

AFRICAN DEVELOPMENT FUND



PROJECT APPRAISAL REPORT URBAN DISTRIBUTION REHABILITATION AND TRANSMISSION EXPANSION PROJECT – ADDITIONAL FINANCING

LESOTHO

PEVP/RDGS/PESD

September 2025

PROJECT INFORMATION SHEET

CLIENT INFORMATION

Additional Financing Project Name	URBAN DISTRIBUTION REHABILITATION AND TRANSMISSION EXPANSION PROJECT – ADDITIONAL FINANCING
Original Project Name	URBAN DISTRIBUTION REHABILITATION AND TRANSMISSION EXPANSION PROJECT
Sector	POWER
Borrower	KINGDOM OF LESOTHO
Project Instrument	ADF LOAN
Executing Agency	LESOTHO ELECTRICITY COMPANY (PTY) LTD

COUNTRY AND STRATEGIC CONTEXT

Country Strategy Paper Period	2025–2030
Country Strategy Paper Priorities Supported by Project	Priority 1: Developing sustainable and quality infrastructure for industrialisation. This pillar is dependent on the provision of adequate and reliable electricity supply.
Government Program (PRSP, NDP or equivalent)	National Strategic Development Plan II, 2018/19 to 2022/23 (Extended for 5 years to 2027/28)
Project Classification	High 5 priorities: • H5-2.0 Light up and power Africa, H5-2.3 Power Transmission • Industrialise Africa: H5-3.6 Infrastructure for Industry
	Sustainable Development Goals: (i) SDG 7 - Ensure access to affordable, reliable, sustainable, and modern energy for all; (ii) SDG 8 - Promote sustained, inclusive, and sustainable economic growth, full and productive employment, and decent work for all; and (iii) SDG 9 - Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation.
	For selectivity, the operation is broadly aligned with the Bank's priorities under the ten-year strategy 2024-2033. By integrating Khukhune substation into the 132kV transmission system, this operation will improve the availability and reliability of the power system, thereby contributing to the Bank's priority for accelerating improved access to reliable and affordable modern energy, which includes electricity for the population and productive sectors of the economy. Additionally, by introducing feasibility studies for transmission lines for integrating solar PV and wind power into the domestic generation mix, per the recommendations of the completed Bank-funded Renewable Energy Generation Integration study, the operation will entrench a low-carbon development pathway, thereby enhancing both green growth and energy security.
Country Performance and Institutional Assessment¹	3.60
Projects at Risk in the Country Portfolio	62.5% of operations red flagged, 23 September 2025

PROJECT CATEGORISATION

Environmental and Social Risk Categorisation	Original Project	Category 2: 2 April 2015
	Overall Project ²	Category 2: 2 April 2024
Does the project involve involuntary resettlement?	Original Project	Yes
	Overall Project	Yes

¹ Obtain CPIA rating here - [Country Policy and Institutional Assessment \(afdb.org\)](https://afdb.org/country-policy-and-institutional-assessment) (VPN required)

² Overall Project is the original project + the AF

Climate Safeguards Categorisation	Original Project	Category 2: moderate exposures to heavy rain, floods and landslides. The design is climate proof to withstand heavy rain, floods and landslide impacts and avoid disruption of power supply. It is also Paris aligned.
	Overall Project	Category 2
Fragility Lens Assessment	Original Project	Yes: The project is aligned with all the three priorities of the Bank's Strategy on Addressing Fragility and Building Resilience
	Overall Project	Yes
Gender Marker System Categorisation	Original Project	Category 3
	Overall Project	Category 3

ADF/ADB KEY FINANCING INFORMATION

Interest Rate (AF Project, Original Project)	(N/A); (1%)
Service Charge (AF Project, Original Project)	(1%); (0.75%)
Commitment Fee (AF Project, Original Project)	(0.75%); (0.50%)
Tenor (AF Project, Original Project)	(50 years, including Grace Period); (30 years, including Grace Period) from the date of the loan agreement
Grace Period (AF Project, Original Project)	(10 years); (5 years) from the date of the loan agreement

Source	Amount (millions)		Financing Instrument
	UA	[Other currency]	
African Development Fund	6.130		ADF Loan
Government Counterpart Contribution	0.326		In kind
Total Project Cost:	6.456		
Additional Bank Group Financing as Percentage of Original Project Total Cost	64% (of which 45% is for Modifying a Project)		
Reason(s) for Additional Financing (check all that apply)	☐ Financing Gap; ☐ Cost Overrun; ☒ Scaling Up a Project; ☐ Modifying a Project; ☐ Emergency or Post-Emergency Operation		

PROJECT DEVELOPMENT OBJECTIVE AND COMPONENTS

AF Project Development Objective	To improve the reliability and availability of the power distribution network to enhance quality of supply to existing consumers, including, specifically, the Letseng diamond mine.
AF Project Components	Component 1: Upgrade of the Khukhune 88/33kV substation by adding 2x30 MVA transformers, construction of 8km of 132kV transmission line from the Muela Hydropower Station to link the 88kV transmission line from South Africa at the substation. Cost estimate: UA4,287,402
	Component 2: Feasibility studies for (i) a 132kV transmission line from upgraded Khukhune substation to 132kV Letseng substation in Mokhotlong, and (ii) a 132kV transmission line from Mofoka switching station to Thetsane substation in Maseru. Cost estimate: UA1,264,506
	Component 3: Project Management and Supervision incl. ESMP implementation Cost estimate: UA317,217

AF PROJECT PROCESSING SCHEDULE TO BOARD APPROVAL

PCN Approval	N/A
Appraisal Mission	8–12 April 2024 (Updated in September 2025)
Planned Board Presentation	22 October 2025
Effectiveness	1 December 2025
Project Implementation Period	1 December 2025 – 30 November 2027
Planned Mid-term Review	N/A
AF Project Closing Date	31 December 2027
Original Project Closing Date	31 December 2025 (A request for extension will be facilitated if the Additional Financing is approved.)

1 ADDITIONAL FINANCING

A. Rationale

- 1.1. The original scope at approval of the Urban Distribution Rehabilitation and Transmission Expansion Project included the Khukhune Substation Upgrade component, with a cost estimate of UA1,825,789. The project appraisal envisaged using the air-insulated substation (AIS) technology for the upgrade, and the project modification was to change from AIS technology to the more compact indoor Gas Insulated Substation (GIS) technology. The implementation of Khukhune substation upgrade component was initially delayed by the protracted procurement process for the Engineering and Supervision consultants. The consultants were eventually appointed in January 2019. This coincided with the implementation of the Renewable Energy Generation Integration study (REGIS) approved by the Bank in March 2018 but only came into force in September 2018. The project modification (i.e., the scope change from AIS to GIS) was proposed by the REGIS with concurrence from the Engineering and Supervision consultants for Khukhune substation upgrade. This project modification is therefore not due to quality at entry deficiencies in the original project or to contractor moral hazards. The objective of the REGIS, financed through the Strategic Climate Fund's project preparation grant, was to assess the impact of introducing intermittent renewable energy (i.e., wind and solar) on Lesotho's electricity network and to recommend necessary improvements in the electricity network to enable their technical and economic integration in the power system. The rationale for the modification was that the AIS would take up all the space available around Khukhune substation, thereby saturating the substation for future network expansion to enable additional transmission lines for integrating renewable energy into the grid.
- 1.2. As provided for in Section V of the Additional Financing Policy, the Additional Financing request from the Government is for a combination of the following:
 - a) **Implementation of modified or additional project activities included as part of a well-performing project restructuring, when the initial financing is not sufficient to cover such activities, up to a limit**

- (i) The modification is through a change in technology from Air Insulated Substation (AIS) to Gas Insulated Substation (GIS). The higher upfront capital needed for the adoption of the GIS technology introduced a requirement for additional financial resources in excess of the original allocation.
- (ii) The additional amount required for this modification is UA4,287,402 (excluding contingency). The amount is equivalent to 45% of the original total project cost of UA9,534,755. For modifying a project, paragraph 9(d) of the Bank Group Policy on Additional Financing and paragraph 3(iv) of the Additional Financing Processing Guidelines prescribe additional financing up to a limit of 20% of the original project cost. Given this exception, a request for a waiver of the 20% limit is included in paragraph 5.1. A justification for the waiver request is included in Section 10 of this report.
- (iii) Except for the exception to the 20% limit, the request from the Government complies with the eligibility criteria for Modifying a Project since the required amount is for financing the necessary changes in project design to better align the project with new developments in the sector and better respond to Government objectives and strategies for attaining self-sufficiency and security of supply. The change was necessitated by the need for a compact solution that will save space adjacent to the substation for future network expansion to integrate renewable energy into the grid as per the recommendations of the completed Bank-financed Renewable Energy Generation Integration study.

b) Implementation of additional or expanded activities that scale up the development impact of a successful pilot or a well-performing project

- (i) The Government requested the inclusion of additional activities in the additional financing to support the implementation of recommendations from the Bank-financed Renewable Energy Generation Integration Study (REGIS). The proposed additional activities are feasibility studies for two transmission lines.
- (ii) The additional amount required for the additional activities is UA1,264,506 (excluding contingency). The amount is equivalent to 13% of the original total project cost of UA9,534,755. For scaling up a project, no limits are specified in the Additional Financing Processing Guidelines.
- (iii) The request for additional activities complies with the Additional Financing policy since these activities are aligned with the Government objectives and sector strategies and have the potential to replicate and maximise the development impact of the current Project through future additional financing or as Phase 2 of the current operation.
- (iv) These additional activities are recommendations from the Bank's financed Renewable Energy Generation Integration Study (REGIS) completed in 2022. Including these in the additional financing demonstrates commitment by the Government to implementing the REGIS recommendations.

- 1.3. Designing the project as an additional financing is a better option than starting a new project, as this takes into consideration the existing implementation arrangements of the original project to maximise efficiency while accelerating the project development outcomes. Moreover, the overall project is technically feasible with added technical advantages (e.g., reduced footprint, improved reliability and availability, long-term maintenance cost savings, improved safety) whilst remaining financially and economically viable. In terms of the AF's strategic alignment, just as the original project, the Additional Financing intervention is aligned with Pillar 1 of the Bank's Country Strategy Paper (CSP 2025-2030) – "Developing sustainable and quality infrastructure for industrialisation". This pillar is dependent on the provision of an adequate and reliable electricity supply. The Additional Financing is also broadly aligned with the Bank's priorities under the ten-year strategy 2024-2033. Through integrating Khukhune substation into the 132kV transmission system, this operation will improve availability and reliability of the power system, thereby contributing to the Bank's priority for accelerating improved access to universal, reliable and affordable modern energy, which includes electricity for the population and productive sectors of the economy.

B. Expected Results

- 1.4. The main expected outcomes of the original Project are: (i) Increased distribution network reliability from 90% in 2016 to 95% in 2020; (ii) Improved efficiency of the electricity system by reducing levels of technical losses at switching stations from 9.8% in 2016 to 8% in 2020, thereby making 11,967MWh of energy available for consumption. These outcomes were achieved with the completion of the components for rehabilitating the 33kV lines and for refurbishing the distribution switching stations.
- 1.5. Due to a financing gap, the outcome of the transmission expansion project component, which is to improve the availability and reliability of the transmission system to the Letseng mine and Mokhotlong town could not be achieved in the original project and is included as an outcome of the Additional Financing project. The main expected output of the Additional Financing is increasing the capacity of Khukhune substation from 40MVA to 100MVA and the construction of the 8km double-circuit transmission line that will cut into the existing Muela-Maputsoe transmission line, resulting in two 132kV transmission lines (one from Muela to Khukhune substation and the other from Khukhune substation to Maputsoe substation).

C. Revised Project Cost and Financing Arrangements

- 1.6. The cost of the overall project (original project and additional financing) is estimated at UA15.991 million (excluding taxes and duties), comprising: (i) UA9.535 million for the ongoing original project (UDRTEP) approved by the Bank on 14 September 2016, with a completion date of 30 June 2020, which has since been extended to 31 December 2025; and (ii) UA6.456 million for the additional financing (UDRTEP AF). The outstanding Transmission System upgrade – Khukhune substation component represents 66.4% of the required additional financing, with the balance for Project

Management & ESMP Implementation (5%), feasibility studies for the additional components (19.6%), and contingencies (9%). The cost estimates are based on actual costs from the ongoing project, and the estimate for the Khukhune substation upgrade is based on the latest cost estimates. Provision for a 9% price and physical contingency is applied to the additional financing. The estimated Overall Project Cost (Original Project and Additional Financing) by Component is summarised in Table 1.

- 1.7. The original project cost of UA9.535 million was financed through the ADF loan (81%) and Government (19%). Additional Financing of UA6.456 million represents 67.7% of the original project cost. The overall project sources of financing are as shown in Table 2.

- 1.8. The Government's counterpart funding for the Additional Financing will include costs for the Project Implementation Unit and the existing ESMP and RAP Implementation Monitoring contract, which was procured using the Borrower Procurement system. The Government contribution to the original project was 18.4%. For the Additional Financing operation, the Government contribution is 5%. With the Additional Financing, the Government contribution to the overall total project cost has slightly reduced to 13.01%, which is still greater than the required 10%. The Additional Financing cost by expenditure category and expenditure schedule are shown in Tables 3 and 4.

- 1.9. The original ongoing project has an uncommitted balance of UA2.71million, which will be allocated as follows:

Table 5: Allocation of Original Project's Uncommitted Amount

Description	Costs (UA)
Part of Khukhune substation upgrade costs (as provided for in the original Project)	2,143,083
Supervision consultancy contract	320,000
Sub-total	2,463,083
Physical Contingency (10%)	246,308.30
TOTAL	2,709,391.31

D. Implementation Arrangements

- 1.10. The Kingdom of Lesotho will be the borrower of the Loan and is expected to on-lend the proceeds of the Loan to the Lesotho Electricity Company (LEC) on terms and conditions acceptable to the Fund. The existing project implementation unit (PIU) in the Executing Agency will serve as PIU for the additional financing. The PIU will still be comprised of the Project Manager, Project Engineer, Project Accountant, E&S Officer, and the Procurement Officer. The project management and supervision consultant who supported the PIU with the original Project will be re-engaged to assist LEC in the construction supervision of the AF Project. A Project Steering Committee comprising the Ministry of Energy, the Ministry of Finance and Development Planning, and LEC will be established to provide implementation oversight of the Additional Financing operation. The Steering Committee will be headed by the Ministry of Energy. The difference between the AF steering committee and that of the original Project is the exclusion of a representative from LEWA. This is because the project component under LEWA was successfully completed. Lessons learned from the implementation of the original project were incorporated in the design of the Additional Financing. The lessons are included in Technical Annex 2-4. Overall, the AF project will be implemented over a period of 24 months from the loan effectiveness date.

D-1. Procurement Arrangements

- 1.11. Procurement of goods (including non-consultancy services), works, and the acquisition of consulting services, financed by the Bank under the project, will be carried out in accordance with the “*Procurement Policy and Methodology for Bank Group Funded Operations*” (BPM), dated October 2015, and following the provisions stated in the Financing Agreement. Specifically, procurement will be carried out as follows:
- Bank Standard Procurement Methods and Procedures (PMPs), using the relevant Bank Standard Solicitation Documents (SSDs), for Bank-financed contracts where the Borrower Procurement System (BPS) shall not apply.
 - Advance Contracting: The advance procurement of the works contract for the Khukhune substation upgrade is ongoing and will be finalised for contracting after approval of the Additional Financing. The procurement is done under open competitive bidding (OCB - international) using the relevant Bank Standard Solicitation Documents.
 - Consultancy services financed by the Bank, will be acquired using the QCBS method using the Bank Standard Solicitation Documents.
 - Specific procurement methods and procedures under the Borrower Procurement System, comprising the National Procurement Procedures as used by the LEC for administrative activities within the project.
- 1.12. The assessment of procurement risks at the country, sector and project levels, and of procurement capacity at the executing agencies, was undertaken for the project, and the output has informed decisions on the procurement regimes being used for specific transactions or groups of similar transactions under the project. The appropriate risk

mitigation measures have been included in the procurement PRCA action plan proposed in Annex B5.

D-2. Financial Management, Disbursement and Audit

- 1.13. The assessment was conducted in accordance with the Bank's FM Guidelines for Investment Operations 2019. The LEC assessment concluded that the EA possesses an adequate (FM) system to manage the additional Financing Resources, with the fiduciary risk assessed as Moderate.
- 1.14. The overall FM of the Project will remain integrated into the existing structure of the LEC's Finance Department. The Head of Finance of LEC will take overall responsibility for the Project FM. The Project Accountant of UDRTEP will handle responsibilities for both the current project and the Additional Financing, under the supervision of the Project Coordinator and LEC Head of Finance. The internal controls applicable to the EA will extend to the project, including internal audits at least once annually by the Internal Audit Department. The FM reporting arrangement for the ongoing project will be used for the additional financing. The Project will submit Interim Financial Reports to the Bank within 45 days after the end of the quarter, adhering to a format and substance acceptable to the Bank. The Project team has received training on the Bank's FM and disbursement requirements. To mitigate the risks associated with manual systems, UDRTEP is procuring an accounting system. TOMPRO, which is used by the closing Bank-financed Economic Diversification Support Project (EDSP) and the ongoing World Bank-financed project, the Competitiveness and Financial Inclusion Project (CAFI) has been identified for this purpose. The use of manual/Excel spreadsheets has attracted external audit queries and recommendations from the supervision mission to enhance the project's accounting, controls and reporting.
- 1.15. In accordance with other ongoing projects, the project's separate annual financial statements will be audited by an Independent Private Audit firm appointed by the Auditor General. The Auditor General will review and clear the audit report before it is submitted to the Bank. The audit will be carried out in accordance with the audit terms of reference approved by the Bank. The audited financial statements (with audit opinion) and the Management Letter will be submitted to the Bank within 6 months of the end of the financial period.
- 1.16. The Project will continue to predominantly utilise the Direct Payment method to pay for all eligible project expenditures. However, the revolving funds (Special Account), reimbursement and reimbursement guarantee methods are available for use as stipulated in the disbursement handbook. The Bank will issue a Disbursement Letter which will be discussed and agreed upon with the Kingdom of Lesotho during negotiations.

D-3. Monitoring and Evaluation

- 1.17. The Additional Financing project is scheduled for implementation over 24 months, from December 2025 to November 2027. This schedule is reasonable, given the scope of activities to be implemented and the project implementation capacity demonstrated by the Executing Agency during the implementation of the original Project. The existing M&E arrangements were assessed to be adequate for continuation of the

implementation of the Additional Financing operation. The ESMP/RAP implementation and monitoring contract is funded by the Government and provisions have been made to extend this contract to cover the Additional Financing implementation period. The contract for the supervision consultant is funded through the loan proceeds and sufficient budget remains from the original project to appoint the same consultant to continue providing supervision during construction. In addition, the Project will be monitored by the Bank through supervision missions at least twice a year. The Government will submit quarterly progress reports on the implementation of the project. The reports will review progress made against the targets in the Project's Results-Based Logical Framework. A Project Completion Report will be prepared after 85% disbursement is achieved to evaluate progress against outputs and outcomes and draw lessons for follow-up operations. A Monitoring Plan is included in Technical Annex 4-1.

D-4. Risk Management

- 1.18. Overall project risks have been assessed as moderate. Several risks to the project have been identified and mitigation measures for these risks have been put in place. The main risks include implementation capacity risks within the project implementation team, the availability of counterparty funding, project overruns and poor performance by contractors. The risk of a lack of implementation capacity is rated “low” and is mitigated by the Executing Agency’s experience with the implementation of the original project. In addition, the Bank continues to provide capacity training through fiduciary clinics. The risk of poor performance of contractors is rated as ‘moderate’ and was mitigated using stringent selection and qualification criteria and robust performance monitoring. Regarding the risk of supply chain constraints and rising costs, the estimate for Khukhune substation upgrade is based on the latest cost estimates. In addition, price and physical contingencies have been included in the estimates. The risk of counterparty funding for the components procured under the Borrower Procurement System is rated moderate, since most of the activities in the Additional Financing are financed from Bank resources. Counterparty contributions are for ESMP monitoring and operating costs of the Project Implementation. A detailed Risk Matrix is included in Technical Annex 4-2.

2 PROJECT FEASIBILITY

A. Technical Analysis

- 2.1. The refurbishment of switching stations and the rehabilitation of the existing 33kV lines were based on a detailed technical assessment undertaken by LEC on the operating conditions of the switching stations and the 33kV lines. These components were completed in 2022, and the targeted availability and reliability of the transmission network were achieved, with an average availability of 99.78% from July 2022 to June 2023 against a set target of 95%. Due to a lack of space adjacent to the refurbished stations to construct replacement stations, the refurbishment of the switching stations was the only technical option. The refurbishment of the 33kV lines entailed the replacement of phase conductors with a thicker cross-sectional area conductor of higher amperage (i.e., power transfer capacity) to connect additional customers. Since the replacement conductor was heavier, it required additional supporting structures

(i.e., towers) to withstand the heavier loads. The alternative solution would have been more costly and would have required a new line servitude.

- 2.2. For the Khukhune substation upgrade, the alternative solution was to construct a new 132kV transmission line from Muela to a new 132kV substation in Mokhotlong. However, this solution was not preferred because the 33kV line to Butha-Buthe will not be integrated into the 132kV line from Muela, with most customers continuing to experience power supply curtailment due to load-shedding in South Africa. The preferred technical solution was to upgrade Khukhune substation using Air Insulated Substation (AIS) technology. The need to better align the project with new developments in the sector to cater to Government objectives and strategies for attaining self-sufficiency and security of supply, necessitated the modification from AIS technology to the more advanced Gas Insulated Substation (GIS) technology. A technical comparison of AIS and GIS suggests that GIS can meet reliability needs better than AIS. GIS delivers this enhanced reliability in several ways:
- The enclosed GIS components arrive on site in modular, factory-assembled pieces rather than requiring full field assembly. Pre-fabrication results in fewer parts and interfaces between components to handle and maintain.
 - The enclosure also protects against environmental damage and deterioration that can affect performance and reliability.
 - GIS has lower lifetime maintenance requirements, with an estimated lifecycle of 40 - 50 years, and only minimal time- and operation-based maintenance is required.
 - Performance and maintenance monitoring of GIS substations is typically far more advanced than AIS, thereby reducing the number of site activities and required interventions (e.g., diagnostic checks can be conducted in advance).

B. Financial and Economic Analysis

- 2.3. Analyses were carried out to determine the financial and economic profitability of the project as measured by the financial and economic rates of return based on the comparison of costs and benefits. Costs comprise capital, fixed and variable operation and maintenance costs. The variable operating costs consist of the cost of power from the Muela hydropower station, expressed in respective financial and economic terms. The quantifiable benefits comprise savings in electricity distribution level technical losses and reductions in supply outages, both of which have constrained demand from being served adequately; the replacement power when supply to the Letseng mine and Mokhotlong town is curtailed by Eskom; and the additional energy delivered to the new Mothae diamond mine, also in Letseng. Furthermore, the improved performance of the Maseru distribution network, as the main load centre in the country, will extend over the entire country-wide interconnected system. Other unquantifiable benefits would arise from the technical assistance components: (i) the cost of service study provided the basis for setting consumer electricity tariffs to promote economic efficiency and financial viability of the power sector, (ii) the feasibility study for extending the 132kV transmission line from Khukhune to the Letseng substation in Mokhotlong will enable the construction of the transmission line to serve increased

load demand from the Letseng mine and Mokhotlong town, and for the future integration of a 35MW wind farm that is proposed for the area, and (iii) the feasibility study for extending the 132kV transmission line from Mofoka switching station to the Thetsane substation will enable the construction of the transmission line that will ensure power from the solar PV power plants in Mafeteng reach the load centres in Maseru.

- 2.4. The financial analysis was carried out from the viewpoint of LEC as the project implementing entity and the project beneficiary, considering the financial costs and benefits of the project. The financial internal rate of return (FIRR) was estimated at 14.88% (which is higher than the LEC weighted average cost of capital of 9.7%), and a net present value (NPV) of USD 6.57 million.
- 2.5. The economic analysis considered the viewpoint of Lesotho. All costs and benefits were expressed in economic terms and in base-year prices for 2024. The incremental energy consumption as the quantifiable benefit of the project was valued at USD 0.25/kWh as the weighted average of the willingness-to-pay on the part of the industrial, commercial, households and other consumers. The economic internal rate of return (EIRR) was estimated at 23.5% compared to the opportunity cost of capital of 12% to Lesotho, and a NPV of USD 16.85 million.

Table 6: Overall Project Key economic and financial figures (for cost benefit analysis)

FIRR (base case)	14.88%
FNPV (discounted at 9.7%)	USD 6.57 million
EIRR (base case)	23.5%
ENPV (discounted at 12%)	USD 16.85 million

- 2.6. Sensitivity analysis was performed against the key risk variables to test the robustness of the financial and economic profitability of the project. The identified key risks include (i) a 20% capital cost increase; (ii) a 20% less than expected available energy for consumption; (iii) a 20% lower than the assumed level of the willingness-to-pay; or (iv) a simultaneous occurrence of all three risks. The results show that the project remains both financially and economically viable, with the rates of return greater than both the weighted average cost of capital to LEC and the opportunity cost of capital to Lesotho, thus confirming the robustness of the project's profitability.

C. Environmental and Social Safeguards

Environmental

- 2.7. **Categorisation:** The original project was categorised and validated as category 2 on 2 April 2015. The justification provided was that the project would trigger temporal and localised impacts that would result from both the construction and operation of the project. The additional financing will cover the transmission expansion project in the original project, which entailed the construction of 8km of 132 kV transmission line from the Muela Hydropower Station to link the 88kV transmission line from South Africa at Khukhune substation, and expanding the substation with the addition of 2x30 MVA transformers. The additional financing was confirmed as Category 2 on 2nd

April 2024. The justification for this categorisation was that the activity is not out of character with its surroundings and will trigger moderate intrinsic environmental and social risks. The overall project therefore maintains its original category of 2.

- 2.8. **Documents and Disclosure:** In the original project, an ESMP for the project was finalised in August 2015 in line with the Bank's requirements disclosed on the AfDB's website on 9 October 2015. Guided by the First Schedule (Section 19) PART A of the National Environment Act, 2008, activities related to additional financing require an environmental impact assessment with an Environmental and Social Management Plan (ESMP). The Bank reviewed and cleared the Environmental and Social Assessment with Environmental and Social Assessment with an ESMP, as well as a Resettlement Action Plan, which was disclosed by the Borrower on 13th August 2024 and by the Bank on 16 August 2024 in accordance with the ISS requirements. The Bank confirmed that public consultation was adequately completed by the Borrower with approximately 55 stakeholders, 51% males and 49% females, which was undertaken on 9 June 2019, April, May and June 2024 in Likila and Maseru. Issues discussed included the environmental and social impacts of the project, how these would be mitigated, and how different stakeholders would be involved in monitoring, compensation methodologies, and timelines, as well as mechanisms for handling grievances during project implementation. Thus, the Bank confirmed that the project already has a functional grievance redress mechanism.
- 2.9. **Environmental and Social Risks:** In terms of risks, the likelihood of soil erosion during the wet months (October to April, peaking from December to February) is high given that the Khukhune substation is at an altitude of 1688 mamsl and the connection point to the Muela 132kV line is at an altitude of approximately 1940 mamsl. The powerline route and substation are located in the Lowlands, where the overall topography of the affected project area is undulating/hilly terrain, characterised by sandstone outcrops and deep erosion gullies. The soils in the project are typically low in fertility, poorly structured, possess low water-holding capacities, and have high erosion potential. Other risks include the generation of waste material during construction and demolition, which if not managed properly, can lead to environmental pollution, incidents and lost time injuries due to exposure to electromagnetic fields. Further, the work may have some risks for the local population, with the likely restriction of vehicle and pedestrian traffic near construction sites, noise and dust-related inconvenience, and space congestion caused by building materials. The project also comes with risks associated with loss of livelihoods due to lack of access to portions of farm fields, exposure to health hazards, increased vulnerability of communities due to underemployment, inadequate stakeholder and community engagement and delays in compensation payments that could cause start-up delays.
- 2.10. **Environmental and Social Impacts:** The original project identified negative impacts regarding the removal of asbestos roof sheeting, and its disposal. Dust, noise and traffic disruptions will be minimal. Where transmission line poles are moved due to soil erosion and gullies formed due to increased flooding, crops may be affected. The scope for additional financing is associated with impacts related to disturbance of soil during construction, construction activities that could lead to sediment runoff impacting water

quality, dust and air emissions from construction that can degrade air quality, and construction and operational activities that can increase noise levels for nearby residents. In relation to biodiversity, construction activities can disturb local flora and fauna. Other impacts include resettlement impacts, including loss of use rights for 10 project-affected persons, health and safety concerns that relate to exposure to electromagnetic fields, strain on local infrastructure that is a result of traffic disruptions, increased noise and wear and tear of roads, as well as community disruption due to poor communication and stakeholder management.

- 2.11. **Mitigation Measures:** In terms of mitigation, the original project proposed the compilation of an asbestos handling procedure that will be approved by the AfDB, providing full personal protective equipment (PPE) while ensuring workers don't take their PPE home to their families, and the disposal of asbestos in double bagged polythene bags at a designated area on the main landfill site in Maseru where it cannot be dug up again. The plan included compensation for any affected crops during transmission line repositioning in line with national prices and AfDB procedures.
- 2.12. With the additional financing focused on Khukhune substation and the 8km transmission line, an ESIA with ESMP and a Resettlement Action Plan have been prepared with mitigation measures proposed, including proper water drainage systems to handle runoff and prevent erosion. Construction during the dry season should take into consideration dust suppression measures. In terms of construction noise, thorough planning and scheduling are considered, and noisy works will be restricted to the daytime when it is less likely to disrupt neighbours. Other measures include using operational techniques which limit idle time, and adopting quieter working methods. In terms of minimising inconvenience to neighbours, the project will communicate and engage stakeholders through early notifications and regular updates, minimising disruptions, site management to ensure site cleanliness and proper waste management, and implementing safety measures to protect both workers and neighbours. To manage resettlement risks and impacts, timely compensation for project-affected persons has been considered, and a grievance redress mechanism has been taken into consideration in case project-affected persons have any grievances regarding compensation packages.
- 2.13. **E&S Performance and rating of the parent project.** During the last physical implementation support mission of the original project in March 2023, the environmental and social safeguards compliance of the project were rated satisfactory. The justification for this rating was that the original project has satisfactorily carried out and caused its contractors to carry out the Project in accordance with: (a) Bank's rules and procedures; (b) national legislation; and (c) the recommendations, requirements, and procedures set out in the Environmental and Social Management Plan (ESMP) prepared for the Project. The project delivered quarterly reports to the Bank in the form and substance acceptable to the Bank, describing the Borrower's implementation of the ESMP (including any implementation failures and related remedies). The PIU assigned staff to coordinate E&S issues and have procured a company to monitor the ESMP on all sub-projects and their last report submitted in March 2023.

- 2.14. **Capacity to Implement the ESMP:** In the last implementation support mission of the original project in March 2023, the environmental and social safeguards compliance of the project was rated satisfactory. The justification for this rating was that the project had successfully implemented its environmental and social management plan, and cleared all outstanding resettlement-related issues apart from one pending verification through court processes. The PIU assigned staff to coordinate E&S issues and has procured a company to monitor the ESMP on all sub-projects, with the last report submitted in March 2023.
- 2.15. With the outstanding works on the Khukhune substation, the project will maintain Greenway Consulting to supervise and track the implementation of the ESMP and RAP. Its contract has been extended to cover the additional financing implementation period. Two external environmental and social audits for the entire project, which were not envisaged in the original financing, are planned with the additional financing. A budget of **UA36,289 has been considered for ESMP implementation and has been included in Table 1 (Overall Project Cost by Component).**

Involuntary Resettlement

- 2.16. **In relation to involuntary resettlement, the original project indicated that for the switching station** rehabilitation, the project areas were the existing switch houses located in the industrial part of Maseru. Work that took place within existing fenced areas of the LEC has since been completed. For the component on the rehabilitation of 33kV lines, there is only one project-affected person who is yet to be paid because there is a dispute with local authorities over the ownership of the piece of land. A dedicated account has been opened by the project, and compensation entitlement has been deposited by the project until the ownership issue is resolved.
- 2.17. **For the Additional Financing, the Khukhune substation in Butha-Buthe is an existing substation** with an existing buffer and therefore does not trigger resettlement. No physical structures are envisaged during implementation. The 8 km line route traverses across government-owned land, with patches of land in community fields being affected. The estimated total number of towers to be planted is 26, which will be spread across the ten identified PAPs affecting fields during tower placements. Each tower footing is estimated to cover 25m². Total land take is expected to be 0.065 Ha. Although the land belongs to the Government, affected households will be compensated for their user rights in line with the Land Act of 2010, which provides for the legal basis for compensation of use or acquisition in Lesotho. Crops may be damaged during construction, and pegging will be done to assess any loss prior to construction, with a 10% contingency included in the RAP implementation costs to cover this in line with national and AFBD requirements. The budget for RAP implementation is UA59,508 and has been included in the cost estimates.
- 2.18. **Environmental Compliance:** In addition to the full and adequate implementation of all the disclosed E&S plans, including measures to address non-anticipated risks and impacts occurring during project implementation, the Borrower will prepare quarterly E&S measures implementation reports. Also, an annual E&S performance audit conducted by an independent E&S safeguards expert will be submitted no later than

the end of the first quarter of the following year. All these reports will be shared with the Bank and made accessible to the stakeholders. Also, the Borrower is committed to establishing the project-level Grievance Redress Mechanism (GRM) at the onset of the implementation, making it known to all the stakeholders, and maintaining its functionality over the project's lifecycle. Further, in the event of an Environmental Occupational Health and Safety (EOHS) incident on a project site, the Borrower is committed to notifying the Bank immediately, no later than 48 hours after the occurrence, share the relevant national Authority's investigation report, and when deemed necessary by the Bank to submit a root-cause analysis (RCA) report, prepared by an independent OHS expert, to be cleared by the Bank for the implementation of the corrective action plan (CAP) by the Borrower. These obligations are reflected in the E&S conditions of the financing agreement. The project is compliant and ready for submission to Board consideration, as evidenced by the ESCON in Section 7.

Climate Change and Green Growth

- 2.19. Vulnerability and climate resilience:** The UDRTEP additional financing is classified as a category 2 operation using the Bank Climate Change Safeguard System (CSS). The project area, spanning Butha-Buthe, Leribe, Maseru and Berea districts, has a moderate to high slope landscape and receives 362.63mm of rain in the dry season and 992.98mm in the wet season, with peaks between January and March increasing flood risks. Intensive grazing has degraded the land, and the 2019 Cyclone Idai flooded 1,336 hectares. Future projections under a pessimistic climate scenario indicate decreased monthly rainfall but increased intensity, raising flood risks and potential damage to infrastructure, leading to higher costs and losses for the Lesotho Electricity Company (LEC). Average temperatures range from -0.6°C to 22.2°C, with future increases of 1.78-2.2°C by 2060 likely worsening transmission losses. To build resilience, the project will use gas-insulated stations, heat-resistant cables, and double transmission lines, and will include an early warning system for better network management. Further details are in the Climate Resilience Action Plan (see Climate Change and Green Growth Technical Annex).
- 2.20. Carbon footprint:** The project enhances Lesotho's access to energy and renewable energy, thereby reducing household and industrial fossil fuel usage. However, SF₆ is a significant source of greenhouse gas emissions. GIS substations, despite their advantages, have a notable GHG footprint due to materials like steel, copper, epoxy resin, and SF₆, which has a global warming potential 32,000 times higher than CO₂. Reducing SF₆ leakage is crucial. On average, AIS emits 4,198.5 kgCO₂eq annually, while annual GIS emissions are 1.27 times higher at approximately 5,332 kgCO₂eq, including 0.1% annual SF₆ leakage over 30 years plus 1.5% at decommissioning. The projected SF₆ emissions from Khukhune GIS are 159,963 tons of CO₂eq over 30 years (5,332.1 tons CO₂eq/annual). However, using the 2022 heat and electricity emission factor of 328 tons CO₂eq/GWh for Lesotho (IRENA ³, 2024), the project will contribute to displacing the use of fossil fuels by providing access to renewable energy, reducing coal-based energy imports from South Africa (loaded at Khukhune station),

³ International Renewable Energy Agency (2024). Lesotho Energy Profile

and will potentially avoid annual emissions of 28,448.75 tons CO₂eq. Meanwhile, to ensure that emissions from SF₆ are mitigated, the project will consider adopting the not-yet-prevalent SF₆-free GIS technology or follow best practices for monitoring and maintenance.

- 2.21. **Alignment:** The project will enhance the resilience of Lesotho's energy sector to climate change. By utilising the GIS substation, the project will mitigate transmission and distribution land use and land cover changes and reduce power T&D infrastructure exposure to physical climate risks. Additionally, by addressing peak demand, the project will improve energy access and reduce fossil fuel use, aligning with Lesotho's Nationally Determined Contribution (NDC, 2017) for adaptation and mitigation priorities. Using the joint MDB Paris alignment assessment methodology, the project, as a direct investment, aligns with both the mitigation (BB1) and adaptation (BB2) objectives of the Paris Agreement (see detailed step-by-step Paris Alignment assessment in the Technical Annex). The project is also aligned with the Bank Climate Change and Green Growth Policy and Strategy 2021-2030.

D. Other Cross-Cutting Priorities

Fragility Responsiveness

- 2.22. Lesotho faces a complex set of challenges that inhibit it from achieving resilience in its economy. Investing in critical infrastructure development in the energy sector is a crucial intervention that the Bank is participating in would enable improvements in several developmental challenges facing the country. The project design responds to the drivers of fragility through its components with the objective of improving energy access in critical sectors like diamond mining, agriculture and trade. Improved access to energy spurs the growth of industries and the manufacturing sector, helping to decrease levels of poverty and enabling social and economic progress. This also creates an enabling business environment for the growth of MSMEs and the larger engagement of the private sector. Economic inequality is a critical driver of fragility for a country, and the availability of energy would encourage more economic activity, thereby raising income levels.
- 2.23. The transmission and supply of energy enable many industries to increase capacity and efficiency in providing services, often increasing human development outcomes like healthcare, education and population safety|.

Opportunities for Building Resilience

- 2.24. The UDRTEP-AF and its components are aligned to the Bank Strategy on Addressing Fragility and Building Resilience [2022-2026], and its key priorities, including Building Resilient Societies and Catalysing Private Sector participation in the economy. The energy sector in the Kingdom of Lesotho faces challenges in the generation and supply of energy due to a complex set of drivers, including its geographic constraints and limited natural resources, and its limited energy infrastructure. The country's main economic activities, agriculture and mining, are highly dependent on reliable energy, and face complexities of supplying electricity in rural areas, the lack of an enabling business environment to encourage additional

private-sector investments in the agriculture sector, and climate vulnerabilities. The components of the project provide opportunities to contribute towards building resilience by enhancing efficiency in energy access for critical sectors, the improvement of the business environment resulting in additional private-sector investments, improved digitalisation in the economy that would also gradually bridge the urban-rural divide, and notably the impact of improved energy access of key human development factors including health, education, good governance, disaster risk preparedness and safety of its population. The Kingdom of Lesotho remains committed to improving energy access, as evidenced in the NSDP II and NSRF [2019-2030] and its dedicated policies on energy. To strengthen the impact of the project, some recommendations include employing vulnerable groups in construction activities during project implementation, continuing with practices that ensure there is no unintended harm done through the project, investing additionally in climate resilient infrastructure, encouraging local entrepreneurship through incentives in energy supply and pricing, and increasing the focus on rural electrification. Overall, the project is expected to contribute to building resilience in the Kingdom of Lesotho in a significant manner, with its activities having a multiplier effect across several sectors.

Gender Equality and Women's Empowerment Promotion

- 2.25. Lesotho has a reverse gender gap in education with women being more literate than men, enjoying higher net primary, secondary and tertiary enrolment rates. Consequently, women make up more than 50% of the civil service. The majority of women have tasks connected to household management. Collection of biomass for household cooking and thermal needs from animal kraals, open fields, wood lots, forests, and merchants is 85% of the time done by women. They make on average 3 trips per week, investing an average of 2 hours per trip (DOE, 2007). The collection of biomass for cooking in schools is done by pupils, who do on average 2 trips of 3 hours each per week (DOE, 2007). This results in an economic loss of productive time for women and a loss of otherwise educative time for pupils. Education for students is further affected by a lack of modern technologies and teaching aids, as resources such as computers and the internet cannot be used (UNECA 2012).
- 2.26. An efficient electricity supply will help ease the workload of women, therefore increasing their productive time to improve their economic status, improve the general wellbeing of people by reducing their dependence on biomass for lighting, cooking and heating, and reduce the risk of respiratory diseases associated with the use of biomass. Creation of jobs in construction, sustaining general business activities and increasing access to electricity can help these communities grow by facilitating income-generating activities. The project is a GEN III according to the bank's Gender Marker System categorisation and will create job opportunities for women, therefore contributing to closing the gender gap in women employment. The female employment target is 20%.

3 LEGAL INSTRUMENTS AND AUTHORITY

A. Legal Instrument

- 3.1. The legal instrument governing this additional financing project will be a loan agreement (the “Loan Agreement”) between the Kingdom of Lesotho (the “Borrower”) and the African Development Fund (the “Fund”) for an ADF Loan of UA6,129,907 to the Borrower (the “Loan”).

B. Conditions Associated with Bank’s Intervention

- 3.2. ***Condition Precedent to Entry into Force of the Loan Agreement*** - The entry into force of the Loan Agreement shall be subject to fulfilment by the Borrower of the provisions of Section 12.01 of the General Conditions Applicable to the African Development Fund Loan Agreements and Guarantee Agreements (Sovereign Entities).
- 3.3. ***Conditions Precedent to First Disbursement*** - In addition to the entry into force of the Loan Agreement, the obligations of the Fund to make the first disbursement of the Loan shall be subject to the satisfaction of the following conditions by the Borrower:
- (a) The execution and delivery of a Subsidiary Agreement between the Executing Agency and the Borrower in form and substance satisfactory to the Fund; and
 - (b) Submission of written confirmation, in form and substance satisfactory to the Fund, that the existing project implementation unit (PIU) in the Executing Agency will serve as PIU for the additional financing, indicating names and roles of the whole team, namely: (i) Project Manager, (ii) Project Engineer, (iii) Project Accountant, (iv) E&S Officer, and (v) Procurement Officer;
 - (c) Submission of written confirmation, in form and substance satisfactory to the Fund, that the existing project steering committee constituted in respect of the original project, comprising a Director in the Ministry of Energy (Chairperson), and representatives from the Ministry of Energy, the Ministry of Finance and Development Planning, and the Executing Agency, will also be responsible for oversight and coordination on project implementation in respect of the additional financing;
 - (d) Submission of evidence of extension of the contract for the ESMP and RAP implementation consultant, in form and substance satisfactory to the Fund; and
 - (e) Submission of evidence of the recruitment of a project management and supervision consultant, with qualifications and terms of reference acceptable to the Fund.
- 3.4. ***Conditions Precedent to Disbursements for Works Involving Resettlement to be financed by the Fund*** – Subject to the Entry into Force of the Loan Agreement, and Conditions Precedent to First Disbursement of the Loan, the obligation of the Fund to disburse the Loan for works that involve resettlement shall be subject to the satisfaction of the following additional condition(s) by the Borrower:
- (a) Submission of a works and compensation schedule prepared in accordance with the Resettlement Action Plan (“RAP”) and the Fund’s Safeguards Policies, in

- form and substance satisfactory to the Fund, detailing: (i) each lot of civil works under the Project, and (ii) the time frame for compensation and/or resettlement of all Project-affected persons (“PAPs”) in respect of each affected lot; and
- (b) Submission of a Valuation Report on the respective section(s) requiring compensation prepared by a qualified valuer appointed or nominated by the Borrower, with qualifications and terms of reference acceptable to the Fund.

3.5. **Counterpart Contribution:** The Borrower shall, within three (3) months of the first disbursement of the Loan or such later date as may be approved by the Fund, assign personnel to the Project and pay their salaries and other costs, provide or pay for office accommodation, office supplies, electricity and other utilities and operational overheads, and maintain in force the existing ESMP monitoring contract, in accordance with agreed specifications and requirements acceptable to the Fund, as its in-kind contribution towards the costs of the Project.

3.6. **Undertakings**

- (a) **Environmental and Social Safeguards** – The Borrower shall, and shall cause the Executing Agency, all its contractors, sub-contractors, and agents to:
 - (i) carry out the Project in accordance with the Environmental and Social Management Plan (ESMP), RAP and/or the agreed works and compensation schedule, the Fund’s Safeguards Policies and the applicable national legislation in a manner satisfactory to the Fund;
 - (ii) prepare and submit to the Fund, quarterly progress reports on the implementation of the ESMP, including any implementation failures and related remedies thereof;
 - (iii) refrain from taking any action which would prevent or interfere with the implementation of the ESMP and the RAP, including any amendment, suspension, waiver, and/or avoidance of any provision thereof, whether in whole or in part, without the prior written concurrence of the Fund; and
 - (iv) not commence implementation of any works on any section of a given lot under the Project, unless all PAPs in such lot have been compensated and/or resettled in accordance with the RAP and/or the agreed works and compensation schedule.
- (b) **Financial Management:** The Borrower shall, and shall cause the Executing Agency to adopt the financial management, disbursement and audit measures described in section D-2 (*Financial Management, Disbursement and Audit*) of this report.

C. Compliance with Bank Policies

- ☐ This project complies with all applicable Bank policies.
- ☒ There are exceptions to Bank policies. The portion of the requested Additional Financing required for modifying the original project is 44% of the original total project cost, which is more than the 20% limit prescribed in paragraph 9(d) of the Bank Group Policy on Additional Financing⁴ and paragraph 3(iv) of the *Bank Group Additional Financing Processing Guidelines*⁵. A request for a waiver of the 20% limit is included in paragraph 5.1 below, and a justification for the waiver request is included in Section 10 of this report. Further, in line with the *Policy on Expenditure Eligible for Bank Group Financing (2008)*, justifications for the Borrower's counterpart contribution being less than the required 10%, are contained in section 9 of this report.

African Development Bank Group Independent Recourse Mechanism

3.7. Communities and individuals who believe that they are adversely affected by an African Development Bank Group (AfDB) supported project may submit complaints to existing project-level grievance redress mechanisms or the AfDB's Independent Recourse Mechanism (IRM). The IRM ensures project-affected communities and individuals may submit their complaint to the AfDB's Independent Recourse Mechanism, which determines whether harm occurred, or could occur, as a result of AfDB non-compliance with its policies and procedures. To submit a complaint or to request further information please visit the IRM website. Complaints may be submitted at any time after concerns have been brought directly to the AfDB's attention, and Bank Management has been given an opportunity to respond before reaching out to the IRM.

4 RECOMMENDATION

Management recommends that the Board of Directors:

- 4.1. (a) waives the application of the provisions of paragraph 9(d) of the Bank Group Policy on Additional Financing and paragraph 3(iv) of the Bank Group Additional Financing Processing Guidelines which limit the amount of additional financing for modifying a well-performing project to 20% of the original project cost; and (b) authorises the Kingdom of Lesotho to use the proposed additional financing, above the limit of 20% of the original project cost, for modifying the original project; and
- 4.2. approves the proposed additional financing loan of UA6,129,907 to the Kingdom of Lesotho for the purposes and subject to the conditions stipulated in this report.

⁴ ADB/BD/WP/2019/237/Rev.3 - ADF/BD/WP/2019/161/Rev.3.

⁵ ADB/BD/IF/2022/216 - ADF/BD/IF/2022/15.

ANNEXES

5 RESULTS FRAMEWORK

REVISED PROJECT RESULTS FRAMEWORK						
A PROJECT INFORMATION						
PROJECT NAME AND SAP CODE: URBAN DISTRIBUTION REHABILITATION AND TRANSMISSION EXPANSION PROJECT SUPPLEMENTARY LOAN (P-LS-FA0-007)				COUNTRY/REGION: LESOTHO/SOUTHERN AFRICA		
PROJECT DEVELOPMENT OBJECTIVE: To improve the reliability and availability of the power distribution network to enhance quality of supply to existing consumers, including, specifically, the Letseng Diamond Mine.						
ALIGNMENT INDICATOR (S): Share of population with access to reliable electricity (% population)						
B RESULTS MATRIX						
RESULTS CHAIN AND INDICATOR DESCRIPTION	RMF INDICATOR	UNIT	BASELINE (2016)	ACTUAL (2025)	TARGET AT COMPLETION (2027)	Means of verification
OUTCOME STATEMENT 1: Increased availability and reliability of electricity supply						
OUTCOME INDICATOR 1.1: Distribution network availability	☐	%	90	95	95	LEC Annual reports, and Quarterly progress reports
OUTCOME INDICATOR 1.2: Energy loadshed from Khukhune substation	☐	MWh	86,734 ⁶	86,734	0	
OUTCOME STATEMENT 2: Improved efficiency of the electricity system						
OUTCOME INDICATOR 2.1: Level of technical losses at switching stations	☐	%	9.8	8	8	LEC Annual reports, and Quarterly progress reports
OUTCOME INDICATOR 2.2: Available energy for consumption	☐	MWh	0	11,697	11,697	LEC Annual reports, and Quarterly progress reports
COMPONENT A: Distribution System Rehabilitation						
OUTPUT STATEMENT A.1: Switching stations rehabilitated						
OUTPUT INDICATOR A.1.1: Number of switching stations with new switchgear	☐	Num	0	13	13	LEC Annual reports, and Quarterly progress reports
OUTPUT INDICATOR A.1.2: Number of switching stations with refurbished civil works	☐	Num	0	13	13	
OUTPUT STATEMENT A.2: Distribution lines rehabilitated						
OUTPUT INDICATOR A.2.1: Length of 33kV distribution lines rehabilitated	☒	km	0	188	188	LEC Annual reports, and Quarterly progress reports

⁶ Calculated using Maximum demand of 13,380kVA (as measured in April 2024) and a load factor of 74%.

COMPONENT B: Climate-Proof Transmission Upgrade						
I OUTPUT STATEMENT B.1: Climate-Proof Khukhune Substation Upgrade						
OUTPUT INDICATOR B.1.1: New 132kV climate-proof transmission line constructed	☒	km	0		8	LEC Annual reports, and Quarterly progress reports
OUTPUT INDICATOR B.1.2: Upgraded substations	☐	Num	0		1	
OUTPUT INDICATOR B.1.3: Increased substation transformation capacity upgraded	☒	MVA	40		100	
OUTPUT INDICATOR B.1.4: Potential annual greenhouse gas (GHG) emission displaced	☒	Tons CO2 eq	0	0	28,448.75	LEC Annual reports, and Quarterly progress report
OUTPUT INDICATOR B.1.5: Number of Direct jobs created by the project (percentage women)	☒	Num	0	173 (13%)	200 (20%)	LEC Annual reports, and Quarterly progress reports
COMPONENT C: Technical Assistance Studies and Capacity Building						
I OUTPUT STATEMENT C.1: Technical Assistance Studies						
OUTPUT INDICATOR C.1.1: Electricity Cost of Service Study	☐	Num	0	1	1	LEWA Annual report
OUTPUT INDICATOR C.1.2: Feasibility studies for additional transmission lines	☐	Num	0		2	LEC Annual reports, and Quarterly progress reports

CHANGES TO THE PROJECT RESULTS FRAMEWORK		
Revisions to the Results Framework		Comments/Rationale for Change
I PROJECT DEVELOPMENT OBJECTIVE		
<i>Current (PDO)</i>	<i>Proposed change</i>	
To improve the reliability and availability of the power distribution network to enhance quality of supply to existing and new consumers, including, specifically, the Letseng Diamond Mine.	☐ No Change ☒ Revised	The original PDO included the provision of a basis for gradual transition of existing electricity tariffs to economic cost of service reflective levels in Lesotho. This is excluded from the current PDO since the relevant component was successfully completed and does not form part of the Additional Financing.
I OUTCOME STATEMENTS AND INDICATORS		
<i>Current</i>	<i>Proposed change</i>	
I OUTCOME STATEMENT 1: Increased availability and reliability of electricity supply	☒ No Change ☐ Revised ☐ New	N/A
OUTCOME INDICATOR 1.1: Distribution network availability	☒ No Change ☐ Revised ☐ New	N/A
OUTCOME INDICATOR 1.2: Energy loadshed from Khukhune substation	☐ No Change ☐ Revised ☒ New	This is correcting the omission in the original PAR, which didn't include an Outcome Indicator for the Transmission Expansion component of the Project.
OUTCOME STATEMENT 2: Improved efficiency of the electricity system	☒ No Change ☐ Revised ☐ New	N/A
OUTCOME INDICATOR 2.1: Level of technical losses at switching stations	☒ No Change ☐ Revised ☐ New	N/A
OUTCOME INDICATOR 2.2: Available energy for consumption	☒ No Change ☐ Revised ☐ New	N/A
I OUTPUT STATEMENTS AND INDICATORS		
<i>Current</i>	<i>Proposed change</i>	
I OUTPUT STATEMENT A.1: Switching stations rehabilitated	☒ No Change ☐ Revised ☐ New	N/A
OUTPUT INDICATOR A1.1: Number of switching stations with new switchgear	☐ No Change ☒ Revised ☐ New	Wording enhanced for better technical context.
OUTPUT INDICATOR A1.2:	☐ No Change ☐ Revised	This output, which is financed by Government counterparty funds, was

Refurbished switching stations civil works	☒ New	somehow omitted from the original Results Framework.
OUTPUT STATEMENT A.2: Rehabilitation of distribution lines	☒ No Change ☐ Revised ☐ New	N/A
OUTPUT INDICATOR A2.1: Rehabilitated 33kV distribution lines	☒ No Change ☐ Revised ☐ New	N/A
OUTPUT STATEMENT B.1: Khukhune Substation Upgrade	☒ No Change ☐ Revised ☐ New	N/A
OUTPUT INDICATOR B.1.1: New 132kV transmission line constructed	☒ No Change ☐ Revised ☐ New	N/A
OUTPUT INDICATOR B.1.2: Upgraded substations	☒ No Change ☐ Revised ☐ New	N/A
OUTPUT INDICATOR B.1.3: Increased substation transformation capacity upgraded	☐ No Change ☐ Revised ☒ New	This is to enhance the original PAR, which omitted to include this key technical output indicator.
OUTPUT INDICATOR B.1.4: Potential annual greenhouse gas(GHG) emission displaced	☐ No Change ☐ Revised ☒ New	A new requirement from climate change.
OUTPUT INDICATOR B.1.5: Number of direct jobs created by the project (percentage women)	☐ No Change ☒ Revised ☐ New	Since the targets in the original project were achieved, these were revised upward for the Additional Financing operation.
OUTPUT STATEMENT C.1: Technical Assistance Studies	☒ No Change ☐ Revised ☐ New	N/A
OUTPUT INDICATOR C.1.1: Electricity Cost of Service Study	☒ No Change ☐ Revised ☐ New	N/A
OUTPUT INDICATOR C.1.2: Feasibility studies for additional transmission lines	☐ No Change ☐ Revised ☒ New	Additional activities requested by the Government for inclusion in the Additional Financing. These activities are recommendations of the successfully completed Bank-financed Renewable Energy Generation Integration Study and will lay a foundation for another operation that will better enable the Bank to meet Lesotho's development priorities.

6 ENVIRONMENTAL AND SOCIAL COMPLIANCE NOTE (ESCON)

A. Basic Information⁷		
Project Title: Urban Distribution Rehabilitation and Transmission Expansion Additional Financing		Project SAP or TFMS code: P-LS-FA0-007
Country: Lesotho	Region: RDGS	Lending Instrument: Project Finance Loan/Grant
Project Sector: Infrastructures	Task Team Leader(s): Seaga Abram Molepo	
Appraisal dates: 17 th February 2025 to 21 st February 2025		Estimated Approval Date: April 2, 2025
Environmental Safeguards Officer: XXXXX		
Social Safeguards Officer: Edith Birungi Kahubire		
Environmental and Social Category: Category 2	Operation type: Public Sector Operation	Financial Intermediary: No
Categorisation date: April 2, 2024	Categorisation in ISTS: April 2, 2024	Categorisation in SAP: April 2, 2024
Is this project processed under rapid responses to crises and emergencies?		No
Is this project processed under a waiver to Integrated Safeguards System (ISS) requirement(s)?		No
B. Disclosure and Compliance Monitoring		
B.1 Mandatory Disclosure		
Environmental Assessment/Audit/System/Others: [ESIA: 01]		
Was/Were the document (s) disclosed <i>prior to appraisal</i> ?		Yes
Date of "in-country" disclosure by the borrower/client		August 13, 2024
Date of receipt, by the Bank, of the authorisation to disclose		August 13, 2024
Date of disclosure by the Bank		August 16, 2024
Resettlement Action Plan (RAP) ⁸ : [RAP:01]		
Was/Were the document (s) disclosed <i>prior to appraisal</i> ?		Yes
Date of "in-country" disclosure by the borrower/client		August 13, 2024
Date of receipt, by the Bank, of the authorisation to disclose		August 13, 2024
Date of disclosure by the Bank		August 16, 2024
Stakeholder Engagement Plan (SEP): [specify including number]		
Was/Were the document (s) disclosed <i>prior to appraisal</i> ?		No
Date of "in-country" disclosure by the borrower/client		Click or tap to enter a date.
Date of receipt, by the Bank, of the authorisation to disclose		Click or tap to enter a date.
Date of disclosure by the Bank		Click or tap to enter a date.
Pest or Vector Management Plan (PMP/VMP): [specify including number]		
Was/Were the document (s) disclosed <i>prior to appraisal</i> ?		No

⁷ Note: This ESCON shall be appended to project appraisal reports/documents before Senior Management and/or Board approvals.

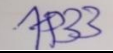
⁸ Including Livelihood Restoration Plan

Date of "in-country" disclosure by the borrower/client	Click or tap to enter a date.
Date of receipt, by the Bank, of the authorisation to disclose	Click or tap to enter a date.
Date of disclosure by the Bank	Click or tap to enter a date.
Vulnerable Peoples Plan (VPP): <i>[specify including number]</i>	
Was the document disclosed <i>prior to appraisal</i> ?	NA.
Date of "in-country" disclosure by the borrower/client	Click to Set the date
Date of receipt, by the Bank, of the authorisation to disclose	Click to Set the date
Date of disclosure by the Bank	Click to Set the date
Riparian Communities Participation Plan (RCP): <i>[specify including number]</i>	
Was the document disclosed <i>prior to appraisal</i> ?	NA.
Date of "in-country" disclosure by the borrower/client	Click to Set the date
Date of receipt, by the Bank, of the authorisation to disclose	Click to Set the date
Date of disclosure by the Bank	Click to Set the date
Emergency Preparedness & Response Plan (EPRP): <i>[specify including number]</i>	
Was the document disclosed <i>prior to appraisal</i> ?	NA.
Date of "in-country" disclosure by the borrower/client	Click to Set the date
Date of receipt, by the Bank, of the authorisation to disclose	Click to Set the date
Date of disclosure by the Bank	Click to Set the date
Hazardous/Medical Waste Management Plan (HWMP): <i>[specify including number]</i>	
Was the document disclosed <i>prior to appraisal</i> ?	NA.
Date of "in-country" disclosure by the borrower/client	Click to Set the date
Date of receipt, by the Bank, of the authorisation to disclose	Click to Set the date
Date of disclosure by the Bank	Click to Set the date
Riparian notification:	
Was the document disclosed <i>prior to appraisal</i> ?	NA.
Date of "in-country" disclosure by the borrower/client	Click to Set the date
Date of receipt, by the Bank, of the authorisation to disclose	Click to Set the date
Date of disclosure by the Bank	Click to Set the date
Environmental and Social Management Plan (ESMP) of the financing agreement⁹	
Was the document disclosed <i>prior to appraisal</i> ?	No
Date of "in-country" disclosure by the borrower/client	March 11, 2025
Date of receipt, by the Bank, of the authorisation to disclose	March 11, 2025
Date of disclosure by the Bank	March 11, 2025

⁹ As referred to in section III.2.3 of the Bank's Environmental and Social Policy (ESP)

If in-country disclosure of any of the above documents is not expected, as per the country's legislation, please explain why: NA	
B.2. Compliance monitoring indicators	
Have satisfactory calendar, budget and clear institutional responsibilities been prepared for the implementation of measures related to safeguard policies?	Yes
Have costs related to environmental and social measures, including for the running of the grievance redress mechanism, been included in the project cost?	Yes
Is the total amount for the full implementation for the resettlement of affected people, as integrated in the project costs, effectively mobilised, and secured? ¹⁰	Yes
Does the Monitoring and Evaluation system of the project include the monitoring of safeguard impacts and measures related to safeguard policies?	Yes
Have satisfactory implementation arrangements been agreed with the borrower and have the same been adequately reflected in the project legal documents?	Yes
C. Clearance	

Is the project compliant with the Bank's environmental and social safeguards requirements, and can be submitted for Approval? **Yes**

<i>Prepared by</i>	<i>Name</i>	<i>Signature</i>	<i>Date</i>
Environmental Safeguards Officer:	XXXXXX		Click or tap to enter a date.
Social Safeguards Officer:	Edith Birungi Kahubire		August 19, 2024
Task Team Leader:	Seaga Abram Molepo		August 20, 2024
Submitted by			
Sector Director:	Batchi BALDEH		August 20, 2024
Cleared by			
Director SNSC:	Maman-Sani ISSA		March 11, 2025

¹⁰ In case a resettlement action plan (RAP) is not required although ESIA is/are disclosed, attached the image/picture of the project's area/site/landscape to evidence it is free of any encumbrance (simple statement or letter from the borrower does not suffice), in addition to the statement by the borrower/client (Official letter) that it is a public-owned or client-owned land.