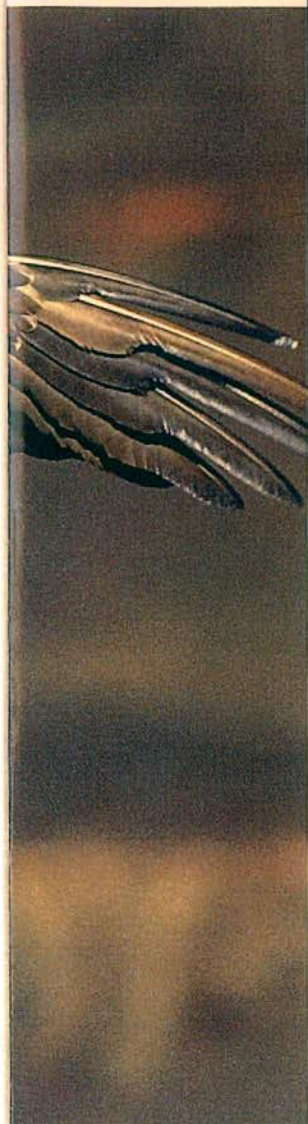
1990 - 1991

LESOTHO HIGHLANDS DEVELOPMENT AUTHORITY

ANNUAL REPORT

LHDA



The Endangered Bearded Vulture or Lammergeyer (Gypaetus Barbatus) must rank as one of the most beautiful raptors of Southern Africa. Confined to high altitudes it is estimated that there is approximately 120 pairs left in Southern Africa, nearly all of them in Lesotho. These lovely birds are now to be protected by the LHDA.

T. van Tonder
Chairman

STATEMENT … HE BOARD

The LHDA has dropped the power pylon for its logo and replaced it with an "environmentally friendly" crest. The new LHDA corporate image emphasizes protection of environment heritage while the 30 year-long implementation of the LHWP progresses. The LHDA has joined hands with organisations such as the Lesotho Wildlife Trust to take all efforts to inculcate love of nature into the minds of all the country's inhabitants. The beautiful roads and bridges and, indeed, the planned reservoirs cannot be centres of attraction if they are not surrounded by a lively landscape full of luxurious plants and animals.

On behalf of … pment Authority (LHDA) and on my … or agencies and banking institutions … ent and the LHDA in the implement …

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Once again I wish to ex… ave assisted the Government of Lesotho and the LHDA in this historical process of our country. It is my sincere hope that the cordial ties that are reflected in their support for the Lesotho Highlands Water Project will be further enhanced during the years ahead.

I am equally indebted to the Ministry of Highlands Water and Energy Affairs, members of the LHDA Board and the Joint Permanent Technical Commission (JPTC) for their continued support and interest in the project.

Finally, I would like to express my special thanks and honour to the Government of Lesotho as it has always demonstrated its commitment to this project whose benefits will certainly change the socio-economic conditions of Lesotho.

The Endangered Bearded Vulture or Lammergeyer (Gypaetus Barbatus) must rank as one of the most beautiful raptors of Southern Africa. Confined to high altitudes it is estimated that there is approximately 120 pairs left in Southern Africa, nearly all of them in Lesotho. These lovely birds are now to be protected by the LHDA.

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T. van Tonder
Chairman

STATEMENT OF THE CHAIRMAN OF THE BOARD

On behalf of the Board of Directors of the Lesotho Highlands Development Authority (LHDA) and on my own behalf, I wish to extend my greetings to all the donor agencies and banking institutions which have co-operated with both the Lesotho Government and the LHDA in the implementation of the Lesotho Highlands Water Project (LHWP).

It is also propitious at this stage to commend those companies which came together to form the consortia that will construct the Katse Dam, and the Transfer and Delivery Tunnels, namely the Highlands Water Venture (HWV) and the Lesotho Highlands Project Contractors (LHPC) respectively.

The long historical and politico-economic association that Lesotho has had with the participating states and institutions in the LHWP has, indeed, facilitated not only the smooth manner in which various discussions were conducted, but it also signifies the trust and understanding that the said states and institutions have in the future of the Lesotho Highlands Water Project.

The completion of the various types of infrastructure and the award, at the end of 1990, of the major construction contracts mark a turning point in the development of the project.

It is most gratifying to note that the LHDA also considers the plight of the communities that live within the project area very seriously. The implementation of the compensation policy and the assistance accorded to Basotho to establish their own enterprises are indicators of the commitment of the project to address social issues as well. We are encouraged, therefore, that in the years ahead, the LHDA will be in a better position to perform the tasks that have been set out for itself.

Once again I wish to express my gratitude to all the co-operating partners who have assisted the Government of Lesotho and the LHDA in this historical process of our country. It is my sincere hope that the cordial ties that are reflected in their support for the Lesotho Highlands Water Project will be further enhanced during the years ahead.

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Finally, I would like to express my special thanks and honour to the Government of Lesotho as it has always demonstrated its commitment to this project whose benefits will certainly change the socio-economic conditions of Lesotho.

CHIEF EXECUTIVE'S REPORT : 1990/91

I am happy to report on the progress achieved by the Lesotho Highlands Development Authority (LHDA) during the financial year under review.

As I had mentioned in the last annual report, tenders for major water transfer construction contracts were received and opened on 20 April 1990. A thorough evaluation and approval process culminated on 14 December 1990, with the award of contracts for the construction of the Katse Dam, the two Transfer Tunnels and the Delivery Tunnel South. The Katse Dam contract was awarded to the consortium Highlands Water Venture (HWV), led by Impregilo of Italy. The other firms are Bouygues of France, Concor Holdings of the Republic of South Africa, Group Five of the Republic of South Africa, Hochtief of Germany, Kier of the United Kingdom and Sterling of the United Kingdom.

The two Transfer Tunnels and the Delivery Tunnel South contracts were awarded to the consortium Lesotho Highlands Project Contractors (LHPC), led by Spie Batignolles of France. The other firms comprising LHPC are Balfour Beatty of the United Kingdom, Campenon Bernard of France, L.T.A. of the Republic of South Africa and Ed Zublin Ag of Germany.

The total price of the three contracts was 1,96 billion Maloti equivalent to about 760 million US dollars, many times the size of the previous largest contracts awarded in Lesotho.

Following the award of contracts, construction work commenced on 1 February 1991, thus marking the beginning of the construction of the major works of the Lesotho Highlands Water Project in Lesotho.

The LHDA continued with the construction of the advanced infrastructure in the project area. The greatest milestone in this regard was the completion of the Malibamats'o Bridge along the Northern Access Road.

With the imminent commencement of the construction phase in the following year, the LHDA found it necessary to re-organise its structure so that it would meet the challenges brought about by the additional tasks, particularly the construction of the dam and the tunnels.

Three departments, each under a Deputy Chief Executive reporting to the Chief Executive, were established and the total number of divisions increased from ten to twelve. As a result, the number of employees, especially the Lesotho nationals increased substantially.

M E Sole
Chief Executive

In as far as the engineering and design studies were concerned, the programme moved from the planning and preparation state to the commencement of the main construction contracts. The Water Transfer Design Contract, which commenced in September 1987 was completed in February 1991 while six consulting engineering firms out of ten were prequalified to submit proposals for the Preparation of Construction Drawings and Supervision of Construction Contract for the 'Muela Hydropower Project.

The LHDA continued with a campaign to mitigate the adverse effects which could be brought about by the implementation of the project to the communities living within the Lesotho Highlands Water Project (LHWP) area. Grain compensation increased substantially and cash payment of about M80,000 was paid to a total of three hundred and fifty-four households. Income generating projects were also introduced to facilitate Basotho participation in the project.

With regard to loans negotiations, the LHDA was successful in securing loans from such agencies as the Commonwealth Development Corporation (CDC), the Development Bank of Southern Africa (DBSA) and the European Economic Commission (EEC), and negotiations were in an advanced stage with the World Bank and with the off-shore lenders supporting the main contracts.

In conclusion, I would like to express my deepest gratitude to the Lesotho Government for its continued support of the project. My profound gratitude is also extended to all members of staff and consultants of the LHDA, who, through their dedication and diligence, have already achieved visible results since the project was commissioned.

LHDA ANNUAL REPORT

Fiscal year 1990/91 was the most important for the project since the signing of the Treaty in October 1986. With award of the major water transfer construction contracts and the securing of the related funding, implementation of Phase 1A of the project formally commenced and the full rights and obligations of the Treaty on Lesotho and South Africa came into effect.

In addition to the achievements in the major contracts, there was extensive progress in other areas as well. The construction of advanced infrastructure projects was substantially completed, the environmental action plan progressed well and there was substantial progress in the financing and planning for the 'Muela Hydropower Project.

The Authority's organisation structure was substantially revised to prepare for the new responsibilities concomitant with the award of the major construction contracts and financing agreements.

1. CONSTRUCTION

1.1 Major Water Transfer Contracts

Early in the year on 20 April 1990 tenders were opened in public for the four major water transfer construction contracts; Katse Dam, the two Transfer Tunnels and the Delivery Tunnel South. These contracts represent about 50 per cent of the implementation costs of Phase 1A of the Lesotho Highlands Water Project.

The tender opening ceremony brought to a very successful conclusion a tendering process which was unique for contracts of this magnitude. Tenderers were required to provide financing proposals for the foreign currency requirements of their tender and were advised that an evaluation process would be used encompassing both construction costs and financing terms with bonuses and penalties related to the amount of foreign finance offered.

LHDA Management
Left to right:
K. Taka (Public Relations); J.G. Clark (Construction); T. Putsoane (Infrastructure); C. Brown (Planning and Design); T.J. Pheko (Information Systems); G. Chetboun (Water Resources); W. Rohrbäch (DCE – Engineering and Construction); R.G. Witherell (DCE – Environment and Public Affairs); G.M. Irons (Finance); R. Motlojoa (Human Resources); H.W. Baur (DCE – Finance and Administration); M.J. Masilo (Environment); S. Seeiso (Legal Affairs)

Occasion of the signing of the Financial Agreements and Main Construction Contracts

The tenderers were not prequalified, contractors from anywhere in the world were free to register for receipt of the Tender Documents. However, for tenders to be considered, the contractors had to meet specified qualification requirements for relevant construction experience, and technical and financial resources. Contractors were also invited to offer combined tenders for two or more of the four contracts.

Despite the reservations of many in the industry, the success of the process was demonstrated on 20 April 1991 when tenders were received from eight joint ventures representing 43 contractors from 12 countries. All tenderers except one submitted alternatives with reduced prices for combined contracts resulting in a very complicated evaluation process.

The evaluation was directed by a Tender Evaluation Team comprising seven international experts in civil construction and project finance. The technical evaluation was undertaken by the consulting engineers which had prepared the design and the Tender Documents, Lesotho Highlands Consultants for the Katse Dam and Transfer Tunnel Tenders and by Highlands Delivery Tunnel Consultants for the Delivery Tunnel Tenders. The financial evaluation was carried out by LHDA's financial consultants, Chartered West LB.

The evaluation, completed in August 1990 demonstrated the success of the process. All tenderers exceeded the qualification criteria, the tendered price for recommended combination was 7 per cent less than the Engineers estimate and the foreign finance offered exceeded that of the financing plan prepared prior to tendering.

Following approval of the recommendation by the project authorities in Lesotho and South Africa, and by the World Bank, final contract terms were negotiated with the recommended contractors and financing agencies in October and November 1990. The successful tenders were accepted by the LHDA in a ceremony in Maseru on 14 December 1990 and the contractors commenced work on 1 February 1991.

One contract for Katse Dam was awarded to Highlands Water Venture, led by Impregilo of Italy. Two contracts in combination, one for the Transfer Tunnel and one for the Delivery Tunnel South were awarded to Lesotho Highlands Project Contractors led by Spie Batignolles of France.

The basic details of the contracts can be summarised as follows:-

LHDA Contract 123 – Katse Dam and Appurtenant Works

Technical Characteristics – Concrete Arch Dam, 180 metres high, crest length 710 metres, concrete volume 2 150 000 cubic metres.
Estimated Final Cost – M1 250 000 000
Contract Completion Date – 31 January 1997
Contractor – Highlands Water Venture

LHDA Contract 124/125 – Transfer Tunnel

Technical Characteristics – 45 km long, 4.95 metre diameter tunnel to be excavated by three tunnel boring machines (TBMs) through primarily basalt rock with a maximum rock cover of 1 200 metres.
Estimated Final Cost – M900 000 000
Contract Completion Date – 30 September 1996
Contractor – Lesotho Highlands Project Contractors

Contract LHDA 126 – Delivery Tunnel South

Technical Characteristics – 14 km long tunnel with 5.10 metre diameter sections excavated using one TBM and two steel lined inverted syphons under rivers at 3.4 metres diameter excavated by the drill and blast method.
Estimated Final Cost – M420 000 000
Contract Completion Date – 31 December 1996
Contractor – Lesotho Highlands Project Contractors

Extensive advanced infrastructure construction was undertaken as described in the following sections. At the end of the period all infrastructure was on programme for completion prior to the dates committed by LHDA to have these facilities available for the main contractors.

1.2 Supervision of Main Contracts

Associated consultancy contracts were awarded to provide engineering services for supervision of the major construction contracts:

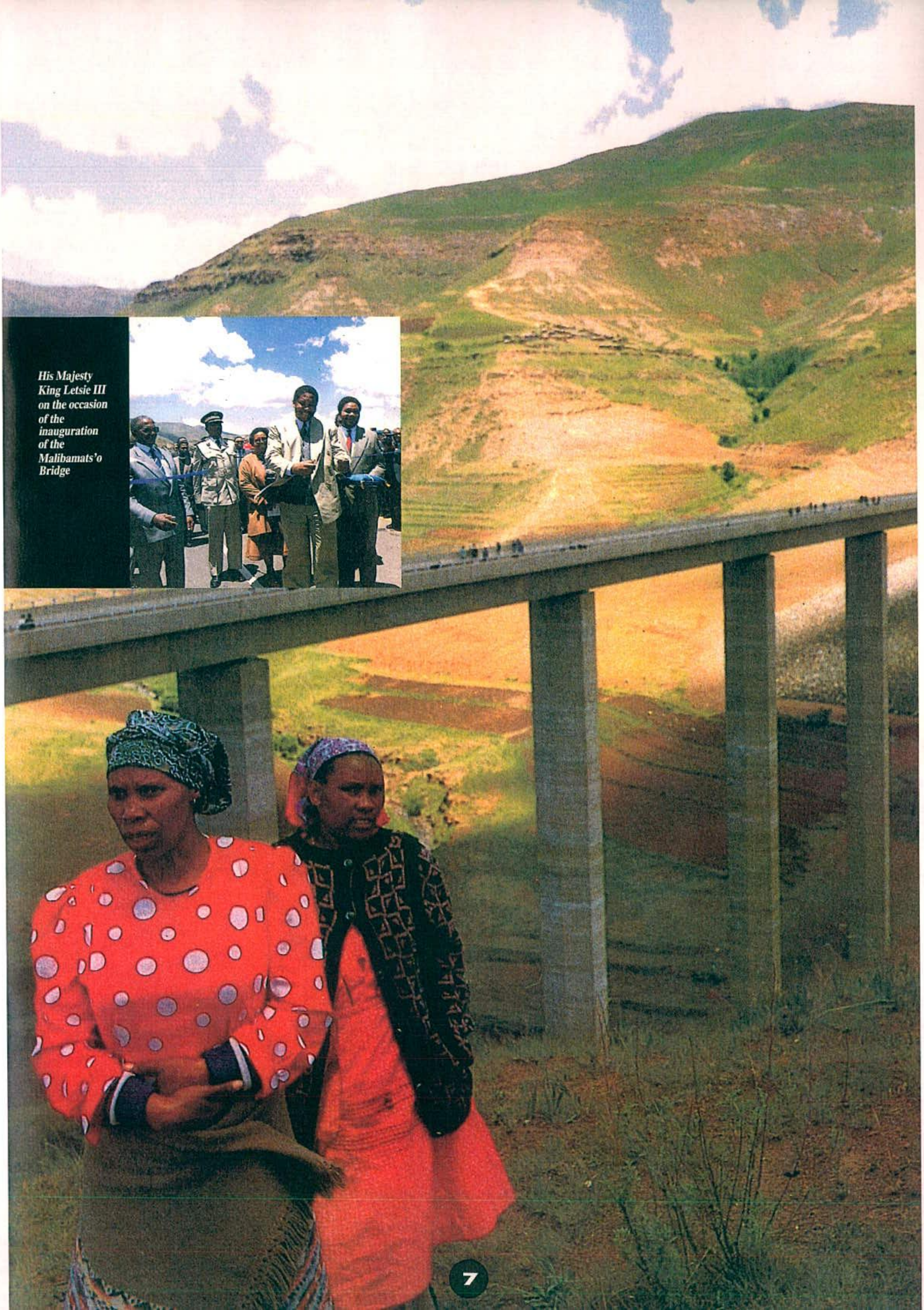
- Contract LHDA 45 – Preparation of Construction Drawings and Supervision of Construction of Katse Dam and Transfer Tunnel, awarded to Lesotho Highlands Consultants.
- Contract LHDA 46 – Preparation of Construction Drawings and Supervision of Construction of Delivery Tunnel South awarded to Lesotho Highlands Tunnel Partnership.

1.3 Roads

Eighty percent completion was reached on the Northern Access Roads and 70% on the tunnel adit roads. Total value of the work performed up to 31 March 1991 was M330 million, 83% of the total anticipated supervision and construction costs.

The three major roads contracts in progress were:

- Contract LHDA 103 – Northern Access Road (Pitseng to Malibamats'o Bridge);
- Contract LHDA 104 – Northern Access Road (Malibamats'o Bridge to Katse Village);
- Contract LHDA 108 – North End Access Roads.



His Majesty King Letsie III on the occasion of the inauguration of the Malibamats'o Bridge

1.4 Camps and Border Crossings

By March 1991 construction had progressed satisfactorily. The border-crossing facilities, Katse Village engineering and building works were completed. Butha-Buthe Village was 90% complete.

The following contracts relate to Katse Village:

- Contract LHDA 110 – engineering works.
- Contract LHDA 111 A, B, C, F & G – operations centre, lodge, houses, school and clinic.
- Contract LHDA 111 H & J – Commercial centre and ablutions.

The following contracts were awarded for Butha-Buthe Village:

- Contract LHDA 114 – engineering works.
- Contract LHDA 115B – prefabricated buildings.
- Contract LHDA 115A – Conventional houses, recreation centre, school and workshop.
- Contract LHDA 115C – 38 houses and single quarters.

1.5 Power Supply and Communications

Construction power implementation was carried out under two separate systems.

- Contract LHDA 117 – 132 kv transmission system from RSA border to Mabote, Mabote to Maputsoe and 33kv Maseru Ring.

This work was contracted and managed by LHDA, together with the Lesotho Electricity Corporation.

- Contracts LHDA 118/1/2/3/4/5/6 – Katse System and Hololo Valley System (132kv, 66kv, 33kv and 11kv).

Transmission lines and substation tenders and installation of electrical equipment was on schedule, with approximately 25% of the programme complete by the end of the period. The original programme for completion ran into difficulty and emergency measures were taken at the end of the period.

Installation of a telecommunication system was carried out by the LHDA, in co-operation with the Lesotho Telecommunication Corportion.

- Contract LHDA 119 – Construction Communications System.

Tenders for construction of the Subscriber Radio Telecommunications System were issued in May 1990, the contract was awarded in November 1990, and construction was 50% complete at the end of the year.

2. ENGINEERING DESIGN AND STUDIES

The programme moved from the planning and preparation stage to the commencement of the main construction contracts.

2.1 Water Transfer

Contract LHDA 15 – Water Transfer Design Contract, commenced in September 1987 and was completed in February 1991. Optimisation of the design for Katse Dam and long-term testing of concrete were also carried out.

2.2 'Muela Hydropower Project

Six consulting engineering firms out of ten were prequalified to submit proposals for Contract LHDA 51 – Preparation of Construction Drawings and Supervision of Construction. The proposal documents were prepared during the period ready for issue to the prequalified consulting firms in April 1991.

2.3 Economic Studies

LEC Investment and Tariff Study

The Study was commenced in January 1988, reviewed by LHDA, and revised by the consultant in 1990, the final report was approved and issued in May 1990.

Study of the Use of Revenue from Royalties

Expected water royalities from the LHWP were calculated by the LHDA computer based on Treaty requirements.

The Study began in June 1990, on a one-year schedule, under supervision of LHDA on behalf of Ministry of Planning. The object of the study was the development of a strategy for utilisation of income from the LHWP.

Cost Apportionment

In accordance with the procedures set out in Protocol III of the Treaty, an agreement was reached with the JPTC on the apportionment of cost responsibility to Lesotho and South Africa for the Phase 1A construction costs.

2.4 Water Resources

A long-term information system covering the three data bases of stream flow, rainfall, and sediment/water quality, was implemented. This was followed by processing and analysis of the relevant information.

Two technical reports, embracing Geostatistical Monthly Rainfall Data for the LHWP, were published. A further report was published, outlining the physical and chemical characteristics and the total sediment concentration in rivers, as monitored under the sediment programme.

A project to establish ten rainfall stations in Lesotho began with the erection of two stations in the Senqunyane River Catchment, within which the proposed Mohale Dam will be located.

3. ENVIRONMENTAL AND SOCIAL ASPECTS

The LHDA continued the campaign to minimise the adverse effects of the LHWP on the residents and the environment.

3.1 Natural Environmental and Heritage Plan

Implementation of this plan commenced with work on a Biology study in March 1991.

Approval for negotiations on the Water Quality Study was obtained; proposals for an Epidemiology survey were evaluated; and terms of reference for the Erosion/Sedimentation Study were in preparation.

Soil surveys and mapping were 10% complete by the end of the period, and test trenching was completed at one archaeological site.

Studies aimed at conserving the habitat of the Maloti Minnow were implemented, and a new locality for the fish was found in the Senqunyane Catchment area; the studies were also aimed at preserving the plant ecology of the upper Bokong alpine area.

3.2 Compensation

Grain compensation increased significantly over the previous period, with 775 households receiving 435 000 kg.

A total of 354 householders who each lost less than 1 000 square metres of land as a result of six LHDA contracts, received cash payments totalling M80 000.

Grazing and arable land totalling 4,474 hectares was adjudicated for compensation in areas to be flooded by the Katse and 'Muela reservoirs, or occupied by the dam and tunnel contractors.

Ongoing adjudications of land affected by advanced infrastructure projects, totalled 559 hectares eligible for grain compensation of arable land, 50 hectares of arable plots eligible for cash compensation less than 1 000 sq. m each, and 22 hectares of garden land.

Project construction activities have resulted in losses of arable land totalling 559 hectares which are eligible for grain compensation; 50 hectares are parcels of land less than 1 000 Sq.m. due for cash compensation.

3.3 Rural Development

This programme, comprising sixteen individual development projects, is designed to provide both equity and economic sustainability to affected communities. Final planning reports were approved during the period.

3.4 Public Health

Public health instruction *pitsos* (public meetings) were held in conjunction with the Ministry of Health and the Christian Council of Lesotho. Contracts for the Leribe Trauma Unit and the development of a format for pre-employment and worker health screening for project contractors, were other innovations.

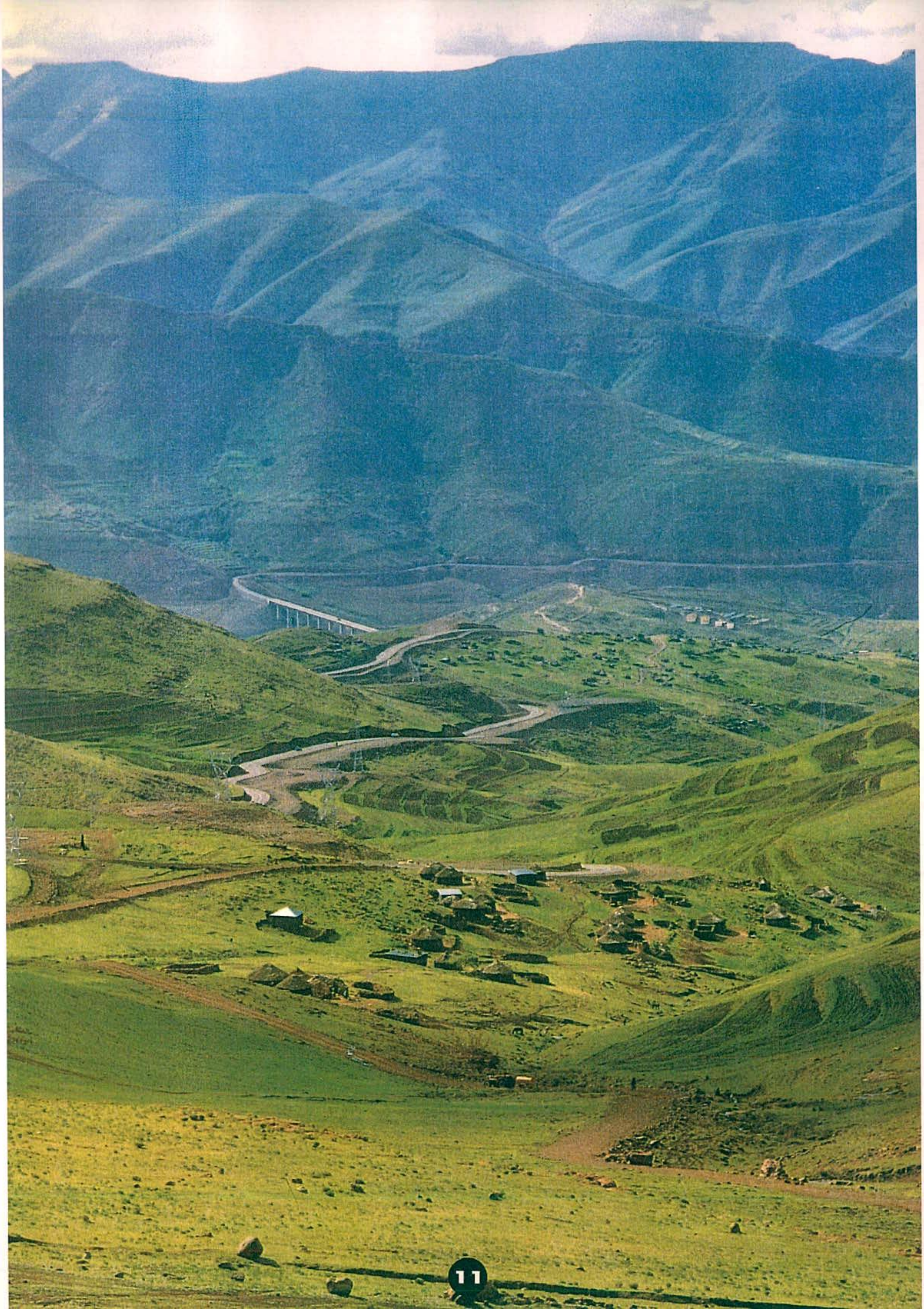
4. ORGANISATIONAL DEVELOPMENT AND TRAINING

The LHDA organisational structure was modified during the period to accommodate the increase in work load with the commencement of the major construction.

The new structure, provides three departments each under a deputy chief executive reporting to the Chief Executive. The total number of divisions increased from ten to twelve as a result of the following changes:

- The Treasury Division was established taking over the responsibilities for project funding and loan administration matters and payment of contracts formerly part of the Finance Division's responsibility.
- The former Technical Division was divided into two new divisions, Planning and Design, and Construction.
- The former Training Division was renamed the Human Resources Division with the transfer of the personnel responsiblities from the Administration Division.
- The Computer Services Division was renamed the Information Systems Division to more accurately reflect the division's responsibilities.

The three Deputy Chief Executive posts were



established and filled. During the period, the Technical Assistance Contract (TAC) Accounting was awarded to Price Waterhouse to provide staff for the Finance Division. Negotiations were in progress with consultants for Treasury Division and for the TAC – Engineering 2 Contract, to provide senior staff for the Planning and Design, and Construction Divisions.

The staff complement at the end of the period was:

Basotho	153
Expatriate	29
Total	182

The Construction Skills Training Project saw 200 trainees under instruction by the end of the period.

5. LEGAL AFFAIRS

Legal questions raised by the Tender Evaluation Team were attended to by the Legal Affairs Division. Contractual, insurance and financial security issues relating to the infrastructure consultancy and other contracts were dealt with. Financing agreements were reviewed and approved.

Amendments to legislation were initiated to facilitate efficient operation of LHWP.

There were also several contractual claims and court cases against the LHDA relating to personnel matters and compensation, which were dealt with by the Legal Affairs Division.

6. PUBLIC AWARENESS AND PARTICIPATION

Projects were introduced to facilitate Basotho participation in the LHWP. These included:

a) Mobilisation of farmers in the Bokong area to take advantage of market opportunities presented by the LHWP.
b) 'Muela Multipurpose Training Centre.
c) Training of domestic servants, with a 100% placement rate.
d) Establishing two English-Medium schools at Katse and Butha-Buthe, the Thaba-Tseka Skills Training Centre, and postal agencies at Katse and Butha-Buthe.
e) Mobilisation of small entrepreneurs; two companies were assisted in taking advantage of project spin-offs.
f) Liaison with small donors, such agencies were approached to fund activities of some of the companies established.
g) Public awareness programmes were adopted and propagated through electronic and print media. Interpersonal communication also proved to be a very useful medium.

7. PROJECT FINANCE

Negotiations for a loan of 3,7 million Pound Sterling for the establishment of a telecommunications system for the LHWP were concluded with the Commonwealth Development Corporation of UK in February, and the loan agreement was signed in March 1991.

Four loans, as detailed below, were negotiated with the Development Bank of Southern Africa:

■ Katse Village Engineering Works	R 21 393 000
■ Katse Village Building Works	34 832 000
■ Border Crossing Facilities	8 470 000
■ Lower Bokong Development Studies (Grant)	144 000
TOTAL	64 839 000
Further loans being negotiated with the DBSA are as follows:	
■ Butha-Buthe Village – Engineering Works	R 22 700 000
■ Butha-Buthe Village – Building Works	13 750 000
■ Construction Skills Training Centre	1 870 000
TOTAL	R 38 320 000

Negotiations resulted in the LHDA securing favourable interest rates for both export credit and commercial loans amounting to M1 500 million approximately in support of main construction contracts.

A CMA Phase 2 finance facilitiy of R750 million was signed with three banks:

■ Nedbank	R370 million
■ Volkskas Group Rand Merchant Bank	R370 million
■ Barclays Bank Swaziland	E 10 million

Invitations were sent to banks in Lesotho and South Africa to submit offers for a facility of R3 billion, following approval for the raising of finance for the CMA Phase 3 facility. This constitutes permanent Rand/Maluti funding. Offers were received on 6 February 1991 and evaluation commenced immediately.

Revised projections for the negotiation of a World Bank loan of USD 110 million were made available in February. Loan negotiations were expected to occur in April and May 1991 in Washington.

The Lesotho Government signed the National Indicative Programme with the EEC under the Fourth Lome' Convention. ECU 34-million was made available in grants for the financing of the 'Muela Hydropower Project. A further ECU 10 million will be provided by the EEC through the regional SADCC allocation.

An updated financing plan was drafted in view of agreements reached at the Brussels meeting, and this is expected to be further revised when new cost estimates have been prepared.

SUMMARY OF FINANCING SECURED AS AT 31 MARCH 1991

GOVERNMENT OF LESOTHO	MALOTI 000
■ GOL Contribution	5 760
■ World Bank (IDA)	27 511
■ European Development Fund	24 339
■ European Investment Bank	9 508
■ UNDP	2 063
■ Government of France	62 120
■ UK Overseas Development Administration	2 947
■ United States Agency for International Development	640
■ CIM (Germany)	1 412
	136 300
■ Government of South Africa	51 445
■ Development Bank of Southern Africa	464 553
■ Commercial Facilities	886 300
	1 538 598

SUMMARY OF FINANCING FACILITIES UNDER NEGOTIATION

WATER TRANSFER	MALOTI 000
■ Off-shore Export Crédit Loans	1 303 120
■ Off-shore commercial loans	189 910
■ World Bank (IBRD) Loan	311 300
■ Off-shore CDC Loans	102 413
■ RSA Export Credit	1 500 000
■ CMA Phase 3	3 500 000
	4 406 743
HYDROPOWER	
■ EEC National (Grant)	119 000
■ EEC (SADCC Window) (Grant)	35 000
■ European Investment Bank	52 500
■ African Development Fund	65 000
TOTAL	336 500
GRAND TOTAL	4 743 243

LESOTHO HIGHLANDS DEVELOPMENT AUTHORITY
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 1991

CONTENTS

DIRECTORS' APPROVAL

The financial statements which appear on pages 16 to 24 were approved by the Board of Directors on 24 September 1991 and are signed on its behalf by:

T. van Tonder
CHAIRMAN

M.E. Sole
CHIEF EXECUTIVE

LESOTHO HIGHLANDS DEVELOPMENT AUTHORITY
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 1991

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LESOTHO HIGHLANDS DEVELOPMENT AUTHORITY

REPORT OF THE AUDITORS TO THE MEMBERS OF THE BOARD OF THE LESOTHO HIGHLANDS DEVELOPMENT AUTHORITY

We have audited the financial statements set out on pages 17 to 24 for the year ended 31 March 1991 in accordance with generally accepted auditing standards.

To the best of the our knowledge and belief and on information supplied to us, the financial statements reflect a true statement of the assets and liabilities of the Authority at March 31 1991.

Peat Marwick

PEAT MARWICK
CHARTERED ACCOUNTANTS (LESOTHO)
September 27, 1991

LESOTHO HIGHLANDS DEVELOPMENT AUTHORITY
BALANCE SHEET AT 31 MARCH 1991

		31 March 1991		31 March 1990	
	Notes	M'000	M'000	M'000	M'000
ASSETS EMPLOYED					
FIXED ASSETS	4		703 098		317 864
CURRENT ASSETS					
Advance Payments		198 673		9 110	
Other Receivables		6 390		560	
Cash on Deposit at Bank		16 719		3 798	
		221 782		13 468	
CURRENT LIABILITIES					
Contracts Payables and Accruals		130 123		34 582	
Retentions		15 247		8 856	
Other Payables and Accruals		3 381		1 966	
Short Term Loan		5 183		2 306	
		153 934		47 710	
NET CURRENT/ASSETS (LIABILITIES)			67 848		(34 242)
			770 946		283 622
FINANCED BY:					
CAPITAL FUND	5		225 423		73 831
GOVERNMENT OF LESOTHO FUND	6		56 392		57 102
LONG TERM LIABILITIES	7		489 131		152 689
			770 946		283 622

LESOTHO HIGHLANDS DEVELOPMENT AUTHORITY
STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED 31 MARCH 1991

	M'000
SOURCE OF FUNDS	
Government of Lesotho	26 734
Government of Republic of South Africa	115 522
Increase in Long Term Liabilities	336 442
	478 698
USES OF FUNDS	
Expenditure on Capital Work-in-Progress	
Administration	42 112
Construction	247 277
Engineering	49 829
Environment	1 533
Financing	35 857
Increase in Net Current Assets	102 090
	478 698
INCREASE IN NET CURRENT ASSETS	
Increase in Advance Payments	189 563
Increase in Other Receivables	5 830
Increase in Cash on Deposit and at Bank	12 921
(Increase) in Contract Payables and Accruals	(95 541)
(Increase) in Retentions	(6 391)
(Increase) in Other Payables and Accruals	(1 415)
(Increase) in Short Terms Loans	(2 877)
	102 090

LESOTHO HIGHLANDS DEVELOPMENT AUTHORITY
Notes to the Financial Statements for the year ended 31 March 1991

1. Commencement of Operations

The Authority was established with effect from 24 October 1986 by the Lesotho Highlands Development Authority Order (No. 23) of 1986, and commenced operations immediately.

2. Description of Activities

The Authority is entrusted with the responsibility for the implementation, operation and maintenance of the Lesotho Highlands Water Project as defined in the Treaty on the Lesotho Highlands Water Project signed by the Government of the Kingdom of Lesotho and the Government of the Republic of South Africa on 24 October 1986.

The Authority is also conferred with general functions in relation to water resources, electricity, education and training of its employees, monitoring activities and land transactions.

The Authority is presently in the initial stages of construction of Phase 1A of the Lesotho Highlands Water Project. Construction of this Phase is presently scheduled to be completed in 1996. The principal physical features of Phase 1A in Lesotho are as follows:

a) A 182 metre high concrete arch dam on the Malibamats'o River at Katse.

b) A 55 km transfer tunnel north from the Katse reservoir to the Hydropower complex at 'Muela.

c) A 72 MW underground Hydropower complex at 'Muela.

d) A 15 km delivery tunnel north from 'Muela under the Mohokare (Caledon) River which forms the border between the Kingdom of Lesotho and the Republic of South Africa:

e) Associated infrastructure, including construction of new roads, upgrading and rehabilitation of existing roads, two new bridges, upgrading of border crossing facilities and new river crossings, camps, communications, power supply etc.

f) Associated conservation, environmental and rural development activities.

3. PRINCIPAL ACCOUNTING POLICIES

The financial statements are prepared on the historical cost basis and incorporate the following principal accounting policies:

3.1 Capital Work-in-Progress

Costs incurred on the implementation of Phase 1A of the Lesotho Highlands Water Project are capitalised and shown as fixed assets on the balance sheet of the Authority. As construction will not be completed before 1996, no depreciation is charged.

Cost comprises all attributable costs of bringing the asset or group of assets to working condition for their intended use, and includes inter alia:

a) all costs of investigations, surveys, feasibility studies, engineering studies, preparation of designs, construction, con-

Notes to the Financial Statements for the year ended 31 March 1991 (continued)

struction supervision, procurement and commissioning;

b) the establishment and administration costs of the Authority;

c) the costs of any land or interest in land, and any improvements to such lands;

d) the costs of measures taken in order to ensure that members of local communities in Lesotho are not adversely affected by Project related activities, including compensation paid;

e) all finance charges (including interest payments, financing and foreign exchange cover charges and other charges) relating to finance raised to fund capital expenditure.

All costs incurred are apportioned to one or more of the following activities:

i) generation of hydro-electric power in the Kingdom of Lesotho ("Hydropower")

ii) delivery of water to South Africa ("Water Transfer")

iii) ancillary developments of the Kingdom of Lesotho ("Ancillary Developments")

The Government of the Kingdom of Lesotho is, by way of Cost Related Payments, responsible for the costs of the Hydropower and Ancillary Development Activities. The Government of the Republic of South Africa is, by way of Cost Related Payments, responsible for the costs of the Water Transfer activities.

3.2 Pre-Establishment Costs

Costs incurred on the implementation of the Lesotho Highlands Water Project prior to the establishment of the Authority on 24 October 1986 have been included in Fixed Assets.

3.3 Foreign Exchange

Transactions in foreign currencies are converted to Maloti at the approximate exchange rates ruling at the date of the transaction.

Assets or liabilities denominated in foreign currencies are converted to Maloti at the exchange rate ruling at the balance sheet date.

Exchange differences are allocated to the cost of the related activity.

3.4 Cost Related Payments

Cost Related Payments from the Governments of Lesotho and South Africa are recognised and credited to the Capital Fund on the date due for payment.

Cost Related Payments become due when the relevant cost falls due for payment; provided that Cost Related Payments may be paid directly to contractors or consultants, or, where costs have been financed by way of loans shall be due for payment at the time such loans become redeemable.

Funds obtained on concessionary terms for the Water Transfer component shall, for the purpose of Cost Related Payments, be deemed to be loans at the interest rate and redemption terms applicable to loans of the International Bank for Reconstruction and Development.

3.5 Royalties

Royalties arising from the Lesotho Highlands Water Project, including advance royalty payments through the Southern Africa Customs Union, accrue to the Government of

Notes to the Financial Statements.
for the year ended 31 March 1991 (continued)

Lesotho and are therefore not reflected in the financial statements of the Authority.

3.6 Other Income

Other Income arising, such as interest earned, exchange gains and miscellaneous income, is credited to the cost of the activity to which it relates.

4. FIXED ASSETS

Capital Work in Progress

	Balance 1.4.90 M'000	Increase during year M'000	Balance 31.3.91 M'000
Hydropower			
Administration	6 011	3 647	9 658
Engineering	22 340	5 149	27 489
Construction		24 797	24 797
Environmental	24	134	158
Financing	(475)	2 343	1 868
	27 900	36 070	63 970
Water Transfer			
Administration	48 326	38 465	86 791
Construction	153 111	222 480	375 591
Engineering	68 817	44 680	113 497
Environmental	1 447	1 399	2 846
Financing	18 263	42 140	60 403
	289 964	349 164	639 128
Total Fixed Assets	317 864	385 234	703 098

Included in financing fixed assets is M17 936 829 representing the finance costs attributable to funds obtained on concessionary terms of the Water Transfer Component, deemed to be loans with interest rates and redemption terms applicable to loans of the International Bank for Reconstruction and Development.

Notes to the Financial Statements for the year ended 31 March 1991 (continued)

5. CAPITAL FUND

	Hydropower M'000	Water Transfer M'000	Total M'000
Balance at 1 April 1990	27 900	45 931	73 831
Transfer from Government of Lesotho, representing Cost Related Payments on Hydropower	36 070	–	36 070
Cost Related Payments on Water Transfer paid directly by the Government of the Republic of South Africa	–	115 522	115 522
Balance at 31 March 1991	63 970	161 453	225 423

Total Water Transfer costs at 31st March 1991 amount to M639 128 576 of which M161 453 000 has been paid as shown above. The balance of M477 675 576 is to be discharged by future cost related payments.

6. GOVERNMENT OF LESOTHO FUND

	M'000
Balance at 1 April 1990	57 102
Amounts provided by the Government of Lesotho	26 734
Less: Cost Related Payments on Hydropower transferred to Capital Fund	(36 070)
Add: Net Financing Income Accrued	8 626
Balance at 31 March 1991	56 392

The total amount provided by the Government of Lesotho during the period is analysed by original source as follows:

ANALYSIS OF FUNDS PROVIDED BY THE GOVERNMENT OF LESOTHO

	Balance 1 April 1990 M'000	Increase during year M'000	Balance at 31 March 1991 M'000
European Development Fund	18 580	1 410	19 990
European Investment Bank	6 745	–	6 745
Government of France	12 169	24 519	36 688
Government of Lesotho	5 804	10	5 814
International Development Association	26 775	586	27 361
Overseas Development Administration	3 551	209	3 760
United Nations Development Programme	1 637	–	1 637
United States Agency for International Development	199	–	199
Centre for International Migration	230	–	230
	75 690	26 734	102 424

The terms and conditions on which these amounts have been provided have not yet been determined.

Notes to the Financial Statements for the year ended 31 March 1991 (continued)

7. LONG-TERM LIABILITIES

	Loan Amount M'000	Balance at 0/04/1990 M'000	Balance at 31/03/1991 M'000
i) **Development Bank of Southern Africa (DBSA)**			
in Respect of			
(a) Southern Access Road	24 818	21 511	22 126
(b) Northern Access Road Northern Portion	154 912	86 361	154 912
(c) Katse Bridge	2 904	2 643	2 713
(d) Northern Access Road Southern Portion	67 483	15 234	42 059
(e) Border Crossing Facilities	8 470	253	6 263
(f) Bridging Finance Facility	27 466	27 466	–
(g) Infrastructure Management	3 380	–	231
(h) Katse Village Building Works	34 832	–	25 827
(i) North End Access Road	42 691	–	17 350
(j) Power Supply	70 348	–	19 031
(k) Katse Village Engineerng Works	21 393	–	15 867
(l) Communication System	1 840	–	1 293
ii) Trust Bank			
Trust Bank Facility	1 866	1 527	1 866
iii) **Barclays Bank of Swaziland Ltd**	10 000	–	9 843
iv) **CMAII Facility – Volkskas Consortium**	370 000	–	169 388
v) **Trans Caledon Tunnel Authority**	5 545	–	5 545
		154 995	494 314
Less: Current Portion		2 306	5 183
		152 689	489 131

Notes to the Financial Statements for the year ended 31 March 1991 (continued)

LESOTHO HIGHLANDS DEVELOPMENT AUTHORITY STATEMENT OF CHANGES IN FINANCIAL POSITION FOR THE YEAR ENDED 31 MARCH 1991 (Continued)

(i) All DBSA loans are guaranteed by the Government of the Republic of South Africa.

(a) Repayable over 20 years, including a 4 year grace period, and bearing interest at 8%.

(b) Repayable over 22.5 years, including a 2.5 year grace period, and bearing interest at 8%.

(c) Repayable over 20 years, including a 2 year grace period, and bearing interest at 8%.

(d) Repayable over 20 years, including a 2.5 year grace period, and bearing interest at 8%.

(e) Repayable over 20 years, including a 1 year grace period, and bearing interest at 11%.

(f) The Bridging Facility was repaid in full on 28 March 1991, by the Trans Caledon Tunnel Authority, and represented a cost related payment.

(g) Repayable over 10 years, including a 3 year grace period, and bearing interest at 4.0%.

(h) Repayable over 20 years, including a 2 year grace period, and bearing interest at 10.0%.

(i) Repayable over 20 years, including a 1.5 year grace period, and bearing interest at 8.0%.

(j) Repayable over 20 years, including a 1.5 year grace period, and bearing interest at 15.5%.

(k) Repayable over 20 years, including a 1.5 year grace period, and bearing interest at 12.0%.

(l) Repayable over 10 years, including a 2 year grace period, and bearing interest at 4.0%.

(ii) Repayable between June 1991 and June 1992 and bearing interest at 20% per annum. This liability is secured against the Assets financed by Trust Bank.

(iii) Repayable not later than 31 May 1992 and bearing interest at the lenders prime rate. This loan is guaranteed by the Government of the Republic of South Africa.

(iv) Repayable not later than 6 February 1993 and bearing interest at various rates related to current commercial rates. This loan is guaranteed by the Government of the Republic of South Africa.

(v) Payable in 10 semi-annual instalments commencing on 30 September 1992, bearing interest at 17.47%.

8. CAPITAL COMMITMENTS

Capital expenditure contracted for at 31 March 1990 amounted to M3,107 million. Finance has been secured as at 31 March 1991 to meet all of these commitments, including current liabilities.

9. TAXATION

In accordance with Section 29(1) of the Lesotho Highlands Development Authority Order (No. 23) of 1986, the Authority is not liable to pay any sales tax payable under the Sales Tax Act 1982.

10. INCOME STATEMENTS

An Income Statement has not been prepared as all expenditure and related income for the period has been charged to Capital Work-in-Progress.

Cover Photograph—Nigel Dennis, ABPL.