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AFRICAN DEVELOPMENT FUND

PROJECT APPRAISAL REPORT

LESOTHO LOWLANDS WATER DEVELOPMENT AND SANITATION PROJECT - PHASE III - ADDITIONAL FINANCING

KINGDOM OF LESOTHO

A F R I C A N   D E V E L O P M E N T   F U N D

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KINGDOM OF LESOTHO

AHVP/RDGS/AHWS/RDCS

June 2026

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CURRENCY EQUIVALENTS
Exchange rate effective 4/30/2026

Currency Unit[1]	Equivalent
1 Unit of Account	1.38187 [USD]
1 United States Dollar	0.72366 [UA]
1 Unit of Account	22.73096 [LSL]

FISCAL YEAR

1 April – 31 March

WEIGHTS AND MEASURES

1 Metric ton	2,204.62 Pounds (lbs)
1 Kilogramme (kg)	2.20462 lbs
1 Meter (m)	3.28 Feet (ft)
1 Millimetre (mm)	0.03937 Inch (“)
1 Kilometre (km)	0.62 Mile
1 Hectare (ha)	2.471 Acres

[1] Add any additional foreign or local currencies relevant to the project and their currency equivalents.

ABBREVIATION AND ACRONYMS

ADF	African Development Fund	ISS	Integrated Social Safeguards
AfDB	African Development Bank	IQFPR	Interim Quarterly Financial Progress Report
BADEA	Arab Fund for Economic Development	KFA	Key Focus Areas
BPM	Bank Procurement Methodology	KFAD	Kuwait Fund for Arab Economic Development
BPS	Borrower Procurement System	LC	Local Currency
BWMA	Bulk Water Management Agency	LCS	Least Cost Selection
CCS	Climate Change System	LDCF	Least Development Country Fund
CoW	Commissioner of Water	LEWA	Lesotho Electricity and Water Authority
CPIA	Country Policy and Institutional Assessment	LLWSS	Lesotho Lowlands Water Supply Scheme
CRFA	Country Resilience and Fragility Assessment	LLWSDP	Lesotho Lowlands Water Supply Development Program
CSP	Country Strategy Paper	LNOB	Leave No One Behind
CSO	Civil Society Organisation	LRP	Livelihoods Restoration Program
CQS	Selection Based on Consultants' Qualification	LTWSS	Long Term Water Supply and Sanitation Strategy
CWIS	City Wide Inclusive Sanitation	M&E	Monitoring and Evaluation
DPs	Development Partners	MNR	Ministry of Natural Resources
DoE	Department of Environment	NDC	Nationally Determined Contribution
DRWS	Department of Rural Water Supply	NPV	Net Present Value
DWA	Department of Water Affairs	NSDP	National Strategic Development Plan
EA	Executing Agency	OCB	Open Competitive Bidding
EIB	European Investment Bank	OFID	OPEC Fund for International Development
EIRR	Economic Internal Rate of Return	OP	Original Project
		PAPs	Project Affected Persons
ESIA	Environmental and Social Impact Assessment	PAR	Project Appraisal Report
ESMP	Environmental and Social Management Plan	PCN	Project Concept Note
EU	European Union	PCR	Project Completion Report
ESCON	Environmental and Social Compliance Note	PDO	Program Development Objective
FC	Foreign Currency	PIM	Project Implementation Manual
FIRR	Financial Internal Rate of Return	PIU	Project Implementation Unit
FMS	Financial Management System	PSC	Project Steering Committee
FRAP	Full Resettlement Action Plan	QCBS	Quality and Cost Based Selection
FSM	Faecal Sludge Management	RAP SDF SEAH	Resettlement Action Plan Saudi Development Fund Sexual Exploitation and Harassment
GAP	Gender Action Plan	SDG	Sustainable Development Goals
GEF	Global Environmental Facility		
GBV	Gender Based Violence	ToC ToT	Theory of Change Training of Trainers
GCF	General Capital Increase	TYS	Bank's Ten-Year Strategy
GDP	Gross Domestic Product	UA	Unit of Account
GHG	Green House Gases	WASCO	Water and Sewerage Corporation
GoL	Government of Lesotho	WASH	Water Sanitation and Hygiene
GRM	Grievance Redress Mechanism	WSP	Water and Sanitation Policy
IDA	International Development Association		
IFMIS	Integrated Financial Management and Information System		

PROJECT INFORMATION SHEET

CLIENT INFORMATION

Additional Financing Project Name	Lesotho Lowlands Water Development and Sanitation Project – Phase III – Additional Financing
Original Project Name	Lesotho Lowlands Water Development and Sanitation Project – Phase III
Sector	Water and Sanitation
Borrower	Kingdom of Lesotho
Project Instrument	ADF-16 Loan
Executing Agency	Ministry of Natural Resources

COUNTRY AND STRATEGIC CONTEXT

Country Strategy Paper Period:	2025-2030
Country Strategy Paper Priorities supported by Project:	i) Developing sustainable and quality infrastructure to promote industrialisation; and (ii) Strengthening institutional and human capacities for improved public sector efficiency and enhanced competitiveness
Government Program (PRSP, NDP or equivalent):	The National Strategic Development Plan (NSDP II), 2018/19-2022/23 extended to 2027/2028
Project classification:	High 5s: Improve the quality of Life for the People of Africa & supporting "Industrialise Africa Subthemes: 5.1 (access to clean water), 5.2 (sanitation and sewage), 5.3 (water resources management), 5.4 (water sector strengthening and reform)
	Cardinal Point Number 4: Build Climate-Resilient Infrastructure and Robust Value Addition to Natural Resources
	SDG 6 Clean Water and Sanitation: targets 6.1.,6.2, 6.4, 6.5 and 6.6
	ADF-16 Pillar 1: Sustainable, climate-resilient and quality infrastructure; and Pillar II: Governance, capacity building and sustainable debt management.
Country Performance and Institutional Assessment[2]:	3.46[3]
Projects at Risk in the country portfolio:	(50% of red flagged operations) (21 May 2026)

PROJECT CATEGORISATION

Environmental and Social Risk Categorization	Original Project	Category 1, 11 May 2022
	Overall Project[4]	**Category 1**
Does the project involve involuntary resettlement?	**Original Project**	**Yes**
	Overall Project	**Yes**
Climate Safeguards Categorization:	**Original Project**	Category 2 due to its vulnerability to hydro-meteorological risks (floods, droughts, and soil erosion). The original project is considered a direct investment in the low-carbon water and sanitation sector and is Paris-aligned under the Joint Multilateral Development Banks (JMDB) transaction-based approach.
	Overall Project	Category 2 due to its vulnerability to hydro-meteorological risks (floods, droughts, and soil erosion). The overall project is considered a direct investment in the low-carbon water and sanitation sector and is Paris-aligned under the Joint Multilateral Development Banks (JMDB) transaction-based approach.
Fragility Lens Assessment:	Original Project	Yes
	Overall Project	Yes
Gender Marker System Categorization:	Original Project	Category 2
	Overall Project	Category 2

[2] Obtain CPIA rating here - Country Policy and Institutional Assessment (afdb.org) (VPN required)
[3] 2023
[4] Overall Project is the original project + the AF

ADF KEY FINANCING INFORMATION

Interest Rate (AF Project, Original Project):	(N/A); (1% of disbursed loan balance per annum)
Service Charge (AF Project, Original Project):	(1%) of disbursed loan balance per annum in UA); (0.75% of disbursed loan balance per annum)
Commitment Fee (AF Project, Original Project):	(0.75% of undisbursed loan balance); (0.5% of undisbursed loan balance)
Tenor (AF Project, Original Project):	(50 years (including the grace period) from the date of the Loan Agreement); (30 years (including the grace period) from the date of the Loan Agreement)
Grace Period (AF Project, Original Project):	(10 years from the date of the Loan Agreement); (5 years from the date of the Loan Agreement)

Source	**Amount (millions)**		**Financing Instrument**
	UA	**USD**	
African Development Fund	10.00	13.8	ADF-16 Loan
Government Counterpart Contribution:	1.11	1.54	In Kind
Total Project Cost:	11.11	15.34	
Additional Bank Group Financing as percentage of Original Project total cost	100%		
Reason(s) for additional financing (check all that apply)	[ ] Financing Gap; [ ] Cost overrun; [X] Scaling Up a project[5]; [ ] Modifying a project. [ ] Emergency or Post-Emergency Operation		

PROJECT DEVELOPMENT OBJECTIVE AND COMPONENTS

AF Project Development Objective:	To increase the quality, accessibility, and sustainability of improved water supply and sanitation services in Butha Buthe district and to enhance resilience to climate change impacts
AF Project Components:	Component 1: Climate Resilient and Low Carbon Emission Water Supply Infrastructure Development, [UA 7.34 million]
	Component 2: Sanitation Services Improvement [UA 0.63 million]
	Component 3: Institutional Strengthening, Capacity Building and Project Management [UA 2.03 million]

AF PROJECT PROCESSING SCHEDULE TO BOARD APPROVAL

Identification:	N/A
Preparation Mission:	5-08-2025 to 15-8-2025
PCN Approval:	6-11-2025
Appraisal Mission:	3-02-2026-06-02-2026
Planned Board Presentation:	29-5-2026
Effectiveness:	20-08-2026
Project Implementation Period:	30-05-2026 -31-07-2029
Planned Mid-term Review:	30-12-2027
AF Project Completion Date:	31-7-2029
AF Project Closing Date:	31-12-2029
Original Project Closing Date:	31-12-2028

[5] Three Additional settlements and their surrounding areas

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1 BACKGROUND

1. Original Project (OP). The Lesotho Lowlands Water Supply Development and Sanitation Project - Phase III (LLWDSP III) which will benefit from the Additional Financing (AF) is designed to cover critical, urgent water supply infrastructure development and sanitation interventions in Butha Buthe district and 12 surrounding settlements. The original project cost was UA 87.19 million (equiv. USD 117.71 million) with the Bank's share of the project cost being UA 10 million. Through the OP, the Bank is leveraging co-financing of UA 69.78 million (USD 94.2 millions of total cost, 80%) from five Arab financiers - BADEA (USD 20 million), Kuwaiti Fund for Arab Economic Development (USD 13 million), OFID (USD 30 million), Saudi Fund for Development (USD 11.2 million) and Abu Dhabi Fund for Development (USD 20 million). The Banks share of the LLWDSP III was approved on 30 November 2022 and became effective on 27 February 2023. The project's implementing entity is the Commissioner of Water (CoW) within the Ministry of Natural Resources (MNR). The overall development objective of the project is to increase the quality, access, and sustainable operations of improved water supply and sanitation services in Butha Buthe district and its resilience to climate change impacts. The specific project objectives include: i) develop climate resilient water and sanitation infrastructure to improve access for 126,380 persons to water supply and 69,500 persons to improved sanitation services; and ii) enhance performance of sector agencies to improve service delivery in Butha Buthe district and surrounding settlements.

2. The original project's implementation is rated satisfactory, demonstrating full compliance with all loan covenants, including requirements for audit, financial management, and environmental and social safeguards reporting. The most recent Implementation Progress and Results Report (IPR), completed within the last six months, confirms this positive trajectory, assigning both the Development Objective (DO) and Implementation Progress (IP) ratings as 3 (Satisfactory). From a DO perspective, the project continues to show strong strategic alignment with Lesotho's National Strategic Development Plan (NSDP II) 2018/19–2022/23, extended to 2027/28. It contributes directly to the country's priorities for effective and efficient management and development of water resources to maximise socio-economic benefits. The project is further aligned with the Lesotho Water and Sanitation Policy (LWSSP, 2007), the Water Act (2008), and the Long-Term Water and Sanitation Strategy (LTWS, 2014), which collectively outline the policy and regulatory foundations necessary for achieving NSDP II and SDG water-sector goals.

3. The OP had experienced delays—stemming from long lead times for procurement processing, budget constraints affecting the design review consultancy (on the Bank financing), and the time required to update the Environmental and Social Impact Assessment (ESIA) and Resettlement Action Plan (RAP). The updated ESIA, covering both the original settlements and prioritised Additional Financing (AF) settlements, received clearance from the Department of Environment on 14 October 2025 and was disclosed on 13 November 2025 on the Bank website. Despite these initial delays, which have now been addressed, implementation progress has accelerated significantly in the past six months. The activities under the Arab co-financing comprising the major transmission system contract, was signed on 19 August 2025, and the contractor has finalised mobilisation and commenced works in March 2026. In parallel, the other major works contract financed by the Arab co-financiers for Design and Build for the Water Treatment Plant (WTP), was signed on 5 March 2026 and the works have commenced in April 2026. The Arab co-financing has committed 100% of their financing.

4. On the original Bank financing, the design review consultant for the OP is now fully mobilised and is finalising the distribution system designs and bidding documents. This consultant is expected to submit the draft final designs by end-May 2026 and finalise the tender documents by mid-June 2026, positioning the project well for timely tendering. Procurement of the contractor for the water distribution networks is scheduled to commence by mid-July 2026. As of 30 April 2026, the current disbursement rate stands at 17.9%. Commitment levels across expenditure categories further reflect growing momentum, with Services at 63%, Works at 17%, Goods at 90%, Operating Costs at 67%, and Miscellaneous Costs at 28%. The project has early wins in the soft activities related to Institutional Strengthening, Capacity Building component, already delivering strong social, behavioural, and capacity outcomes, which will accelerate impact once infrastructure is constructed and operationalised. Though the project is behind schedule, the project has successfully transitioned from planning and approvals into implementation readiness, with major works accelerating from early 2026 onward and disbursements expected to rise sharply from 2026, aligned with works execution. While the project is following a typical large infrastructure "slow start → rapid scale-up" trajectory, it is on track to achieve results with adjustments given the progress made to date to address initial challenges.

5. The OP has achieved approximately 20% overall physical progress, with strong performance in institutional and capacity-building components, while major infrastructure components remain at early (10%) stages but are fully positioned for rapid implementation. These milestones demonstrate clear progress and position the project well to achieve the targets set out in the Project Appraisal Report (PAR). The critical path is controlled by sequencing of the WTP and transmission mains upstream infrastructure assets that enable the water distribution system to be constructed and operationalised. The water distribution system in both the OP and AF which are downstream can overlap but cannot complete commissioning without upstream stability. This reflects the program logic set out in LLWDSP III PAR (bulk → transmission mains →distribution mains). This sequencing thus has an impact on the project implementation and progress as the Bank's financing for the water distribution systems in the OP could not rapidly take-off without having the contracts for the WTP and Transmissions systems being signed and works on the ground progress. Therefore, current gap between outputs and outcomes reflects timing, not performance weakness.

2 ADDITIONAL FINANCING

A. Rationale

6. The Executing Agency (EA) undertook a comprehensive review of the 2018 feasibility studies and bulk water supply designs, updating them and developing new distribution network designs to extend coverage to previously unserved areas within Butha Buthe. The bulk water supply design review was successfully concluded in 2024. Subsequently, preliminary designs for the expanded distribution networks commenced in January 2025 and were completed in April 2025. The preliminary designs revealed that it is essential to accommodate the expanded scope resulting from the reservoir relocation and the inclusion of new settlements to maximise the projects outcomes and impacts as the project would risk falling short of its intended impact, leaving some sections of populations in Butha Buthe without access to safe and reliable water services. As a result of this assessment, the need for additional financing arose to cover the expanded scope which would be a strategic enhancement of the project's reach and efficiency, ensuring inclusivity, safeguarding the long-term viability of the water supply infrastructure and significantly scaling up the project's impact. To avoid the challenges encountered by the OP regarding minimising start up delays, the detailed designs and bidding documents for the distribution networks under the AF have already finalised and advance contracting is being undertaken for the works to kick start implementation and ensure disbursement rates pick up within three months after approval

7. As an innovation under the Additional Financing (AF), the design review prioritized the optimization of gravity-fed systems, reducing reliance on energy-intensive pumping stations—a departure from previous Bank-financed projects in Lesotho. This strategic shift is expected to lower energy consumption and operational costs, thereby improving long-term efficiency and sustainability. A key outcome of this optimization will be the strategic placement of new reservoirs to higher elevations which has created an opportunity to extend service coverage to previously underserved and unserved settlements. The elimination of the distribution-network pumping stations—originally requiring 1,585.52 kWh/day—results in an energy reduction of approximately 579,683 kWh annually. Using the current LEWA HV tariff of M0.34/kWh, this translates into a direct operational saving of M197,092 per year in electricity costs. This energy saving contributes significantly to reducing long-term operational expenditure while improving the overall efficiency of the LLWDP III design. This optimization not only improves system resilience but also promotes equitable access to water services, fully aligning with the principle of "leaving no one behind."

8. The AF aims to deliver safe, reliable, and improved water services and sanitation to approximately 21,930 people across three newly prioritized settlements in Butha Buthe district by 2029, compared to the current coverage of just 1,675 people in those settlements. By expanding coverage to the entire Butha Buthe district, the project leverages existing infrastructure improvements, maximizes its developmental impact and demonstrates a scalable, innovative model for future water supply interventions. The three prioritised settlements of Qalo (Kontsokoaneng), Butha Buthe Industrial (Ha Majara Serutle), and Ha Mopeli (Nqabeni) in Butha Buthe district which were not in the original project scope are the areas where the AF will implement additional water infrastructure development to improve access to sustainable domestic and industrial water supply services thereby scaling up the impact of the OP. The selection of the three settlements is based on objective, transparent criteria that prioritise proximity to existing transmission infrastructure, high unmet water demand, population impact, economic significance, technical readiness, affordability, and climate resilience. Targeting these settlements ensures maximum development impact, rapid implementation, and optimal utilisation of prior investments, making a strong and value-for-money case for Additional Financing. The AF supports community mobilization to establish active Village Water and Health Committees (VHWCs), and delivers

targeted training to strengthen their technical, financial, and administrative capacity. The AF also prioritizes sanitation-focused sensitization, raising community awareness on safe water, sanitation, and hygiene practices and their health and environmental benefits in the villages. The OP will extend its Sanitation and Hygiene Promotion activities to the three settlements and the catchment area for the Faecal Sludge Management (FSM) treatment unit which will be constructed under the OP covers the entire Butha Buthe district including the three settlements. The Department of Rural Water Supply is working with UNICEF under the European Union supported Metsi a Lesotho programme — a nationwide rural WASH initiative - undertaking sanitation activities in the project area including the construction of 596 improved sanitation facilities and installation of handwashing stations, especially in schools to support safe learning environments.to compliment activities on the OP and part of these facilities are covering 6 villages in the three settlements.

9. The AF is aligned with the Bank Group's Lesotho Country Strategy Paper (CSP: 2025-2030). The CSP focuses on two Priority Areas: (i) Developing sustainable and quality infrastructure to promote industrialisation; and (ii) Strengthening institutional and human capacities for improved public sector efficiency and enhanced competitiveness. The project will directly support Priority Areas I and II by investing in the development of Lesotho's productive sectors through provision of quality infrastructure. This will be achieved through the provision of improved water production and supply infrastructure, including: (a) the expansion of water supply and sanitation services in both urban and rural areas; and (b) the strengthening of institutions and governance systems to enhance the effective management and sustainability of water and sanitation services.

10. The project is aligned with the Bank's Group Vision and Goal of the Bank's Ten-Year Strategy (TYS, 2024 - 2033), the Four Cardinal Points and the High 5s priority areas, contributing to rapid, inclusive, resilient, and green growth for Africa and putting in place a platform to achieve universal access to basic infrastructure and services for Basotho including clean water and sanitation. The project contributes to two (2) of the Bank's High Five (Hi5) priorities specifically: (i) improving the quality of lives of the population in Butha Buthe district, providing increased quantities of safe clean water and improved sanitation thereby improving public health outcomes; and (ii) supporting "Industrialise Africa" through provision of water and sanitation infrastructure to support industrial growth and operations of numerous businesses in Butha Buthe. The project aligns with Cardinal Point number 3 by harnessing demographic transformation for economic development through reskilling and upskilling to ensure that women and youth take part in project activities with the empowering of 240 women and youth and also supporting the creation of 50 permanent jobs and at least 1000 temporary jobs during and after implementation. The project also aligns with the fourth Cardinal Point supporting provision of Climate-Resilient Infrastructure by developing robust infrastructure and supporting value addition to natural resources to foster sustainable industrial growth. The project is also aligned with ADF-16 Operational Strategic Priorities targeting the development of sustainable, climate-resilient, and quality infrastructure, and governance, capacity building in recipient countries.

11. As provided for in Section V of the Additional Financing policy, the Government's request for Additional Financing is based on the implementation of expanded activities that scale up development impact and is fully compliant with the policy, as these activities are aligned with national objectives and sector strategies. The proposed expansion is appropriate and justified, as it preserves and strengthens the original project's objectives, outcomes, and outputs, while enabling the scale-up of climate-resilient water services to additional underserved settlements in Butha Buthe, thereby maximizing overall development impact. The AF builds directly on the technical foundations, institutional arrangements, and implementation progress already achieved under the original project, ensuring continuity and coherence in delivering the development objective. By utilizing AF, the operation leverages an established and fully functional implementation structure, including experienced project management teams, operational procurement and financial management systems, and safeguards frameworks that are already compliant with Bank requirements. This approach avoids administrative duplication, higher transaction costs, and the longer start-up period associated with a new standalone project, while accelerating delivery by capitalizing on existing momentum and readiness for more efficient resource utilization and faster realization of benefits. Maintaining current implementation arrangements further reduces fiduciary, technical, and social risks, as these systems have been tested and strengthened during execution. Overall, the AF modality ensures continued alignment with the Bank's strategic priorities Four Cardinal Points, ADF-16 pillars) and Lesotho's national development plans, while enabling a faster, more cost-effective expansion of services across the district.

B. Expected Results

12. The AF will support the strategic expansion of water distribution infrastructure to three newly prioritized settlements in the Butha Buthe district, addressing critical deficiencies in safe and reliable water access. This expansion is essential for meeting unmet water demand, improving public health outcomes, strengthening climate resilience, and promoting inclusive socio-economic development. By 2028, the AF will bring clean and reliable water to about 21,930 additional people living in three prioritised additional settlements in Butha Buthe district. Currently, only 1,675 people have access to these services in these settlements. This 13-fold increase means more families will have safe water close to home, helping improve health, save time, and support better living conditions for all residents in Butha Buthe. The AF will also support the construction of 300 sanitation facilities for vulnerable community members and in public places such as schools, bus stops, health centres and markets.

13. To ensure the long-term sustainability of project investments, organized community water service operators will be established in all 25 villages within the expanded coverage area. Training of community members in the water operators' groups will be done in basic operation, and maintenance reduces dependency on external technicians and ensures continuity. Strengthening these institutions is essential for effective operation, maintenance, and financial viability of the water systems. Currently, only four villages have water supply systems managed by Water and Sanitation Company (WASCO), but these systems are unreliable and underperforming, making them a priority for rehabilitation and performance improvement. The AF will support Community-Based Management to enhance service delivery, but also build local capacity, foster community ownership, and ensure infrastructure remains functional and adaptable to future needs. Integrating all villages into a structured service delivery model—beyond those included in the original project—will safeguard project outcomes and reinforce its contribution to resilient, equitable, and sustainable water access.

14. The AF will ensure (i) Equitable access to water and sanitation services for previously unserved communities (ii) Improved water quality and reliability, reducing exposure to unsafe sources (iii) Enhanced resilience to droughts and climate shocks, safeguarding livelihoods, (iv) Gender-responsive outcomes, including time savings for women and girls, enabling greater participation in education and economic activities, (v) Reduced risk of gender-based violence, associated with long and unsafe water collection journeys. The project's expansion of improved water access will also support local smallholder agriculture and market gardening, boosting food security and household incomes in the three settlements. Health outcomes will improve significantly, with reduced incidence of water-borne diseases such as diarrhoea, cholera, and typhoid. Given the current under-five mortality rate of 59[6] per 1,000 live births, the intervention is projected to reduce disease incidence by up to 50%, particularly in newly added communities.

15. **Project components.** The AF supports the following components (i) Climate Resilient and Low Carbon Emission Water Supply Infrastructure Development (ii) Sanitation Services Improvement and (iii) Institutional Strengthening, Capacity Building and Program Management. Below is the detailed description of the components.

16. Outputs from Component 1: This component finances activities to improve access to sustainable domestic and industrial water supply services within the three additional settlements. The AF will cover the construction of 171.3 km water distribution mains, and construction a service reservoir of 2,000m3 capacity to deliver water to the three settlements, construction of 7 No. 10m3 pressure break tanks, construction of access roads to all the service reservoirs, 343 chambers to accommodate air relief valves, scour valves and pressure reducing valves, provision of 5,050 household service connections with domestic meters to serve 25 villages within the three additional settlements and development, and implementation of leakage reduction and network optimization measures to improve and guarantee sustainable and reliable supply of water. The AF will also facilitate the creation of up to 50 permanent jobs in Butha Buthe and 1000 temporary jobs during peak construction (at least 40% women employed in temporary jobs and 60% youth)

17. Outputs from Component 2: This component provides support to strengthen Sanitation and Hygiene service delivery and will focus on construction of 300 sustainable and climate resilient Public Sanitation facilities including sanitation facilities for the most vulnerable households targeting female headed households. The AF will continue with promotion of Nutrition Smart WASH, improving environmental hygiene practices, menstrual hygiene management,

[6] https://data.worldbank.org/indicator/SH.DYN.MORT?locations=LS

integration of the Leave No-one Behind” (LNOB) in the rural areas, City Wide Inclusive Sanitation (CWIS) approaches, and eliminating Open defecation practices, including roll out of Hygiene and National Sanitation Strategy.

18. Outputs from Component 3: This Component will finance activities in new settlements requiring replicating and scaling up community engagement strategies. This will involve (i) Sensitization: Raising awareness among residents about the importance of safe water, sanitation, and hygiene (WASH). This includes health benefits, environmental impacts, and community roles, (ii) Mobilization: Encouraging active participation from community members in forming Village Water and health Committees (VHWCs), (iii) Training: Providing tailored structured, continuous training and support to VWHCs to improve technical, financial, and administrative skills. This will include hygiene promotion, Water source protection, basic operation and maintenance (O&M), billing, revenue collection bookkeeping, conflict resolution and community leadership. This component strengthens local governance and empowers communities to manage their WASH and services effectively and (iv) Leverage new household water supply connections and combine with community engagement and training on climate-resilient subsistence farming and nutrition-smart WASH sensitization to strengthen household resilience, improve food security, and enhance health and nutrition outcomes. The project will continue to upgrade water resources monitoring networks in Butha Buthe district (surface water, groundwater, and water quality) and set up an early warning system covering (pH sensors, turbidity sensors, river level, temperature sensors, and conductivity recorders). The component will also allocate resources to continue with strengthening implementation capacity. This includes support for financial management audits, and reporting, Environmental and social safeguards audits and monitoring, training, goods, and incremental operating costs for the executing agency to ensure smooth delivery of the AF. Support to the Project Implementation Unit (PIU), with the Government covering selected operating costs for offices and utilities under counterpart funding. Support through the AF will be provided for compensation to facilitate infrastructure development in new settlements.

C. Revised Project Cost and Financing Arrangements

19. The overall cost of the additional financing project is estimated at USD 15.34 million (equiv. UA 11.12 million), net of taxes and duties, with USD 9.2 million (60%) in foreign cost and USD 6.14 million (40%) in local costs. The project cost will comprise an African Development Fund (ADF) loan instrument of UA 10 million (USD 13.8 million, 90% of total cost) net of taxes and duties. The GoL will provide a counterpart contribution of UA 1.12 million (USD 1.54 million, 10% of the total project cost). This will primarily be towards co- financing of project staff costs, provision of offices and utilities. The original project cost was UA 87.19 million (equiv. USD 117.71 million) and the proportion of the AF is 12.8% relative to the original cost. The proportion of the AF is 100% relative to original Bank financing.

20. The financing terms and conditions proposed by AfDB Group for the AF is an ADF loan (refer to Project Information Sheet).

21. The cost estimates for the works are based on information from the final designs which were completed in November 2025. A physical contingency of 10% and a price contingency of 3% per annum have been taken into consideration in these estimates.

22. Through the OP, the Bank is leveraging co-financing of UA 69.78 million (USD 94.2 millions of total cost, 80%) from five Arab financiers - BADEA (USD 20 million), Kuwaiti Fund for Arab Economic Development (USD 13 million), OFID (USD 30 million), Saudi Fund for Development (USD 11.2 million) and Abu Dhabi Fund for Development (USD 20 million).The Government of Lesotho (GOL) has reaffirmed its commitment to providing counterpart funding to support the expanded scope of the project. Their continued contribution to the OP ensures that both the water treatment infrastructure and the water transmission system are fully in place, enabling the efficient delivery of water to distribution networks across all settlements, including the three newly added ones.

23. The costs by component for the original financing and for the proposed AF are presented in Table 1 with changes in the costs clearly reflected.

D. Implementation Arrangements

24. Institutional and Implementation Arrangements. The Borrower for the project will be the Kingdom of Lesotho. Strategic oversight and guidance will be provided by the existing Project Steering Committee (PSC) of the Lesotho Lowlands Water Development and Sanitation Project – Phase III (LWDSP III). The PSC will play a critical role in offering high-level direction on legal, policy, and operational matters, as well as ensuring effective coordination throughout the implementation of the project and will continue to convene at least twice annually, or more frequently as needed, to review progress and address emerging challenges. Updates and recommendations from the PSC will be communicated to the Government through the Ministry of Natural Resources (MNR).

25. The implementation arrangements will remain consistent with those outlined in the OP. The government ministry responsible for water in Lesotho is the Ministry of Natural Resources. The functions previously handled by a separate Ministry of Water have been integrated into this single ministry. Therefore, Ministry of Natural Resources (MNR) will serve as the Executing Agency (EA), operating through the Commissioner of Water (CoW). The existing Project Implementation Unit (PIU), established under the OP, will be fully dedicated to the execution of this project and will remain under the direct supervision of the CoW.

26. The PIU will be supported by MNR's internal departments—including Engineering, Procurement, Finance, Environmental, and Internal Audit—which will provide technical expertise and ensure timely and efficient implementation.

27. The PIU currently comprises a team of competitively recruited national experts, including: (i) Project Coordinator, (ii) Procurement Specialist, (iii) Water and Sanitation Engineer, (iv)Environmental and Social Safeguards Expert, (v) Gender Expert, (vi) Project Accountant, and (vii) Monitoring and Evaluation (M&E) Expert. Key experts are supported by various technical assistants. All team members possess qualifications and experience acceptable to the Fund. The Water and Sanitation Engineer's contract ends on 30 June 2026. The EA shall competitively recruit the replacement Water and Sanitation Engineer and ensure that the personal is in place before the commencement to works.

28. At the request of the GoL, the Fund will finance the salaries of the Project Coordinator and the Water and Sanitation Engineer as financing from the OPEC Fund for these salaries will be exhausted in 2026. The remaining PIU experts, as well as any secondees to the EA, will continue to be funded through GoL counterpart contributions. Further, technical assistance for the project will be provided by an experienced Engineering Services consultant already engaged through Arab Co-Financing on the Lesotho Lowlands Water Development and Sanitation Project Phase III, to support design review, supervision, and the implementation of water and sanitation infrastructure rehabilitation and development for the AF

29. ***Procurement Arrangements.*** Procurement of goods, works and the acquisition of consulting services, financed by the Bank for 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. The procurement methods, review procedures, and thresholds applicable to the project will be detailed in the Procurement Plan and defined and agreed upon in technical Annexes 4-5. Borrower Procurement System (BPS) shall not be used for any of the procurement activities under this project.

30. ***Procurement Risks and Capacity Assessment (PRCA):*** The assessment of procurement-risks for Lesotho, its sectors, project level and of procurement capacity of the Lesotho Lowlands Water Development and Sanitation Project were undertaken for the project and the output has informed the decisions on the procurement regimes (BPS and Bank) being used for specific transactions or groups of similar transactions under the project. The appropriate risks mitigation measures have been included in the PRCA action plan proposed in the Annex 4-5.

31. ***Review Procedures:*** Procurement of works and goods using OCB method, and all consultancies shall be subject to prior review by the Bank. Procurement of works and goods using LCB method shall be subject to post review.

32. ***Advance Contracting:*** To accelerate implementation of the project, the Bank approved Advance Contracting (AC) requests from GoL for some activities on 23 January 2026. The Borrower will undertake such advance contracting at their own risk, and any concurrence by the Bank with the procedures, documentation, or proposal for award(s) does not commit the Bank to provide financing of the project. The request is for (i) Construction of distribution networks in

the three additional settlements advertised on 9 April 2026 and (ii) Consultancy services for Community Mobilisation and Sensitization in the three additional settlements advertised on 5 March 2026.

33. ***Financial Management, Disbursement, and Audit.*** The Bank assessed the Ministry of Natural Resources (MNR) financial management (FM) system to determine its capacity to manage the project in line with the Bank's FM Guidelines for Investment Operations (2019). The overall FM risk rating was assessed as Moderate. The review confirmed that MNR has adequate capacity and the proposed FM arrangements meet the Bank's minimum requirements, providing reasonable assurance of accurate and timely financial reporting.

34. Financial management will be implemented within the existing institutional structure of MNR's Finance Department under the Director of Finance. MNR has prior experience managing Bank-financed projects. Performance under the ongoing LLWDSP-III has improved, particularly in audit and Interim Financial Reports (IFRs) submission timeliness. The Lesotho Lowlands Rural Water and Sanitation Project Phase I (LLRWSP) historically maintained good audit compliance; however, the financial statements for the period ended 31 March 2025 were submitted in April 2026 with significant delay. Both projects have also experienced slow disbursement rates, resulting in project extensions.

To address these weaknesses, the Bank provided targeted training during the 2025 Country Portfolio Review and subsequent supervision missions and agreed on a time-bound action plan with MNR.

35. The existing LLWDSP Project Implementation Unit (PIU) will manage the additional financing. The PIU is adequately staffed and demonstrates good understanding of the Bank's FM and disbursement requirements. The Finance Manager will serve as the Project accountant assisted by two Assistant Accountants to ensure adequate segregation of duties under the oversight of the Director of Finance of MNR. Existing internal control, accounting, and reporting arrangements will be maintained. IFRs will be submitted within 45 days after the end of each quarter. The TOMPRO system will be configured to accommodate additional financing, mitigating current IFMIS limitations, with related costs included in the project budget.

36. ***External audit arrangements*****:** The project's annual financial statements will be audited by a private audit firm appointed by the Auditor General, who will review and clear the audit report before submission to the Bank. Audits will be conducted in accordance with the Bank-approved Terms of Reference. Where applicable, the Auditor General may conduct the audit directly. No audit fees will be payable to the Auditor General, except in exceptional circumstances where transport-related costs (including per diem and fuel) may be financed to cover field audit activities. If a private audit firm is financed from project resources, prior Bank "No Objection" will be required. Audited financial statements, including the audit opinion and management letter, will be submitted to the Bank within six months after each financial year.

37. ***Disbursement Arrangements:*** The project will primarily utilize the Direct Payment and Revolving Fund (Special Account) disbursement methods to finance eligible project expenditures. In addition, the Reimbursement and Reimbursement Guarantee methods will be available, as provided for in the Bank's Disbursement Handbook. MNR will open through the Ministry of Finance (MoF), one (1) Special Account in foreign currency at the Central Bank of Lesotho to receive ADF resources. Where necessary, one (1) local currency (Maloti) account will be opened in a commercial bank acceptable to the Bank to facilitate payment of eligible local expenditures. The Bank will issue a Disbursement Letter, the contents of which will be discussed and agreed upon with the Government of Lesotho (GoL) during loan negotiations.

38. ***Monitoring and Evaluation.*** M&E arrangements will remain aligned with the OP, supported by a budget of USD 110,000, and will be strengthened through the use of the Remote Appraisal, Supervision, Monitoring and Evaluation (RASME) system. The PIU will deploy RASME to enhance data collection, analysis, and reporting for Bank-funded operations, enabling more accurate tracking of field activities and transparent assessment of project performance. The Project team have been trained in RASME in 2025. With RASME now operational in Lesotho, the Bank, MNR, and PIU will be able to monitor implementation more efficiently and evaluate progress and impact in real time. The existing Project Steering Committee (PSC) will continue to provide sector-level oversight of the AF, while the PIU will manage all M&E activities in accordance with the established M&E Plan and Results Framework. The PIU will monitor results, ensure compliance with environmental and social safeguards, and prepare quarterly and annual progress reports for stakeholders. A mid-term review will be conducted after 1.5 years, followed by a project completion report. The PIU's dedicated M&E Expert and existing institutional capacity are adequate to ensure effective monitoring, including strengthening district- and community-level systems for improved data collection.

39. ***Governance.*** In terms of the water sector reform process in Lesotho, this has actively progressed, with notable advancements in policy and legislative frameworks aimed at strengthening governance, sustainability, and service delivery. The Bills have been officially drafted and circulated by the Ministry of Natural Resources and published through the National Assembly of Lesotho and are undergoing the legislative process to be completed before end of 2026. These water sector reforms significantly reshape institutional roles by strengthening the Commissioner of Water (CoW) as the central regulator responsible for integrated water resources management, permitting, compliance, and cross-ministerial coordination under the Water Resources Management Bill, 2025. The creation of a dedicated Lesotho Bulk Water Authority through the Bulk Water Authority Bill, 2025 shifts responsibility for producing and transmitting bulk water away from existing providers, meaning WASCO transitions toward a more focused role as a retail utility dependent on the new authority for bulk supply, while facing tighter regulatory and environmental compliance requirements. Meanwhile, the Department of Rural Water Supply (DRWS) retains responsibility for rural service delivery but must now align its community-managed schemes with national regulatory frameworks and integrated catchment management systems, as required under the revised policy direction and CoW's expanded oversight.

40. ***Sustainability.*** Institutional sustainability: The project is embedded within the Lowlands and Lowland Water Supply Scheme (LLWSS) under the Council of Water (CoW), aligning with strong Government of Lesotho priorities on water supply and sanitation (WSS). It is guided by the national Water Sector Programme and the sector's Long-Term Strategy up to 2030, ensuring long-term policy and institutional support.

41. Technical sustainability: Sustainability is supported through the use of appropriate, locally available technologies and existing technical expertise. The project includes risk-based asset management planning to extend asset life and reduce long-term infrastructure costs. It strengthens technical and financial capacity of service providers (WASCO, DRWS, DWA, local authorities, and community councils) and promotes community-based and local private sector participation through management contracts. Participatory community management, including women's groups, and a framework for sustainable operation and maintenance (O&M) further support long-term functionality.

42. Financial and cost-recovery sustainability: The project promotes cost recovery aligned with regulatory targets while considering affordability and the needs of vulnerable groups. Rural systems will at least cover O&M costs once commissioned. Measures such as 100% metering, bulk and zonal meters, and a Non-Revenue Water (NRW) strategy will improve efficiency and financial performance. Tariff reviews, including potential increases for industrial users, support long-term financial sustainability.

43. Environmental sustainability: Environmental sustainability is ensured through integration and implementation of the project's Environmental and Social Management Plan (ESMP), addressing and mitigating negative environmental impacts during implementation.

44. ***Risk Management.*** Most priority risks have reduced from their pre-effectiveness profile, driven by: (i) a fully functional PIU and routine PSC oversight; (ii) cleared and operational E&S instruments (with budgeted ESMP/RAP/LRP and reporting covenants); (iii) climate-proofed design finalized through the design review; (iv) strengthened FM/procurement controls (prior reviews, IFRs, external audits); and (v) confirmed co-financier and counterpart commitments. Taking account of (i) the initial risk posture at approval, (ii) the actual effectiveness of mitigations since implementation, and (iii) incremental AF risks and counter-measures, the overall risk rating for the project is low.

45. ***Knowledge Building.*** The AF will leverage the Bank's Remote Appraisal, Supervision, Monitoring and Evaluation (RASME) system as a strategic knowledge-management tool to strengthen evidence-based decision-making throughout the project lifecycle. By integrating geotagged data collection, digital field verification, and real-time analytics, RASME enhances the quality, accuracy, and timeliness of information available to the PIU, MNR, the Bank and stakeholders for both the OP and AF scopes. The platform will enable systematic capture of technical, environmental, social, and fiduciary data from construction sites, communities, and institutional stakeholders, creating a continuously updated knowledge repository that supports proactive supervision, rapid course-correction, progress reporting and lessons learnt.

3 PROJECT FEASIBILITY

A. Technical Analysis

46. The project's rationale and design are grounded in the updated 2018 feasibility studies, bulk water supply designs, and distribution network assessments, all of which reaffirm the technical soundness of the proposed infrastructure and institutional interventions. Cost estimates draw on actual market data and pricing benchmarks from comparable Arab-funded contracts awarded under the original project, ensuring value for money and realistic budgeting. The inclusion of the three additional settlements is technically justified by the simplicity and operability of the proposed systems, which are well suited for efficient management by WASCO and for long-term sustainability under community-based operation models.

Table 5: Original Scope vs Expanded Scope

Aspect	Original Scope	Expanded Scope (OP+AF)	Key Implications
System Design	Combination of gravity and multiple pumping stations	Primarily gravity fed system with most pumping stations eliminated	Eliminating distribution-network pumping stations cuts 579,683 kWh/year and saves M197,092 annually in electricity costs at the M0.34/kWh LEWA tariff, significantly reducing operating expenses and improving system efficiency.
Reservoir Locations	Positioned at original planned elevations	Relocated to higher elevations	Increased hydraulic reach, enabling service to additional settlements
Number of Settlements Covered	Originally planned settlements only	Additional settlements included due to improved gravity coverage	Expanded service area; "leave no one behind" approach with high impact
Transmission Mains	Aligned with original coverage	Extended to reach new settlements	Greater infrastructure reach and inclusivity
Prioritised Settlements	Not applicable	3 settlements closest to main transmission lines prioritised for implementation	Early delivery of services to high feasibility areas
Funding Requirement	Within approved budget	Additional budget required to complete expanded scope	Resource mobilization needed for full coverage

B. Financial and Economic Analysis

47. The results of the financial and economic analysis of the overall project have been updated, and the project is considered economically viable based on the analysis. Project benefits after additional funding are expected to start accruing from 2029 with an EIRR estimated at 22.21% at 12% discount rate after new additional funding. With an EIRR of 22.21%, this value is higher than the opportunity cost of capital of 12% showing that the project is economically viable and socially beneficial for Lesotho. The project FIRR is below 12% discount rate as tariffs are below cost recovery as it only covers operating and basic maintenance costs. Benefits that accrue are from improved access to reliable safe drinking water and sanitation services which promote good environmental health leading to reduced water borne diseases, enhancement in the quality of livelihoods and well-being of the beneficiary population and boost to economic activities. The main assumptions are improved water supply contributing to incremental water revenues, travel and waiting time averted from collecting water and health benefits resulting in savings in healthcare costs, productivity, mortality, averted cases of water-related diseases and Health-related quality of life impacts. Furthermore, improved sanitation will result in improved school enrolment, especially for the girl child. The costs side includes initial capital and additional investments, periodic replacement costs, and incremental operating and maintenance costs. All costs and benefits are considered net of duties and taxes. The economic life of the investment is estimated at 20 years.

Table 6: Overall Project Key economic figures

EIRR, NPV (base case):	**22.21%, UA 66.2 million**
FIRR, NPV (base case):	**6.01%, UA -60.85 million**

48. Sensitivity analysis was undertaken to assess the impact on the EIRR of increases in the total capital costs (initial plus additional) and operating costs reductions of 20%. The EIRR showed very minimal sensitivity to the variables

tested above. This is shown on the table below.

Table 7: Sensitivity Analysis

Scenario	*EIRR*
Base case	22.21%
20% increase in investment costs	18.96%
20% increase in operating expenses	22.14%

Additional Positive Effects

49. The financial and non- financial additional positive effects of the AF remain as in the OP.

C. Environmental and Social Safeguards

Environmental and Social

50. The Additional Financing (AF) maintains the parent Project's original categorization as Category 1 under the Integrated Safeguards System (ISS, 2023), as validated in SAP on 21 August 2025. The categorisation is also consistent with the national EIA legal framework and the Bank's Integrated Safeguards System (ISS). According to the Environmental Act No. 10 of 2008, the AF Project triggers activities listed in the First Schedule requiring an EIA license. It covers the construction of 171.3 km water distribution mains, construction of a service reservoir of 2,000m3 capacity, construction of 7 No. 10m3 pressure break tanks, construction of access roads, 343 chambers, provision of 5,050 household service connections with domestic meters, which will result in significant adverse risks which are not easily reversible or managed.

51. The Environmental and Social Impact Assessment (ESIA) was prepared by the borrower, reviewed and cleared by the Bank, approved by the Department of Environment in Lesotho, and disclosed by the Bank on 17 November 2025. The borrower prepared the Stakeholder Engagement Plan (SEP), which was cleared by the Bank and disclosed on the Bank's website on 17 November 2025. The original Resettlement Action Plan (RAP) was prepared by the borrower, reviewed, cleared and disclosed by the Bank on 14 July 2022 on the Bank website. The RAP was subsequently updated to include the Project-Affected Persons (PAPs) affected by the expanded project scope in the Butha-Buthe and Leribe districts. The updated RAP was also disclosed by the Borrower and the Bank on 24 March 2026. Additionally, the Financing Agreement - Environmental and Social Management Plan (FA-ESMP) was prepared by the Borrower and was disclosed on 24 March 2026 on the Bank website.

52. The Bank verified that public consultation was adequately undertaken. Stakeholder consultations were carried out by the borrower during the preparation of the environmental and social safeguard instruments between November 2024 to October 2025. In total, 774 stakeholders, comprising of 42% males and 57% females, were consulted.

53. Major adverse environmental risks and impacts include soil disturbance and slope instability, vegetation loss, contamination from fuel spills, poor waste management, air and noise pollution, and rock blasting impacts. Social impacts mainly include the economic displacement of 1,376 Project Affected Persons (PAPs) with impacts requiring the acquisition of 133,215.17 square meters (sq.m) of arable fields (comprising 54,305 sq.m permanent and 78,910.17 sq.m temporary take). Other social impacts include significant occupational health and safety risks associated with construction activities, as well as the expected recruitment of approximately 250 workers. In addition, the influx of workers, particularly those sourced from outside the immediate project area, introduces community health and safety risks. The proposed management measures are well identified and costed to address the E&S risks and impacts, including the implementation costs of the Stakeholders Engagement Plan (SEP) and the Grievance Redress Mechanism (GRM). The cost for implementation and monitoring of the ESMP is US$ 436,900. A separate cost for the implementation of the RAP is estimated at US$ 2.83 million and is to be covered by the loan. These costs are reflected in Annex 2.3 of the costs table of the technical annexes.

54. Mitigation measures for key risks include promoting local employment, providing health and safety training, implementing traffic and waste management plans, controlling dust and noise, managing soil erosion and vegetation loss, rock blasting management, regulating working hours and compliance with labour requirements. There is no physical displacement or relocation of residences foreseen, as designs were adjusted to exclude structures and graves, and implementing the resettlement action plan will minimize adverse effects.

55. The Borrower's capacity to implement and monitor E&S aspects of this specific operation is rated satisfactory. The AF Project will use the same PIU as the parent project. The LLWDSP III PIU has an E&S Safeguards Manager; and personnel at the satellite office in Botha Bothe – a Resettlement and Compensation Officer (RCO), Assistant RCO, and three Community Liaison Officers. A new Environmental Officer will be recruited for on-site monitoring during construction. The Engineering Consultant that will supervise the works has one E&S staff. The institutional support component includes key E&S actors. The E&S performance rating of the parent project/LLWDSP III is satisfactory because the Bank is receiving periodic reports with information including update of the project's activities, there is an E&S Manager in the PIU, and an E&S performance audit is not yet required as there are no activities on the ground.

56. ***Involuntary Resettlement*****:** The project involves economic displacement of 1373 PAPs through the construction of a water distribution network in Botha-Bothe and Leribe districts. The Borrower has updated the parent project RAP with the compensation for affected assets estimated at US$ 2.83 million. The full RAP costs are covered by ADF resources as part of the overall project cost.

57. ***Environmental and social 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 monthly E&S measures implementation reports. Also, an annual E&S performance audit conducted by an independent E&S safeguards expert will be submitted annually and 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 by all the stakeholders and maintaining it functional 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 notify 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 and its annexed ESMP. The project is compliant and ready for submission to Board consideration, as evidenced by the ESCON in annex.

58. ***Climate Change and Green Growth.*** The overall project is classified as Category 2 under the Bank's Climate Safeguards System due to its moderate vulnerability to hydro-meteorological hazards such as droughts, floods, and soil erosion, which may affect infrastructure performance and operation and maintenance costs. Investments in water supply infrastructure—including reservoirs, transmission and distribution pipelines, and access roads—are exposed to these risks. The project design therefore incorporates climate-proof hydraulic standards, flood- and erosion-control measures, early-warning systems supported by telemetry and SCADA, and community awareness activities on sustainable land and catchment management to protect water sources and infrastructure.

59. The Additional Financing (AF) will further strengthen the climate resilience and green growth profile of the project. In addition to accelerating adaptation measures already embedded in the original design, the AF introduces a system optimization that prioritizes gravity-fed supply through relocation of reservoirs to higher elevations and significant reduction of pumping requirements. Compared to the initial configuration relying on multiple pumping stations, this approach lowers long-term electricity demand, reduces operational greenhouse-gas emissions, and improves system reliability during climate-related power disruptions. The project will also support leakage reduction, network optimization, and improved water resources monitoring, further enhancing efficiency and resilience.

60. From a Paris Alignment perspective, the project has been assessed using the Joint Multilateral Development Banks (MDB) Paris Alignment methodology for direct investment operations. Under the mitigation consistency assessment, the project does not create carbon lock-in and incorporates design measures that reduce lifecycle operational emissions relative to the original configuration, notably through the transition to a primarily gravity-fed system and improved network efficiency. Under the adaptation and resilience assessment, the project integrates climate risk screening, climate-resilient engineering standards, catchment management measures, and early-warning systems to ensure that infrastructure and services remain functional under projected climate conditions. Based on this transaction-based assessment approach for direct investments, the operation is considered aligned with the objectives of the Paris Agreement and consistent with Lesotho's Second Nationally Determined Contribution(NDC,2024) and national climate resilience priorities. A more detailed Paris-alignment analysis will be presented in the technical annex 3-4.

D. Other Cross-Cutting Priorities

Poverty reduction, Inclusiveness and Job Creation

61. Access to clean water and sanitation is essential for reducing poverty. The expansion of services to the three additional settlements will provide sustainable water supply and improved sanitation, benefiting both businesses and residents. The AF will also facilitate the creation of up to 50 permanent jobs and 1000 part-time skilled and unskilled jobs in masonry, pipe laying, steel fixing and construction, which will benefit men, women, and youths alike. The AF will support gender inclusive skills training and empowerment of 240 youth with yearly apprenticeship to be attached in the project (Minimum 50% women, youths ages 18 to 35). The project will significantly help reduce poverty, promote inclusiveness, and create jobs. It aligns with Cardinal Point number 3 by harnessing demographic transformation for economic development through reskilling and upskilling to ensure that women and youth take part in project activities during and after implementation.

62. The expected positive social impacts are as per OP and involve health improvements, educational advancements, narrowing the gender gap by providing access to drinking water, reducing time spent collecting water (a task usually done by women and girls in the household) and freeing up time for productive use. The project will also improve social inclusion by ensuring participation of women, youth, and persons with disabilities by involving them in Village Health Water Point Committees and community led water management models as well as strengthening community engagement through inclusive planning and implementation processes.

63. The project is expected to generate several social risks and adverse impacts, which a include temporary displacement from the right of way during implementation, temporary disruption of businesses and economic activities may result in loss of livelihoods public health risks due to increased movement of people in the project area which may lead to a rise in the prevalence of communicable diseases such as HIV, TB, and COVID-19, placing additional pressure on local health services, social vulnerabilities risks related to Gender-Based Violence (GBV), Sexual Exploitation and Abuse (SEA), and child labour may emerge during project execution. These risks and impacts will be addressed through the implementation of the ESMP and the RAP. Both plans will be executed in a gender-sensitive manner, ensuring inclusive and equitable mitigation strategies.

Opportunities for Building Resilience

64. Fragility in Lesotho's water and sanitation sector is driven by recurrent climate hazards like droughts and floods, aging and poorly maintained infrastructure, limited institutional capacity, and socio-economic challenges, especially affecting rural populations. The sector faces acute pressures from rapid population growth, rising demand, and unmet domestic and industrial needs, leaving households vulnerable to health risks and industries. These factors result in inadequate access to safe water, sanitation, and hygiene services, severely impacting Lesotho’s development by undermining public health, increasing waterborne diseases, reducing educational attendance due to poor school sanitation, and limiting economic productivity as women and children spend excessive time fetching water. Addressing these challenges through improved infrastructure, governance, and climate resilience initiatives is critical for Lesotho to achieve sustainable development goals and enhance overall social welfare.

65. The AF is well aligned with the Bank’s Strategy on Addressing Fragility and Building Resilience in Lesotho [2022-2026] through its key priorities of Strengthening Institutional Capacity and Building Resilient Societies. It is set to transform inclusive development in Butha Buthe district by expanding safe and reliable water services from just 1,675 people to approximately 21,930 by 2028. This critical scale-up will provide equitable water access to previously underserved communities, improve water quality and reliability, and enhance resilience to droughts and climate shocks. Additionally, community mobilisation and sensitization efforts through local engagement will enable awareness supporting subsistence farming to improve household food security, while sensitizing communities on WASH related risks to significantly reduce waterborne diseases such as diarrhoea, potentially halving disease incidence and improving child health outcomes in communities burdened by high under-five mortality rates. Through these multifaceted benefits, the AF contributes directly to inclusive, sustainable development by addressing long-standing service gaps and fostering socioeconomic resilience in the newly added settlements. Through continuous engagement, monitoring, and collaboration with stakeholders, the project is expected to build trust, foster community readiness, and secure broad support for sustainable project implementation. (refer to *Technical Annex 3-2-the Fragility/Resilience Assessment note)*

Gender Equality and Women's Empowerment Promotion

66. ***Gender Marker System Categorization.*** The project is maintained as GEN II according to the bank's Gender Marker System categorisation and will improve access to water infrastructure, create job opportunities for women and youth, therefore contributing to closing the gender gap in employment, the project will also provide opportunities for skills development.

67. ***Gender analysis.*** Lesotho like in many developing countries, women and girls are responsible for collecting, transporting and managing water for domestic use. Lack of access to reliable safe drinking water and sanitation services affect women disproportionately. Lesotho Gender development policy (2018 – 2030) indicates that 74% of women are responsible for water collection at the household level, while during drought season, the women walk about 2km in rural areas. Women and girls in Lesotho are primarily responsible for collecting water for household use, cooking, cleaning, and watering livestock. Unfortunately, this unpaid care work is not seen as valuable work. Long distances to water sources, impact their time and energy, and potentially limiting their participation in other activities like education and income-generating opportunities. An efficient water supply will help ease the workload for women by reducing time spent on water collection therefore increasing their leisure time and productive time for income generating activities and ultimately improve their economic status. Unlike boys, lack of water and sanitation services affects girls' school attendance due to unavailability of Mensural Hygiene Management facilities. Reliable water source will help school children especially girls reduce school absenteeism, increase time of their studies and therefore improve their grades. Water supply at household level will reduce the risk of water borne diseases and improve overall health and wellbeing especially for children and vulnerable people. The water supply will also enable households to maintain better hygiene practices, therefore reducing the risk of illness and infections. In addition, the availability of water at household level will improve safety for women and girls by reducing physical harm and exploitation during water collection. The project recognises high unemployment rate of the youth due to mismatch of skills and labour demands therefore will provide opportunities for youth employment and skills development in water infrastructure. In addition, women will be employed to close the gender gap.

68. ***Gender in the results framework.*** The AF will continue to implement specific measures as outlined in the OP Gender action with additional activities. It should be noted that the OP has already supported the MNR to develop a Water Sector Gender Strategy (WSGS) to guide gender mainstreaming, addressing institutional gender gaps such as the absence of female technical staff in various sector agencies and departments and the PIU is currently executing activities related to mainstreaming gender and social inclusion in the OP and AF settlements. The Ministry of Gender, Youth and Social Development will support the project through capacity building at both national and district levels. The Ministry of Gender, Youth and Social Development will also participate in public awareness on GBV/SEA/SH. The project will promote gender equality and women empowerment through the following: Employment of women (40%) and youth in the project; Capacity building of communities through community mobilisation and sensitization including at least 50% women; Recruitment of male and female youth for apprenticeship, Internship and mentorship; Skills development for youth 240);Training of on climate change and adaptation (50% women); sensitization on integrated nutrition and hygiene (50% women)PIU in Gender Mainstreaming; Establishment of Water Committees with 50% female representation; Facilitate water and sanitation enterprise development initiatives for female-owned business entities; Support the implementation of the Water Sector Gender Strategy (WSGS) which will guide the process of gender mainstreaming in the sector; This will include :capacity building in gender mainstreaming Development of GBV/SEA/SH prevention and Response mechanism to mitigate GBV/SEA/SH in the project area. (refer to *Technical Annex 3-3 – Gender Equality and Women's Empowerment Promotion).*

69. ***Youth and Skills.*** Lesotho faces persistent unemployment and low human capital outcomes, with youth unemployment at 38.9%, with 37.1% among males and 40.1% among females, significantly higher than the national average of 30.1%. The country's HDI improved marginally from 0.547 (2022) to 0.550 (2023), reflecting stagnation in education quality, health outcomes, and labour productivity. These challenges are explicitly recognised as binding constraints in the CSP 2025–2030 and NSDP II (extended to 2027/28). Key constraints include skills mismatches, weak TVET and apprenticeship pathways, low learning-adjusted years of schooling (6.3 years), and limited private-sector job creation. The labour force (≈0.88 million) is predominantly rural (about two-thirds), underscoring the importance of decentralised, infrastructure-linked employment and skills development. While the project is not youth focused, the Project integrates youth employment and skills development across components, in line with the Bank's Youth, Jobs and Skills Marker System (YJSMS). While not a standalone youth operation, youth outcomes are deliberately embedded, targeted, and measurable. While the project is not youth focused, the Project integrates youth employment and skills development across components, in line with the Bank's Youth, Jobs and Skills Marker System

(YJSMS). While not a standalone youth operation, youth outcomes are deliberately embedded, targeted, and measurable. Component 1 will generate at least 1,000 temporary jobs during construction and 50 permanent jobs during operation, with a minimum of 60% youth participation. Youth will gain hands-on, transferable skills in construction, metering, leakage control, and system maintenance. Component 3 supports 240 youth apprenticeships, internships, and mentorships (≥50% women), alongside training in operations and maintenance (O&M), financial management, community water governance, and climate adaptation. Component 2 further engages youth as artisans, hygiene promoters, and community mobilisers. Youth outcomes are tracked through the Results Framework (notably jobs created, community operators trained, and people trained on climate adaptation).

4 LEGAL INSTRUMENTS AND AUTHORITY

A. Legal Instrument

70. The legal instrument to govern the financing for this additional financing will be a Loan Agreement between the Kingdom of Lesotho (the "Borrower") and the African Development Fund (the "Fund") for a loan of an amount not exceeding the equivalent of Ten Million Units of Account (UA 10,000,000).

B. Conditions Associated with the Fund's Intervention

71. ***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).

72. ***Conditions Precedent to First Disbursement*** - In addition to the provisions of Section 3.01 *(Entry into Force),* the obligations of the Fund to make the first disbursement of the Loan shall be subject to satisfaction of the following condition by the Borrower:

(a) Submission of evidence of the competitive recruitment of the Water and Sanitation Engineer for the Project Implementation Unit (PIU), with qualifications and terms of reference acceptable to the Fund; and

(b) Submission of evidence of a waiver from the Lesotho Public Procurement Authority for the use of the Fund's Procurement Methods and Procedures.

73. ***Conditions Precedent to First Disbursement for Resettlement to be Financed by the Fund:*** The obligation of the Fund to disburse the Loan for payment of resettlement costs shall be subject to the satisfaction of the following additional conditions by the Borrower:

(a) Submission of a works and compensation schedule prepared in accordance with the approved 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 Resettlement of all Project affected persons ("PAPs") in respect of each lot requiring Resettlement; and

(b) The opening of a foreign currency special account with the *Central Bank of Lesotho* and a local currency project account with a commercial bank acceptable to the Fund in the name of the Project, dedicated to receiving the Fund's portion of financing allocated to Resettlement of the PAPs in accordance with the RAP

74. ***Conditions Precedent to First Disbursement for Works Involving Resettlement:*** The obligation of the Fund to disburse the Loan for works that involve Resettlement shall be subject to the satisfaction of the following additional conditions by the Borrower:

(a) Submission of satisfactory evidence that all PAPs in respect of civil works in a given lot have been resettled in accordance with the approved Resettlement Action Plan ("RAP") and the agreed works and compensation schedule, prior to the commencement of civil works in such lot, and in any case before the PAPs' actual move and/or possession of their land and related assets.

(b) In lieu of paragraph (a) above, submission of satisfactory evidence indicating that the resources allocated for the

Resettlement of PAPs have been deposited in a dedicated account in a bank acceptable to the Fund or remitted to a trusted third party acceptable to the Bank/ Fund, where the Borrower can prove, to the satisfaction of the Bank/ Fund that, Resettlement of PAPs in accordance with paragraph (a) above could not be undertaken fully or partially, because of the following reasons: (i) the identification of the PAPs by the Borrower is not feasible or possible; (ii) ongoing litigation involving the PAPs and/ or affecting the Resettlement exercise; or (iii) any other reason beyond the control of the Borrower, as discussed and agreed with the Fund.

75. ***Conditions Precedent to Subsequent Disbursement for Works Involving Resettlement:*** The obligation of the Fund to disburse a subsequent portion of the Loan for works that involve resettlement shall be subject to the provision of satisfactory justification for at least 50% of the immediately preceding advance of the Loan received, and 100% of any earlier advance of the Loan received (accompanied by the relevant documents to be indicated in the Loan Agreement).

76. ***Environmental and Social Safeguards Undertakings:*** The Borrower shall, and shall cause the Executing Agency, all its contractors, sub-contractors, and agents to:

(a) execute the Project in accordance with the environmental and social measures as agreed between the Fund and the Borrower and as reflected in the Environmental and Social Management Plan (ESMP) annexed to the Loan Agreement, and the applicable national legislation in a manner and in substance satisfactory to the Fund.

(b) refrain from taking any action which would prevent or interfere with the implementation of the environmental and social safeguards measures including any amendment, suspension, waiver, and/or voidance of any provision thereof, whether in whole or in part, without the prior written concurrence of the Fund.

(c) not commence implementation of any works on any section of a given lot under the Project, unless all PAPs in such lot have been resettled in accordance with the RAP and/ or the agreed works and compensation schedule.

(d) prepare and submit to the Fund: (i) on a monthly basis, a Periodic Environmental and Social Safeguards Implementation Report; and (ii) on an annual basis, an Environmental and Social Safeguards Performance audit report prepared by an independent expert, by the end of the first quarter of the following year.

(e) recruit and retain an Environmental and Social Safeguards expert (or experts as may be the case) with requisite skills including in Occupational Health and Safety for the Project Implementation Unit with qualification and terms of reference acceptable to the Fund. This specialist will implement, monitor, and report on the environmental and social measures to the Borrower which report shall be submitted to the Fund; and

(f) cooperate fully, prepare and submit a revised RAP within thirty (30) days of identification of unforeseen resettlement, and implement it before works commence in the affected area, using pre-agreed funding arrangements with the Fund in the event that the implementation of the Project or change in Project scope results in hitherto unforeseen Resettlement of persons, and shall not commence any works in the affected area under the Project, unless all PAPs in such areas have been resettled in accordance with a RAP, to be prepared by the Borrower and approved by the Fund.

77. ***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, continue to the pay the costs of the financial audit, the Procurement Specialist, Environmental and Social Safeguards Expert, Gender Expert, Project Accountant, and Monitoring and Evaluation (M&E) Expert recruited for the Project, in addition to recurrent costs of personnel assigned to the Project, office accommodation, office supplies, utilities and operational overheads applicable to the Project, in accordance with agreed specifications and requirements acceptable to the Fund, as its in-kind contribution towards the costs of the Project.

C. Compliance with Fund Policies

☒ This project complies with all applicable Fund policies.

☐ There are exceptions to Fund policies.

African Development Bank Group Independent Recourse Mechanism

78. 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 request further information please contact: or 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.

5 RECOMMENDATION

79. Management recommends that the Board of Directors approve the proposed ADF-16 *Loan of an amount not exceeding the equivalent of Ten Million Units of Account (UA 10,000,000)* to the Kingdom of Lesotho, for the purposes and subject to the conditions stipulated in this report.

6 RESULTS FRAMEWORK

Additional Financing Results Framework

REVISED OVERALL PROJECT RESULTS FRAMEWORK						
A	**PROJECT INFORMATION**					
PROJECT NAME AND SAP CODE: LESOTHO LOWLANDS WATER DEVELOPMENT AND SANITATION PROJECT - PHASE III - ADDITIONAL FINANCING, SAP CODE: P-LS-E00-009	COUNTRY/REGION: Lesotho/Southern Africa					
PROJECT DEVELOPMENT OBJECTIVE: To increase the quality, accessibility, and sustainability of improved water supply and sanitation services in Butha Buthe district and to enhance resilience to climate change impacts						
ALIGNMENT INDICATOR (S): (i) Access to safely managed drinking water services (% population) (ii) Access to safely improved sanitation services (% population)						
B	**RESULTS MATRIX**					
RESULTS CHAIN AND INDICATOR DESCRIPTION	**RMF INDICATOR**	**UNIT**	**BASELINE (2022)**	**ACTUAL (2025)**	**TARGET AT COMPLETION (2028)**	**Means of verification**
OUTCOME STATEMENT 1: Increased coverage and access to Water Supply Services						
OUTCOME INDICATOR 1.1: People with access to water (to be disaggregated by gender (CSI) in Butha Buthe region	☒	Number	78,100	78,100	148,310 (covering 25% of water stress hotspots; 75,638 women)	DHS, WASCO information system and DRWS records
OUTCOME INDICATOR 1.2: Average Daily hours of supply (hrs.) at connections and water points		hrs	12	12	22	WASCO information system and DRWS records
OUTCOME INDICATOR 1.3: Net carbon footprint/ mitigation potential	☐	tons of CO2 eq	0	451	19,951	LMS annual reports submitted to DWA
OUTCOME STATEMENT 2: Increased coverage and access to Sanitation services						
OUTCOME INDICATOR 2.1: People with access to sanitation services (thousands) (to be disaggregated by gender) (CSI) in Butha Buthe region	☐	Number	21,100	21,100	75,000 (38,250 women)	DHS, WASCO information system and DRWS records
OUTCOME STATEMENT 3: Improved water management, efficiency, and sustainability of services						
OUTCOME INDICATOR 3.1: Villages / communities having organised private / community operators	☐	Number	0	0	201	WASCO information system and DRWS records
OUTCOME INDICATOR 3.2: Adoption of Climate adaptation and mitigation plans		Number	0	0	2	LMS annual reports
OUTCOME INDICATOR 3.3: Non-Revenue Water	☐	Percent	40	46	28	WASCO & DRWS operational records

OUTPUT STATEMENT 1: Climate Resilience and a Low Carbon Emission Water Infrastructure Developed in Zone 1						
OUTPUT INDICATOR 1.1: Water transmission pipeline constructed and functional	□	Kilometers	0	0	14	Contractor contract records,
OUTPUT INDICATOR 1.2: Water distribution mains constructed/extended, equipped with renewable energy technologies and functional	□	Kilometers	0	0	285	submitted to DRWS &WASCO
OUTPUT INDICATOR 1.3: Metered connections made (at least 5% to WHH and their SMEs)	□	Number	0	0	10,050	Contractor contract records, Operator records
OUTPUT STATEMENT 2: Sanitation Services Improved						
OUTPUT INDICATOR 2.1: People sensitized through integrated nutrition and hygiene promotion initiatives (Disaggregated by gender)	□	Number	0	3,234 (1,195 women)	70,000 (35,700 women)	DRWS operational & Activity reports
OUTPUT INDICATOR 2.2: Climate resilient public sanitation and hygiene facilities constructed and functional in schools, public places & health centres and Gender and disability compliant (for the vulnerable Disability, FHH)	□	Number	0	0	1018 (609)	DRWS operational & Activity reports
OUTPUT STATEMENT 3: Capacity Strengthened, Institutional systems enhanced, and Project Managed						
OUTPUT INDICATOR 3.1: Water sector gender strategy developed	□	Number	0	1	1	DRWS operational reports
OUTPUT INDICATOR 3.2: Community level-based Water management schemes/ private operators trained (Disaggregated by gender)	□	Number	0	0	150 (60 of members being women)	DRWS operational & training reports
OUTPUT INDICATOR 3.3: Jobs created targeting (i) Full time jobs, and (ii) part-time/seasonal jobs, along, (Disaggregated by gender)	□	Number	0	29	(i) 50, and (ii) 1,000 (at least 40% women, 60% youth)	DRWS operational & Reports on Jobs supported
OUTPUT INDICATOR 3.4: People trained on climate change and adaptation options (Disaggregated by gender)	□	Number	0	4,481	7,000 (at least 2,800 women)	DRWS operational & training reports

CHANGES TO THE ORIGINAL PROJECT RESULTS FRAMEWORK

Revisions to the results framework		Comments/Rationale for change
PROJECT DEVELOPMENT OBJECTIVE		
Original (PDO)	*Proposed change*	
To increase the quality, access, and sustainable operations of improved water supply and sanitation services in Butha Buthe district and its resilience to climate change impacts	☒ No Change ☐ Revised	N/A
OUTCOME STATEMENTS AND INDICATORS		
Original	*Proposed change*	
OUTCOME STATEMENT 1: **Increased coverage and access to Water Supply Services**	☒ No Change ☐ Revised ☐ New	N/A
OUTCOME INDICATOR 1.1: People with access to water (to be disaggregated by gender (CSI) in Butha Buthe region	☐ No Change ☒ Revised ☐ New	The AF project aims to provide new and improved water service access to additional 21,930 people by 2029,
OUTCOME INDICATOR 1.2: Average Daily hours of supply (hrs.) at connections and water points	☒ No Change ☐ Revised ☐ New	N/A
OUTCOME INDICATOR 1.3: Net carbon footprint/ mitigation potential	☐ No Change ☒ Revised ☐ New	This has been changed from output to outcome
OUTCOME STATEMENT 2: **Increased coverage and access to Sanitation services**	☒ No Change ☐ Revised ☐ New	N/A
OUTCOME INDICATOR 2.1: People with access to sanitation services (thousands) (to be disaggregated by gender) (CSI) in Butha Buthe region	☐ No Change ☒ Revised ☐ New	additional 5,500 people reached
OUTCOME STATEMENT 3: Improved water management, efficiency, and sustainability of services	☒ No Change ☐ Revised ☐ New	N/A
OUTCOME INDICATOR 3.1: Villages / communities having organised private / community operators	☐ No Change ☒ Revised ☐ New	An additional 25 villages will be added to 176 villages in the OP

OUTCOME INDICATOR 3.2: Adoption of Climate adaptation and mitigation plans	☒ No Change ☐ Revised ☐ New	N/A
OUTCOME INDICATOR 3.3: Non-Revenue Water	☐ No Change ☒ Revised ☐ New	The WASCO NRW strategy has a target of 28% by 2028
OUTPUT STATEMENT AND INDICATORS		
Original	*Proposed change*	
OUTPUT STATEMENT 1: Climate Resilience and a Low Carbon Emission Water Infrastructure Developed in Zone 1	☒ No Change ☐ Revised ☐ New	N/A
OUTPUT INDICATOR 1.1: Water transmission pipeline constructed	☒ No Change ☐ Revised ☐ New	N/A
OUTPUT INDICATOR 1.2: Water distribution mains constructed/extended and equipped with renewable energy technologies	☐ No Change ☒ Revised ☐ New	An additional 207 km of water distribution networks will be constructed
OUTPUT INDICATOR 1.3: Metered connections made (at least 5% to WHH and their SMEs)	☐ No Change ☒ Revised ☐ New	An additional 5,050 metered connections will be made through AF
OUTPUT STATEMENT 2: Sanitation Services Improved	☒ No Change ☐ Revised ☐ New	N/A
OUTPUT INDICATOR 2.1: People sensitized through integrated nutrition and hygiene promotion initiatives (Disaggregated by gender)	☐ No Change ☒ Revised ☐ New	Additional 5000 persons reached
OUTPUT INDICATOR 2.3: Climate resilient public sanitation and hygiene facilities constructed and functional in schools, public places & health centres and Gender and disability compliant (for the vulnerable Disability, FHH)	☐ No Change ☒ Revised ☐ New	Additional 300 sanitation facilities constructed
OUTPUT STATEMENT 3: Capacity Strengthened, Institutional systems enhanced, and Project Managed	☒ No Change ☐ Revised ☐ New	N/A
OUTPUT INDICATOR 3.1: Water sector gender strategy implemented	☒ No Change ☐ Revised ☐ New	N/A
OUTPUT INDICATOR 3.2: Community level-based Water management schemes/ private operators trained (Disaggregated by gender)	☒ No Change ☐ Revised ☐ New	N/A
OUTPUT INDICATOR 3.3: Jobs created targeting (i) Full time jobs, and (ii) part-time/seasonal jobs, along, (Disaggregated by gender)	☒ No Change ☐ Revised ☐ New	N/A

OUTPUT INDICATOR 3.4: People trained on climate change and adaptation options (Disaggregated by gender)	☒ No Change ☐ Revised ☐ New	N/A

7 ENVIRONMENTAL AND SOCIAL COMPLIANCE NOTE (ESCON)

ENVIRONMENTAL AND SOCIAL COMPLIANCE NOTE (ESCON)

AFRICAN DEVELOPMENT BANK

A. Basic Information[7]				
Project Title: LESOTHO LOWLANDS WATER DEVELOPMENT AND SANITATION PROJECT PHASE III - ADDITIONAL FINANCING			**Project SAP or TFMS Code:** P-LS-E00-009	
Region: RDGS	**Country:** Lesotho			
Project Sector Unit: Water and Sanitation		**Lending Instrument:** Project Finance Loan/Grant		
Appraisal dates: 3-Feb-26 **to** 6-Feb-26		**Estimated Approval Date:** 30-Apr-26		
Task Team Leader: HERBERT CHINOKORO		**Alternate Task Team Leader:** MOSES TEMBO		
Environmental Safeguards Officer(s): Pilila CHONGO | Chimwemwe Roberta MHANGO				
Social Safeguards Officer(s): Tananga Mathews NYIRENDA | Daniel Ouma OGOL				
E&S Category: Category 1 (High Risk)	**Operation Type:** Sovereign Operation / Public Sector Operation			**Financial Intermediary:** No
Categorization Date: 21-Aug-25	**Categorization Date in ISTS:** 21-Aug-25		**Categorization Date in SAP:** 21-Aug-25	
Is this project processed under rapid responses to crises and emergencies?				No
Is this project processed under a waiver to ISS requirement(s) requested by the Borrower/Client and granted by the Board?				No

B. Disclosure and Compliance Monitoring	
B.1 Mandatory disclosure[8]	
Environmental and Social Assessment/Audit/System/Others: Environmental and Social Impact Assessment (ESIA) (01)	
Was/Were the document (s) disclosed ***prior to appraisal?***	**Yes**
Date of "in-country" disclosure by the borrower/client	14-Nov-25
Date of receipt, by the Bank, of the authorization to disclose	*14-Nov-25*
Date of disclosure by the Bank	17-Nov-25
Resettlement Action Plan (RAP)[9]**:** *1*	
Was/Were the document (s) disclosed ***prior to appraisal?***	**Yes**
Date of "in-country" disclosure by the borrower/client	20-Mar-26
Date of receipt, by the Bank, of the authorization to disclose	20-Mar-26
Date of disclosure by the Bank	24-Mar-26
Stakeholder Engagement Plan (SEP)[10]**:** *1*	
Was/Were the document (s) disclosed ***prior to appraisal?***	Yes
Date of "in-country" disclosure by the borrower/client	14-Nov-25
Date of receipt, by the Bank, of the authorization to disclose	14-Nov-25
Date of disclosure by the Bank	17-Nov-25
Pest or Vector Management Plan (PMP/VMP): *Not Applicable*	
Was/Were the document (s) disclosed ***prior to appraisal?***	Not Applicable
Date of "in-country" disclosure by the borrower/client	Click to select the date
Date of receipt, by the Bank, of the authorization to disclose	Click to select the date
Date of disclosure by the Bank	Click to select the date
Vulnerable Peoples Plan (VPP): *Not Applicable*	
Was the document disclosed ***prior to appraisal?***	Not Applicable
Date of "in-country" disclosure by the borrower/client	Click to select the date
Date of receipt, by the Bank, of the authorization to disclose	Click to select the date
Date of disclosure by the Bank	Click to select the date

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

[8] *For multiple disclosure dates of the same type of document/instrument (ESIAs, RAPs, etc), please indicate the date of the last disclosure that meets the 50%+1 disclosure requirement.*

[9] *Including Livelihood Restoration Plan (LRP)*

[10] *Including Grievance Redress Mechanism (GRM)*

Biodiversity Management Plan (BMP)[11]: *Not Applicable*	
Was the document disclosed ***prior to appraisal?***	Not Applicable
Date of "in-country" disclosure by the borrower/client	Click to select the date
Date of receipt, by the Bank, of the authorization to disclose	Click to select the date
Date of disclosure by the Bank	Click to select the date
Livelihood Restoration Plan (LRP)[12]: *Not Applicable*	
Was the document disclosed ***prior to appraisal?***	Not Applicable
Date of "in-country" disclosure by the borrower/client	Click to select the date
Date of receipt, by the Bank, of the authorization to disclose	Click to select the date
Date of disclosure by the Bank	Click to select the date
Riparian Communities Participation Plan (RCPP): *Not Applicable*	
Was the document disclosed ***prior to appraisal?***	Not Applicable
Date of "in-country" disclosure by the borrower/client	Click to select the date
Date of receipt, by the Bank, of the authorization to disclose	Click to select the date
Date of disclosure by the Bank	Click to select the date
Emergency Preparedness & Response Plan (EPRP): *Not Applicable*	
Was the document disclosed ***prior to appraisal?***	Not Applicable
Date of "in-country" disclosure by the borrower/client	Click to select the date
Date of receipt, by the Bank, of the authorization to disclose	Click to select the date
Date of disclosure by the Bank	Click to select the date
Hazardous/Medical Waste Management Plan (HWMP): *Not Applicable*	
Was the document disclosed ***prior to appraisal?***	Not Applicable
Date of "in-country" disclosure by the borrower/client	Click to select the date
Date of receipt, by the Bank, of the authorization to disclose	Click to select the date
Date of disclosure by the Bank	Click to select the date
Riparian Notification (RN): *Not Applicable*	
Was the document disclosed ***prior to appraisal?***	Not Applicable
Date of "in-country" disclosure by the borrower/client	Click to select the date
Date of receipt, by the Bank, of the authorization to disclose	Click to select the date
Date of disclosure by the Bank	Click to select the date
Environmental and Social Management Plan of the Financing Agreement (FA-ESMP) [13] 1	
Was the document disclosed ***prior to appraisal?***	*Yes*
Date of "in-country" disclosure by the borrower/client	*20-Mar-26*
Date of receipt, by the Bank, of the authorization to disclose	***20-Mar-26***
Date of disclosure by the Bank	**24-Mar-26**
Is in-country disclosure of any of the above required documents not allowed as per the country's legislation or not expected because of crises/emergencies: Not Applicable **If applicable, please explain below:**	
Not applicable.	

B.2. Compliance monitoring indicators	
Has satisfactory calendar, budget and clear institutional responsibilities been prepared for the implementation of measures related to safeguard policies?	**Yes**
Has 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 mobilized, and secured?[14]	**Yes**
Does the Monitoring and Evaluation system of the project include the monitoring of safeguard impacts and measures related to safeguard policies?	**Yes**

[11] *Refer to footnote 212 of the ISS: Depending on the nature and the scale of the risks and impacts of the project, the Biodiversity Management Plan (BMP) may be a stand-alone document, or it may be included as part of the ESMP prepared under OS1. Select this if a standalone BMP is required.*

[12] *Refer to footnote 190 of the ISS: The Livelihood Restoration Plan (LRP) is normally part of the Resettlement Action Plan (RAP). However, for complex livelihood restoration, a stand-alone LRP can be prepared as part of the ESMP. Select this if a standalone LRP is required.*

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

[14] *In case a Resettlement Action Plan (RAP) is/are not required although the Environmental and Social Impact Assessment (ESIA) is/are disclosed, attached the image/picture/photo of the area/site/landscape to evidence that it is free of any encumbrance (simple statement or letter from the borrower does not suffice), in addition to the statement by the Borrower that it is a public-owned land.*

Have satisfactory implementation arrangements been agreed with the borrower and 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 to Approval?			**No**
Prepared by	***Name***	***Signature***	***Date***
Environmental Safeguards Officer(s):	**Pilila CHONGO Chimwemwe Roberta MHANGO**		16-Feb-26
Social Safeguards Officer(s):	**Tananga Mathews NYIRENDA | Daniel Ouma OGOL**		24-Mar-26
Task Team Leader:	**Herbert CHINOKORO**		25-Mar-26
Submitted by			
Sector Director:	**Mr. Mtchera CHIRWA (Director AHWS)**		25-Mar-26
Cleared by			
Director SNSC:	**Mr. Maman-Sani ISSA**		28-May-26

ADDITIONAL FINANCING CHECKLIST

This checklist demonstrates alignment of the additional financing project with the requirements of the additional financing policy and guidelines, by reason for AF. Please document lessons learnt where relevant.

Eligibility Criteria for AF Due to Project Scaling up	Compliance (Yes / No)	Justification/reference to relevant paragraphs
i. Satisfactory performance of the Project: Scoring of 3 or better on the development objective (DO); (Satisfactory); Scoring of 3 or better on implementation progress (IP); (Satisfactory) ; The outputs/effects and results recorded in the last IPR of the project show that its impact so far has been in line with the expectations set out in the PAR; Key provisions of the loan/grant are largely complied with, including audit, financial management and reporting requirements on environmental and social safeguards; For projects facing fiduciary or environmental and social safeguarding difficulties, or other problems recorded in the IPR, these should have been resolved, or a feasible action plan developed, prior to the assessment of the additional funding; For projects that have experienced implementation difficulties in the past, these should have been resolved and the project should have performed well for at least 6 months prior to the submission of the AF request.(AFPG Paragraph 1)	Yes	The latest IPR rates both Project Development Objective (PDO) and Implementation Progress (IP) as Satisfactory. The project remains compliant with key loan provisions, including audit, financial management, and environmental and social safeguards. Implementation progress has accelerated significantly in the past six months with the major transmission system contract, valued at USD 82,233,286.26, was signed on 19 August 2025, and the contractor is finalising mobilization in preparation for commencement of works by end of February 2026. In parallel, the Design and Build contract for the Water Treatment Plant (WTP), valued at USD 50,926,900, is expected to be signed before end of February 2026. Notably, progress has been made in resolving budgetary issues affecting the design review and supervision consultancy for distribution systems —an essential step toward awarding the civil works contract on Bank financing, as the distribution system works represents approximately 53% of the total bank financing on the project . The updated ESIA has been cleared by the Department of Environment on 14 October 2025 • These updates now incorporate the prioritized settlements to be financed under the Additional Financing (AF). • The design review consultant is on board and bidding documents for distribution works will be finalised by end of March 2026 in readiness for tendering This renewed momentum and strategic adjustments reflect a strong commitment to overcoming earlier bottlenecks related to procurement and implementation of project activities
ii. Is additional financing for the added or expanded activities the best mechanism to maximize the development impact and results in the relevant area or sector, compared to other lending tools such as a repeater project, a completely new operation, or non-lending instruments? i.e., is providing additional funding a better option than starting a new project? (AFPG Paragraph 12 (i))	Yes	AF is a Better Option than Starting a New Project. The original project has already established a functional implementation structure, including technical teams, procurement systems, monitoring frameworks and governance mechanisms including a Project Steering Committee ensuring cost-effectiveness and timely delivery.

		Launching a new project would require duplicating administrative processes, delay delivery and increasing costs. AF allows for scaling up proven interventions, ensuring continuity and faster impact based on activities already executed on the OP but complimenting ongoing Bank funded projects (Lesotho Lowlands Rural Water Supply and Sanitation Project Phase I), World Bank and EU funded Lesotho Lowlands Water Supply Project Phase II.
iii. Is the selection of beneficiaries of the scaled-up activities based on objective criteria (as opposed to politically motivated reasons)? Please demonstrate that the demand is also driven by the beneficiary communities or that they were consulted and endorsed the recommendation. (AFPG Paragraph 7; 21-22)	Yes	The scaled-up activities are rooted in community-driven demand, validated through systematic consultations, and guided by objective, needs-based criteria—ensuring equitable and effective service delivery. This included: Existing service gaps: Prioritizing areas with poor water service coverage and high disease burden, as identified through updated 2018 feasibility studies, bulk water supply systema and preliminary designs of new distribution networks, institutional assessments and community consultations and Community readiness and willingness to participate: Beneficiaries have demonstrated strong commitment to participate in project activities, including construction and decision-making processes.
iv. The project is generally aligned with the Bank Group's relevant strategies, priorities and policies and country, regional and sectoral priorities, and the overall environment is conducive to its success[15][16](AFPG Paragraph 12 (ii))	Yes	The project aligns with: - the Bank's Group Vision and Goal of the Bank's Ten-Year Strategy (TYS 2023-2032) contributing to rapid, inclusive, resilient, and green growth for Africa and putting in place a platform to achieve universal access to basic infrastructure and services for Basotho including clean water and sanitation. The project also aligns with the fourth Cardinal Point supporting provision of Climate-Resilient Infrastructure by developing robust infrastructure and supporting value addition to natural resources to foster

[15] Original project and additional funding project.

[16] "Region" means any formal grouping of RMCs whose mandate is consistent with that of the Bank Group (Regional Economic Communities, River Basin Organizations, etc.).

		sustainable industrial growth. The project is also aligned with ADF-16 Operational Strategic Priorities targeting the development of sustainable, climate-resilient, and quality infrastructure, and governance, capacity building in recipient countries - The project is in line with the Bank's Water Strategy (2021-2025) specifically Pillar 2: Strengthen the delivery of water supply, sanitation, and hygiene (WASH) services to be sustainable, resilient, and inclusive. - The project is also aligned with the objectives and priorities of ADF-16 Pillar 1: provision of Sustainable, climate-resilient, and quality infrastructure: and pillar 2 governance, capacity building, and sustainable debt management: This pillar addresses the need for stronger governance and institutions in recipient countries. - Bank's Country Strategic Paper (CSP, 2025-2030) for Lesotho, which prioritizes (i) developing sustainable and quality infrastructure to promote industrialisation; and (ii) Strengthening institutional and human capacities for improved public sector efficiency and enhanced competitiveness. - Lesotho's commitments under the National Strategic Development Plan NSDP II (2023–2027) which identifies water infrastructure as a priority for poverty alleviation, health improvement and private sector development. - Sector strategies, particularly the Long-term Water and Sanitation Strategy contributing to SDG 6 (Clean Water and Sanitation). - Lesotho's enabling environment is conducive, with strong government commitment to the water sector.

v. The project is broadly in line with the development objectives of the initial project[17](AFPG Paragraph 12 (iii))	Yes	Consistency with Original Development Objectives - The AF maintains the original goal of enhancing access to climate-resilient WASH services and strengthening institutional capacity. - It expands coverage to additional settlements without altering the core program development objectives, ensuring strategic sector coherence.
vi. The project is technically feasible overall (AFPG Paragraph 12 (iv))	Yes	Technical Feasibility - The infrastructure designs (e.g., reservoirs, pumping stations, distribution mains) are technically sound and based on proven engineering standards. - The AF builds on existing systems, ensuring compatibility and scalability. - The AF design demonstrates strong technical feasibility through its strategic prioritization of gravity-fed water supply systems. This approach significantly reduces dependence on energy-intensive pumping stations, leading to: • Lower operational costs, especially in remote areas with limited access to reliable power. • Reduced energy consumption, contributing to environmental sustainability. • Simplified maintenance and operation, which is particularly beneficial for local utility teams. • Sustainability, by minimizing long-term operational burdens.
vii. The project is economically and financially viable overall (AFPG Paragraph 12 (v))	Yes	- The expanded service coverage will generate economic benefits through improved public health, productivity, and reduced water losses. - Financial viability is supported by metered household connections, enabling revenue generation for operations and maintenance.

[17] Project objectives can be the initial objectives of the project (such as additional funding for cost overruns, funding shortfalls, or project modifications) or revised objectives (as part of a project modification or extension).

viii. The institutional, fiduciary, environmental and social arrangements for the project as a whole are satisfactory (AFPG Paragraph 12 (vi))	Yes	- The Environmental and Social Impact Assessments (ESIAs) and Resettlement Action Plans (RAPs) are being updated - Fiduciary systems meet Bank standards. - These arrangements will be extended and adapted for the AF scope, ensuring compliance and risk mitigation.
ix. Associated risk mitigation measures are satisfactory for the project as a whole [18] (AFPG Paragraph 12 (vii))	Yes	- Project-related risks (e.g., technical, environmental, social) are well understood and mitigated through existing frameworks. - Lesotho, as an ADF-only country, has a satisfactory credit risk profile for sovereign operations, and the AF does not introduce new financial exposure beyond the OP. - The additional settlements are closely linked to those in the OP and excluding them poses a risk of social unrest due to growing demands for equitable access to safe water. These areas have faced severe droughts, relying on dried-up natural streams, making them highly vulnerable to climate shocks. The new infrastructure will enhance resilience and reduce these risks. Failure to address these issues could undermine the successful implementation of LLWDSP III.
x. The assessment of the quality at entry (QaE) of the project and the assessment of its overall credit risk are considered satisfactory for sovereign operations financed from AfDB resources in ADF-only countries (AFPG Paragraph 12 (viii))		• The overall project has a satisfactory QaE assessment, with clear objectives, robust design, and strong institutional arrangements ensuring a high-quality entry point for scaling up as the designs will be ready by end of November 2025 and advance procurement will be utilized for the civil works and community mobilization consultancy.
xi. Is the Borrower/Recipient committed to scaling up the project activities? Would preparing an additional loan/grant bring procedural or other cost-effectiveness gains for the Borrower/Recipient, as compared to preparing a repeater or other new project? Can the magnitude or scope of the scale-up project be easily accommodated in the	Yes	• Borrower has demonstrated strong commitment to scaling up project activities, building on the momentum and institutional capacity developed during the ongoing implementation of the original project. This commitment is reflected in the

[18] Subject to the approval of the Credit Risk Committee with respect to exposure limits and the availability of resources.

context of the ongoing project, relying on the Borrower/Recipient's existing implementation capacity and other project arrangements? (AFPG Paragraph 7; 21-22)		proactive steps taken to address implementation challenges and in the strategic planning for expanded service delivery by inclusion of beneficiaries in the three new settlements. • Preparing an additional loan presents a cost-effective and procedurally efficient alternative to initiating a new or repeater project. Leveraging the existing project framework allows for: • Streamlined procurement and financial management processes. • Continuity in implementation arrangements and stakeholder engagement. • Reduced transaction costs and faster mobilization of resources. - Moreover, the scope and magnitude of the proposed scale-up can be readily accommodated within the context of the ongoing project. The Borrower has already established robust implementation structures, including: • A fully functional Project Implementation Team (PIT). • Strengthened institutional capacity through ongoing capacity-building efforts. • Established safeguards and monitoring systems. – These existing arrangements provide a solid foundation for scaling up, ensuring that the expanded activities can be delivered efficiently and effectively, while maintaining alignment with the original development objectives and enhancing impact.
xii. Was the project scale-up anticipated at original project PAR? has the borrower/beneficiary provided justification; is the borrower/beneficiary able to make the AF available? has it been able to find other financiers and has it provided justification for the request for additional financing from the Bank Group? (AFPG Paragraph 7; 21-22)	No	The scale-up of the project to additional settlements through expanded distribution networks was not anticipated in the original Project Appraisal Report (PAR). The water treatment works are the infrastructure and transmission pipelines financed by the Arab consortium which were the ones earmarked for a phased implementation approach and highlighted the potential for expansion based on evolving needs and performance. The

		Water Treatment Pant design incorporated flexibility to accommodate additional settlements and infrastructure enhancements, subject to availability of resources and implementation capacity. The Borrower/Beneficiary has provided clear justification for the request for additional financing. This includes: • The need to extend services to underserved and newly identified settlements, made feasible through design optimization. • The opportunity to leverage existing project structures and capacity for cost-effective delivery of expanded activities. • A commitment to achieving equitable access to water and sanitation services, in line with national development priorities. Importantly, the Borrower has demonstrated readiness to make its counterpart funding available, including: • Budgetary provisions and alignment with national planning frameworks. • Prior engagement with stakeholders in Butha Buthe and the three additional settlements to ensure smooth integration of scale-up activities. In addition, the existing co-financing commitments from the consortium of Arab financiers—comprising the OPEC Fund for International Development, Saudi Fund for Development, Abu Dhabi Fund for Development, BADEA, and the Kuwait Fund for Arab Economic Development—will also extend to the expanded scope. Their continued contribution to the OP ensures that both the water treatment infrastructure and the water transmission system are fully in place, enabling the efficient delivery of water to distribution networks across all settlements, including the three newly added ones.
xiii. Is the AF in line with the Policy on Expenditures Eligible for Bank Group Financing? (AF Policy Paragraph 22)	Yes	
xiv. Are there any implementation delays in completing the activities under the project if AF is provided? (AFPG Paragraph 7; 21-22)	No	
xv. Is the Borrower/Recipient committed/able to quickly process the AF to enable smooth and successful completion of the activities it would support? (AFPG Paragraph 7; 21-22)	Yes	