EUROPEAN UNION

DELEGATION TO THE KINGDOM OF LESOTHO
The Head of Delegation

Maseru, 24 SEP 2012
MH D(2012) 00474

Mrs. Karla Robin HERSHEY
Resident Representative
United Nations Development Programme

Subject: **Contribution Agreement with UNDP N° FED/2012/283-774**

Ref.: **Financing Agreement n° LS/FED/21-445, Deepening Decentralisation and Non State Actors Support Programmes**

~~Dear Mrs. Hershey,~~ Dear Karla,

Please find enclosed three originals of the contribution agreement mentioned above. I would be grateful if you could sign and date all three originals, retain one for your records and return the other two to the following address:

Delegation of the European Union to the Kingdom of Lesotho
167 Constitution Road, Maseru West

Your attention is drawn to the fact that the Contracting Authority will not be obliged to honour the signed contribution agreement in the event of any of the following:

- the contribution agreement is not returned to the above address within 30 days of the date of this letter, duly signed and dated by a signatory authorised to represent you;

- any modifications to the text of the contribution agreement or its annexes;

We shall consult with the Ministries of Local Governance and Finance with a view to identifying a suitable date for a public signing ceremony.

Yours sincerely,

Hope that this will work out well for all involved.

Hans DUYNHOUWER
Ambassador

Annex: 3 copies of the contribution agreement

cc:	Mrs. PANYANE	- PS Local Governance and Chieftainship
	Mr. KHETISA	- NAO EDF and PS Finance
	Mrs. Agi VERES	- Deputy Resident Co-ordinator, UNDP

167 Constitution Road, Maseru West, Lesotho (mail: P.O. Box 518, Maseru 100, Lesotho)
Telephone: (266) 22 27 22 00 direct line (266)22 27 22 01. Fax (266)22 27 22 55 e-mail : delegation-lesotho@eeas.europa.eu

EUROPEAN UNION CONTRIBUTION AGREEMENT WITH AN INTERNATIONAL ORGANISATION

FED/2012/283-774

(the "Agreement")

The European Union, represented by the European Commission, (the "Contracting Authority")

of the one part,

and

The United Nations Development Programme (UNDP), with its Head office at United Nations Plaza, New York, NY 10017, USA, hereby represented by their Country Office in Maseru, Lesotho, 3rd Floor UN House, United Nations Road, Maseru, Lesotho, (the "Organisation")

of the other part,

(Individually a "Party" and collectively the "Parties"), have agreed as follows:

Special Conditions

Article 1 - Purpose

1(1) The purpose of this Agreement is a contribution by the Contracting Authority for the implementation of the action entitled: *"Deepening Decentralisation Project"* (the "Action") as described in Annex I.

1(2) The Organisation will be awarded the contribution on the terms and conditions set out in this Agreement, which complies with the provisions of the Financial and Administrative Framework Agreement between the European Community and the United Nations of April 2003 and consists of these special conditions (the "Special Conditions") and their annexes.

1(3) The Organisation accepts the contribution and undertakes to do everything in its power to implement the Action under its own responsibility.

1(4) The Action is a Joint Management Action for all purposes of this Agreement.

1(5) The Action is a Multi-donor Action for all purposes of this Agreement.

Article 2 – Entry into force, Implementation Period and Execution Period

2(1) This Agreement shall enter into force on the date when the last of the two Parties signs.

2(2) The implementation period of this Agreement (the "Implementation Period") will begin on:

- the day following that on which the last of the two Parties signs

2(3) The Implementation Period, as laid down in Annex I, is 48 months.

DELEGATION OF THE EUROPEAN UNION TO LESOTHO

2(4) The execution period of this Agreement shall start at the entry into force of this Agreement as provided for in Article 2(1) and shall end at the moment when final payment is paid by the Contracting Authority in accordance with Article 17 of Annex II or when the Organisation repays any amounts paid in excess of the final amount due pursuant to Article 18 of Annex II. In cases where there is no final payment by the Contracting Authority or final repayment by the Organisation, the end of the execution period shall be the end date referred to in Article 12.5 of Annex II.

Article 3 - Financing the Action

3(1) The total cost of the Action eligible for financing by the Contracting Authority is estimated at EUR 8,880,000, as set out in Annex III.

3(2) The Contracting Authority undertakes to finance[1] a maximum of EUR 8,000,000; the final amount will be established in accordance with Articles 14 and 17 of Annex II.

3(3) Pursuant to Article 14.4 of Annex II, 7 % of the final amount of direct eligible costs of the Action to be reimbursed by the Contracting Authority to the Organisation in accordance with Articles 14 and 17 of Annex II, may be claimed by the Organisation as indirect costs.

3(4) Pursuant to Article 14.3 of Annex II, the Regulation under which this Agreement is financed does not exclude financing of taxes, including VAT, in the case the Organisation can show it cannot reclaim.

Article 4 - Narrative and financial reporting and payment arrangements

4(1) Narrative and financial reports shall be produced in support of payment requests, in compliance with Articles 2 and 15.1 of Annex II.

4(2) Payment will be made in accordance with Article 15 of Annex II; of the options referred to in Article 15.1, the following will apply:

Option 2:

Pre-financing	EUR 1,745,944
Forecast second pre-financing (subject to the provisions of Annex II)	EUR 2,334,232
Forecast third pre-financing (subject to the provisions of Annex II)	EUR 2,326,124
Forecast fourth pre-financing (subject to the provisions of Annex II)	EUR 1,519,818
Forecast final payment (subject to the provisions of Annex II)	EUR 73,882

---

1 Where the contribution is financed out of the European Development Fund, mentions of European Union financing must be read as referring to European Development Fund financing.

DELEGATION OF THE EUROPEAN UNION TO LESOTHO

KRH

Article 5 - Contact addresses

Any communication relating to this Agreement shall be in writing, shall state the number and title of the Action, and shall use the following addresses

For the Contracting Authority:

Payment requests and attached reports, including requests for changes to bank account arrangements shall be sent to:

Delegation of the European Union to the Kingdom of Lesotho
167 Constitution Road, Maseru West
P.O. Box 518
Maseru, LESOTHO

For the Organisation:

UNDP Country Office in Lesotho
3st Floor, UN House
United Nations Road
Maseru

Article 6 - Annexes

6(1) The following documents are annexed to these Special Conditions and form an integral part of the Agreement:

Annex I:	Description of the Action
Annex II:	General Conditions applicable to European Union contribution agreements with international organisations
Annex III:	Budget for the Action
Annex IV:	Financial identification form
Annex V:	Standard request for payment

6(2) In the event of a conflict between the provisions of the present Special Conditions and any Annex thereto, the provisions of the Special Conditions shall take precedence. In the event of a conflict between the provisions of Annex II and those of the other annexes, the provisions of Annex II shall take precedence.

Done in Maseru in three originals in the English language, two for the Contracting Authority and one for the Organisation.

For the Organisation		**For the Contracting Authority**	
Name	Karla Robin HEARSHEY	Name	Hans DUYNHOUWER
Position	Resident Coordinator/Resident Representative, UNDP	Position	Ambassador, Head of Delegation
Signature		Signature	Hans DUYNHOUWER
Date	19 Oct. 2012	Date	24 SEP 2012

UNITED NATIONS DEVELOPMENT PROGRAMME MASERU LESOTHO

DELEGATION OF THE EUROPEAN UNION TO LESOTHO

STANDARD JOINT PROGRAMME DOCUMENT

Country: Lesotho

Programme Title: **Deepening Decentralization Programme**

UNDAF/Joint Programme Outcome(s):

UNDAF Outcome #4: Governance institutions strengthened, ensuring gender equality, public service delivery and human rights for all by 2012 continued (2008-2012)
By 2017, National and local governance structures deliver quality and accessible services to all citizens. (Lesotho UNDAF 2013-2017 – draft to be finalized in 2012)

UNDP Country Programme Outcomes(s):

Demand-driven and decentralized public service delivery based on claim-holder aspirations and participation strengthened. (Lesotho UNDP CPD 2008-2012)
By 2017, National and local governance structures deliver quality and accessible services to all citizens. (Lesotho CPD 2013-2017 – draft to be finalized in 2012)

Expected Output(s):	1) Improved development funding through local authorities 2) Decentralization and accountability systems at the local level promoted 3) Capacities of Line Ministries and local authorities enhanced to decentralize functions
Implementing Partner:	Ministry of Local Government and Chieftainship (MoLGC)
Responsible Parties	Ministry of Public Service (MoPS) Ministry of Finance (MoF) United Nations Development Programme (UNDP) United Nations Capital Development Fund (UNCDF)

Programme Duration: 2012-2016 Anticipated start/end dates: August 2012-July 2016 Fund Management Options(s): Parallel (core funding), Pass-through (non-core funding) Implementation Modality: National Implementation Administrative Agent: UNDP	Total estimated budget*:	EUR 8,880,000 USD 11,044,776
	Out of which: Funded budget: EU:	EUR 8,000,000 USD 9,950,249**
	UNCDF:	EUR 880,000** USD 1,094,527
	Unfunded budget:	0
	*Total estimated budget includes both programme costs and indirect costs. **Estimated based on a commitment of € 8,000,000 at the UN operational exchange rate of 0.804 (1 July 2012)	

Note: The current project has been formulated over a long period of time and there are very current political and policy framework changes ongoing and envisioned in the country by the government that will have an effect on the specific activities going forward. The first phase of the project will focus on a decentralization roadmap in Lesotho as agreed with government and partners and is expected to last approximately three months. A revision of the project activities will be made at the end of the first phase (anticipated within 3 months from the start of the project) within the framework of the original outputs and fully in line with the financing agreement of the EU.

DELEGATION OF THE EUROPEAN UNION TO LESOTHO

KRW

Names and signatures of (sub) national counterparts and participating UN organizations

UN organizations	National Coordinating Authorities
Ms. Karla Hershey UN Resident Coordinator/UNDP Resident Representative United Nations Development Programme *Signature, Date & Seal*	*Mrs. Mapitso Panyane* Principal Secretary Ministry of Local Government and Chieftainship *Signature, Date & Seal*
Christine Roth Executive Secretary, a.i. United Nations Capital Development Fund *Signature, Date & Seal*	*Mr. Mosito Khethisa* Principle Secretary Finance Ministry of Finance *Signature, Date & Seal*
	Principle Secretary Ministry of Public Service *Signature, Date & Seal*

DELEGATION OF THE EUROPEAN UNION TO LESOTHO

Chf KRH

1. Brief description

Building on previous collaborative work of the Government of Lesotho and UNDP/UNCDF in the area of decentralization, this project aims to accelerate progress and deepen decentralization in Lesotho. Its main purpose is to promote decentralized service delivery for social and economic growth through the development of transparent funding mechanisms and by improving the accountability of local authorities.

Specifically, the project will support the Government of Lesotho to: 1) Further piloting of the Local Development Fund to improve mechanisms for funding councils thus accelerating decentralization, 2) Develop and implement a roadmap for improved decentralization, Integrated Financial Management Information System (IFMIS) roll out and enhanced local accountability and 3) Change Management support to line ministries (including MoLGC) and local authorities in decentralization through unpacking of functions at local level.

2. Situation Analysis

Economic and social situation

Lesotho is classified as a Least Developed Country with a GNI per capita of M6,853 (approximately USD910) in 2008 and GDP per capita of M4,795 (USD635) (constant prices, Bureau of Statistics, National Accounts 2009) with a Gini index of 52.5 placing it among the most unequal countries in the world (UNDP: Human Development Report 2009).

Lesotho is small and landlocked, with limited natural resources and a narrow production- and export- base. Aside from subsistence agriculture, the garment sector plays a critical role in generating employment, output and exports. The economy is highly open, with imports amounting to about 90 % of gross domestic product (GDP), and depends heavily on inflows of workers' remittances and receipts from the Southern African Customs Union (SACU). Revenue from SACU accounted for 60% of the government's budget in 2008, but the impact of the economic crisis has significantly reduced SACU revenues by approximately 50% in 2010/11[1] This will put considerable pressures on the government's budgets in the coming years with significant cuts expected.

The unemployment rate has also been increasing after the economic crisis. In 2008 the unemployment rate stood at 23% when in 2009 it was already 29.4%. The unemployment is higher among youth and women.[2] The high unemployment remains a major challenge for the country and a possible cause for public unrest.[3] Consequently, job creation is at the centre of the Government policies for growth and poverty reduction.

One of the main factors behind Lesotho's low HDI is the HIV epidemic, which is having a profound impact in the country. The country has the third highest HIV prevalence rate globally, 23% of people aged 15-49 are infected[4], which, as a proportion of the population, is devastating and extremely high.

Lesotho is governed by a multi-party democracy functioning within a constitutional monarchy. Both national and local elections are in principle held every five years, though not simultaneously. There are over 10 active political parties represented in the parliament. After the last national elections that took place in February 2007, the Mixed Member Proportional Representation (MMP) model, which was adopted after the 1998 political turmoil, led to confusion with regard to the PR seat allocations, with the opposition claiming the then ruling party LCD had manipulated the electoral system to gain additional parliamentary seats. This has culminated in a drawn-out political conflict. A locally led mediation team under the guidance of the Christian Council of Lesotho and a number of non-governmental organizations under their umbrella body, the Lesotho Council of Non-Governmental organizations (LCN), stepped in to mediate, supported by technical and financial resources from the UNDP. A land-mark agreement in early 2011 saw all stakeholders agreeing to revisions to the Electoral Bill which was at the centre of the problem. Consequently a new Electoral Act was been legislated and guided the recent general elections that resulted in a democratic and peaceful transition and new political dispensation in the country.

[1] Ministry of Finance and Development Planning: Budget Speech 2011/12 February 2011.
[2] LFS 2008 and CMS 2009
[3] Lesotho Bureau of Statistics: '2008 Integrated Labour Force Survey', Maseru, October 2009.
[4] Lesotho Demographic and Health Survey 2009

In 2005 the first local election took place in the 128 community and 10 district councils and one municipal council, with the LCD winning most of the seats.[5] Although the election process itself was uncontroversial, there was low voter turn-out which has been attributed to inadequate voter education on local government roles and responsibilities. The second local government elections were held on 1 October 2011 where 64 Community Councils, 11 Urban Councils and 1 Municipal Council were contested. Earlier on, the constituency boundaries were revised to align the local government constituencies with the national election constituencies and by creating a number of urban councils. The outcome of the local government elections were generally accepted by all though they still showed a low voter turn- out.

Sector context

The Government of Lesotho is faced with multiple and interconnected development challenges including the core issues of poverty reduction and anchoring a still fragile democratic process more firmly at both central and local level. To address these challenges decentralization is increasingly viewed as a means by which public service delivery can be improved through more robust and intimate accountability linkages between providers and beneficiaries. Moreover, by empowering locally elected bodies and encouraging bottom-up popular participation, it is expected that local level governance will further entrench democratic values and principles at sub-national level; in itself a valuable outcome, but also potentially reinforcing accountability and hence improving public service delivery.

The Government launched in 2005 the Public Sector Improvement and Reform Programme (PSIRP), which was (and to a certain extent still is) also supported by several development partners. It focused on three components, one of which was decentralization. The goal of the decentralization component was to reduce the poverty of the Basotho people. The key objective was to create a conducive environment whereby communities freely and effectively participate in the planning and management of development and have access to improved services through decentralized organizations and institutions. However, the PSIRP progressed at an uneven pace at best and the recently introduced Service Delivery Agenda can be seen as a means to accelerate progress. The Government has since embarked on a process of designing a five year National Strategic Development Programme with the help of development partners.

The key defining decentralization legislation is the Local Government Act of 1997 as recommended which provides the legal basis for the subsequent establishment community-, district- and municipal- councils. The boundaries for Local Government have been reviewed in 2011. The key objectives of the Local Government Act and the accompanying decentralization process are:

1. To deepen and widen public access to the structures of government.
2. To bring services closer to the people thereby improving service delivery.
3. To promote people's participation in decision-making, planning and implementation of development programmes.
4. To promote equitable development in all parts of the country through the distribution of human, institutional and infrastructural resources.

As can be seen, the motivations for promoting the decentralization process are both political (e.g. more inclusive and participatory democracy as well as more equitable development) as well as based on efficiency concerns (e.g. assuming service delivery will improve which is again based on the principle of subsidiary). The Local Government Act also delineates the key responsibilities of district and community councils in what is known as Schedule 1 and 2 of the Act. This include natural resource management, land allocation, water supply, minor roads, grazing rights, promotion of local economic development etc. However the exact roles and responsibilities of local authorities vis-à-vis national authorities are unfortunately ambiguously defined in the Schedules causing confusion, lack of clarity and cause unnecessary tension due to apparent duplication of efforts at district and local levels between local government authorities and their district administration counterparts, thus affecting service delivery. Going forward there is thus a need to further define the division of labour between local and national authorities including Ministry of

[5] Direct elections took place only for the Community Councils, these in turn elected the District Councils. New local elections were scheduled to take place in April 2010, but have been postponed by 12 months to enable the amendment of Local Government Act 1997 and the Local Government Elections Act 1998 as well as other laws to ensure proper conduct of the elections. All main political parties have agreed to this postponement.

uf

KLJ

Local Government and Chieftainship (MoLGC), line ministries and Ministry of (MoF) and unpacking the functions at local level.

The key strategic document that guides MoLGC's efforts in the decentralization process in the medium term is the Strategic Plan of MoLGC (November 2008), which covers the period from 2009 to 2013. The strategic plan outlines the key objectives and priorities of MoLGC and points to the strategic options for achieving these, including costs and other implementation challenges.

Obviously effective decentralization is conditional upon considerable collaboration with other actors, including line ministries. Staff in particular is expected to be transferred to local authorities, affecting a high share of the country's civil servants. To accommodate such a substantial transfer, Government of Lesotho passed the Local Government Service Act in January 2008, which provides for the establishment of a Local Government Service overseeing the transferred staff and other workers within the local government sector. Related, a Local Government Service Commission has been established with responsibilities including recruitment, induction, staff administration and sensitization. However progress has been uneven and is flagged as an outstanding issue in the recently drafted Decentralization Action Plan (DAP) (MoLGC August 2009). The DAP has strong emphasis on inter-ministerial cooperation especially in four key priorities:

1. Legal harmonization and realignment of functions between the local and national authorities including ensuring oversight of the reform process,
2. Guiding the transfer of human resources and providing capacity development,
3. Resourcing of the local authorities including the inter-government fiscal framework,
4. Participation and accountability.

Lesotho's development partners are supporting the decentralization process both at central and local level. In the case of the former, donors who have provided general budget support (GBS) have made support conditional upon a number of measurements that the government must meet, as stipulated in the Performance Assessment Framework (PAF). Decentralization was part of the PAF targets and hence there is a considerable momentum building towards pushing the issue to the forefront of the dialogue between the partners. This resulted inter-alia in the Government drafting the DAP.

The DAP (2009-2011) now due for a review, provides an operational framework decentralisation and stresses the need to have buy-in from several stakeholders outside MoLGC. Consequently substantial emphasis is placed on the Inter-Ministerial Working Group (IMWG) which has the ambition to provide the forum for technical work to be executed on the implementable actions of the DAP. At a higher level, a steering committee of principal secretaries has been established under the chairmanship of the Government Secretary which has the ambition to provide the forum for coordination and dialogue on the implementation and legal issues.

The decentralization process is also guided by broader policy developments. In addition to the above mentioned broader policy support areas of general budget support and PSIRP the decentralization process has more recently also benefited from the Service Delivery Agenda (SDA, which is still to be fully detailed and translated into action).

The SDA marks an attempt by the Government of Lesotho to accelerate efforts aimed at improving core social and economic service delivery, which will involve a much stronger role for local authorities in delivery, which in turn will assist in reaching the MDGs, several of which are off-track in Lesotho. It can be viewed as a successor to the PSIRP with more focus on having a unified approach to reenergize the entire public sector.[6]

Thus there are significant policy and institutional developments ongoing but actual progress will be conditional upon the key actors being willing and able to seize the opportunities that new momentum for decentralization and service delivery offer. Below is an attempt to make a schematic overview of the various strengths and weaknesses, as well as opportunities and threats of the sector:

[6] See e.g. GoL: 'The Public Sector Improvement and Reform Programme revisited - Service Delivery Agenda' Concept note April 2009.

DELEGATION OF THE EUROPEAN UNION TO LESOTHO

Mf KRH

Summarized SWOT analysis local governance sector

	Strengths	**Weaknesses**
Internal to the sector of local governance	- Completion of DAP by MoLGC - Political willingness to sustain fiscal decentralization in both MoF and MoLGC - UNCDF technical expertise on decentralization and Local Development Fund design - Presence of several interventions from development partners targeted at enhancing service delivery through decentralized governance - UN plans to provide long-term support to the sector	- Relatively recent and therefore weak collaboration structure between MoF and MoLGC - Slow progress in implementation of DAP - Public management expenditure cycle needs overhaul - Lack of clarity on functions devolved to local authorities
	Opportunities	**Threats**
External to the sector of local governance	- Recently held local government elections will build momentum - The recent general elections in 2012 could generate a push for enhanced public service delivery - Explicit willingness to roll-out IFMIS at the local level	- Lack of financial management capacity at the local level - Partial legislative/procedural vacuum in public procurement and auditing - Challenge to balance central versus local priority setting

Lessons learnt

The different partners active in decentralization at the non-sector level (EU, GIZ, UNDP/UNCDF) have been coordinating their efforts in support of the Government. With regards to funding for community development, UNDP/UNCDF is focusing on a local development fund active in three (3) central districts (Maseru, Thaba Tseka and Berea) that has qualitatively different procedures from the modality used by LGNSP to provide funding (e.g. calls for application), whereas GIZ is not providing any such funding. To avoid fragmentation, proliferation of donor-specific imposed procedures and to avoid inter-district funding distortions, there clearly is a need to increase the level of ambitions among the development partners. Hence it is suggested that future support to the decentralization process should promote a harmonized and non-distortive allocation mechanism for financing part of the councils development needs. Obviously this will have to entail close collaboration of the Development Partners leveraging the existing structures. A promising modality which is proposed here is pooled funding with national coverage, gradually being fully aligned to national funding and allocation principles as these emerge. This is the approach that is currently developed under the UNDP/UNCDF provided support.

Since the beginning of the decade *Germany* has supported the decentralization efforts of Government of Lesotho through the programme entitled 'Support for decentralized rural development Programme (DRDP)' firstly in the four southern districts, later more at national level. The support is expected to end in 2014 at which point GIZ may terminate most of its activities in Lesotho. Nevertheless, GIZ continues to support MoLGC primarily in the form of short and long-term technical assistance, but its ambitions in terms of driving the national decentralization process forward solely through MoLGC have arguably been scaled down. Going forward GIZ plans to further diversify its decentralization support to include line ministries with commitment to decentralize; again a reflection of the need to support a broader coalition for driving the process forwards. This has also informed the DDP in designing the support modalities to the process. The previous phase of GIZ's DRDP included a sizable investment in the districts in the form of a District Development Fund (DDF). However, DRDP suffered a substantial setback as the DDF was never implemented. As a consequence there have been few external resources available for the actual implementation of the council plans developed with support from the DRDP. An important lesson learnt for DDP is thus that it is important to ensure that the proposed funding mechanism (the Local Development Fund) does not suffer the same fate.

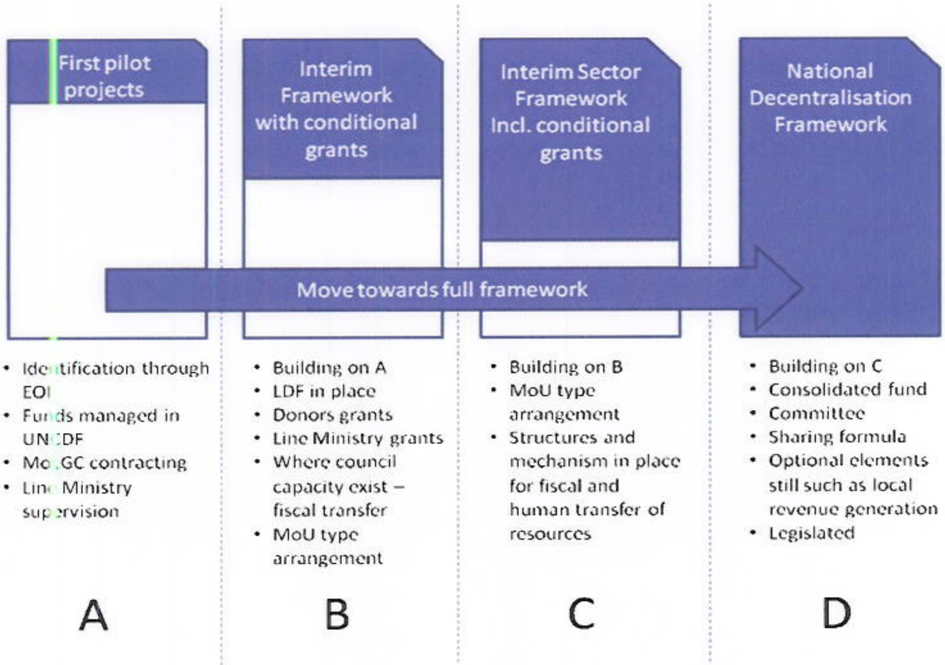
The World Bank has had similar experiences when, in 2000, it supported the establishment of a Local Fund for Community Development (LFCD). The project aimed at piloting operations and

DELEGATION OF THE EUROPEAN UNION TO LESOTHO

procedures in 22 communities. The World Bank project also had a component to train staff to develop the capacity of LFCD and to provide technical support to LFCD partner institutions such as community-based organizations, non-governmental organizations, and private sector firms. However, the project completion report of 2004 passed harsh judgment on the LFCD rating the outcome and impact as highly unsatisfactory and negligible mainly due to lack of government commitment to an essentially donor driven project.[7] This in turn calls for the design to be based on the national systems and continuous monitoring of effective collaboration and coordination between Government and Development Partners, which has also informed design of DDP.

The UNDP/UNCDF launched their support to the Government through the Lesotho Local Development Programme (LLDP) in 2009. The LLDP provides support to MoLGC in the formalization of a national framework for decentralization, and is piloted in the central districts. The LLDP has fielded TA in the form of a Dedicated Support Team in the MoLGC under the Director General Local Government Service of the MoLGC. The LLDP has a strong focus on decentralization, bringing in an advisor in 2010 and 2011 to work on establishing the national framework for decentralization. This includes the establishment of a pilot Local Development Fund (LDF), which will provide the three pilot districts with development funds.[8] The exact positioning, management and governance arrangement for the fund have not been fully detailed yet, although the project document indicates that the funds will be disbursed directly from the Treasury to the local government accounts. UNCDF has fielded their resident expert on fiscal decentralization in March 2010 followed by additional support in early 2011 to address these issues and complete a decentralization road map which will factor in future DDP support. It will be essential to design a funding structure that is both gaining the commitment of central government and is also able to fund a diverse range of community and district priorities that emanates from a bottom up approach balanced with top-down central priority setting. The designed funding structure is as closely aligned as possible to the national budgeting processes and systems so as to facilitate the eventual absorption into national system.

In essence, the LLDP has supported the Government to develop a number of decentralization frameworks each building on one another ultimately leading to a full-fledged national decentralization framework.



[7] World Bank: 'Lesotho Community Development Support Project - Implementation Completion and Results Report' Washington 2004
[8] Broader fiduciary concerns on public financial management (PFM) are addressed explicitly under the performance assessment framework of GBS, Pillar II on governance and PFM.

LESOTHO

Framework A is a result of the piloting of community projects in the 3 pilot districts during 2010 as an initial step to build capacity and confidence in the system. The process while managed through the MoLGC did not follow Government systems and as such was far from ideal, yet providing an invaluable experience in running community projects both for the central and local levels.

During early 2011, the frameworks B, C and D have been drafted based on extensive consultations with all parties involved (MoLGC, MoF, MoHSW (sector framework), Auditor General, Accountant General, etc). Each of these frameworks builds on the predecessor and adds a level of sophistication ultimately leading to the national decentralization framework (D). Each framework is anchored in the national systems in terms of for example procurement, financial management etc. For the LLDP and EU funding to councils, framework B provides sufficient coverage to allow full functionality through conditional grants. Framework C is developed to support sector level decentralization for those line ministries that have indicated an early interest (such as Health and Social Welfare). Framework D is the full national decentralization framework, which still provides certain level of flexibility in terms of the modules that will be applied (e.g. will councils be allowed to raise local revenues or does that responsibility remain at central level, will councils have separate bank accounts etc). Therefore, it is important to understand that even framework D can be tailored based on the assessed capacities and risks associated with decentralization.

The LLDP facilitated the design of a draft fiscal decentralization transfer system jointly developed by the ministries of Finance and Development Planning and Local Government and Chieftainship Affairs. This will provide a solid foundation for the DDP. Additional strengths and value that the LLDP contributed to decentralization included the following:

- It provided discretionary funding to councils that are currently financially constricted. The ambition was that this would promote learning by doing and build the councils' credibility. Furthermore, the LLDP intended to establish an incentive framework that would reward well performing councils.[9]
- UNCDF has unrivalled experience in establishing and implementing local development funds, which should assist in ensuring that it will get traction.
- UNCDF is planning to continue activities after 2013, ensuring a certain degree of continuity to the support of the decentralization process.
- UNDP has considerable experience within democratic governance programmes, and its portfolio comprises other programs aimed at enhancing public service delivery, with which synergies may arise. One example of such is the support to the Ministry of the Public Service to increase its capacity to support efforts of enhancing service delivery.

These factors gave the LLDP substantial clout and leverage among a broad range of government and non-state stakeholders. Clearly, given the limited time the programme had been operational there are few lessons learned per se, but the key issue in this context is that UNDP/UNCDF and Government of Lesotho sought to mainstream the Local Development Fund nationwide if funding can be made available. Given the fact that the DDP will come on stream in late 2012, it was agreed to phase out the LLDP and that the existing commitments for council development funding be channeled through one unique fund so as to reduce the burden on the Government of Lesotho. In essence this means that the funding of the development fund under the DDP will be increased through UNCDF (i.e. an associated action as per cover page).

In addition to the complementarities with the LLDP and DBS activities, the DDP will also (by design) be highly complementary to the EDF-supported Non-Sate Actors (NSA) programme that is expected to be implemented concurrently. The NSA programme will ensure greater demand for service delivery and accountability at local level, through dialogue on public expenditure and developing the capacity of local NSAs to engage with district and community councils.

Donor coordination

General donor coordination between the fifteen development partner agencies that are active in Lesotho is ensured through the Development Partners Consultative Forum (DPCF), which is currently co-chaired by the UN and Irish Aid. All resident development partners are members of the DPCF, which includes the World Bank, the EU Delegation, all resident United Nations agencies, as well as bilateral development partners: Irish Aid, GIZ, USA and China. The DPCF is responsible for donor coordination and taking forward the 2005 Paris Declaration on Aid Effectiveness for Lesotho.

[9] Both of these aspects are fully consistent with the recommendations in the EC's Reference Document *Supporting Decentralization and Local Governance* see e.g. p. 45

DELEGATION OF THE EUROPEAN UNION TO LESOTHO

KEU

As far as support to decentralization is concerned, GIZ, EU and UN have set up a decentralization technical working group, a forum in which all development partners involved in the support of the decentralization reform update each other on the progress of their programmes and exchange advice on their present and future interventions. This technical working group is further strengthened by partners working in sector decentralization (e.g. MCC in health). The partners have expressed a desire that the group be coordinated and convened by the Government and in 2010 a first of such a session has happened. After a break in continuing the process, following the 2012 elections, the new Deputy Prime Minister and Minister of Local Governance and Chieftainship Affairs took office, and such meetings have taken place under his leadership and extended to other partners working in sector decentralization. This will hopefully set the trend for Government-led coordination.

4. Strategies, including lessons learned and the proposed joint programme

Strategically, the DPP will seek to leverage the momentum from the service delivery agenda and the recent (and related) drive to accelerate the decentralization process, as witnessed by the adoption of the DAP and the launch of decentralization strategy in December 2011 by the Government which saw the Ministry of Health as the first to decentralize. This is further evidenced by the willingness to support the development of the different decentralization frameworks (as indicated above).

A key strategic tenet of this is to deepen decentralization by assisting especially MoF and MoLGC in designing new intergovernmental and national principles based on equity, transparency and performance. DDP will also support the roll out of IFMIS to lower levels of government thus building on previous EDF 9 support. Moreover this is fully in line with Government of Lesotho priorities which have the ambition of using IFMIS to link the central financial operations with those of the district councils through the district sub-accountancies.[10]

MoLGC will be supported with its mandate to assist local government in developing the necessary capacity to manage local development funding mechanisms, which includes planning, implementation and accountability strengthening support. More opportunistically, the DDP, through the MoLGC, will support line ministries that display commitment to promote the decentralization process.

The main activities foreseen in the DDP are part of the mandate of both the MoF and the MoLGC and as such the programme strategy needs to be developed to harness and strengthen these mandates. Components of the DDP can be squarely defined with the remit of a single Ministry and as such that Ministry will be assigned the role of Implementing Partner over such a component whilst collaboration and communication with the other Ministry will be encouraged. The component on the decentralization framework is a shared responsibility between the Ministries and therefore this requires a careful design of the management arrangements as defined in the programme strategy.

Objectives

Based on extensive stakeholder consultations and dialogues with Government the following objectives have been formulated:

> *The general objective of the Deepening Decentralization Programme is to support the government in reducing poverty, promoting inclusive economic growth and entrenching democratic principles through improved decentralized governance.*

The general objective of DDP is closely aligned to both the interim national development framework and the principles enshrined in the Cotonou agreement. Poverty reduction is primarily addressed through a two pronged approach of improving social services and hence increasing living standards and productivity, as well as more directly focusing on creating an enabling environment for businesses to grow. To operationalize the overall objective and provide focus for the DDP the following programme purpose has been formulated.

[10] Budget Speech to Parliament for the 2010/2011 Fiscal Year by Mr Thahane, Minister of Finance and Development Planning, 12 February 2010.

Muf KRJ

To promote decentralized service delivery for social and economic growth through the development of transparent funding mechanisms and improving the accountability of local authorities.

The basic premise is that only a decentralized system for service delivery will be able to meet the significant challenges that the Basotho are facing, especially in terms of improving outcomes of the social investments and to stimulate local economic development. Thus there is a need to accelerate and deepen the current decentralization drive and to provide substantial capacity development for the local authorities. However the modalities through which this will be implemented is more than a technical concern. Hence the focus on ensuring that funding is provided in a transparent fashion that, combined with other measures, will facilitate greater accountability among the local service providers.[11] It is consequently the ambition to increase the democratic legitimacy and responsiveness of the local government institutions through these measures.

The DDP will seek to further solidify the strong gender achievements made by Lesotho not least in the relevant ministries and local governments. Many of the senior government staff, including several ministers, are women, and the local government elections held in 2005 achieved a 58% representation of women in the district and local councils. This subsequently reduced to 47% women's representation in the 2011 local government elections. The DDP will thus work in an environment characterized by relatively equal participation of men and women at local level and will continuously seek to defend these achievements.

Environmentally the DDP is not expected to have any significant impact, but will of course comply with existing environmental legislation and regulation. The Local Government Act of 1997 mandates local councils, as detailed in First and Second Schedule, to "control Natural Resources and environmental protection' (e.g. dongas, pollution).

To achieve the project purpose the DDP will have to address three core interrelated challenges: 1) The limited budget discretion and size for district and community councils. 2) The limited local level financial management capacity that reduces central level confidence in the decentralization process and 3) The limited decentralization among line ministries with few staff and functions transferred. The below expected results are a response to these core challenges.

Expected results

To operationalize an effective strategy to address the above challenges, the DDP will have three core results that have been translated into corresponding components, described below:

- **Output 1: Improved development funding through local authorities:** The key achievement of this component would be the provision of funds for local development (aligned to national funding systems) through local authorities in the whole country. Modalities and mechanisms for implementation will be informed by lessons learned from the Government local development funding mechanisms currently being established with the assistance of UNDP/UNCDF. Ensuring alignment with national systems is a key guiding principle. These initiatives are a key element of decentralization and empowering local governance structures. Experience gained will be relevant for structuring such a mechanism on a large scale within Government of Lesotho systems.[12]

  The funds will be made available based on the priorities and plans of the district and community councils following transparent and mutually agreed criteria in which both the process and outcomes (e.g. the council plan) are publicly available and open to scrutiny. Implementation procedures will to a large extent follow those of Government of Lesotho, deviating only where fiduciary concerns are decisive or where there is a need to pilot and test new approaches. Capacity development for the associated planning, implementation and monitoring will be provided and delivered mainly through MoLGC. Institutionally, both the MoLGC and MoF would play a key role.

---

[11] The planned Local Government Training Centre (LGTC) will probably become instrumental in ensuring a harmonized, institutionalized and domestically anchored approach to capacity development. Especially since the LGTC will establish a sustainable system of training, research, information mobilization and dissemination and capacity development that is dedicated to the local government sector in Lesotho, within the framework of the decentralization policy of the Government. GIZ has been extending support to making the LGTC operational but the establishment of the centre has been postponed by the Ministry of Local Government and Chieftainship.

[12] Ideally an equalization formula guiding intergovernmental transfers should already be in place, but reality is that districts and communities have severely underfunded mandates undermining the political legitimacy. Hence it is suggested to proceed with the LDF as a pilot, with the clear objective of assisting in design the formula for governing fiscal transfers.

- **Output 2: Decentralization and accountability systems at the local level promoted:** This component will work simultaneously with the activity described above and utilize the experience gained to inform and accelerate the decentralization process. Continued substantial work on modalities for local development funding mechanisms (reference is made to the before-mentioned decentralization frameworks), including equalization formulas[13] and performance incentives, are expected to be undertaken under this component. In addition, the LLDP has generated valuable lessons on decentralization, as well as a road map informing initial interventions in the area. MoLGC will be a key partner in this process together with MoF, but, to gain momentum, it will also have to engage line ministries (such as MoHSW). MoF has indicated that the introduction of IFMIS at district council level could facilitate decentralization and improve accountability if managed correctly and supported by appropriate capacity development.[14] It would thus facilitate upwards accountability, but it could also allow local NSAs to hold councils accountable. Moreover decentralization might also open the way for local revenue generation and capacities for management of these, building on previous work in this area.[15]

  The exact sequencing and pace of the decentralization process (and hence this component), is conditional upon the political momentum of the process forward. Hence focus will initially be on relatively technical aspects (e.g. feasibility and capacity development requirement studies of IFMIS at council level). Broader fiduciary issues related to public financial management (PFM) will be addressed through the GBS PAF where Pillar II has an explicit focus on governance and PFM, including procurement and auditing weaknesses and fragility.

- **Output 3: Capacities of Line Ministries and local authorities enhanced to decentralize functions**: In close coordination with MoLGC and in line with the Local Government Act, several line ministries have engaged in transferring functions and related staff to local government. The commitment has been mixed and often due to a combination of external pressures and an internal recognition of the benefits of decentralization.[16] Regardless of motivation, Ministries decentralizing their functions are facing significant challenges in managing the process and deciding on the sequencing, content and adapting to the new roles that decentralization will imply. Moreover there are significant regulatory, procedural and legal issues associated and support in this respect is also needed and constitute a key area for assistance.

  In essence, the DDP will support the MoLGC and decentralizing ministries in sensitizing their staff on devolving functions from the ministry to community councils, provide support in function mapping, business process improvement, organizational design -helping restructure and reorganize councils to fit new functions, train ministries on monitoring and evaluation and provide a wide a range of HR support functions including role profiling, and the development of competency frameworks.

  The DDP will help develop and compile new operating procedures for the ministries and councils, produce manuals and support staff training and development and facilitate the transfer of staff to councils and facilitate induction and capacity building for council staff.

  Progress is conditional to the political momentum and readiness to engage in the process and it is premature to predict which ministries will need support.

  In any event immediate change management support will be provided to the ministry of local government and decentralizing line ministries in strengthening administrative systems, sensitizing their staff on devolving functions from the ministry to district and community councils, providing support in organization design-helping restructure and reorganize councils to fit new functions-AND facilitating function mapping for these new councils.

[13] Equalization formulas are used to calculate intergovernmental transfers and can be based on indicators of a locality's general needs or estimates of its fiscal capacity.
[14] MoF: Budget Speech, 12 February 2010.
[15] See e.g. GoL: 'Study of Grants and Revenue Raising Capacity of Local Government' June 2007. The study was co-sponsored by GIZ and the World Bank.
[16] Thus the substantial MCC support to the Ministry of Health being conditional on further progress in decentralization has arguably facilitated a better understanding of the need to promote the process.

DELEGATION OF THE EUROPEAN UNION TO LESOTHO

ЦИ f ЯРЦ

Business process improvement and training in areas such as monitoring and evaluation and the provision of a wide range of H.R. support functions including role profiling and the development of competency frameworks.

Change management support and advisory services will be provided to decentralizing ministries and new councils to develop and compile new operating procedures, produce manuals, support staff training and development and facilitate the transfer of staff to councils, facilitating induction and capacity building for council staff. Designing and facilitating business process review, design and improvement and embedding new business processes, practices and procedures.

The three components will synergistically aim at improving service delivery using a decentralized and accountable approach to the benefit of all Basotho people, regardless of gender and wealth. The success of the overall programme will be ultimately shown by improved service delivery at local level.

Activities

Considering that the DDP is expected to start only in early 2012, and that decentralization is a fast evolving sector, it is difficult to precisely predict the exact progress, status and momentum of the decentralization process at that point in time, rendering a rigid activity and implementation schedule less than useful. It is thus suggested that - as a first activity of the DDP - an inception report is made which details the status of the decentralization process and provides a more accurate and appropriate set of activities and their sequencing, according to the above indicated results and objectives. This inception report may be informed by the annual joint assessment of the status of decentralization by Government of Lesotho and development partners which is planned under GIZ's current DRDP phase 2010-2014.

Programme Management Activities
Besides result focused activities, the DDP will obviously also have to undertake programme management activities, including the recruitment of staff, setting up of operational procedures, development of specific work plans and detailed budgets. It is proposed that the Delegation of the EU and NAO are active partners in the inception activities as set out in this document. The budget contains a tentative sequencing of the activities, which should be adjusted and updated in the inception phase of DDP.

Stakeholders

The following are key stakeholders in DDP:

1) MoF will be the key ministry for the Local Development Fund design and management. In light of DDP, it has an interest to ensure that fiscal discipline is maintained and that national spending priorities are adhered to. In addition MoF has pioneered the Integrated Financial Management Information System (IFMIS) which has been implemented in both national level ministries and District Administrations through an important financial and technical assistance provided by the 9th EDF. The ministry is planning to extend the IFMIS to district councils which could pave the way for transparent and accountable decentralization. MoF is supporting decentralization provided it can improve accountability and efficiency of public management, e.g. through introduction of better management systems.

2) MoLGC provides the elected district and community councils with technical advice, supervision and effective management of both recurrent expenditure and capital investments. It is also responsible for the District Administrator's Office, which represents the central government at local level. The vision of the Ministry is to create 'conditions for sustainable local government, poverty reduction and overall human development in Lesotho.' Furthermore, the MoLGC is essential in its role as a facilitator for decentralization, supporting line ministries with change management services tailored to enhance the understanding of decentralization and support the development of decentralization implementation plans.

3) MoPS (Ministry of Public Services) provides overall support to develop the capacities of the ministries to decentralize and provides support for organizational change.

Auf
KRJ

4) Local authorities, including local governments, will be responsible for the front-line services interacting with the ultimate beneficiaries; the citizen of the supported districts. Currently local authorities have underfunded mandates and limited discretion undermining the democratic legitimacy of the local government system. The DDP intends to improve that situation by increasing the budget envelope and strengthening their ability to plan, implement and monitor according to locally anchored priorities. The latter will imply considerable capacity development support.

Location

The decentralization programme will eventually have a country-wide coverage, implemented in a phased sequencing that allows for internalizing and building upon the important achievements made by the currently ongoing programmes. However they will again have substantial qualitative differences in their sequencing and modalities by which they operate.

The DDP will seek full alignment of the decentralization framework to eventually become an integral part of the Government systems. Institutionally the programme team will have a two-pronged approach with one base in MoF and one in MoLGC working collaboratively to deliver on the 3 results but each with particular roles and responsibilities. It is important to note that the strategy is that members of the technical team responsible to support the DDP activities are to be integrated into the existing teams in the respective ministries that are responsible to carry out these activities. This arrangement underscores that the DDP is designed to support the Government of Lesotho with the necessary technical assistance to carry out its own mandate and priorities on decentralization. In addition, this arrangement will greatly facilitate capacity development of the teams in the respective ministries. Members of the team will have a dual reporting line so as to ensure that the project manager can influence the pace and direction of the activities, however their main responsibility with be managed through the host Ministry.

5. Results and Resources Framework in EUR

Country Programme outcome:
Demand-driven and decentralised public service delivery based on claim-holder aspirations and participation strengthened (UNDAF 2008-2012 Outcome #4 & Lesotho CPD 2008-2013)
By 2017, national and local governance structures deliver quality and accessible services to all citizens. (UNDAF 2012- 2017 & Lesotho CPD 2013-2017 – draft to be finalized in 2012)

Outcome indicators: CPD 2008-2012 Outcomes - Indicator: Accessibility of public services at the local level. Baseline: Over-centralization of public services in the capital. Target: All public services decentralized. Outcome indicators for CPD 2013-2017 currently developed and to be finalized in 2012.

JP Outputs (indicators and baselines)	Participating UN organization-specific Outputs	Participating UN organization[17]	Participating UN org. priority	Implementing Partner	Indicative activities for each Output	Resource allocation and indicative time frame* (INCLUDES DIRECT+INDIRECT COSTS)- Breakdown in Annex 3. Y1	Y2	Y3	Y4	Total
Output 1: Improved development funding through local authorities Key Indicators: (i) Mechanism for local development funding set up and functioning (ii) No. of decentralizing ministries understand and adopt the principles of local development funding (iii) Number of districts and community councils (or increase) supported through the local funding (iv) % increase in resources flowing to local levels as proportion of total national development budget Baseline: (i) Draft frame work for local development funding (ii) Ministries have little understanding of the local development funding mechanism (iii) Only three districts and three councils directly supported through local development funding (iv) Lack of data on existing funds provided to local levels	• Final design document on local development funding mechanism; An MoU on the LDF with GoL and an approved national Inter-governmental transfer system	***UNCDF***		1)MoF in cooperation with MoLG	1) *Finalize design of local development funding mechanism* • Technical design, conditions, performance measures, etc.	**100,000**	**50,000**	**50,000**	**50,000**	*EUR 5,000,000*
		UNDP		2)MoLG with technical support of UNCDF	2) *Support adoption of the new system* • Ensure Government counterparts (MoF and MoLGC) understand and buy into the concept • Ensure counterparts are capacitated to adopt the system	**200,000**	**190,000**	**100,000**	**100,000**	
	• Capacity development programme developed and executed for government on local development funding mechanism	***UNCDF***		3)MoLG with technical support of UNCDF	3) *Operationalize the local development funding mechanism* • Provide technical training to councils to operationalize the system and processes • Operate the local dev. funding mechanism with support of UNCDF in the first instance, following which the MoLGC will take full responsibility • Disburse funds through the local dev. funding mechanism	**500,000**	**1,400,000**	**200,000**		
	• Development funding through local level disbursed and regular training programme developed for Councils	***UNCDF***		4)MoLG with technical support of UNCDF	4.) *Operate the local development funding mechanism* Operate local dev. funding mechanism once set up and operated directly through ministry			**1,280,000**	**780,000**	

DELEGATION OF THE EUROPEAN UNION TO LESOTHO

Output 2: Decentralization and accountability systems at the local level promoted Key indicators: (i) Existence of studies documenting current decentralizations and accountability systems and proposing more appropriate principles (ii) Existence of new principles/model for decentralization developed and piloted (iii) Adoption of formula-based system of inter-governmental transfers; Integrated financial management Information System (IFMIS) linking the central financial operations and the district councils through the district sub-accountancies Baseline: (i) New principles not consistently developed or implemented (only three districts (Maseru, Berea and Thaba Tseka) are piloting new principles) (ii) Lesotho Government's Integrated financial management Information System (IFMIS) operational in Maseru and with access from sub-accountancies.	• Documentation on current state of decentralization and accountability system • Model and framework for decentralization in Lesotho agreed upon • Programme of assistance of decentralization programme developed • Inter-governmental transfers system and IFMIS linked up for implementation at sub-national level	***UNDP*** ***UNDP*** ***UNCDF***		1) MoLG (in close cooperation with MoF) 2) MoLG (in close cooperation with MoF) 3) MoF (in close cooperation with MoLG)	1)Conduct decentralization assessment and produce inception report • Commission Studies documenting current system and proposing more appropriate principles. • Resulting from the commissioned studies, test new and more appropriate principles 2)Decentralization model: • Design the decentralization model (based on findings) and support the finalization and implementation of the decentralization model and system • Develop a solid programme of assistance to councils to decentralize • Rollout decentralization 3)Develop framework for linking up of inter-governmental transfer system and IFMIS for implementation	***50,000*** ***300,000*** ***50,000***	 ***100,000*** **100,000**	 ***200,000*** **50,000**	 ***200,000***	*EUR 1,050,000*

Kr

Output 3: Capacities of Line Ministries and local authorities enhanced to decentralize functions Indicators (i) Number of line ministries supported in decentralization (ii) % of functions effectively unpackaged at local level (iii) % of staff transferred (iv) Number of councils assisted in decentralization Baseline: (i) Only Ministry of Works has decentralized, Min. of Health decentralization ongoing (ii) There is no effective unpacking of functions at local level (iii) The staff of the Ministry of Works has been transferred **(iv)** No councils assisted: There is no programme of assistance to councils to decentralize	•Process established for interdepartmental cooperation for decentralization •Human resources and functional responsibilities assigned for decentralization •leadership and environmental change for decentralization facilitated	***UNDP***		1) MoLG	1) Sensitization and strengthened administrative systems to facilitate the process of decentralization • Design and develop a communication strategy • Consult, involve and communicate with all key stakeholders • Conduct workshops to facilitate Interdepartmental decent. working group • Develop and implement an agenda for change, implementation framework and monitoring arrangements • Conduct stakeholder workshops, training events, town halls and newsletter to disseminate information and highlight debate and discussion on decentralization • Conduct a work programme for the interdepartmental decent. working group	**100,000**	***100,000***	***50,000***	***50,000***	*EUR 750,000*
		UNDP		2) Min. of Public service(MoPS)	2) Facilitate a Human Resource infrastructure, functions and systems to implement the decentralization process • Conduct reorganization and restructuring exercises in decentralizing ministries • Map functions • Map business processes • Support/facilitate the transfer of staff to councils and facilitate induction and capacity building for council staff • Conduct training events/workshops on monitoring and evaluation • Develop role profiles, competency frameworks • Workshops/events to develop and compile new operating procedures for district/community councils • Develop/produce manuals and support staff training and development	***90,000***	***60,000***	***50,000***	***50,000***	
		UNDP		3) Min. of Public service(MoPS)	3) Facilitate an enabling leaderships and organizational environment for change • Conduct strategic planning, vision and values exercises for senior leaders in decentralizing ministries • Conduct leadership and organizational change workshops for senior leaders in	***100,000***	***50,000***	***30,000***	***20,000***	

DELEGATION OF THE EUROPEAN UNION TO LESOTHO

Amf
KRH

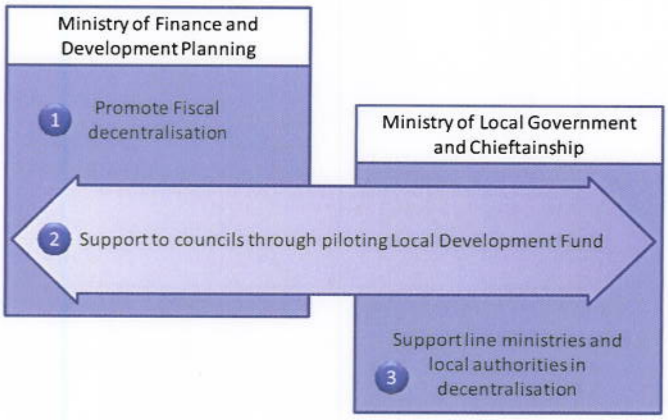
					decentralizing ministries • Conduct leadership development workshops for Councilors					
Output 4: Programme managed effectively and consistently (Technical output) Indicators (i) Existence of programme management structure (ii) Timely monitoring, evaluation and reporting Baseline (i) No programme management structure (ii) No monitoring, evaluation and reporting started	UNDP			UNDP	1) Set up and run initial Programme Management structure and overall management arrangements 2) Conduct audit, monitoring and evaluation	***550,000***	***550,000*** ***20,000***	***550,000*** ***20,000***	***330,000*** ***60,000***	EUR 2,080,000
UNDP										***4,270,000***
UNCDF										***4,610,000***
Total	**Total Programme Cost**									**8,880,000**
	Of which Indirect Cost									**523,364**
	Of which Direct Cost									**8,356,636**

6. Management and Coordination Arrangements (Two pages)

Article III of the Standard Basic Agreement between the Government of the Kingdom of Lesotho and UNDP of 31 December 1974 states that execution of UNDP-assisted projects shall remain the responsibility of the Government. This was also reaffirmed in United Nations General Assembly resolution 44/211, which categorically states that the recipient Governments have the sole responsibility for the co-ordination of external assistance and the principal responsibility for its design and management and that the exercise of those responsibilities is crucial to the optimal use of external assistance and to the strengthening and utilisation of national capacity. UNDP works to help develop and enhance the national capacities in the initiation, implementation and conclusion of the developmental undertakings in which it is involved as a partner. For this to work, it is essential that the Government assume the overall responsibility and direction for the execution of the UNDP-supported initiatives. To this end, the National Implementation (NIM) modality will be used for programme execution in accordance with the approved United Nations Development Assistance Framework (UNDAF) - Action Plan.

Whereas *execution* means overall ownership and responsibility for programme activities, to be undertaken by the Ministry of Finance, expressed via signature of the UNDAF Action Plan, *implementation* means responsibility for management and delivery of programme activities to achieve specified results, and is expressed via signature of an Annual Work Plan (AWP) between UNDP and the designated **Implementing Partner**.

Given the scope of the DDP and its results framework, it is evident that two main partners will be responsible for the management and delivery of programme activities 1) MoF and 2) MoLGC with each Ministry having its particular responsibility as per their mandates. The image below provides a graphical overview of the main responsibilities under the DDP as per the 3 results areas even though it is clear that each result areas requires collaboration between the respective Ministries.



The MoLGC will be the main implementing partner for the project. The MoF, UNDP and UNCDF will be assigned main responsibility in the role of responsible party as per the result framework. Each **Responsible Party** will carry out project activities to deliver on the outputs, procure/contract goods and provide services using the project budget as per the Results and Resources Framework.

In line with the UNDP Harmonized Approach to Cash Transfers (HACT) approach to disbursements of project funds, agreements will be made with the implementing partner to either transfer funds on a quarterly basis to the implementing partner for activities set out in an approved Annual Work Plan or for UNDP to make direct payments to service providers. As requested by the Implementing Partner, the preferred mechanism at the start of the project is direct payments.

In all administrative and operational aspects of the project implementation, the UNDP Country Office will provide support to and facilitate the implementation of activities in the form of **Implementation Support Services** under the National Implementation Modality (as will be defined during the inception phase using the template agreement under annex 2).

If required, training on the UNDP project management, procurement and financial practices and regulations will be given during the start-up of the project to the Implementing Partners.

DELEGATION OF THE EUROPEAN UNION TO LESOTHO

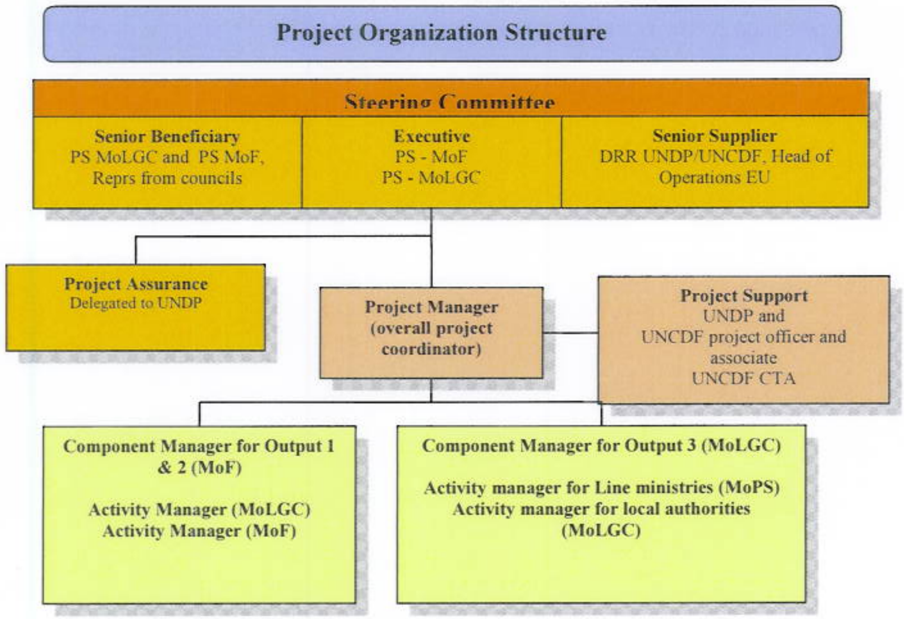
Organizational Set-up:
In line with PRINCE 2 project management standards, a Steering Committee will be established for making, on a consensus basis, management decisions for a project when guidance is required by the Project Manager, including recommendation for UNDP/ Implementing Partner approval of project revisions. Project reviews by this group are made at designated decision points during the running of a project (see below), or as necessary when raised by the Project Manager. This group is consulted by the Project Manager for decisions when PM tolerances have been exceeded.

The Steering Committee contains three roles:

- **Executive** representing the project ownership to chair the group.
- **Senior Supplier** role to provide guidance regarding the technical feasibility of the project, and
- **Senior Beneficiary** role to ensure the realization of project benefits from the perspective of project beneficiaries.

This list of members (see below) may be expanded if appropriate. The Steering Committee will meet every six months and review and approve annual budgets and work plans and provide strategic guidance to the DDP.

The project through its coordinating mechanisms will ensure synergies between the EU funded NSA support programme and the DDP, as well as other development projects that can contribute to achieving better results.



The **Project Manager will have** the authority to run the project on a day-to-day basis on behalf of the Steering Committee within the constraints laid down by the Steering Committee. The Project Manager is responsible for day-to-day management and decision-making for the project. The Project Manager's prime responsibility is to ensure that the project produces the results specified in the project document, to the required standard of quality and within the specified constraints of time and cost. The Project manager is supported by a Chief Technical Advisor (CTA), backstopped by a programme assistant.

The **Project Support** role provides project administration, management and technical support to the Project Manager as required by the needs of the individual project or Project Manager.

Project Assurance is the responsibility of each Steering Committee member; however, daily monitoring function in this regard is delegate to the programme officer. This role ensures that appropriate project management milestones are managed and completed.

Component Manager is responsible to manage the outputs under the project and coordinate the activities lead by the Activity Managers in the respective ministries. Component managers should be appointed by the government and be embedded in the regular function of the ministries. Short-term technical assistance under component managers will be provided tied to the activities (Activity managers). Component Managers are reporting to the Project Manager regarding the progress of the project activities under their area.

Capacity of UNDP/UNCDF:
UNDP Lesotho has an Operations Unit which services projects either through Implementation Support Services or as part of Direct Implementation. The Unit contains Human Resources, Procurement, ICT Advisory and Finance sections. The backbone of the Operations section for UNDP is the corporate Enterprise Resource Planning (ERP) system known as Atlas. Atlas is used for project management and reporting, all procurement, processing of payments and maintenance of staff, consultants and vendors. No transaction takes place outside of this system to ensure transparency at all times.

On the programming side, UNDP Lesotho and UNCDF will provide local support and technical backstopping to the project through the governance team but also have access to a global network of experts as well as the Regional Office based in Johannesburg, South Africa. Further, all Programme Officers have been trained on PRINCE2 as well as UNDP Results-based project management standards.

During project start up, a UNDP Programme Officer who is competent in project management and Atlas will ensure correct Atlas set-up and oversee the recruitment of the project manager and other project staff.

Audit arrangements
In accordance with the provisions of the EC-UN Financial and Administrative Framework Agreement (FAFA) financial transactions and financial statements shall be subject to the internal and external auditing procedures laid down in the Financial Regulations, Rules and directives of UNDP.

Intellectual property Rights and Use of logo
UNDP shall take all appropriate measures to publicize the fact that the DPP has received funding from the European Union. Information given to the press, the beneficiaries of DDP, all related publicity material, official notices, reports and publications, shall acknowledge that the DDP was carried out "with funding by the European Union " and shall display in an appropriate way the EU logo. This related to both equipment (e.g. cars) and publications (reports, newsletters, websites, etc.). In relation to publications, Art 6 of the General Conditions will be complied with by including the necessary specific disclaimers in each project publication. Moreover UNDP will comply with the Joint Visibility Guidelines for EC-UN Actions in the Field and the General Conditions for Contribution Agreements.

Procurement and grant award procedures
All contracts implementing the activities foreseen in the Contribution Agreement with UNDP must be awarded and implemented in accordance with UNDP standard procedures.

Reporting

UNDP will provide progress reports in line with the requirements set by the FAFA and specified in the Article 2 of the General Conditions applicable to European Union contribution agreements with international organizations. These reports will also draw from the EC-UN Joint Guidelines on reporting obligations under the FAFA (2011) available here:
http://ec.europa.eu/europeaid/work/procedures/financing/international_organisations/other_documents_related_united_nations/document/joint_guidelines_reporting_2011_en.pdf
On an annual basis, a narrative and financial progress report will be submitted to the Contracting Authority. Additionally, short quarterly updates on technical, operational and financial progress will be submitted to the DDP's steering committee. All these reports should report on the progress in achieving all the indicators agreed upon in the Results and Resources framework.

DELEGATION OF THE EUROPEAN UNION LESOTHO

7. Fund Management Arrangements

Core funds provided by UNDP and UNCDF will be used under the parallel funding modality, whereby each organization funds and implements its activities in parallel with the other participating organization, one organization should be responsible for consolidated reporting as agreed upon by the Steering Committee.

External funding mobilized will be used under the pass-through funding modality and UNDP will be the Administrative Agent. The programmatic and financial accountability will rest with the participating UN organizations and (sub-) national partners that would be managing their respective components of the joint programme.

Funding arrangements with the national implementing partners will be under Support to National Implementation Modality.

8. Monitoring, Evaluation and Reporting

UNDP will conduct project assurance activities. Monitoring will be ensured through regular UNDP progress reports and on the spot monitoring by the staff of the Delegation of the EU undertaken in line with the General Conditions (Annex 2 to the EU-UNDP contribution agreement).
The implementation arrangement will produce reporting on:

- completed and planning activities;
- financial monitoring and reporting;
- monitoring and reporting of results;
- identification of problems arising during the programme implementation, highlighting planning or policy issues to be addressed in the decentralization process.

Independent consultants may be recruited directly by the European Union on specifically established terms of reference (these will be shared with UNDP) to carry out external monitoring ROM system, which may start from the sixth month of project activities, and finalized at the latest 6 months before the end of the operational implementation phase. Such ROMs will be conducted in line with the spirit of good collaboration outlined in Article 8 of the General Conditions (Annex 2 to the EU-UNDP contribution agreement).

The DDP's M&E system, refined and put in place during the initial inception phase of the project, will:

- Provide all stakeholders with information on project progress against assigned outputs and activities. This aspect of the M&E system will be relatively simple, based largely on ensuring that annual work plans are being implemented according to schedule and within budget.
- Ensure that there are adequate "process" indicators, which will track the quality of the processes and procedures being supported by the programme. This aspect of the M&E system will require the identification and use of more qualitative indicators, many of which are likely to require periodic surveys and the use of participatory methodologies.
- Ensure that the assumptions made by the programme remain valid. This effectively means that the programme will track the potential risks and ensure that they are not compromising the ability of the programme to deliver its outputs.
- The DDP will ensure that corporate reporting requirements (e.g. UNDP's Strategic Results Framework) are adequately met. The project shall be subject to the internal and external auditing procedures laid down in the Financial Regulations, Rules and directives of UNDP, as foreseen by the *Financial and Administrative Framework Agreement (FAFA).*
- The Delegation of the EU may conduct its own verifications in line with the FAFA, General Conditions and as set out in the Terms of Reference for Verification Missions[18].

In accordance with the programming policies and procedures outlined in the UNDP User Guide, the project will be monitored through the following:

<u>Within the annual cycle</u>

- ➢ On a quarterly basis, a quality assessment shall record progress towards the completion of key results, based on quality criteria and methods captured in the Quality Management table below.
- ➢ An Issue Log shall be activated in Atlas and updated by the Project Manager to facilitate tracking and resolution of potential problems or requests for change.

DELEGATION OF THE EUROPEAN UNION TO LESOTHO

Chuf
KRY

- Based on the initial risk analysis submitted (see annex 1), a risk log shall be activated in Atlas and regularly updated by reviewing the external environment that may affect the project implementation.
- Based on the above information recorded in Atlas, a Project Progress Reports (PPR) shall be submitted by the Project Manager to the Steering Committee through Project Assurance, using the standard report format available in the Executive Snapshot.
- a project Lesson-learned log shall be activated and regularly updated to ensure on-going learning and adaptation within the organization, and to facilitate the preparation of the Lessons-learned Report at the end of the project
- a Monitoring Schedule Plan shall be activated in Atlas and updated to track key management actions/events

Annually

- **Annual Review Report**. An Annual Review Report shall be prepared by the Project Manager and shared with the Steering Committee.

Project Evaluations

The DDP will be subject to an independently conducted final evaluation, commissioned by the EU as stated in the Financing Agreement. Further the DDP will also be subjected to an independent mid-term review (again with representatives from the EU Delegation), which should also include a review of the GoL's capacity to take over financial and implementation management roles. The DDP will ensure that UNDP corporate reporting requirements (e.g. UNDP's Strategic Results Framework) are adequately met.

Any evaluation related to this Action will be conducted in accordance with provisions of the Article 8 of the General Conditions (Annex 2 to the EU-UNDP contribution agreement).

DELEGATION OF THE EUROPEAN UNION TO LESOTHO

Monitoring and Evaluation framework

Joint Programme Monitoring Framework (JPMF)

Outcomes	Outputs	Indicators with baselines and indicative time frames	Means of Verification	Collection Methods & Frequency	Responsibilities	Risks & Assumptions
Demand-driven and decentralised public service delivery based on claim-holder aspirations and participation strengthened (Lesotho CPD 2008-2013) ***By 2017, National and local governance structures deliver quality and accessible services to all citizens. (Lesotho CPD 2013-2017 – draft to be finalized in***	Output 1: **Improved development funding through local authorities**	Mechanism for local development funding set up and functioning by end of 2013 Number of decentralizing ministries understand and adopt the principles of local development funding Number of Districts (Local Councils) supported through local funding % increase in resources flowing through local funding as proportional of total national development budget.	Reports from MoF Report from MoF and MoLGC Report from MoF and MoLGC Report from MoF and MoLGC	National Budget and Annual Project Progress Report of DDP	MoF and MoLGC	Competition between MoF and MoLGC. Established cooperation among the ministries sustained

Thf
KRU

Outcomes	Outputs	Indicators with baselines and indicative time frames	Means of Verification	Collection Methods & Frequency	Responsibilities	Risks & Assumptions
2012)	**Output 2: Decentralization and accountability systems at the local level promoted**	Existence of studies documenting current decentralization and accountability systems and proposing more appropriate principles by end of 2013 Existence of new principles/model for decentralization developed and piloted in 2013 and finalized in 2014 Adoption of formula-based system of inter-governmental transfers, Integrated financial management Information System (IFMIS) linked to the central financial operations and the district councils by 2014	Report from MoF and MoLGC Report from MoLGC Report from MoF and MoLGC	Annually	DDP Technical Team	The necessary statutes for accountability systems not passed. Bureaucrats at Ministries prepared to adopt new accounting systems and mechanism for reporting

Outcomes	Outputs	Indicators with baselines and indicative time frames	Means of Verification	Collection Methods & Frequency	Responsibilities	Risks & Assumptions
	Output 3: Capacities of line ministries and local authorities enhanced to decentralize functions	Number of line ministries supported to decentralize functions % of functions effectively unpackaged at local level % of staff transferred to the local level Number of councils assisted in decentralization	Annual Progress Report of MPS Annual Progress Report MoLGC Annual Progress Report MPS Annual Progress Report MoLGC	Annually	DDP Technical Team	Resistance from central ministry staff to move to the districts Necessary incentives in place to attract staff to the district level
	Output 4: Programme managed effectively and consistently (Technical output)	Existence of programme management structure by end 2012 Timely monitoring, evaluation and reporting in every quarter and end of each year	DDP 2nd Quarter Project Report in 2012 DDP Annual Report	Quarterly Annually	MoF & MoLGC MoF & MoLGC	Delayed recruitment process for Project staff Exchange Rate loss Expected calibre of people attracted to apply for positions.

DELEGATION OF THE EUROPEAN UNION TO LESOTHO

Mf
KRH

9. Legal Context or Basis of Relationship

This document together with the UNDAF Action Plan signed by the Government and UNDP, which is incorporated by reference constitute together a Project Document as referred to in the SBAA [Standard Basic Assistance Agreement between the Government of the Kingdom of Lesotho and UNDP of 31 December 1974] and all UNDAF Action Plan provisions apply to this document.

Consistent with the Article III of the Standard Basic Assistance Agreement, the responsibility for the safety and security of the implementing partner and its personnel and property, and of UNDP's property in the implementing partner's custody, rests with the implementing partner.

The implementing partner shall:

a) put in place an appropriate security plan and maintain the security plan, taking into account the security situation in the country where the project is being carried;
b) assume all risks and liabilities related to the implementing partner's security, and the full implementation of the security plan.

UNDP reserves the right to verify whether such a plan is in place, and to suggest modifications to the plan when necessary. Failure to maintain and implement an appropriate security plan as required hereunder shall be deemed a breach of this agreement.
The implementing partner agrees to undertake all reasonable efforts to ensure that none of the UNDP funds received pursuant to the Project Document are used to provide support to individuals or entities associated with terrorism and that the recipients of any amounts provided by UNDP hereunder do not appear on the list maintained by the Security Council Committee established pursuant to resolution 1267 (1999). The list can be accessed via http://www.un.org/Docs/sc/committees/1267/1267ListEng.htm. This provision must be included in all sub-contracts or sub-agreements entered into under this Project Document".

DELEGATION OF THE EUROPEAN UNION TO LESOTHO

10. Work plan and budgets

Indicative Annual Work Plan for the first 12 months of operations (November 2012 – October 2013), in EUR.

JP Outcome										
UN organization-specific Annual targets	UN organization	Activities	TIME FRAME				Implementing Partner	PLANNED BUDGET		
			Q1	Q2	Q3	Q4		Source of Funds	Budget Description	Amount
Output 1: Improved development funding through local authorities										
(i) Mechanism for local development funding set up and functioning (ii) MoF, MoLGC and decentralizing ministries understand local funding mechanism and start disseminating technical knowledge, support and training to all councils in the country (iii) At least 3 districts and 15 community councils supported directly through development funding. (iv) Funding started to be provided at the local level	***UNCDF***	Finalize design of local development funding mechanism	***X***	***X***	***X***		**MoF**	EU/UNCDF	Consultancy Workshop/training Communication IT Logistics/Miscellaneous	**100,000**
	UNDP	Support Adoption of new system		***X***	***X***	***X***	**MoLG**	EU/UNCDF	Consultancy Workshop/training IT Logistics/miscellaneous LDF Funding	**200,000**
	UNCDF	Operationalize the local development funding mechanism (initiation)		***X***	***X***	***X***	**MoLG**	EU/UNCDF	Consultancy Workshop/training IT Logistics/miscellaneous LDF Funding	**500,000**
		Operate the local development funding mechanism								**0**
UNDP										**200,000**
UNCDF										**600,000**
Output 2: Decentralization and accountability systems at the local level promoted										
(i) Studies documenting current system and proposing more appropriate principles conducted (ii) New and more appropriate	***UNDP***	Conduct decentralization assessment and inception report	X	x			Mo LG	EU	Consultancy Surveys Miscellaneous	**50,000**

DELEGATION OF THE EUROPEAN UNION TO LESOTHO

principles developed based on the findings of studies (iii) Formula-based system of inter-governmental transfers developed; IFMIS must cover the ten districts of Lesotho	***UNDP***	Decentralization model		X	X	x	Mo LG	EU	Consultancy Workshop/training Surveys Miscellaneous	**300,000**
	UNCDF	Develop framework for linking up of inter-governmental transfer system and IFMIS for implementation				X	Mo LG	EU		**50,000**
UNDP										**350,000**
UNCDF										**50,000**
Output 3: Capacities of Line Ministries and local authorities enhanced to decentralize functions										
Target (Year 1): (i) 3 Line ministries supported in decentralization. (ii) 25% Functions at local level must have been unpacked: Organization design-function mapping restructuring and reorganizing councils to fit new functions, training support to decentralizing ministries on monitoring and evaluation et al. (iii) 20% staff transferred (iv) Ministry of Health supported in decentralization efforts focusing on HR system and processes; role profiling and the development of competency frameworks, business process review, design and improvement	***UNDP***	Sensitization and strengthened administrative systems to facilitate the process of decentralization	X	X	X	x	MoLGC	EU	Consultancy Workshops Communications Miscellaneous	**100,000**
	UNDP	Facilitate a Human Resource infrastructure, functions and systems to implement the process of decentralization	X	X	X	x	MoPS	EU	Consultancy Workshops Communications Research/surveys Miscellaneous	**90,000**
	UNDP	Facilitate an enabling leaderships and organizational environment for change	X	X	X	x	MoPS	EU	Consultancy Workshops Communications Miscellaneous Training Logistics	**100,000**
UNDP										**290,000**
UNCDF										**-**

Output 4: Programme managed effectively and consistently (technical output)										
(i) Programme management structure set up and integrated with key partners (ii) Monitoring, evaluation and reporting framework set up and provided in a timely manner		Set up initial DDP Project Management Unit and overall management arrangements	X	X	X	X	UNDP	EU		550,000
UNDP										**550,000**
UNCDF										**-**
Total Planned Budget										**1,640,000**
Includ ing*	**Total UNDP**									**1,390,000**
	Total UNCDF									**650,000**

* The Total Planned Budget by UN Organization should include both programme cost and indirect support cost

LESOTHO DELEGATION OF THE EUROPEAN UNION TO

ANNEX 1: RISK ANALYSIS

Project Title: Deepening Decentralization Programme	Award ID:	

#	Description	Date Identified	Type	Impact & Probability	Counter measures / Mngt response	Owner	Submitted, updated by	Last Update	Status
1	DDP will be perceived as donor driven support parallel to Government priorities	24/03/2011	Strategic	$P = 3$ $I = 5$	Management: Integration of technical assistance into the existing Ministry teams Programme: overriding sustainability strategy of DDP is based on gradual harmonization and alignment to government systems that will ensure that Government of Lesotho (at all levels) take over the procedures and mechanisms gradually, while simultaneously providing capacity development to enhance this transfer	UN	Project identification phase	24/03/2011	Open
2	Assumption that the political commitment to further decentralization and the SDA will continue and possibly be accelerated	24/03/2011	Political	$P = 3$ $I = 5$	UN, GIZ, EU Delegation and other development partners can encourage continued commitment by piloting interventions that demonstrate the benefits of decentralization in terms of improved service delivery. Moreover, the general budget support and associated PAF also provide entry points for keeping decentralization on the agenda	UN, EU, GIZ	Project identification phase	24/03/2011	Open
3	Inter-ministerial cooperation may jeopardize progress in e.g. establishing	24/03/2011	Organizational	P = 4 I = 4	Promote much needed corporation by having an inclusive governance structure that actively	GoL, UN, EU, GIZ	Project identification phase	24/03/2011	Open

amf
KRU

	(b) Changes at central government has an impact on the work of the local councils Already there is turmoil at local government with councils aligned to different political parties				Engagement of key political leaders and their sensitization to the programme should be embarked upon so that it doesn't really matter who has been elected but that the DDP is a national project Lobbying for support of political parties and the government of the day on building capacity of councils so that they increasingly view their role as of service delivery no matter who is at the helm of central government	UNDP UN			

Probability (P) measured from 1 (low) to 5 (high)
Impact (I) measured from 1 (low) to 5 (severe)

KRH

Annex

DESCRIPTION OF UNDP COUNTRY OFFICE SUPPORT SERVICES

1. Reference is made to consultations between Ministry of Finance, the institution designated by the Government of Lesotho and officials of UNDP with respect to the provision of support services by the UNDP country office for the nationally managed programme or project Deepening Decentralization Programme, "the Programme".

2. In accordance with the letter of agreement signed on March 28th 2011 with the Ministry of Foreign Affairs and the provisions of the Joint Programme Document, the UNDP country office shall provide support services for the Programme as described below.

3. Support services to be provided:

Support services (insert description)	Schedule for the provision of the support services	Cost to UNDP of providing such support services (where appropriate)	Amount and method of reimbursement of UNDP (where appropriate)
1. Identification and recruitment of project and programme personnel and related disbursements	As per the approved Annual Work Plan for the project.	As per standard cost-recovery mechanism.	As per standard cost-recovery mechanism.
2.Identification and facilitation of training services and related disbursements	As per the approved Annual Work Plan for the project.	As per standard cost-recovery mechanism.	As per standard cost-recovery mechanism.
3.Procurement of goods and services and related disbursements	As per the approved Annual Work Plan for the project.	As per standard cost-recovery mechanism.	As per standard cost-recovery mechanism.

4. Description of functions and responsibilities of the parties involved:

UNDP to provide support services as per the above and report to the Implementing Partner as set forth in the project document.
The Implementing Partner to comment and accept the reports on project progress, including the status of support services.

KRW

ANNEX II

General Conditions applicable to European Union contribution agreements with international organisations

INDEX

DELEGATION OF THE EUROPEAN UNION TO LESOTHO

GENERAL AND ADMINISTRATIVE PROVISIONS

Article 1 - GENERAL OBLIGATIONS

1.1 The Organisation shall ensure that the Action is carried out in accordance with the Description of the Action contained in Annex 1 and is responsible for achieving the objectives set out therein. The Organisation shall report on the indicators of achievement specified in the Description of the Action.

1.2 The Organisation shall implement the Action with the requisite degree of care, efficiency, transparency and diligence, as required by best practice in the field concerned, and in compliance with this Agreement.

The Organisation shall make every effort to mobilise all the financial, human and material resources required for full implementation of the Action, as specified in the Description of the Action.

1.3 The Organisation may act either alone or in partnership with one or more organisations mentioned in the Description of the Action (implementing partners or partners). Partners shall actually participate in implementing the Action, and the costs they incur shall then be eligible under the same conditions as those incurred by the Organisation.

It may also contract parts of the Action, in accordance with the provisions of article 10 hereof.

Where the EU contribution has been awarded to the Organisation in the form of a grant following a call for proposal or a direct award, and therefore not as a Joint Management Action, the Organisation may only award grants to third parties ("sub-grants") if so provided for in the Special Conditions in order to support the achievement of the objectives of the Action, and in particular where the implementation of the Action requires financial support to be given to third parties. Such sub-granting may not be the main purpose of the Action and it shall be duly justified. The Description of the Action shall include a list with the types of activity which may be eligible for sub-grants, together with the criteria for the selection of the beneficiaries of these sub-grants. The Description of the Action shall also establish the total amount which may be used for awarding sub-grants as well as the minimum and maximum amount per sub-grant. . The maximum amount of a sub-grant shall be limited to EUR 10 000 per third party while the total amount which may be awarded as sub-grants to third parties shall be limited to EUR 100 000. The sub-grants awarded by the Organisation are subject to the nationality rules provided for in Article 10 .

Where the Action is not a Joint Management Action, the bulk of the Action shall be undertaken by the Organisation, and where applicable, its partners.

The Organisation shall remain fully responsible for the co-ordination and execution of all contracted activities.

1.4 The Organisation undertakes to ensure that the conditions imposed upon it under Articles 1, 3, 4, 5, 6, 7, 10, 14, 16 and 17 shall also apply to all partners and, where applicable, contractors involved.

1.5 The Organisation shall take appropriate measures to prevent irregularities, fraud, corruption or any other illegal activity in the management of the Action. All suspected and actual cases of irregularity, fraud and corruption related to this Agreement as well as measures related thereto taken by the Organisation shall be reported to the Contracting Authority without delay.

Where appropriate the Organisation shall terminate contracts with partners, contractors or agents involved in fraudulent behaviour or corrupt practices in connection with this or any other actions implemented by the Organisation and financed by the European Union, and shall take all reasonable measures to recover funds unduly paid.

1.6 Without prejudice to Articles 1.3 and 10, the Agreement and the payments attached to it shall not be assigned to a third party in any manner whatsoever without the prior written consent of the Contracting Authority.

1.7 The provisions regarding "Joint Management Actions" in these General Conditions may be applied where at least one of the following conditions is met:

- the performance of the Action requires the pooling of resources from a number of donors, and it is not reasonably possible or appropriate to assign the share contributed by each donor to each type of expenditure (hereinafter, "Multi-donor Actions"), or
- the European Commission and the Organisation are bound by a long-term framework agreement laying down the administrative and financial arrangements for their cooperation; or
- the European Commission and the Organisation have jointly assessed the feasibility and defined the terms for implementation of the Action.

1.8 Where the European Commission is not the Contracting Authority, it shall not be a party to this Agreement, which shall only confer on it rights and obligations where explicitly stated. It will nevertheless endorse the Agreement to ensure that the Contracting Authority's contribution is actually paid by the EU budget, and the provisions on visibility in this Agreement will apply accordingly.

Article 2 - OBLIGATIONS REGARDING INFORMATION AND FINANCIAL AND NARRATIVE REPORTS

2.1 The Organisation shall provide the Contracting Authority with full information on the implementation of the Action. To that end, the Organisation shall provide before signature of this Agreement a work plan for the first period of implementation specified in the Description of the Action. The Organisation shall also draw up progress reports and a final report. These reports shall consist of a narrative part and a financial part. Reporting, narrative as well as financial, shall cover the whole of the Action, regardless of whether this Action is wholly financed or co-financed by the Contracting Authority.

2.2 The Contracting Authority may request additional information at any time, providing the reasons for the request. Such information shall be supplied within 30 days of the request.

2.3 The Organisation shall send the Contracting Authority progress reports in accordance with the provisions below. Every report shall provide a complete account of all aspects of implementation for the period covered.

The report shall be laid out in such a way as to allow comparison of the objective(s), the means envisaged or employed (in particular all expenses actually incurred by the Organisation), the results expected and obtained and the budget details for the Action.

The level of detail in any report should match that of the Description of the Action and of the Budget for the Action.

2.4 The narrative report shall directly relate to this Agreement and shall at least include:

- Summary and context of the Action;
- Activities carried out during the reporting period (i.e. directly related to the Action description and activities foreseen in this Agreement);
- Difficulties encountered and measures taken to overcome problems;
- Changes introduced in implementation;
- Achievements/results by using the indicators included in this Agreement;
- Work plan for the following period including objectives and indicators of achievement. If the report is sent after the end of the period covered by the preceding work plan, a new work plan, albeit provisional, is always required before such date.

2.5 The final report shall contain the above information (excluding the last indent) covering the whole Implementation Period of this Agreement, information on the measures taken to identify the European Union as the source of financing and details on the transfers of assets mentioned in Article 7.3 if relevant, plus a full summary of the Action's income and expenditure and payments received.

2.6 The reports shall be presented in the same language as the Agreement. They shall be submitted at the following intervals:

if payments follow option 1 in Article 15.1:

- a progress report shall be forwarded to the Contracting Authority at the end of every 12-month period, where the Implementation Period of this Agreement is longer;
- a final report shall be forwarded to the Contracting Authority within six months of the end of the Implementation Period of this Agreement as defined in Article 2 of the Special Conditions;

if payments follow option 2 in Article 15.1:

- a progress report shall accompany every request for interim payment / pre-financing;
- the final report shall be forwarded to the Contracting Authority within six months of the end of the Implementation Period of this Agreement as defined in Article 2 of the Special Conditions.

2.7 Reports shall be submitted in Euro, and may be drawn from financial statements denominated in other currencies as per the Organisation's legislative requirements. In such case and for the purpose of reporting, conversion into Euro shall be made using the rate of exchange at which the Contracting Authority's contribution was recorded in the Organisation's accounts, unless otherwise specified in article 4(3) of the Special Conditions.

2.8 Any additional reporting requirement will be set out in the Special Conditions.

2.9 If the Organisation fails to supply a final report by the final report deadline laid down in Article 2.6, and fails to furnish an acceptable written explanation of the reasons why it is unable to comply with this obligation, the Contracting Authority may refuse to pay any outstanding amount and recover any amounts unduly paid.

Furthermore, where the Organisation fails to present a progress report and where relevant a request for payment by the end of each 12-month period following the date laid down in Article 2(2) of the Special Conditions, the Organisation shall inform the Contracting Authority of the reasons why it is unable to do so, and shall provide a summary of the state of progress of the Action. If the Organisation fails to comply with this obligation, the Contracting Authority may terminate the Agreement in accordance with the first indent of Article 12.2, refuse to pay any outstanding amount and recover any amounts unduly paid.

2.10 In addition to the above mentioned reports, the Organisation will ensure that progress and situation reports, publications, press releases and updates, relevant to this Agreement, are communicated to the Contracting Authority as and when they are issued.

The Organisation and the Contracting Authority will further endeavour to promote close collaboration and exchange of information on the Action. The Organisation will invite the European Commission to join any donor committee which may be set up in connection with Multi-Donor Actions.

2.11 In any event the Organisation shall inform the Contracting Authority without delay of any circumstances likely to hamper or delay the implementation of the Action.

Article 3 - LIABILITY

3.1 The Organisation shall have sole responsibility for complying with any legal obligation incumbent on it.

3.2 The Contracting Authority may not under any circumstances or for any reason whatsoever be held liable for damage or injury sustained by the staff or property of the Organisation while the Action is being carried out or as a consequence of the Action. Therefore, the Contracting Authority may not accept any claim for compensation or increases in payment in connection with such damage or injury.

3.3 Subject to the rules governing the Organisation's privileges and immunities, the Organisation shall assume sole liability towards third parties, including liability for damage or injury of any kind sustained by them in respect of or arising out of the Action. The Organisation shall discharge the Contracting Authority of all liability associated with any claim or action brought as a result of an infringement by the Organisation or the Organisation's employees or individuals for whom those employees are responsible of rules or regulations, or as a result of violation of a third party's rights.

Article 4 - CONFLICT OF INTERESTS

The Organisation undertakes to take all necessary precautions to avoid conflicts of interests and shall inform the Contracting Authority without delay of any situation constituting or likely to lead to any such conflict.

There is a conflict of interests where the impartial and objective exercise of the functions of any person under this Agreement is compromised for reasons involving

DELEGATION OF THE EUROPEAN UNION TO LESOTHO

family, emotional life, political or national affinity, economic interest or any other shared interest with another party.

Article 5 - CONFIDENTIALITY

Subject to Article 16, the Contracting Authority and the Organisation undertake to preserve the confidentiality of any document, information or other material directly related to the Agreement and duly classified as confidential, until at least five years after the end date as specified in Article 12.5. Where the European Commission is not the Contracting Authority, it shall still have access to all documents communicated to the Contracting Authority, and will maintain the same confidentiality.

Article 6 - VISIBILITY AND TRANSPARENCY

6.1 Unless the European Commission requests or agrees otherwise, the Organisation shall take all appropriate measures to publicise the fact that the Action has received funding from the European Union. Information given to the press, the beneficiaries of the Action, all related publicity material, official notices, reports and publications, shall acknowledge that the Action was carried out "with funding by the European Union" and shall display in an appropriate way the European logo (twelve yellow stars on a blue background). Such measures shall be carried out in accordance with the Communication and Visibility Manual for EU External Actions laid down and published by the European Commission, or any other guidelines agreed between the European Commission and the Organisation.

It is understood that the Organisation's equipment and vehicles may routinely carry its emblem and other indications of ownership prominently displayed. In cases where equipment or vehicles and major supplies have been purchased using funds provided by the European Union, the Organisation shall include appropriate acknowledgement on such vehicles, equipment and major supplies (including display of the European logo (twelve yellow stars on a blue background) provided that such actions do not jeopardise the Organisation's privileges and immunities and the safety and security of the Organisation's staff.

6.2 The size and prominence of the acknowledgement and European Union logo shall be clearly visible in a manner that will not create any confusion regarding the identification of the Action as an activity of the Organisation, the ownership of the equipment and supplies by the Organisation, and the application to the Action of the Organisation's privileges and immunities.

6.3 All publications by the Organisation pertaining to the Action, in whatever form and whatever medium, including the internet, shall carry the following or a similar disclaimer: "This document has been produced with the financial assistance of the European Union. The views expressed herein can in no way be taken to reflect the official opinion of the European Union."

6.4 If the equipment bought with a European Union contribution is not transferred to local partners of the Organisation or the final recipient of the Action at the latest when submitting the final report, the visibility requirements as regards this equipment (in particular display of the European logo) shall continue to apply between submission of the final report and the end of the overall project, programme or action of the Organisation, if the latter is longer.

6.5 Publicity pertaining to European Union contributions shall quote these contributions in Euro (€ or EUR), in parenthesis if necessary. The Organisation's publications and reports prepared in response to, and in accordance with, its legislative directives are excluded from this provision.

6.6 The Organisation accepts that the Contracting Authority and the European Commission (where it is not the Contracting Authority) publish in any form and medium, including on their websites the name and address of the Organisation, the purpose of the contribution as well as the amount contributed and if relevant the percentage of co-financing.

Upon a duly substantiated request by the Organisation, the European Commission may agree to forego such publicity if disclosure of the above information would risk threatening the Organisation's safety or harming its interests.

6.7 With due regard to the applicable rules on confidentiality, security and protection of personal data, the Organisation shall publish, on an annual basis, including by electronic means such as Internet, the following information on grant and procurement contracts financed by the Contracting Authority: title of the contract/project, name and nationality of the contractor or grant beneficiary and amounts of the contract/project. For Multi-donor Actions, the level of information shall comply with the Organisation's rules and procedures pertaining to ex-post publicity.

6.8 The Organisation shall provide to the Contracting Authority the address of the website where this information can be found and shall authorise the publication of such address in the Contracting Authority's internet site.

The Organisation ensures that the obligation to publish this information shall be also applied by its implementing partners as described in Annex I of this Agreement, with regard to their own grant and procurement contracts financed by the Contracting Authority.

Article 7 - OWNERSHIP/USE OF RESULTS AND EQUIPMENT

7.1 Ownership, title and industrial and intellectual property rights in the results of the Action and the reports and other documents relating to it shall vest in the Organisation, as the case may be together with third parties or as may otherwise be agreed by the Organisation.

7.2 Notwithstanding the provisions of the first paragraph and subject to Article 5, the Organisation shall grant the Contracting Authority (and the European Commission where it is not the Contracting Authority) the right to use free of charge and as it sees fit all documents deriving from the Action, whatever their form, provided it does not thereby breach existing industrial and intellectual property rights.

7.3 Unless otherwise specified in the Special Conditions, the equipment, vehicles and supplies paid for by the Contracting Authority's funding shall be transferred to local authorities or local partners (excluding commercial contractors) of the Organisation or to the final recipients of the Action at the latest when submitting the final report. The documentary proof of those transfers shall be kept for verification along with the documents mentioned in Article 16.3.

By way of derogation from the preceding paragraph, the equipment, vehicle and supplies purchased in the framework of multi-donor actions which continue after the end of the Implementation Period of this Agreement, may be transferred to these local authorities, partners or final recipients at the end of the project, programme or action of the Organisation. The Organisation pledges to use the assets to the benefit of those benefiting from the present Action. The Organisation shall inform the Contracting Authority on the end use of the assets in the final report.

In the event that there are no local authorities or partners to whom the equipment, vehicles and supplies could be transferred, the Organisation may transfer the assets to another action funded by the European Union or Contracting Authority or, exceptionally, retain ownership of the equipment, vehicles and supplies at the end of the Action. In such cases, it should submit a justified written request with an inventory listing the items concerned and a proposal concerning their use in due time and at the latest with the submission of the final report. In no event may the end use jeopardize the sustainability of the Action or result in a profit for the Organisation.

Article 8 - EVALUATION OF THE ACTION

8.1 Representatives of the European Commission shall be invited to participate in the main monitoring and in the evaluation missions relating to the performance of the Action. The results of such missions shall be reported to the European Commission.

8.2 Article 8.1 is without prejudice to any evaluation mission which the European Commission as a donor may wish to perform. Evaluation missions by representatives of the European Commission should be planned and completed in a collaborative manner between the Organisation's staff and the European Commission's representatives, keeping in mind the commitment of the Parties to the effective and efficient operation of this Agreement. These missions are to be planned ahead and procedural matters are to be agreed upon by the European Commission and the Organisation in advance. The mission will offer to make a draft of its report available to the Organisation for comments prior to final issuance.

Article 9 - AMENDMENT OF THE AGREEMENT

9.1 Any modification to the Agreement, including the annexes thereto, shall be set out in writing in an amendment. This Agreement can only be modified during the execution period set out in Article 2(4) of the Special Conditions.

If the request for an amendment comes from the Organisation, the latter shall submit that request to the Contracting Authority one month before the amendment is intended to enter into force, and in any case no later than one month before the end of the execution period, unless there are special circumstances duly substantiated by the Organisation and accepted by the Contracting Authority.

9.2 Where a modification to the Description of the Action and/or the Budget does not affect the basic purpose of the Action and the financial impact is limited to a transfer within a single budget heading, including cancellation or introduction of an item, or a transfer between budget headings involving a variation (as the case may be in cumulative terms) of 15 % or less of the amount originally entered (or as modified by a formal amendment) in relation to each concerned heading for eligible costs, the Organisation may amend the Budget and shall inform the Contracting Authority accordingly in writing. This method shall not be used to amend headings for administrative costs or the contingency reserve.

Changes of address and changes of bank account may simply be notified in writing to the Contracting Authority. Changes of bank account must be specified in the request for payment, using the financial identification form attached as Annex IV.

Article 10 - CONTRACTING

10.1 If parts of the Action are contracted, the contracting arrangements, including in particular the principles for the award of procurement and grants, shall be as specified in the Description of the Action. If they are not specified therein, the Organisation will present them to the Contracting Authority as soon as they are available. The Organisation will also inform the Contracting Authority, with as much prior notice as possible, of changes in these arrangements. The Organisation will provide detailed information on contracting arrangements in the final report.

10.2 Unless otherwise agreed by the Parties in writing, the procurement of any goods, works or services and the award of grants by the Organisation and its partners in the context of the Action shall be carried out in accordance with the applicable rules and procedures adopted by the Organisation.

This is based on the understanding that the Organisation's rules and procedures conform to internationally accepted standards, in compliance with the principles of transparency, proportionality, sound financial management, equal treatment and non discrimination, care being taken to avoid any conflict of interests.

Without prejudice to the specific procedures and exceptions applied by the Organisation, the award by the Organisation of grants financed by the Contracting Authority's contribution shall comply with the following principles:

- grants shall not be cumulative, awarded retrospectively or have the purpose or effect of producing a profit for the grant beneficiary;
- grants must involve co-financing from other donors, save in cases of humanitarian and crisis situation, the protection of health and fundamental rights of people, where the grant beneficiaries are third countries or other international organisations and where it is in the interest of the European Union to be the sole donor.

10.3 If allowed by the applicable regulatory provisions of the European Union, the origin of the goods and the nationality of the organisations, companies and experts selected for carrying out activities in the Action shall be determined in accordance with the Organisation's relevant rules. In any event goods, organisations, companies and experts eligible under the applicable regulatory provisions of the European Union shall be eligible.

In all other cases the partners, contractors, experts and goods, the cost of which are financed out of the Contracting Authority's contribution, shall originate in the European Union or the country or countries eligible under the programme of which the Action is part. Any departure from the rules of origin and nationality set out above is subject to the specific provisions of the applicable regulatory provisions of the European Union.

10.4 The Organisation shall adopt reasonable measures, in accordance with its own procedures, to ensure that potential candidates or tenderers and grant beneficiaries shall be excluded from the participation in a procurement or award procedure financed by the Contracting Authority's contribution, if these persons:

- are bankrupt or being wound up, are having their affairs administered by the courts, have entered into an arrangement with creditors, have suspended business activities, are the subject of proceedings concerning those matters, or are in any analogous situation arising from a similar procedure provided for in national legislation or regulations;

- have been convicted of an offence concerning their professional conduct by a judgement which has the force of res judicata;

- have been the subject of a judgement which has the force of res judicata for fraud, corruption, involvement in a criminal organisation or any other illegal activity detrimental to the EU's financial interests;

- are guilty of misrepresentation in supplying the information required as a condition of participation in the procedure or if they fail to supply this information.

- expose a conflict of interest.

10.5 In the event of failure to comply with the above provisions the relevant costs shall not be eligible for funding by the Contracting Authority.

Article 11 - IMPLEMENTATION PERIOD OF THE AGREEMENT, SUSPENSION, FORCE MAJEURE

11.1 Irrespective of the starting date and implementation period of the project, programme or action of the Organisation, the Implementation Period of this Agreement shall be as set out in Article 2 of the Special Conditions

11.2 The Organisation may suspend without delay implementation of all or part of the Action if circumstances so require, in particular in case of *force majeure*, and informs the Contracting Authority immediately providing all the necessary details. This Agreement may be terminated in accordance with Article 12.1. If the Agreement is not terminated, the Organisation shall endeavour to minimise the duration of the suspension and may resume implementation of the Action once the conditions allow, and shall inform the Contracting Authority accordingly.

11.3 The Contracting Authority may request the Organisation to suspend implementation of all or part of the Action if circumstances so require in particular in case of *force majeure*. This Agreement may be terminated in accordance with Article 12.1. If the Agreement is not terminated, the Organisation shall endeavour to minimise the duration of the suspension and shall resume implementation of the Action once the conditions allow, with the prior written approval of the Contracting Authority.

11.4 The Implementation Period of this Agreement is automatically extended by an amount of time equivalent to the duration of the suspension. This is without prejudice to any amendments to the Agreement which may be necessary to adapt the Action to the new implementing conditions or to Article 12.1.

11.5 *Force majeure* shall mean any unforeseeable exceptional situation or event beyond the Parties' control which prevents either of them from fulfilling any of their obligations under this Agreement, was not attributable to error or negligence on their part (or of their partners, contractors, agents or employees), and could not have been avoided by the exercise of due diligence. Defects in equipment or material or delays in making them available, labour disputes, strikes or financial problems cannot be invoked as *force majeure* by the defaulting party. Neither of the Parties shall be held liable for breach of its obligations under the Agreement if it is prevented from fulfilling them by *force majeure*. Without prejudice to Articles 11.2 and 11.3 above, the Party invoking *force majeure* shall notify the other without delay, stating the nature, likely duration and foreseeable effect, and take any measure to minimise possible damage.

DELEGATION OF THE EUROPEAN UNION TO LESOTHO

Article 12 - TERMINATION OF THE AGREEMENT

12.1 If, at any time, either Party believes that the purposes of this Agreement can no longer be effectively or appropriately carried out, it shall consult the other Party. Failing agreement on a solution, either Party may terminate this Agreement by serving two months' written notice. In this event, the Organisation shall be entitled to payment of the contribution only for the part of the Action carried out, and to reimbursement of commitments entered into by the Organisation for the implementation of the Action, which the Organisation cannot reasonably terminate on legal grounds. The part of the EU contribution unspent or not spent in accordance with this Agreement, shall be recovered by the Contracting Authority in accordance with Articles 17 and 18, after all liabilities incurred by the Organisation have been satisfied, including interest earned where applicable.

12.2 Where the Organisation:

- fails, without justification, to fulfil any of the obligations incumbent on it and, after being given notice by letter to comply with those obligations, still fails to do so or to furnish a satisfactory explanation within 30 days of sending of the letter;
- fails to comply with articles 1.5, 1.6 or 4;
- makes false or incomplete statements to obtain the contribution provided for in the Agreement or provides reports that do not reflect reality;
- commits financial irregularities or is guilty of grave professional misconduct;
- undergoes legal, financial, technical or organisational change that is liable to affect this Agreement substantially or to call the award decision into question;

the Contracting Authority will enter into discussions with the Organisation and, failing a proper solution within one month, may terminate this Agreement, after giving seven days' notice, and without paying compensation of any kind. In that event the Contracting Authority may demand full or partial repayment of any amounts unduly paid, after allowing the Organisation to submit its observations.

12.3 Prior to or instead of terminating the Agreement as provided for in Article 12.2, the Contracting Authority may suspend payments or the declaration of eligibility of expenses as a precautionary measure, informing the Organisation immediately.

12.4 This Agreement shall be automatically terminated if it has not given rise to a payment by the Contracting Authority (including pre-financing) within three years of its signature.

12.5 Unless this Agreement is earlier terminated pursuant to Article 12, the payment obligations of the European Union hereunder shall cease at the "end date", which shall occur 18 months after the end of the Implementation Period as defined in Article 2 of the Special Conditions.

The Contracting Authority notifies the Organisation of any postponement of the end date. The Contracting Authority shall postpone the end date, so as to be able to fulfil its payment obligations, in all cases where the Organisation has filed the payment request in accordance with contractual provisions or, in case of dispute, until completion of the dispute settlement procedure provided for in Article 13.

Article 13 - SETTLEMENT OF DISPUTES

13.1 The Parties shall endeavour to settle amicably any dispute or complaint relating to the interpretation, application or fulfilment of this Agreement, including its existence, validity or termination. In default of amicable settlement, any Party may refer the matter to arbitration in accordance with the Permanent Court of Arbitration Optional Rules for Arbitration Involving International Organisations and States in force at the date of conclusion of this Agreement.

13.2 The appointing authority shall be the Secretary General of the Permanent Court of Arbitration following a written request submitted by either Party. The Arbitrator's decision shall be binding on all Parties and there shall be no appeal.

13.3 Nothing in this Agreement shall be interpreted as a waiver of any privileges or immunities accorded to any Party hereto by its constituent documents or international law.

FINANCIAL PROVISIONS

Article 14 - ELIGIBLE COSTS

14.1 To be considered eligible as direct costs under this Agreement, costs must:

- be necessary for carrying out the Action, be provided for specifically in this Agreement and comply with the principles of sound financial management, in particular value for money and cost-effectiveness;

- have been actually incurred during the Implementation Period of this Agreement as defined in Article 2 of the Special Conditions with the exception of costs relating to final reports, expenditure verification and evaluation of the Action, whatever the time of actual disbursement by the Organisation.

- be recorded in the Organisation's or Organisation's partners' accounts, be identifiable, backed by effective supporting evidence (originals, as the case may be in electronic form), and verifiable pursuant to the provisions of Article 16.4.

14.2 Subject to the above and without prejudice to Article 10.5, the following direct costs of the Organisation or its implementing partners may in particular be eligible:

- the cost of staff assigned to the Action, corresponding to actual salaries plus social security charges and other remuneration-related costs (including in the form of provisions made in accordance with the Organisation accounting rules in case of Joint Management Action). Identifiable personnel costs at headquarters level arising as a direct consequence of the Action may be included. Salaries and costs shall not exceed those normally borne by the Organisation or partners;

- travel and subsistence costs for staff taking part in the Action, provided they do not exceed those normally borne by the Organisation or partners;

- purchase costs for equipment (new or used) which are attributable to the Action;

- purchase costs for goods and services (transport, storage and distributing, rent of equipment, etc.) which are directly attributable to the Action;

- costs directly arising out of, or related to, accepting or distributing contributions in kind;

- costs of consumables and supplies directly attributable to the Action;

- expenditure on contracting directly attributable to the Action;

- the proportion of field office costs that corresponds to the amount of activity directly attributable to the Action or to the proportion of funding by the Contracting Authority;

- costs deriving directly from the requirements of this Agreement (dissemination of information, evaluation specific to the Action, specific reporting for the needs of the Contracting Authority, translation, reproduction, insurance, targeted training for those involved in the Action, etc.) including financial service costs (in particular bank fees for transfers).

14.3 The following costs shall not be considered eligible, whether or nor presented as being related to the Action:

- debts and debts service charges;

- provisions for losses or potential future liabilities;

- interest owed by the Organisation to any third party;

- items already financed from other sources;

- purchases of land or buildings;

- currency exchange losses;

- taxes, duties and charges charged to the Organisation, unless the Organisation (or, where applicable, its partners) can show it cannot reclaim them and the applicable regulations do not exclude coverage of taxes.

14.4 A fixed percentage of direct eligible costs, not exceeding 7 %, may be claimed as indirect costs by the Organisation to cover the administrative overheads incurred for the Action. The resulting funding in respect of indirect costs does not need to be supported by accounting documents.

Subject to the above, for comparable Actions and Actions where there is more than one donor the amount claimed as indirect costs shall not, in percentage terms, be higher or lower than for other comparable contributions.

Indirect costs are eligible provided that they do not include costs assigned to another heading of the budget of this Agreement.

Indirect costs may be charged on the value of in-kind commodities delivered by the Contracting Authority, including their associated costs.

Where the rates applied in accordance with the Organisation's governing bodies' decisions exceed 7%, the Organisation may recover the balance as direct eligible costs, subject to the provisions governing direct eligible costs referred to in this Article 14 being fulfilled.

Indirect costs shall not be eligible where the Agreement concerns the financing of an action where the Organisation is already receiving an operating grant from the European Union during the period in question.

14.5 Any contingency reserve included in the Budget of the Action, to cover any adjustment necessary in the light of changed circumstances on the ground, may not exceed 5% of eligible costs and shall only be used with the prior written (by letter) authorisation of the Contracting Authority, upon a duly justified request from the Organisation.

14.6 Contributions in kind made by the Organisation or its partners may be considered neither as co-financing nor as eligible costs. The cost of staff assigned to the Action is not a contribution in kind and may be considered as co-financing in the Budget for the Action when paid by the Organisation or its partners.

Article 15 - PAYMENTS

15.1 Payment procedures are set out in Article 4 of the Special Conditions and follow one of the two options below:

Option 1: When the implementation period of the Agreement does not exceed 12 months or the contribution is less than EUR 100 000

The Contracting Authority will provide a pre-financing from 80% up to 95% of the sum referred to in Article 3(2) of the Special Conditions less contingencies within 45 days of receiving the Agreement signed by both Parties.

The Contracting Authority will pay the balance within 45 days of approving the final report.

Option 2: When the implementation period of the Agreement exceeds 12 months and the contribution is of EUR 100 000 or more

The Contracting Authority will provide a pre-financing from 80% to 95% of that part of the forecast budget for the first 12 months of the Action which is being financed by it (excluding contingencies) within 45 days of receiving the Agreement signed by both Parties.

Each further instalment will consist of (1) an interim payment that will cover the remainder of the Contracting Authority's part of the actual budget for the previous period (including any approved contingencies) and (2) a pre-financing from 80% to 95% of that part of the forecast budget for the subsequent 12-month period (or of the remaining period if shorter as regards the last instalment of pre-financing) which is financed by it (excluding contingencies), and be made by the Contracting Authority within 45 days of approving a progress report, provided that at least 70% of the immediately preceding instalments (and 100% of previous instalments if any) has been incurred, as proven by the relevant report. For the purpose of this Agreement funds are incurred when they are the subject of a formal legal commitment between the Organisation (or its partners) and a third party. The Contracting Authority will pay the balance within 45 days of approving the final report.

15.2 Any report will be deemed approved 45 days after receipt, accompanied by a request for payment conforming to the model attached as Annex V, if the Contracting Authority has not reacted.

DELEGATION OF THE EUROPEAN UNION TO LESOTHO

If the Contracting Authority does not intend to approve a report, as submitted, it shall revert to the Organisation with a request explaining the reason and specifying the additional information it requires within the first 45-day period. The deadline for approving the report shall be suspended pending the receipt of the requested information. If the Contracting Authority deems that a payment request cannot be met, it shall revert to the Organisation with a request explaining the reason and specifying the additional information it requires within the second 45-day period. The payment period shall be suspended pending the registration of a properly formulated payment request.

Reports shall be presented in accordance with the stipulations of Article 2.

Approval of a report does not imply recognition of the regularity, authenticity, completeness and correctness of the declarations and information contained therein.

15.3 On expiry of the payment period specified in Article 15.1, the Organisation may, within two months of receiving late payment, demand interest at the rate applied by the European Central Bank to its principal refinancing operations, as published in the C series of the Official Journal of the European Union on the first day of the month in which payment was due, increased by three and a half percentage points.

The interest shall be payable for the period elapsing from the day following expiry of the time limit for payment up to the day of payment. Any partial payment shall first cover the interest.

The interest shall not be treated as an income for the purposes of determining the final amount of European Union financing within the meaning of article 17. The suspension of payment by the Contracting Authority may not be considered as late payment.

15.4 The level of pre-financing referred to in Article 15.1 above shall be set at a level of between 80% and 95 % in 5% increments taking into account past record of the Organisation in particular as regards timely submission of the final report.

15.5 The Contracting Authority will make payments in Euro into the bank account referred to in the financial identification form in Annex IV. Where payment is to be made to a bank account which is already known to the Contracting Authority, the Organisation may provide a copy of the relevant financial identification form.

15.6 Where feasible, the funds paid by the Contracting Authority shall be maintained in Euro denominated bank accounts. They may be pooled together with contributions from other donors. They may be exchanged for other currencies in order to facilitate their disbursement.

15.7 For Joint Management and/or Multi-Donor Actions, the Organisation's rules and procedures pertaining to bank interest shall apply, and an equal treatment among donors shall be ensured. This is based on the understanding that these rules and procedures conform to internationally accepted standards.

In all other cases, interest earned by the Organisation on funds received from the Contracting Authority shall be identified as such and reflected in reports to the Contracting Authority. In such cases, subject to the conditions provided for in the applicable regulations of the European Union:

- for pre-financing equal or below EUR 250 000 (or for crisis management, equal or below EUR 750 000 per agreement at the end of each financial year and for projects of a duration of more than 12 months), interests earned on such pre-financing shall not be due to the Contracting Authority.

- for pre-financing exceeding the amounts indicated above and below EUR 750 000 (except in case of crisis management), interest earned on such pre-financing shall be assigned to the Action and deducted from the payment of the final amount due to the Organisation, unless the Contracting Authority requests the Organisation to reimburse the interest generated by pre-financing before the payment of the balance.
- for pre-financing exceeding EUR 750 000, the amount of earned interests on such pre-financing shall be recovered by the Contracting Authority for each reporting period following the implementation of the Agreement at the end of the financial year.

DELEGATION OF THE EUROPEAN UNION TO LESOTHO

Article 16 - ACCOUNTS AND TECHNICAL AND FINANCIAL CHECKS

16.1 The Organisation shall keep accurate and regular records and accounts of the implementation of the Action. Separate accounts or sub-accounts shall be kept for each Action, and shall detail all income and expenditure.

The accounting regulations and rules of the Organisation shall apply. This is based on the understanding that these regulations and rules conform to internationally accepted standards.

16.2 Financial transactions and financial statements shall be subject to the internal and external auditing procedures laid down in the Financial Regulations, Rules and directives of the Organisation. A copy of the audited financial statements shall be submitted to the European Commission by the Organisation.

16.3 The Organisation shall, until at least five years after the end date as specified in article 12.5:

- keep financial accounting documents concerning the activities financed by the contribution and,
- make available to the competent bodies of the European Union, upon request, all relevant financial information, including statements of accounts concerning the Action, whether they are executed by the Organisation or by its implementing partners or contractors.

16.4 In conformity with its financial regulations, the European Union, including its Court of Auditors, may undertake, including on the spot, checks related to the Actions financed by the Contracting authority.

16.5 These provisions shall be applied in accordance with any specific agreement concluded in this respect by the Organisation and the European Union.

Article 17 - FINAL AMOUNT OF FINANCING BY THE CONTRACTING AUTHORITY

17.1 The final amount to be paid by the Contracting Authority to the Organisation shall not exceed the maximum contribution established by Article 3(2) of the Special Conditions, even if the overall actual expenditure exceeds the estimated total budget set out in Annex III.

17.2 Where Article 3(2) of the Special Conditions sets out a maximum percentage of estimated total eligible cost to be financed by the Contracting Authority, and if the eligible costs at the end of the Action are less than the estimated total cost specified in Article 3(1) of the Special Conditions, the contribution of the Contracting Authority may be limited to the amount resulting from multiplying the actual expenditure by the percentage laid down in Article 3(2) of the Special Conditions.

Where the percentage set out in article 3(2) of the Special Conditions is likely to change in the course of implementation, the Organisation shall consult the Contracting Authority without delay so as to agree on appropriate measures, in accordance with Article 9.

17.3 The Organisation accepts that the contribution of the Contracting Authority shall be limited to the amount required to balance income and expenditure for the Action and that it may not in any circumstances result in a surplus for the Organisation.

In the event of a final surplus balance of total financing over expenditures at the financial closure of the Action, the Organisation shall specify in the final report the amount of the surplus balance in the holding currency used by the Organisation together with the estimated amount in Euro and where the exchange rate of the Organisation can be consulted. This surplus in the Organisation's accounts expressed in holding currency used by the Organisation shall be converted into Euro using the rate of exchange of the Organisation in force on the day when the Contracting Authority's internal recovery order is established, which amount is later reflected in the debit note sent to the Organisation. The resulting Euro equivalent shall then be refunded to the Contracting Authority. This provision shall not apply to the exchange rates used for reporting.

17.4 In cases where the Action is suspended or not completed within the Implementation Period of this Agreement, the funds that remain unexpended after all liabilities incurred in this period have been satisfied, including interest earned where applicable, will be reimbursed to the Contracting Authority.

17.5 Where the Action is not carried out at all, or is not carried out properly, in full or on time and without prejudice to its right to terminate this Agreement pursuant to Article 12.2, the Contracting Authority may, after allowing the Organisation to submit its observations and without prejudice to Article 13, reduce the contribution pro rata the actual implementation of the Action on the terms laid down in this Agreement.

Article 18 - RECOVERY

18.1 Where recovery is justified, the Organisation shall repay to the Contracting Authority within 45 days of the issuing of a letter (debit note) by which the Contracting Authority reclaims from the Organisation, any amounts paid in excess of the final amount due.

18.2 If the Organisation fails to repay by the due date, the sum due shall bear interest at the rate indicated in article 15.3. The interest shall be payable for the period elapsing from the day following expiry of the time limit for payment up to the day of payment. Any partial payment shall first cover the interest.

18.3 Amounts to be repaid to the Contracting Authority may be offset against amounts of any kind due to the Organisation, after informing it accordingly. The Organisation's prior consent is not required. This shall not affect the Parties' option to agree on payment in instalments.

18.4 Bank charges incurred from the repayment of amounts due to the Contracting Authority shall be borne entirely by the Organisation.

DELEGATION OF THE EUROPEAN UNION TO LESOTHO

Annex III - Budget for Deepening Decentralization Project FED/2012/283-774

For the purpose of Art. 9.2 of the General Conditions, the outputs constitue a budget heading.

Outputs	Indicative Activities	Year 1 (euro)	Year 2 (euro)	Year 3 (euro)	Year 4 (euro)	Sub-totals	Indicative Cost (Euro) (Direct Cost per Output unless otherwise noted)
1. Improved development funding through local authorities	*1.1 Finalize design of local development funding mechanism* • Technical design, conditions, performance measures, etc.	€ 100,000	€ 50,000	€ 50,000	€ 50,000	***€ 250,000***	€ 4,717,383
	1.2. Support adoption of the new system • Ensure Government counterparts (MoFDP and MoLGC) understand and buy into the concept • Ensure counterparts are capacitated to adopt the system	€ 186,916	€ 177,570	€ 93,458	€ 93,458	***€ 551,402***	
	1.3. Operationalize the local development funding mechanism • Provide technical training to councils to operationalize the system and processes • Operate the loc. dev. funding with support of UNCDF in the first instanc • Disburse funds through the oc. dev. funding	€ 467,290	€ 1,318,931	€ 197,436		***€ 1,983,656***	
	1.4. Operate othe local developmetn funding mechanism (once mechanism is set up- operated directly through ministry)			€ 1,196,262	€ 736,064	***€ 1,932,325***	
Indirect costs*							€ 282,617
Sub-total for Output with indirect cost							€ 5,000,000
2. Decentralisation and accountability systems at the local level promoted	*2.1. Conduct decentralization assessment and produce inception reprot* • Commission Studies documenting current system and proposing more appropriate principles. • Resulting from the studies, test new and more appropriate principles	€ 46,729	€ -	€ -	€ -	***€ 46,729***	€ 994,393

DELEGATION OF THE EUROPEAN UNION TO LESOTHO

TPK

	2.2. Decentralizaiton model • Design the decentralization model (based on findings) • Develop a solid programme of assistance to councils to decentralize • Rollout decentralization	€ 280,374	€ 93,458	€ 186,916	€ 186,916	€ ***747,664***	
	2.3 Develop framework for linking up of inter-governmental transfer system and IFMIS for implementation	€ 50,000	€ 100,000	€ 50,000		€ ***200,000***	
Indirect costs*							€ 55,607
Sub-total for Output with indirect cost							€ **1,050,000**
3. Capacities of Line Ministries and local authorities enhanced to decentralise functions	*3.1 Sensitization and strengthened administrative systems to facilitate the process of decentralization*	€ 93,458	€ 93,458	€ 46,729	€ 46,729	€ ***280,374***	€ **700,935**
	3.2. Faciliate a Human Resource infrastructure, functions and systems to implement the process of decentralizatoin	€ 84,112	€ 56,075	€ 46,729	€ 46,729	€ ***233,645***	
	3.3 Facilitate an enabling leaderships and organizational environment for change	€ 93,458	€ 46,729	€ 28,037	€ 18,692	€ ***186,916***	
Indirect costs*							€ 49,065
Sub-total for Output with indirect cost							€ **750,000**
4. Programme managed effectively and consistently (Technical output)	*4.1 Set up and run initial Programme Management structure and overall management arrangements*	€ 514,019	€ 514,019	€ 514,019	€ 308,411	€ ***1,850,467***	€ **1,943,925**
	4.2 Conduct audit, monitoring and evaluation		€ 18,692	€ 18,692	€ 56,075	€ ***93,458***	
Indirect costs*							€ 136,075
Sub-total for Output with indirect cost							€ **2,080,000**
Total Direct Costs		1,916,355	2,468,931	2,428,277	1,543,073	8,356,636	8,356,636
Indirect Costs (7% on non-core EU)*		*123,645*	*151,069*	*151,723*	*96,927*	*523,364*	*523,364*
TOTAL COSTS		2,040,000	2,620,000	2,580,000	1,640,000	*8,880,000*	8,880,000
Sources of Funding	EC						8,000,000
	UNCDF						880,000
Estimated at the current UN operational exchange	**UNORE July 2012, EUR/US$-0.804**						
* Indirect costs: General Management Support, charged at 7% of Total Costs for Non-Core EU Funding (not charged on UNCDF core contribution as per UN rules)and regulations							

DELEGATION OF THE EUROPEAN UNION TO LESOTHO

TEU [illegible]

Annex IV

FINANCIAL IDENTIFICATION

PRIVACY STATEMENT http://ec.europa.eu/budget/execution/ftiers_fr.htm

ACCOUNT NAME

ACCOUNT NAME(1): UNITED NATIONS DEVELOPMENT PROGRAMME

ADDRESS: ONE UNITED NATIONS PLAZA

TOWN/CITY: NEW YORK

POSTCODE: NY 10017

COUNTRY: UNITED STATES

CONTACT: Ms. Julie Anne Mejia, Treasurer

TELEPHONE: +1-212-906-5690

FAX: +1-212-906-5645

E - MAIL: julie.anne.mejia@undp.org

BANK

BANK NAME: ING Belgium SA/NV

BRANCH ADDRESS: 60 COURS ST MICHEL

TOWN/CITY: BRUSSELS

POSTCODE: 1040

COUNTRY: BELGIUM

ACCOUNT NUMBER: 301-0186139-77

IBAN(2): BE80301018613977

REMARKS:

BANK STAMP + SIGNATURE OF BANK REPRESENTATIVE
(Both Obligatory)(3)

Antoinette D'YVE
Relationship Manager
Institutionals
ING Belgium SA/NV
avenue Marnixlaan, 24
1000 BRUSSELS
Phone 02/547.21.11

DATE + SIGNATURE ACCOUNT HOLDER :
(Obligatory)

UNITED NATIONS Development Programme BRUSSELS

DATE 1 FEV. 2009

(1) The name or title under which the account has been opened and not the name of the authorized agent

(2) If the IBAN Code (International Bank account number) is applied in the country where your bank is situated

(3) It is preferable to attach a copy of recent bank statement, in which event the stamp of the bank and the signature of the bank's representative are not required. The signature of the account-holder is obligatory in all cases.

DELEGATION OF THE EUROPEAN UNION TO LESOTHO

ANNEX V

Request for payment for contribution agreement with an international organisation

Date of the request for payment <.......>

For the attention of
<Address of the Contracting Authority>
<Financial unit indicated in the Agreement>[1]

Reference number of the Agreement: ...

Title of the Agreement: ...

Name and address of the Organisation: ...

Request for payment number: ...

Period covered by the request for payment: ...

Dear Sir/Madam,

I hereby request payment of prefinancing/interim payment/balance[2] under the Agreement mentioned above.

The amount requested is [as indicated in Article 4(2) of the Special Conditions of the Agreement/the following: ...][3]

Please find attached the following supporting documents:

- narrative and financial progress report (for prefinancing / interim payments)
- final narrative and financial report (for payment of the balance)[4]

The payment should be made to the following bank account:...[5]

Please when making the payment indicate the following communication: …

I hereby certify on honour that the information contained in this request for payment is full, reliable and true, that the costs incurred can be considered eligible in accordance with the Agreement and that this request for payment is substantiated by adequate supporting documents that can be checked.

Yours faithfully,

<signature>

---

1 If applicable, please do not forget to address a copy of this letter to the European Union Delegation mentioned in Article 5 of the Special Conditions of the Agreement.
2 Delete the options which do not apply.
3 Delete the option which does not apply.
4 Delete the items which do not apply.
5 Indicate the account number shown on the identification form annexed to the Agreement. In the event of change of bank account, please complete and attach a new identification form as per model.

N.B.: Instalments of prefinancing, Interim payments and final payments are subject to the approval of the corresponding report (see Article 15(1) of the General Conditions of Agreement)