Lesotho to South African markets including the city of Matatiele, South Africa, which is only one hour from the border, compared to Maseru which is three hours away. This also provides another step in improving east-west regional integration and creation of a regional corridor with the Port of Durban.¹⁰

12. Lesotho’s highly concentrated trade is closely integrated into the regional supply chains with eighty percent of trade by volume and value undertaken by 250 entities. Historically, the market has been dominated by a few players in each industry, supporting oligopolistic behavior that can be observed by prices often being lower in nearby South African border towns, even though duty and value added tax rates are the same within SACU countries. The increased regional trade integration, supported by the investments, should simplify regional trade to provide open market access to small traders wishing to export as well as improving access to source imports regionally and internationally, supported by e-commerce and new last mile supply chains.

13. The government has ongoing efforts to improve trade facilitation. The World Bank Southern African Regional Trade Facilitation (SARTF) project¹¹ provides technical assistance to develop a collaborative Lesotho-South Africa trade reform agenda and a formal joint action plan for border reform. This includes a joint blueprint for the smart one stop

⁷ National Climate Risk and Vulnerability Assessment (CRVA) for Roads in Lesotho, World Bank, 2023

⁸ World Data Atlas, 2017, Knoema)

⁹ <https://lpi.worldbank.org/>

¹⁰ The route requires additional road infrastructure investment on the South African side of the border to ideally support commercial cargo; this is included within the Lesotho-South Africa binational commission treaty 2021.

¹¹ World Bank Southern Regional Trade Facilitation ASA (P179671)



border at Maseru Bridge including customs, immigration, agriculture, health, and environment agendas from both the Government of Lesotho and their South African counterparts, namely the Border Management Authority and South African Revenue Services which are mandated to lead the border reform with Lesotho, including plans to establish a SACU single Customs Declaration¹² that consolidates the export and import formalities between the countries into a single electronic submission, as well as developing joint borders at Maseru Bridge and Maputsoe-Ficksburg aligning to South Africa's policy commitment to develop six One Stop Border Posts at key regional borders.¹³ The government is also, through the World Bank financed Competitiveness and Financial Improvement (CAFI) Project, invests in the digitalization of trade through connecting all the border agencies to the Automated System for Customs Data (ASYCUDA). The government is completing the Lesotho National Single Window (LNSW) that will enable traders to apply for all licenses, permits, certificates and other authorizations required by trade for regulatory purposes, and for the border agencies to manage certification digitally.¹⁴ Nevertheless, improvements are still needed for cross border transport and transit bond operations and harmonized regulation of transport services to help reduce the time and cost of providing international export transport services, as well as development of a Simplified Trade Regime and applications to facilitate declarations by small traders.

14. **Lesotho is integrated into a highly competitive global textile and apparel sector.** The textile and apparel sector is the top contributor to exports. However, 80 percent of interviewed apparel companies (accounting for 43 percent of the exports) reported problems with crossing the South African border among their key constraints to competitiveness.¹⁵ Delays are mainly due to long queues for inspections resulting in some crossings lasting as long as a week. Delays are incurred from the lack of harmonized procedures, cumulative border requirements, and the inspections on key export products, such as textiles, and on perishable goods where stringent testing and certification is required. The 2022 Lesotho Time Release Study (TRS) measured the average time taken from arrival of both imports and exports to their exit from the Maseru Bridge border at a competitive 22 minutes.¹⁶ However, the TRS also reported that the time taken from the registration of the declaration to the exit of a truck from the border is over one day (and up to a week as noted above), reflecting that significant time delays and costs are incurred in regional trade. These delays are validated by studies reporting an average time of over five hours for trucks to travel end-to-end through both borders (including the Lesotho and South African stops at the same crossing). Investment in modern inspection facilities and smart border management systems will likely reduce overall costs, including those related to delays.

15. **Horticulture contributes considerably to the economy through exports.** The World Bank, under the CAFI Project, supports production and commercialization of horticulture by building value chains for fresh fruit and produce. The Millennium Challenge Corporation (MCC) Compact II, expected to commence in 2024, will finance irrigation and other infrastructure for commercial horticulture. However, there remain key constraints, such as a lack of logistics terminals, cold chains, and warehousing to mitigate production losses and extend shelf life. While country specific estimates are not available for horticulture, the Food and Agriculture Organization (FAO) estimates¹⁷ that in sub-Saharan Africa about 37 percent of all food produced is either lost or wasted,¹⁸ which is about 120-170 kilograms/year per capita. Measures to

¹² Customs single declaration was committed to in May 2023 in Johannesburg at the meeting of SACU Commissioner Generals

¹³ Border Management Authority One Stop Border Post Policy May 2022 http://www.dha.gov.za/images/PDFs/OSBP_POLICY_-_MAY2022.pdf

¹⁴ Revenue Services Lesotho and Ministry of trade and small business were connected to LNSW in Phase 1, 2021-2022

¹⁵ Unlocking the potential of Lesotho's Private Sector: A Focus on Apparel, horticulture, and ICT. World Bank 2018.

¹⁶ This measurement considered the clearance procedures only at the Lesotho side of the border and did not include the administrative procedures on the South African side. Lesotho and South Africa are currently conducting an end-to-end TRS, covering the entire process with the report being expected in March 2024.

¹⁷ <https://www.wri.org/insights/3-ways-reduce-food-loss-waste-africa>

¹⁸ Food loss takes place at production, postharvest and processing stages in the food supply chain and food waste is that which occurs at the end of the food chain (retail and final consumption).



address food loss and wastage would contribute to enhanced income levels, reducing nutritional insecurity and a reduction in greenhouse gas (GHG) emissions.

16. **Gender gaps exist in the trading system.** About 70 percent of informal (non-registered) women traders in the SADC are disproportionately affected by sexual harassment and corruption at the border. In addition, they have limited information on international and regional trade agreements; required fees, forms, procedures and permits as they have limited access to the internet and information is posted in an online portal. Barriers persist in the absence of border service desks. Women traders also face the challenge of being banned from entering South Africa for long periods of time which incentivizes them to use informal routes. There is limited representation of women in trade networks and associations. Across Southern Africa, female cross-border traders have noted that they have been charged double border fees when officers notice their lack of knowledge in trade procedures. A 2021 online survey found that 43 percent of women cross border traders recommend the creation of a special regime with simplified procedures for small-scale traders. In addition, women traders often need to walk long distances while carrying heavy loads, which is detrimental to their health, as are the long lines at border posts. Women face employment segregation in the construction sector. Of the people employed in the construction sector only 5 percent are women, compared to 95 percent of men. Barriers to participate in the sector can be found during their recruitment, retention, and promotion.

C. Proposed Development Objective(s)

17. The Project Development Objective (PDO) is to improve climate resilient regional connectivity on the Katse to Thaba-Tseka road corridor and reduce the costs of trade at three of Lesotho's commercial borders with South Africa.

Development Objective(s) (From PAD)

The Project Development Objective (PDO) is to improve climate resilient regional connectivity on the Katse to Thaba-Tseka road corridor and reduce the costs of trade at three of Lesotho's commercial borders with South Africa.

Key Results

18. **Achievement of the PDO will be measured by the indicators set forth below.** These PDO indicators and intermediate indicators are described in detail in the results framework (RF).

Improved climate resilient regional connectivity on the Katse to Thaba-Tseka road corridor

- a) Travel time reduction on project corridors (percentage)
- b) Millions of people that benefit from improved access to sustainable transport infrastructure and services (number)¹⁹

Reduced costs of trade across commercial borders between Lesotho and South Africa

- a) Reduction in end-to-end border crossing time for commercial traders through implementation of smart border systems at Maseru Bridge and Maputsoe-Ficksburg crossings, disaggregated by gender (percentage)

¹⁹ This measures, as part of the WBG evolution road map scorecard, the number of beneficiaries of improved transport condition. It assesses the number of people that experience improved access to sustainable transport infrastructure or services that have been built or rehabilitated through financed or guaranteed interventions (e.g., climate-resilient highways, rural roads, non-motorized transport facilities, public transport).



D. Project Description

19. **The project will have three components:** (i) Road corridor infrastructure development, (ii) Regional trade, integration, and logistics services, and (iii) Technical assistance, capacity building, and project management.

Component 1: Road Corridor Infrastructure Development (\$60 million)

20. **Component 1 will have two sub-components: (i) Upgrading of the Katse to Thaba-Tseka road corridor to climate resilient paved standard (\$55 million), and (ii) Spot improvements along the A1 economic corridor (US\$5 million).** The first sub-component would consist of upgrading 55km of the existing engineered gravel surfacing. The upgraded road would have significant regional integration benefits as it constitutes part of the regional trunk road network through the MDTC. The upgraded road will have reduced vulnerability to climate related shocks and natural hazards, reduce travel times for motorists, lower road user costs (Vehicle Operating Costs), decrease accidents, uplift and boost economic activity, and improving access to public services (e.g., health and education) in the area. The second sub-component will finance spot improvements along the A1 economic corridor between Maseru and Butha Buthe, which serves as the primary economic corridor linking the three 24-hour commercial borders of Maseru Bridge, Maputsoe-Ficksburg, and Caledonspoort. The component will finance the employment of women in roadworks.

Component 2: Regional Trade, Integration, and Logistics Services (\$16 million)

21. **Component 2 will have three sub-components: (i) Smart One-Stop Border Post facilities at the Maseru Bridge and Maputsoe-Ficksburg border crossings, and improvement of Qacha's Nek border facilities (\$8 million), (ii) Inspection and laboratory testing facilities (\$5 million), and (iii) Climate controlled community-level horticulture packing and storage facilities (cold chain) (\$3 million).** The first sub-component is to establish smart one-stop border posts (OSBPs) at both the Maseru Bridge and the Maputsoe-Ficksburg border crossings between Lesotho and South Africa.²⁰ These are Lesotho's two busiest commercial borders, accounting for around 80 percent of commercial traffic. These OSBPs will enable coordinated administration by the South Africa and Lesotho border agencies and facilitate most goods, people, and consignments moving between the countries in an automated non-stop process that does not require the truck driver or traveler to step down from their vehicle, reducing wait times and related emissions. The OSBP will facilitate the movement of cargo as well as travelers, light vehicles, and people, improving the business environment for trading services, including the tourism industry. The Qacha's Nek border will also be upgraded to provide agency capabilities to efficiently facilitate commercial trade, light vehicles, and people moving to and from South African markets to the east. Buildings will be grid connected and rehabilitated to climate resilient and energy efficiency standards. The project will design and install an information desk at the OSBP facilities at Maseru Bridge, Maputsoe-Ficksburg, and Qacha's Nek borders with information benefitting women, and the design of the OSBPs will include violence prevention environmental design features and gender considerations (e.g., separate bathrooms). The second sub-component involves construction and equipping of two inspection and laboratory facilities at the Maseru Bridge and Maputsoe-Ficksburg border crossings to standards that will service requirements by Lesotho's border agencies, including those located at these two OSBPs. The inspection facilities will provide a dedicated and appropriately equipped venue that is easily accessible from the borders to perform a professional examination of goods in a controlled environment. The inspections mitigate risks identified by customs, agriculture, health, standards, and environmental border agencies, with facilities including inspection technology that enables remote monitoring to support case management. The availability of inspection facilities will support the expedited release of most trucks assessed as low risk, as the cargo targeted for inspection will be automatically directed

²⁰ The OSBP will be like other joint border facilities in the region that have proved instrumental for trade facilitation through drastic reduction of border crossing time and simplification of processing and procedures.



to the inspection facilities, emptying the lanes and eliminating congestion at the borders. The third sub-component will purchase energy efficient, climate-controlled mobile containers, using climate friendly refrigerants and solar roof installations, to enable the handling and cold storage of horticultural products ahead of transport to markets. These cold storage facilities will be provided to a minimum of four locations in each of three districts (Leribe, Maseru, and Quthing) that are horticulture producing regions. Establishment of the packhouses will be phased to match the growth of the horticulture sector. These facilities allow the horticulture products (e.g., apples) to be aggregated and stored until volume and market conditions are optimal for shipping, reducing losses and increasing output across this value chain. The containers will be purchased with project funds but lent out in concession agreements to private logistics operators who will work with communities to operate them and identify temporary sites where the communities will provide site maintenance as well as waste management. The communities and local government will be involved in deciding priority locations that will change during the season in line with produce seasonality. There will be active collaboration between the operators and the communities including agreement on a fee by users to ensure cost coverage on operations and maintenance and eventual replacement cost after depreciation. The communities will also link up with water use associations (WUAs) in the Thaba-Tseka region that were established as part of irrigation investments made under the second Smallholder Agriculture Development Project (SADPII) and other development partner funded projects.

Component 3: Technical assistance, capacity building, and project management (\$4 million)

22. **Component 3 will support implementation of the project by the Roads Directorate (RD) implementation unit for Component 1, and by the CAFI Project Management Unit (PMU) for Component 2.** The component will finance operating costs, technical assistance activities, and capacity building support through training activities for these implementing agencies. This will include strengthening both the RD and CAFI Project PMU's capacity to carry out project management activities including coordination, procurement, financial management, monitoring and evaluation, implementation of environmental and social standards, communications, independent audits, and carrying out citizen engagement activities. Government agencies supporting trade facilitation including the Revenue Services Lesotho (RSL) will also receive capacity building support to ensure sustainability of the project interventions at the border. This complements capacity building support under the CAFI Project for the agencies that support trade facilitation systems including the LNSW (trade) and ASYCUDA (customs) systems. In addition, Component 3 will finance:

23. **RD:** (i) a gender assessment and gender action plan (GAP) to identify, implement, and monitor interventions for women working in roads, women traders, and women farmers in communities along the improved roads, (ii) enhancement of climate resilience in planning and management of road infrastructure, including the development of standard operating procedures for climate disaster warning and response, (iii) development of community resilience committees led by women to support emergency disaster preparedness and response, (iv) promotion of women's employment in the road sub-sector, and (v) an assessment of landscape restoration needs along the project corridor.

24. **CAFI Project PMU:** (i) a gender assessment and GAP to identify, implement, and monitor interventions for women traders and women farmers in communities along the improved roads and at the border, (ii) development of community resilience committees led by women to support emergency disaster preparedness and response, (iii) development of a training program for officials and operators at the Maseru Bridge and Maputsoe-Ficksburg border crossings on sexual exploitation and abuse and sexual harassment (SEA/SH) and anti-corruption, (iv) business advisory services, mentoring, and training for traders and business owners in agriculture, including women traders and business owners, along the economic corridor, and (v) support for registration and licensing of informal businesses for female traders.

25. **Component 3 financing will be split according to need with the expectation that \$2.5 million will be utilized on RD managed activities and capacity building and \$1.5 million will be utilized on CAFI Project PMU managed activities and capacity building.**



| Legal Operational Policies | Triggered? |
|--|------------|
| Projects on International Waterways OP 7.50 | No |
| Projects in Disputed Area OP 7.60 | No |
| Summary of Screening of Environmental and Social Risks and Impacts | |

26. **The Environmental and Social Risk Rating is Moderate, as potential risks and impacts are predicted to be reversible, temporary, and site-specific.** Key environmental issues are related to Components 1 and 2. These include upgrading of existing engineered 55km Katse to Thaba-Tseka Road to paved standard and spot improvements along the A1 road corridor under Component 1, as well as reconfiguration and rehabilitation of existing physical border infrastructure and procurement of prefabricated climate-controlled mobile containers for farm produce collection and transportation under Component 2. All interventions will take place within existing road reserve or existing footprints of facilities. Potential adverse environmental impacts are related to the construction phase, and include among other noise and dust emission, generation of solid waste,, soil erosion, sedimentation, occupational health and safety (OHS) issues for workers, including security, road, and traffic safety issues for communities and workers. Potential impacts also relate to the clearing of vegetation and waste generated at construction sites, which can pollute land and water bodies (cement mixing areas, metal, wood, and paint residues, hydro-carbon oils, and other residues). The operation phase of the prefabricated climate-controlled mobile containers may require high energy demand. As such, the containers will be equipped with solar-powered photovoltaic cells as the primary energy source to reduce their carbon footprints. Overall, the project's potential risks and impacts are considered to be predictable and expected to be temporary and/or reversible; low to moderate in magnitude; site-specific, without the likelihood of impacts beyond the actual footprint of the Project. It is also expecte that there will be a low probability of serious adverse effects to health and safety risks posed to the communities during construction. These risks and impacts are expected to be managed through the application of appropriate mitigation measures that are readily identifiable.

27. **The government has committed to restrict all construction-related activities within the existing right of way, including existing modified or disturbed habitats.** This restriction extends to ancillary infrastructure, such as workers' accommodation, asphalt plants, contractor laydown areas, etc. A draft ESIA was prepared in 2021 for the Katse to Thaba-Tseka Road upgrade , prior to engaging the Bank. The ESIA highlighted the anticipated risks associated with the road upgrade, in line with the risks and impacts identified above. According to the ESIA the environmental risks and impacts are considered moderate and can be mitigated. The draft ESIA will be updated to include the spot maintenance of the A1 road corridor under Component 1.3 and to aling with the applicable World Bank Environmental and Social Standards (ESS) within the timeframe stipulated in the ESCP. Site specific ESMPs will be prepared for the activities under Component 2 after project approval. Both the updated ESIA and site specific ESMP must be submitted for Bank clearance and thereafter disclosure both in-country and by the Bank prior to initiating the relevant procurement processes. The timeframes for updating and preparation of the environmental and social instruments are captured in the draft ESCP disclosed on April 12, 2024. The RD has experienced and qualified environmental staff to oversee the preparation of E&S instruments and management of potential E&S impacts and risks.



28. **The social risk classification of the project is Moderate at this stage.** The following social risks are anticipated: (i) The activities under Components 1 and 2 - upgrading and broadening of the 55 km Katse to Thaba-Tseka Road, the refurbishment of the existing border infrastructure, and the climate-controlled packhouse facilities in 3 districts may result in temporary and/or permanent physical and economic displacement of some Project-Affected Parties (PAPs). This is not expected to result in restrictions of access to any natural resources in legally designated parks and protected areas; and (ii) risk of inadequate consultation with relevant stakeholders in remote areas. The project will adopt a participatory approach and forge partnerships across the public sector and civil society. The has prepared and will implement Stakeholder Engagement Plan (SEP) that has been prepared and duly disclosed on April 19, 2024. Stakeholder Engagement Plan which includes procedures for a grievance redress mechanism. Resettlement Action Plans (RAP) will be prepared as necessary and compensations to PAPs will have to be paid prior to commencement of civil works. Necessary requirements for such timing of RAP preparation will be included in the ESCP and reflected in the financing agreement. Preliminary screening suggests that the SEA/SH risk rating is also moderate at this stage. Some local labor influx is expected, including increased risks of frontier posts during preparation, which may contribute to SEA/SH risks. The estimated number of workers is unknown at this stage, but it is unlikely that the project activities will require labor camps as most workers will be local.

E. Implementation

Institutional and Implementation Arrangements

29. **Component 1 and road related aspects of Component 3 will be implemented by the RD.** The RD is a semi-autonomous entity responsible to an independent Board of Directors chaired by the Principal Secretary of the MOPWT. All the existing departments in the RD will have clearly defined functions to contribute to the project implementation. Dedicated staff will be assigned to manage implementation of the RD managed project activities. The proposed structure for administration of the RD managed project activities is illustrated in Figure 2 of Annex 1. Only key support services (procurement and finance have been indicated in the organogram, however other support services like human resources, administration, etc.) will also play their roles in their respective areas of operation within the project scope.

30. **The implementation capacity of the RD will be strengthened through procurement of consultants for design, scoping of works and supervision of works. To augment existing structure and ensure dedicated project staff, the project will also hire a procurement officer, safeguards officers, and a monitoring and evaluation (M&E) specialist.** The Procurement Officer will work closely with the Procurement Manager of the Procurement Unit of the RD to coordinate and handle the procurement responsibilities for the activities implemented by the RD under Components 1 and 3 (relevant to RD) and fill in the capacity gap of the RD to fulfill the reporting and procurement requirements under the World Bank-financed projects. The environmental specialist will be responsible for the environment and social issues of the components implemented by the RD. Project engineers responsibilities will include, *inter alia*, (i) day to day onsite supervision of sub-component 1.1, (ii) overseeing and ensuring that daily instructions issued by the RD are implemented, and (iii) reporting to the Project Manager (Director Road Network Development) on daily activities of the project. The M&E Expert will report to the Director General. The M&E Expert will also serve to establish a dedicated M&E unit to carry out M&E functions of the project, in addition to systematizing the wider M&E capacity to the RD.

31. **Component 2 and trade/logistics-related aspects of Component 3 will be implemented by the CAFI Project PMU under the Ministry of Trade, Industry, and Small Business (MTISB).** The CAFI Project PMU has existing responsibility for activities with direct relevance to the development of the private sector and growth of exports. Therefore, the CAFI Project PMU is well placed to coordinate ITTL Component 2 activities and the related CAFI Project activities. The CAFI Project PMU has a good track record of implementation performance and good capacity. Thus, the CAFI Project PMU is expected to be



able to effectively handle the additional responsibilities. The CAFI Project PMU is under the MTISB and will also ensure the Ministry of Agriculture, Food Security, and Nutrition (MAFSN) is engaged on agriculture related activities including the cold chain investments.

32. A Project Steering Committee (PSC) will guide the strategic direction of the project and ensure coordination across ministries and implementing agencies (additional details on the PSC are in annex 1). The PSC will coordinate overall project implementation and will consist of implementing ministries and other government partners, in addition to private sector and civil society organizations. The Principal Secretary (PS) from the MOPWT will Chair the PSC and the PS from MTISB will be the Deputy Chair of the PSC.

33. A Project Manager at each of the RD and the CAFI Project PMU will be responsible for the project management of the sub-components under their supervision and will be responsible, inter alia, for: (i) the management of the environmental and social safeguards, (ii) procurement and contract management for respective sub-components, (iii) coordinating the project as a whole and working closely with the Director General of the RD and ensuring timely submission of combined progress reports and other documents to the World Bank, (iv) following up on submissions in coordination with the sub-components managers and other stakeholders, and (v) reporting on the project implementation progress to the World Bank and to a PSC. The RD Project Manager will have the overall responsibility to ensure coordinated implementation across activities²¹ including collating reporting.

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Implementing Agencies

²¹ The rationale for RD's overall coordinating responsibility is that (i) it has the principal share of the investment, but also (ii) the MPWT is responsible for construction of government facilities. CAFI PMU remains responsible for the implementation of Component 2.

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