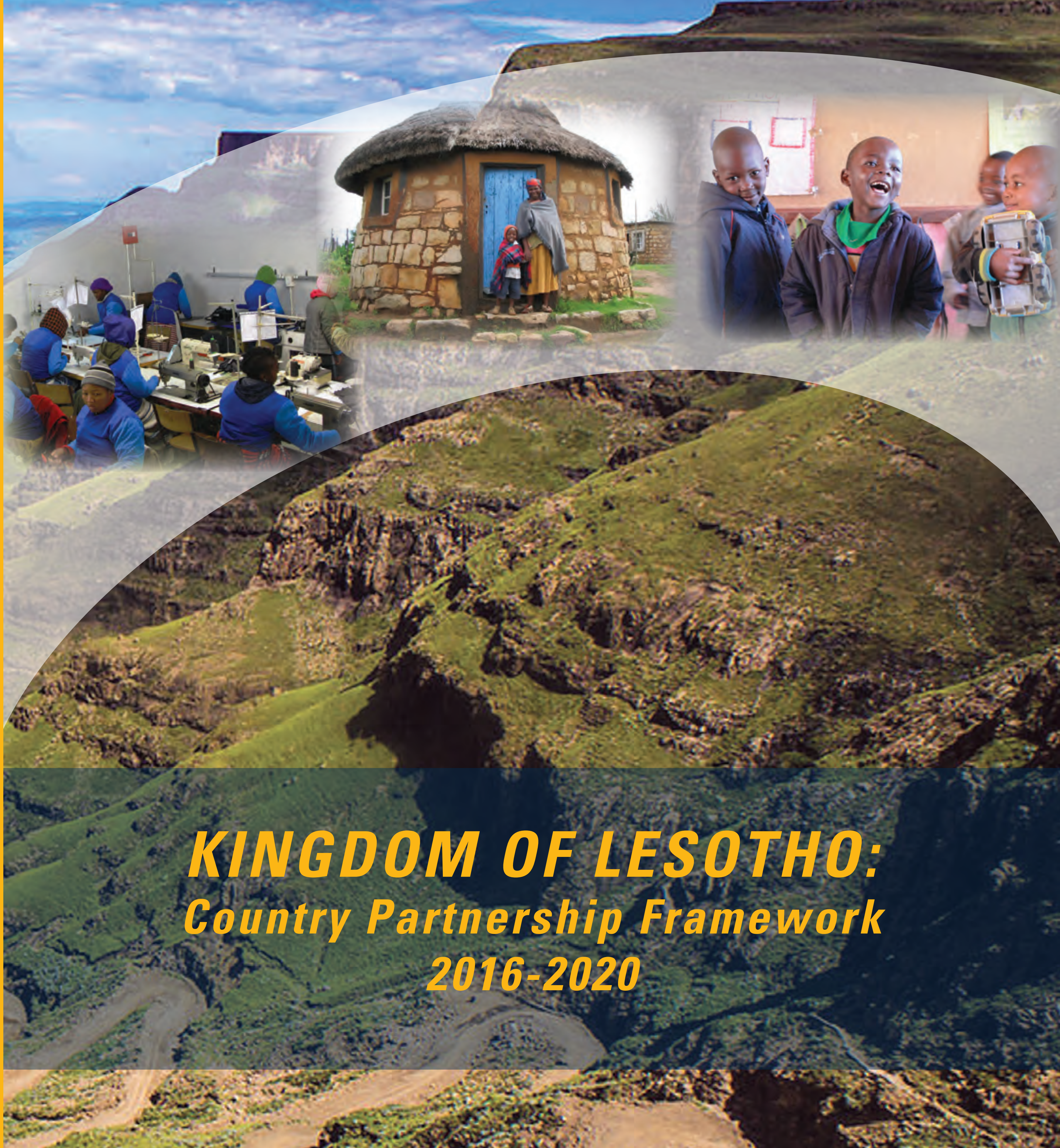
Lesotho Country Partnership Framework 2016-2020



KINGDOM OF LESOTHO:
Country Partnership Framework
2016-2020

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COUNTRY PARTNERSHIP FRAMEWORK

FOR

KINGDOM OF LESOTHO

FOR THE PERIOD FY16-20

June 2, 2016

Southern Africa Country Department 1
Africa Region

International Finance Corporation
Sub-Saharan Africa Department

Multilateral Investment Guarantee Agency
Sub-Saharan Africa Department

The date of the last Country Assistance Strategy was on June 15, 2010

CURRENCY EQUIVALENTS

(Exchange Rate as of December 15, 2015)

Currency Unit = Lesotho Loti (LSL)

14.31 LSL= US$1

WEIGHTS AND MEASURES

Metric System

FISCAL YEAR

April 1 – March 31

ABBREVIATIONS AND ACRONYMS

ABC	All Basotho Convention
ACE	African Center of Excellence
AF	Additional Financing
AfDB	Africa Development Bank
AFR	Africa Region
AGOA	African Growth and Opportunity Act
AIDS	Acquired Immune Deficiency Syndrome
APL	Adaptable Program Loan
ART	Antiretroviral Therapy
ASA	Advisory Services and Analytics
BADEA	Arab Bank for Economic Development in Africa
BETF	Bank Executed Trust Fund
BoS	Bureau of Statistics
CAS	Country Assistance Strategy
CASPR	Country Assistance Strategy Progress Report
CD4	White blood cells
CDC	Center for Disease Control
CERC	Crisis Emergency Response Components
CGP	Child Grant Program
CHAI	Clinton Health Access Initiative
CHAL	Christian Health Alliance of Lesotho
CLR	Completion and Learning Report
CMA	Common Monetary Area
CPF	Country Partnership Framework
CPS	Country Partnership Strategy
CRW	Crisis Response Window
CSO	Civil Society Organization
DC	Democratic Congress
DeMPA	Debt Management Performance Assessment
DPC	Development Policy Credit
DPG	Development Policy Grant
DPO	Development Policy Operation
EIB	European International Bank
EMIS	Education Management Information System
EU	European Union
FAO	Food and Agricultural Organization
FDI	Foreign Direct Investment
FIRST	Financial Sector Reform and Strengthening
FM	Financial Management
FY	Fiscal Year
GDP	Gross Domestic Product
GFDRR	Global Facility for Disaster Reduction and Recovery
GNI	Gross National Income
GoL	Government of Lesotho
GPE	Global Partnership for Education
GTZ	German Technical Cooperation
HD	Human Development
HIV	Human Immunodeficiency Virus
HIV/AIDS	Human Immunodeficiency Virus/ Acquired Immune Deficiency Syndrome
HRM	Human Resource Management
HTAP	HIV/AIDS Technical Assistance Project
IBRD	International Bank for Reconstruction and Development
ICT	Information and Communication Technologies
IDA	International Development Association
IDF	Institutional Development Fund
IFAD	International Fund for Agricultural Development
IFC	International Finance Corporation
IFMIS	Integrated Financial Management Information System
ILO	International Labour Organization

IMF	International Monetary Fund
IPF	nvestment Project Financing
IT	Information Technology
JICA	Japan International Cooperation Agency
GVC	Global Value Chains
LEA	Lesotho Electricity Authority
LSL	Lesotho Loti
M&E	Monitoring and Evaluation
MCC	Millennium Challenge Corporation
MDG	Millennium Development Goal
MDWSP	Metolong Dam and Water Supply Program
MIGA	Multilateral Investment Guarantee Agency
MNH	Maternal and Newborn Health
MoF	Ministry of Finance
MoH	Ministry of Health
MSME	Micro, Small, Medium Enterprises
MW	Mega Watt
NAPA	National Adaptation of Programme of Action
NDB	New Development Bank
NER	Net Enrollment Rate
NGO	Non-Governmental Organization
NISSA	National Information System for Social Assistance
NISSA- CBT	National Information System for Social Assistance-Community Based Targeting
NSDP	National Strategic Development Plan
OAP	Old Age Pension
OFID	OPEC Fund for International Development
OPEC	Organization of the Petroleum Exporting Countries
PA	Poverty Analysis
PBF	Performance Based Financing
PCMP	Project Cycle Management Process
PEFA	Public Expenditure and Financial Accountability Assessment
PEPFAR	The US President's Emergency Fund for AIDS Relief
PER	Public Expenditure Review
PETS	Public Expenditure Tracking Survey
PFM	Public Financial Management
PER	Public Expenditure Review
PPIAF	Public Private Infrastructure Advisory Facility
PPP	Public-Private Partnership
PRSC	Poverty Reduction Strategy Credit
PSIC	Public Sector Investment Committee
PSM	Public Sector Management
QMMH	Queen Mamohato Memorial Hospital
QSDS	Quality Service Delivery Survey
ROSCs	Report on the Observance of Standards and Codes
SACU	Southern Africa Customs Union
SADC	Southern African Development Community
SCD	Systematic Country Diagnostic
SDGs	Sustainable Development Goals
SDR	Special Drawing Rights
SIPs	Sector Investment Program
LHWP	Lesotho Highlands Water Project
SREP	Scaling-Up Renewable Energy Program
TA	Technical Assistance
TAL	Technical Assistance Loan
TB	Tuberculosis
TF	Trust Fund
TPP	Trans Pacific Partnership
TTL	Task Team Leader
UN	United Nations
UNAIDS	United Nations Joint Program on HIV/AIDS
UNDP	United Nations Development Program
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNFCC	United Nations Framework Convention on Climate Change
UNICEF	United Nations Children's Fund
US	United States
USAID	United States Aid for International Development
US-MCC	United States Millennium Challenge Corporation
WASCo	Water and Sewerage Company
WBG	World Bank Group
WFP	World Food Programme
WHO	World Health Organization
WTO	World Trade Organization

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FY16-20 COUNTRY PARTNERSHIP FRAMEWORK

FOR

KINGDOM OF LESOTHO

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I. INTRODUCTION

1. **The Kingdom of Lesotho is a small, landlocked, lower-middle-income country with a per capita GNI of US$1,350**. Lesotho is one of the poorest countries in Southern Africa, and has one of the highest income inequality in the world. Home to about 2 million people, Lesotho is surrounded by South Africa, the second largest and most industrialized economy in Africa. Lesotho generates income mainly by exporting textiles, water, and diamonds, and is a member of the Southern African Customs Union (SACU), the Southern African Development Community (SADC), and the Common Monetary Area (CMA). The national currency— the loti—is pegged to the South African rand. Lesotho's main trading partners are South Africa and the United States.

2. **This WBG Country Partnership Framework (CPF) lays out the choices of program objectives for the period of 2016–2020.** The previous Country Assistance Strategy (CAS), endorsed by the Board of Directors on June 15, 2010 was expected to end in 2014, but was *de facto* extended through 2015.[1] This proposed strategy and assistance program supports the goals of the Lesotho Vision 2020 and the National Strategic Development Plan (NSDP) for 2012–2017. It builds on the successes and lessons of the last CAS and the recommendations of the Systematic Country Diagnostic (SCD) completed in 2015 and endorsed by the government.

3. **This CPF takes into account recent macro-fiscal developments since the SCD was completed**. Several factors now dampen Lesotho's fiscal and economic outlook: in the short term, a projected sharp decline in SACU revenues and higher food prices caused by drought; in the medium term, insecurity in textile manufacturing given uncertainty of continued renewal of the African Growth and Opportunity Act, and risks caused by the Trans-Pacific Partnership. Lesotho now faces large fiscal and current account deficits, which will require substantial fiscal adjustment to restore macroeconomic stability and avert erosion of the exchange rate peg to the South African rand. To be successful and sustainable, such an adjustment should aim to improve the efficiency of public services to minimize a contractionary impact on growth.

4. **The signs of fragility are exacerbated by other vulnerabilities, such as political instability, climatic vulnerability, including to El Niño, and high rates of HIV/AIDS, tuberculosis (TB), and maternal and infant mortality.** The 2015/16 El Niño induced drought prompted authorities to declare a state of emergency in December 2015, with a high share of the rural population now expected to be food insecure through the March 2017 harvest. For Lesotho's small and highly dependent subsistence farming economy, El Niño related stress factors risks further depressing household incomes, which had already dropped due to declining migrant remittances from South Africa's mining sector. Lesotho's poor historical record in addressing climatic vulnerabilities adds to the capacity risks. The burden of disease is disproportionately higher among HIV/AIDS affected households.

5. **The scope and depth of the needed government response will require political will and implementation capacity to carry out sustained reforms.** Lesotho is facing chronic political uncertainty, marked by a small parliamentary majority, unstable multiparty coalitions, and opportunities for party defection. In February 2015, Lesotho held snap general elections to resolve its parliamentary crisis, and a new coalition government formed in April 2015. The elections were declared free and fair by international observers. Though the Democratic

[1] The period covered by the CAS was fiscal years 2010-2014. In view of political instability experienced in Lesotho

Congress (DC) won the largest share of the popular vote, the seven-party coalition that it leads won only a one seat majority over the rival All Basotho Convention (ABC).

6. **Against this backdrop under the FY16-20 CPF, the WBG will support two focus areas: (i) improving efficiency and effectiveness of the public sector, and (ii) promoting private sector job creation.** In support of the strategic objectives of these focus areas, the envelope during the CPF period of SDR 110 million includes actual and indicative allocations in IDA17 and IDA18. The undisbursed balance for the current IDA lending portfolio under implementation stood at US$51.3 million as of May 9, 2016. A select portfolio of Advisory Services and Analytics (ASA) will inform the Bank Group policy advice and CPF priorities.

7. **The CPF will seek to mitigate four substantial risks to the implementation of the WBG program**: (a) political and governance; (b) macroeconomic; (c) climate change and climate- induced disasters; and (d) operating risks (capacity and fiduciary). The lessons from the Country Assistance Strategy Completion and Learning Report (CPS CLR) will play an important role in addressing these risks. The CPF will give high importance to quality and risks at entry for new operations, and continue strong monitoring and supervision. These mitigation factors are essential for achievingv sustainable results.

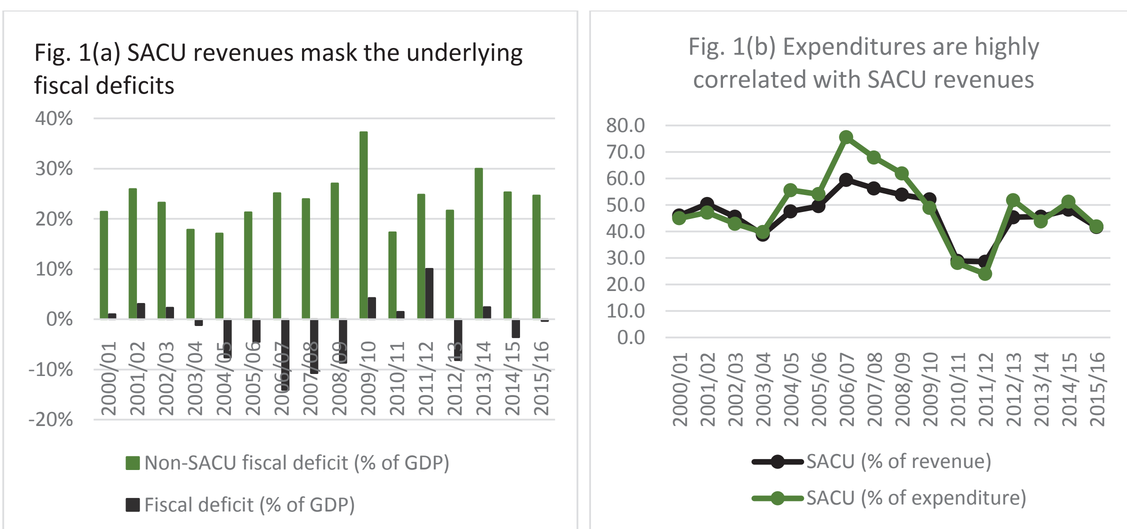
II. COUNTRY DIAGNOSTICS

1. Development Challenges and Fragility

1. **Compounding macroeconomic and capacity risks point towards growing factors of fragility**. Besides growing poverty and inequality, the country must contend with South Africa's subdued growth outlook, the SACU revenue shock, insecurity in textile manufacturing given uncertainty of continued renewal of the African Growth and Opportunity Act (AGOA) in Lesotho,[2] and risks caused by the Trans-Pacific partnership. The country faces extraordinary high prevalence of tuberculosis (TB) and HIV/AIDS, maternal and infant mortality, and low life expectancy, and vulnerability to environmental shocks. Yet there is insufficient political will and capacity in government to formulate and carry out effective policy reforms and implement priority projects.

2. **Government spending in Lesotho is highly correlated with volatile SACU revenues (**Figure 1(b))[3]. In the last decade, Lesotho shifted from an export driven economy to one driven by government spending. In the past four years, the government maintained public spending above 60 percent of GDP. The biggest contributor to this spending was the wage bill, which grew from 18.9 percent of GDP in 2012 to 23.1 percent in 2015/16 – among the highest in the world. However, such growth in public expenditure, which is dependent on volatile SACU revenues, has made the macroeconomic environment less stable, and cannot sustainably drive economic growth to address Lesotho's extreme poverty and shared prosperity needs.

Figure 1a: and Figure 1b: High SACU Revenues



Sources: Lesotho authorities

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[2] AGOA was extended by ten years in 2015. Each countries participation is reviewed annually.

[3] Lesotho is part of the Southern African Customs Union (SACU), the oldest customs union arrangement in the world. SACU imposes a common external tariff for all member states and trade-related revenues are shared in accordance with a revenue-sharing formula, which was implemented in 2005. The formula allocates revenue according to each member's share of intra-SACU trade from the customs component of the revenues, its share in total SACU GDP from the excise component of the revenues, and its per capita GDP relative to the SACU average from the development component of the revenues.

3. Lesotho is on an unsustainable path, facing severe macroeconomic pressures and growing fiscal imbalances that can lead to social instability. There has been a sharp drop in SACU revenues due to tightening conditions in South Africa amid commodity prices drop. The decrease is expected to be nearly 8.7 percentage points of GDP in 2016/17 over 2015/16. SACU revenues are expected to be on a low trajectory in the medium term (given South Africa's economic prospects[4]), which will limit government's ability to stimulate growth. Lesotho's growth is projected to slow to 2.4 percent in 2016/17, down from a 4.5 percent average over the 5-year period ending in 2014/15 (see Table 1). Inflation has risen largely due to the depreciation of the South African rand and the impact of the drought on staple food prices – reaching 6 percent on a year-on-year basis at the end of February 2016, while food prices shot up by 11 percent. Lesotho's budget deficit is projected to be 9.3 percent of GDP in 2016/17, underlining that the current level of public spending is unsustainable, posing high risks to the country's fiscal and macroeconomic outlook.

4. Lesotho urgently needs to restore fiscal sustainability, focusing in particular on public spending. Lesotho is facing three adjustment scenarios - *back-loaded, insufficient and ordered adjustment.* A *modest and back-loaded adjustment*, combining contained current and capital expenditures with a slight rebound in SACU revenues, should help restore fiscal balance while limiting withdrawal of foreign currency reserves to finance the deficit. Nevertheless, if taking the form of *ad hoc* opportunistic expenditure cuts, such an adjustment would strongly undermine the quality of service delivery and growth prospects. Furthermore, an *insufficient adjustment* would bring reserves below the 4.5 to 5 months optimum reserve level, put the peg with the South African rand in danger, bearing the risk of likely severe welfare impacts through higher inflation and deteriorated debt sustainability. In contrast, an *ordered adjustment*, combining improved efficiency and effectiveness of public spending with faster private sector development, would limit the negative social and economic effects of fiscal adjustment, while putting Lesotho on a higher medium term growth and poverty reduction trajectory (see Box 1). Most of WBG interventions retained in the proposed CPF would contribute to this endeavor. Their impact will ultimately depend on the authorities' willingness to make difficult political choices.

5. With the world's second highest rates of adult HIV/AIDS prevalence (24 percent) and highest TB incidence (852/100,000 population)[5], and low efficiency and effectiveness of public spending, Lesotho's health outcomes are poor. Lesotho's marginal productivity of labor is low, and affected by HIV/AIDS, which is not declining as fast as in neighboring countries. High rates of TB-HIV/AIDS co-infection are a challenge, particularly given the complexity of treating TB in patients with HIV/AIDS, and increased risks of Multi-Drug Resistant TB partly linked to circular cross border migration to South Africa. Maternal, child and infant mortality in Lesotho, though falling, remain among the highest in sub-Saharan Africa. One-third of children suffer from stunting due to malnutrition. Despite the doubling of the Ministry of Health's budgetary allocations to 9 percent of GDP (or 15 percent of the overall budget), the sector's capacity to absorb budget and translate it into effective service delivery is not improving.

6. Lesotho is vulnerable to climate variability because of its over-reliance on rain-fed agriculture for food production. The Southern Africa region, including Lesotho, is being hit hard by El Niño. Erratic rainfall, fragile soils, and worsening land degradation – exacerbated by poor

[4] South Africa's real GDP grew by only 1.3 percent in 2015. Falling commodity prices and capital flows reversals are compounding South Africa's domestic constraints: power shortages, labor unrest, and factor market rigidities. With the supply of power set to gradually improve, South Africa's growth is projected to recover to 2 percent by 2018.

[5] World Health Organization Global TB Report 2015.

land-management practices – trigger poor harvests and large livestock losses. The country has already experienced cycles of drought and intense rainfall, contributing to massive soil erosion and loss of scarce agricultural land.

Table 1: Lesotho: Selected Economic Indicators

	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
	Act.	Act.	Act.	Projections			
	(Percentage changes; unless otherwise indicated)						
National account and prices							
GDP at constant prices	5.3	3.6	3.4	2.8	2.4	3.8	3.9
GDP at market prices							
(Maloti millions)	19,783	21,975	24,071	26,053	28,901	31,787	35,069
Consumer prices (average)	5.5	5.0	4.0	5.3	8.6	6.0	5.0
Consumer prices (eop)	5.0	5.6	2.9	6.0	8.5	6.0	5.0
GDP deflator	2.0	7.2	5.9	5.3	8.3	5.9	6.1
External sector							
Terms of trade (deterioration -)	-9.7	-0.2	5.1	0.5	-1.0	1.2	1.4
Average exchange rate							
(Local currency per U.S. dollar)	8.6	9.6	11.3	13.4	…	…	…
Nominal effective exchange rate change (– = depreciation)	-14.4	-11.5	-3.9	-24.0	…	…	…
Real effective exchange rate (– = depreciation)	-12.1	-9.3	-4.7	-20.9	…	…	…
Current account balance							
(Including official transfers, percent of GDP)	-10.3	-10.6	-8.3	-10.0	-19.3	-15.9	-15.4
(Excluding official transfers, percent of GDP)	-43.4	-40.1	-39.2	-36.7	-37.0	-36.4	-35.2
Gross international reserves							
(Months of imports)	4.9	5.2	5.9	6.1	5.3	4.6	4.3
(Percent of M1)	268	248	290	295	241	203	179
Money and credit							
Domestic credit to the private sector	42.2	10.3	11.8	8.2	13.1	…	…
Reserve money	-1.9	15.2	8.2	22.7	12.8	…	…
Broad money	6.1	31.5	-5.9	14.8	12.6	…	…
Interest rate (percent)	2.4	2.3	3.0	3.3	…	…	…
	(Percent of GDP; unless otherwise indicated)						
Public debt	40.3	43.4	49.5	59.5	59.9	57.3	54.5
External public debt	37.2	41.1	47.9	57.1	54.7	52.5	50.2
Domestic debt	3.1	2.2	1.6	2.5	5.3	4.8	4.3
Central government fiscal operations							
Revenue and grants	66.5	60.4	60.6	59.1	49.0	50.5	50.1
Of which: SACU revenue	30.2	27.6	29.2	24.6	15.9	17.9	17.9
Of which: grants	8.6	4.8	2.1	3.7	4.0	3.9	3.7
Recurrent expenditure	44.3	47.4	45.8	46.7	46.8	44.8	43.0
of which: wages, including social contributions	18.9	20.9	21.6	21.8	22.0	21.6	21.0
Capital expenditure	17.2	15.5	14.2	11.8	11.5	10.5	10.0
Overall balance	5.0	-2.5	0.5	0.6	-9.3	-4.9	-2.8
(Excluding grants)	-3.6	-7.3	-1.5	-3.1	-13.4	-8.7	-6.5
Operating balance	5.0	-2.5	0.5	0.6	-9.3	-4.9	-2.8
Statistical discrepancy	-3.8	-2.9	-2.1	6.2	0.0	0.0	0.0

Sources: Lesotho authorities and IMF staff, May 2016.

Notes: Lesotho's fiscal year runs from April 1 to March 31; by May 2016, FY15/16 fiscal accounts had not been closed, creating a large temporary statistical discrepancy.

7. **Several factors hinder Lesotho's private-sector growth, affecting both Foreign Direct Investment (FDI) and the growth of the local micro, small and medium enterprises (MSMEs)**. The Trans-Pacific partnership could cause FDI in textile manufacturing to fall over the medium term. All quantitative measures – including in the Global Trade Reports, Doing Business Indicators, and Enterprise Surveys – suggest that business regulations seriously constrain growth. Despite making progress in streamlining business and property registration and in establishing and operating a credit bureau, Lesotho ranks low on key Doing Business Indicators – such as dealing with construction permits, accessing finance, and the cost of capital. These are constraints on domestic entrepreneurship, suggesting that the domestic private sector remains dependent on the state and non-tradable sectors. Over the last two decades, Lesotho shifted its growth drivers from export-led development towards dependency on government spending.

8. **Increased public spending further crowds out private sector investment.** Limited job opportunities in the private sector have exacerbated poverty and inequality and led to a situation in which the public sector has become de facto a social safety by absorbing employment which has led to a bloated public sector and oversized public spending. This has led to a vicious cycle that simultaneously crowds out investment in the country.

9. **Financial inclusion is relatively high due to reliance on informal financial services, but low with respect to formal services.** The 2011 FinScope study reported financial inclusion at 80.9 percent of Lesotho's population. 62.4 percent use informal financial services, especially in funeral insurance. However, only 45.8 percent of the population have used bank and nonbank formal services (of which 38 percent use banks). The financial service access points are concentrated in Maseru but limited in rural areas. Low cost delivery channels such as mobile financial services and agency banking are key to expanding financial inclusion in these underserved areas. There is a need to improve efficiency of international remittance services, to Lesotho as to address the issue of the high cost of remittances[6]. In terms of MSMEs, 85 percent of Lesotho's businesses are unbanked, which is a significant constraint to growth and efforts to reduce poverty. Recognizing these constraints, the Government in 2013 adopted a comprehensive Financial Sector Development Strategy (FSDS) to implement a broad range of financial sector reforms with particular focus on increasing financial inclusion.

10. **Lesotho needs strong political consensus to counter growing fragility; however, the bold reforms and policies required may infringe on vested interests.** With highly contested elections and unstable coalitions, continued high political volatility is likely. Lesotho would benefit from an effective separation of powers, independence of the parliament and the judiciary, and strengthening oversight institutions and civil society. Though civil society organizations (CSOs) are active in Lesotho, effective and transparent governance is still undermined by a legacy of military rule, patrimonial political networks extending to the military and the police, widespread government employment reaching almost all extended families, and restrictions on citizens' access to government information.

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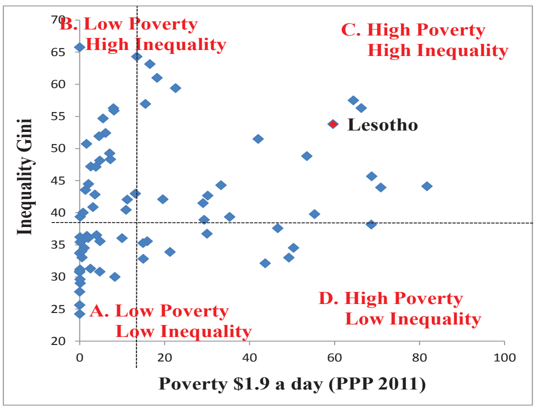
[6]As monitored by the Remittance Prices Worldwide, the cost of sending money to Lesotho from South Africa is still extremely high at over 16 percent in the fourth quarter of 2015, compared to a global average of 7.4 percent and regional average of 9.5 percent.

2. Poverty Profile

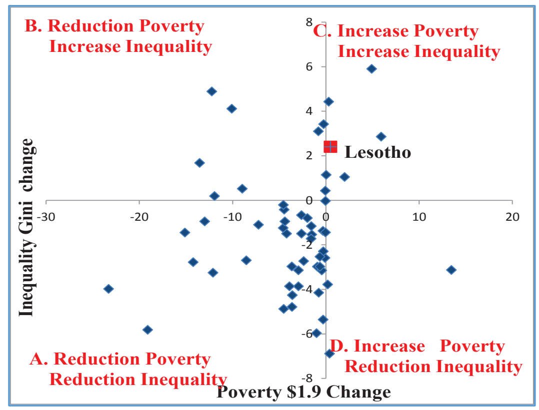
11. Lesotho's high national poverty rates have continued to grow. Lesotho falls into a pre-fragile group of countries with high poverty and high inequality levels (Figure 2). According to the most recent data, an estimated 57 percent of the population lives below the national poverty line, and 34 percent fall below the extreme poverty line – with expenditures below minimum food requirements. National poverty had been virtually unchanged since the 2002/2003 survey (56.6 percent), but recently grew slowly (Figure 3). The national poverty estimates and the international poverty estimates, based on the US$1.25 per day definition, were almost identical. The poverty gap in Lesotho was 29.5 percent in 2010–2011, increasing 0.6 percent from 2002–2003. Lesotho's poverty gap ranks ninth among the 30 poorest countries.

Figure 2: Poverty and inequality levels (US$1.90)



Source: World Development Indicators Data Base

Figure 3: Changes in poverty and inequality



12. High and rising inequality is a key factor in Lesotho's continuing economic stagnation. During the past decade, Lesotho's economic growth was not inclusive. Six out of ten people live below the national poverty line. Inequality increased from a Gini coefficient of 0.51 to 0.54. Per capita consumption of the bottom 40 percent of Lesotho's population fell by 0.4 percent annually over the past five years – one of the world's worst rates. The stagnation of poverty helped drive an increase in inequality poverty; poverty would have dropped about 2 percentage points if not for the increase in inequality.

13. The geographical disparities in poverty and inequality are significant. Most poor people in Lesotho live in rural areas, where 80 percent of the country's population resides. The spatial rural/urban poverty split of 60:40 percent has remained relatively constant. The substantial differences across districts in 2002–2003 persisted ten years later in 2010–2011. Poverty ranges between 43.5 percent in Quthing and 66.5 percent in Butha-Buthe. In general, poverty is higher in the north and northwest, and lower in the central and southeast areas.

14. Poor households tend to have more children and poverty increases with age, with the highest rate (65 percent) being the elderly (>64 years old). The age-gender pyramid shows a high share of children in poverty and a high childhood dependency ratio. Together, children and the elderly account for approximately 44 percent of the poor. Similarly, extreme poverty is concentrated among the elderly (the highest rate of 38.8 percent is for those aged 60 to 64), followed by children aged 6 to 14 (36.8 percent), and those between 55 and 59 years of age (37 percent). The poverty age profile shows a typical U-shaped pattern, with poverty higher among youth and the elderly and lower among working-age population.

15. **Larger households and households with elderly people are more likely to be poor, and gender impacts poverty – with women suffering disadvantages.** Poverty rates among households with seven or more members rise to 66 percent, or 9 points above the national average. Compared to two-parent families (57.8 percent poor), female-headed households are slightly more likely to be poor (58.1 percent), and single-father families are less likely to be poor (48.5 percent).

16. **The labor market has a low employment to working-age population ratio, a high level of unemployment, and a high proportion of employment outside the country.** The broad unemployment rate, which includes discouraged workers, is estimated at 28 percent, and reaches 43.2 percent among youths aged 15 to 24. A large segment of Lesotho's labor force works in South Africa. However, a recent shift towards local labor effectively reduced South Africa's demand for workers from Lesotho and remittances sent home, which fell by 40 percent over the last decade.

17. **Low and declining earnings among subsistence farmers has increased rural poverty**. Estimates suggest that the poor comprised 53 percent of the employed in 2010–2011, about 61 percent of the unemployed, and 58 percent of the inactive population. Farm earnings remain the main source of income in Lesotho, although their importance declined: households reporting farming as the main source of income fell from 40 percent in 2002–2003 to 35.6 percent in 2010–2011. The largest drop was in the poorest quintile group, which relies on subsistence agriculture.

18. **Non-farm self-employment remained constant**, with some variation across quintiles of the consumption distribution. Compared to rural areas, more households in urban areas report the private sector as their main source of income. The share of households relying on farming in rural areas is still influenced by proximity to Maseru and its job opportunities, rather than the quality of Lesotho's main agricultural resource (land). In the rural lowlands, which have the best agricultural land, less than 30 percent of households report farming as the main source of income, compared to 54 percent in the rural mountainous region.

19. **Simulations of growth and poverty elasticity suggest a 7 percent decline in poverty assuming annual GDP growth of 5 percent over five years.** The cumulative growth in per capita incomes would drive the decline in poverty – though the range of the drop could vary widely depending on consumption elasticity. Getting a wage-paying job might be instrumental in moving up the consumption ladder but may not always be enough to lift the poor out of poverty. Labor productivity must be increased and the jobs base diversified, which also calls for investments in education. Individuals completing less than primary education have the highest probability of being in the agricultural sector, which does not require a formal education.

20. **Reducing poverty in Lesotho will depend on ensuring economic growth, providing support to the most vulnerable, and lessening inequality.** Yet scenarios suggest relatively slow poverty reduction and an increase in inequality: the Gini coefficient is projected to increase from .54 to .56 by 2020. Disparities in poverty between urban and rural areas are expected to increase. Key drivers of income inequality are consumption disparity between sectors, deterioration of the agriculture sector, rural/urban educational disparities, and a slow pace of poverty reduction.

3. Strategic Development Priorities

21. In the short to medium term, Lesotho needs to address the drop in SACU revenues, while creating fiscal space to reduce dependency on them. In response to a similar decline in SACU revenues from 33 percent of GDP in 2009/10 to 15 percent of GDP in 2011/12, Lesotho cut expenditures by 11 percent of GDP in 2010/11, and ran its reserves down to 3 months of imports, putting the peg with the South African rand under pressure. However, government spending returned to previous levels when SACU revenues rebounded, consistent with Lesotho's tendency toward procyclical fiscal policy. This experience underlies the importance of building fiscal buffers against external shocks. A commitment to countercyclical fiscal policies is needed to ensure sustainable and inclusive growth in the medium term and to build buffers to counteract external shocks.[7] In the wake of the SACU shock, the government is **facing three scenario options** (see Box 1). The scenarios highlight the risk and the costs of no and unordered fiscal adjustment.

Box 1. Lesotho SACU Shock: Three Government Response Scenarios

In light of Lesotho's current macroeconomic environment, marked with the significant decline in SACU revenue (from 29.2 percent of GDP in 2014/15 to 15.9 percent of GDP in 2016/17) and modest rebound prospects, three scenarios could tentatively be envisaged, depending on government responses.

Scenario 1 – Modest and back-loaded adjustment. In this central scenario, reported in Table 1, the fiscal deficit would be brought to 2.8 percent of GDP by 2018/19 (down from a projected 9.3 percent of GDP in 2016/17), through a sharp decline in non-wage current expenditure (-2.9 percent of GDP) and capital expenditure (-1.5 percent of GDP) and a more modest decline in wage expenditure (-1 percent of GDP). These efforts would be assisted by the projected modest rebound in SACU revenues (+2 percent of GDP), partially offsetting the weak domestic revenue performance due to poor growth prospects. In the event, foreign currency reserves would drop to 4.3 months of imports, increasing Lesotho's vulnerability to unexpected shocks. By June 2016, this has been the base scenario, given authorities' difficulties to retain in the approved Finance Law 2016/17 any substantial structural fiscal measure to contain the deficit, in particular on the expenditure side. Consequently, the fiscal adjustment would be postponed to outer years underpinned by the CPF's investment lending and advisory services and analytics. The late adjustment, however, could undermine growth and poverty reduction prospects, in particular if taking the form of delayed capital expenditures and arrears accumulation.

Scenario 2 – Insufficient adjustment. This scenario can be interpreted as reflecting the downside risks to the moderate adjustment Scenario 1. It would result from Government's inability to contain public spending in the next 3 years, for political economy reasons or in the event of negative shocks (such as continued economic slowdown in South Africa, for instance). Consequently, foreign currency reserves would rapidly evaporate as needed to finance the deficit. Lower reserve coverage would endanger the peg, which if lost, could entail large and protracted welfare losses for the population. Inflation would rise rapidly, and external debt sustainability would strongly deteriorate. Important public investment projects, such as the Lesotho Highlands Water Project, would risk being delayed, further reducing the already low export supply response to a depreciated loti This scenario is relatively unlikely, given Lesotho's Central Bank legal mandate and resolve to maintain the peg, and Lesotho's recent episodes of SACU revenue

[7] Two pieces of World Bank research entitled "Volatility of SACU Receipts and Fiscal Rules in Lesotho and Swaziland: A Welfare-based Approach" and "Some Stylized Facts about Fiscal Policy Making in Southern Africa" were presented to the government of Lesotho in November 2015. The World Bank team and the government counterparts discussed the potential of stronger fiscal management to support countercyclical policies, including several types of fiscal rules.

shortfall. It nonetheless underlines the criticality of maintaining external buffers at sufficient levels to minimize Lesotho's exposure to negative shocks.

Scenario 3 – Ordered adjustment. This scenario can be interpreted as reflecting the upside risks to the moderate adjustment Scenario 1. In this scenario, a smooth and larger adjustment starting immediately would significantly reduce Lesotho's exposure to shocks and put the economy on a higher medium term growth and poverty reduction trajectory. Such an adjustment would principally rely on the implementation of reforms aimed at raising the value for money of public spending and accelerating private sector development, thus minimizing the anticipated contractionary effects of lower public demand. The fiscal adjustment would focus on the wage bill (biometric census, performance management), the administration and targeting of social programs, and on improved public investment, including through State Owned Enterprises. It would be complemented with reforms to strengthen the investment climate, with particular focus on MSMEs and agriculture and enabling infrastructure for private sector development. WBG interventions in the proposed CPF – investment projects, advisory services and analytics and also possible policy based financing -- are geared towards contributing to this endeavor. Their impact will ultimately depend on the authorities' willingness to make decisive choices in a difficult political economy context.

22. **There is an urgent need to increase the efficiency and effectiveness of the public sector to help create space for the private sector to become an engine of growth and employment.** By cutting government red tape, improving trade facilitation, and investing in transport, water and electricity infrastructure, the government can help attract new FDI, promote domestic private-sector growth, and create jobs. Such actions to boost competitiveness are more important as government does not control the exchange rate and SACU trade policy. In addition, public sector fiscal consolidation is a prerequisite in restoring macroeconomic stability, although it might weigh on future growth, especially if unmatched by more effective spending and service delivery institutions.

23. **In the long-term, Lesotho will need a new growth model. The current growth model, driven by government consumption, is inadequate, non-inclusive, and unsustainable.** To eradicate extreme poverty and create private sector jobs, the new model will have to shift: (a) from a state-led to a private sector/export-led growth model; (b) from public consumption-driven growth to investment-driven growth (public and private); (c) from macro-imbalances to pro-growth macro/fiscal stability; and (d) from the inefficiency and ineffectiveness of state interventions to a more effective public sector management. Achieving these structural changes will depend on building more assets for the poor – especially in human capital and institutions – and fostering private sector growth.

24. **Gender issues.** Over the last decades, key gender issues have been HIV/AIDS, women's legal rights, and employment. Compared to many countries in sub-Saharan Africa, Lesotho offers a relatively positive environment for women, with small or non-existent gender gaps in education and poverty, equal status under the law, and relatively high representation of women in government. However, rates of maternal mortality are still high (though declining) and HIV/AIDS affects women at higher rates than men. Access to family planning is critical. Lesotho is among the most migration-dependent countries in the world: with one third of households having a member living somewhere else, migration of both men and women is the most compelling gender issue. According to the 2015 Lesotho gender study – *Female Migration in Lesotho* – migration puts strain on family structures and results in role shifts that run against traditional gender roles and customs. Most recently, the retrenchment of male mine workers from South Africa and the

absence of local economic opportunities led Lesotho households to develop new migration strategies, with female migrants now moving to the export garment factories in urban Lesotho, changing the role and the balance of gender relations within the household.

III. GOVERNMENT VISION AND STRATEGY

25. ***The National Vision 2020* provides the aspirational goals and the strategic framework for Lesotho to address its long-term development challenges.** By 2020, Lesotho is envisioned as "a stable democracy, a united and prosperous nation at peace with itself and its neighbors, with a healthy and well-developed human resource base, a strong economy with well managed environmental challenges and technologically well established[8]."

26. **To realize this vision, the National Strategic Development Plan 2013-2017 (NSDP) identifies** *inclusive growth* **as the primary development objective.** A desired GDP growth rate of 5 percent will assist poverty reduction on a sustainable basis. Through support to the private sector, the NSDP envisions creating 50,000 private-sector jobs, mainly in agriculture, manufacturing, and tourism. Promoting mining is also a priority. Capitalizing on its location within South Africa, Lesotho has access to markets and advanced infrastructure creating regional and global links and trade preferences. The NSDP notes the relatively young, competitive, and literate human resource base in Lesotho. It supports: (a) developing key infrastructure; (b) enhancing the country's skills base, technology adoption, and foundations for innovation; (c) improving health, combating HIV/AIDS, and reducing social vulnerability; (d) reversing environmental degradation and adaptation to climate change; and (e) promoting peace and democratic governance while building effective institutions.

27. **The threats to achieving these objectives are varied**. They include a sluggish global economic recovery; international security concerns; volatility in regional revenue sharing arrangements (SACU); food and oil price variability; climate change; administrative and management capacity; insufficient HIV AIDS and TB treatment coverage to reverse the epidemics; and weaknesses in private sector development.

28. **Government fiscal and monetary policy aims to increase public sector efficiency, by reducing the wage bill, and building international reserves to maintain currency convertibility.** Key subsidiary objectives are to improve revenue management, resource allocation, and cost efficiency to create fiscal space. This will promote fiscal consolidation and rebuild fiscal reserves, fiscal discipline, and hard budget ceilings, which will improve revenue administration and increase the absorptive capacity of ministries to spend their budgets.

29. **Investing in infrastructure is one of the top national priorities.** According to the NSDP, growth will be driven by major investments and expansion of the diamond mining industry and strategic investments in water – namely, the lowlands water strategy, including the 2015 completion of the Metolong Dam in its first phase, and the Lesotho Highlands Water Project Phase II. The NSDP puts water, transportation, energy, ICT, housing, and urban property development as top infrastructure priorities, together with establishing growth poles and industrial hubs as pathways to shared prosperity and employment generation. In transport, the NSDP prioritizes

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[8] National Strategic Development Plan 2012/13 – 2016/17. Growth and Development Strategic Framework; Implementation of the National Vision 2020, Message from His Majesty, Government of Lesotho, 2012 p. 15.

improving national roads and access roads to markets; production sites in agriculture, manufacturing, tourism, and other areas; and enhancing road safety and reducing road accidents.

30. Enhancing the skills of the labor force and seeking technology transfers will be a part of developing an entrepreneurial private sector. Reforming and improving the quality of primary and secondary education will help equip the Basotho with skills in demand by the private sector. Building on positive trends, the NSDP emphasizes math and science in secondary education to build skills in technology. The plan aims to achieve an 85 percent adult literacy rate though universal primary education, and gender equality. Given the recent expansion in mobile networks and subscriptions, ICT will be a major enabler in achieving these goals.

31. Improving health, combating HIV/AIDS, and reducing vulnerability will be addressed by strengthening the health and social protection systems. A key focus will be on improving infant and child nutrition and consolidating and improving the efficiency of the social protection system to protect vulnerable. The HIV/AIDS prevalence rate is expected to stabilize.

32. Strengthening democratic governance and building effective institutions will remain a national priority. The NSDP prioritizes public sector effectiveness, efficiency in service delivery, financial management, decentralization, fighting corruption, participatory policy-making and planning, and strengthening public accountability and transparency.

33. An evaluation of the NSDP is planned for 2016/17, which will be followed by development of an NSDP for 2018-2022. A public investment plan based on the NSDP is expected to be finalized to influence the 2018/19 budget.

IV. WBG FOCUS AREAS, OBJECTIVES, AND RESULTS

1. Lessons Learned from the 2010 CAS

34. The Completion and Learning Review (CLR) (Annex 4) **rates the overall 2010 CAS program performance as *moderately satisfactory* and the Bank performance as *fair*.** The government achieved notable progress across the three strategic areas of WBG engagement: promoting fiscal adjustment and public sector efficiency; advancing human development and improving service delivery; and enhancing competitiveness and diversification. The WBG supported these strategic objectives through IDA grants and credits—an envelope of US$152 million that included investment projects and technical assistance from the Bank. In addition, IFC provided advisory services for encouraging private sector participation in service delivery (see Annex 7).

35. The CAS CLR finds that results in areas with strong attention— water management and transportation—were the most successful; and investments and regulatory reform in infrastructure services demonstrated sustained results. Results in health and improved water service delivery and business environment and competiveness were mostly achieved. Partial successes were demonstrated in public financial management and statistics, education and public sector efficiency. The program promoting fiscal adjustment did not achieve the intended results. The analytical and advisory program was largely aligned with country needs and priorities.

36. The main lessons from CAS implementation are that WBG interventions need to recognize low government capacity to absorb and implement new ideas and reform initiatives; and the program needs to adapt to changing circumstances more proactively and rapidly. The five key lessons are:

(i) *A focused strategy with strong results linkages*. Program fragmentation leads to weak development results and few successful outcomes.

(ii) *Dealing with capacity weaknesses early* as a binding constraint for policy formulation and implementation supported by practical diagnostics and wide development partner involvement.

(iii) *Employing a range of WBG instruments to match planning and implementation challenges*. Engage in a programmatic approach, ensure a thoroughly coordinated approach involving government and development partners working around common goals/frameworks for systemic change, and pursue analytical work that can help maintain WBG readiness in critical areas.

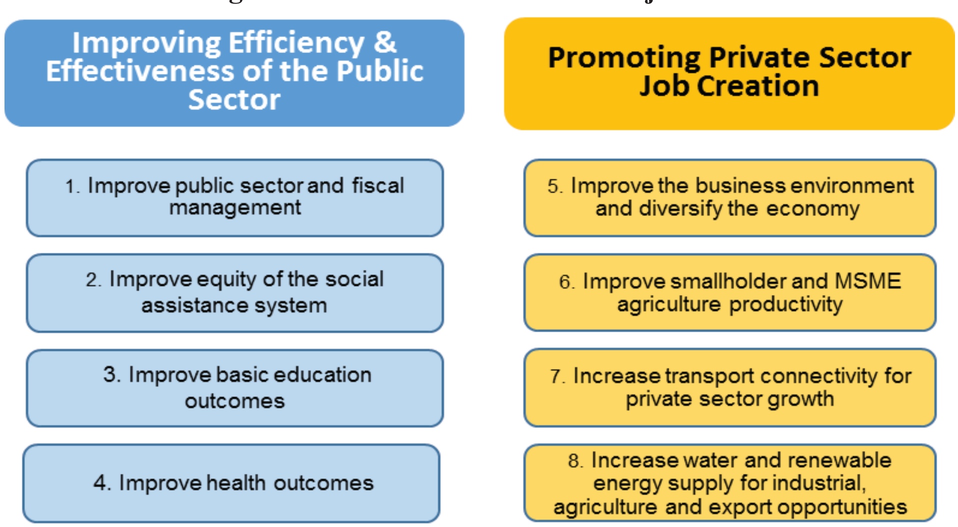
(iv) *Addressing knowledge gaps* such as a poverty assessment, impact evaluation and embedding gender considerations across the portfolio.

(v) *Building further WBG joint actions* to replicate the successes to other areas with a bigger role for the private sector— e.g., in energy and water, training, tourism and vocational education, and trade facilitation.

2. Proposed WBG Partnership Framework

37. The main strategic objective of the FY16–20 CPF is to assist Lesotho with building resilience and reversing the signs of growing fragility by supporting increased efficiency and effectiveness of the public sector and accelerating long-term growth through promoting private sector jobs creation. The WBG effort will comprise two focus areas and eight strategic objectives (Figure 4).

Figure 4: CPF Focus Areas and Objectives



38. The CPF Strategic Objectives support the goals of the NSDP, and the pathways to the twin goals identified by the Lesotho SCD. However, several mutually reinforcing volatile events from the last 18 months – the cumulative SACU revenue decline of 12.9 percentage points due to drought and the commodity price slump, a drought in South Africa, and the severe drought in Lesotho – prompted altogether to differentiate the proposed program from the SCD. Differences between the CPF program and the SCD are analyzed in Annex 2.

3. Envelope and Focus Areas

39. **IDA funds availability.** Starting from July 2014, Lesotho's IDA financing terms have changed from a mix of IDA regular credits and grants to IDA concessional credits on blend terms due to the country's GNI per capita exceeding the operational cutoff for IDA eligibility for more than two consecutive years. The CPF period covers the last two years of the IDA17 Replenishment (FY16 and FY17) and the full three years of the IDA18 Replenishment (FY18-20). Lesotho's remaining IDA17 indicative allocation available for commitments in FY16-17 is SDR 55 million, or equivalent to about US$77 million at current exchange rates[9]. In addition, the country will leverage US$7.5 million worth of IDA17 funds set aside for regional projects. For FY18-20, the CPF envisions similar annual amounts, subject to the outcome of the IDA18 Replenishment negotiations and modalities of the resource allocation process.

40. **The CPF is consolidating efforts where an established WBG track record can make a difference over the CPF period and for which there is strong government ownership.** Nine investment lending operations are planned (Table 2). Most are follow up projects to successful operations with implementation arrangements in place (education, transport and both water projects), or additional financing to scale up existing successful projects, and/or make up for shortfalls in funding due to the SDR depreciation against the dollar (private sector and agriculture). A small Global Partnership for Education (GPE) grant will provide additional financing for education. To support the CPF emphasis on public sector efficiency, two projects expand WBG support to public sector reform efforts (public sector modernization and social assistance).

41. **The CPF will address a number of cross cutting issues.** Given the high HIV/AIDS prevalence and incidence rates, all new investment projects during project preparation will explore opportunities to prevent and/or treat HIV/AIDS. Gender considerations will also be analyzed during project preparation and incorporated into project design and implementation as appropriate. Opportunities for expanding vocational/tertiary technical capacity will be analyzed systematically when preparing projects. Given Lesotho's variable climate and tendency towards national disaster and to help mitigate the effects of the 2015/16 El Nino, Crisis Emergency Response Components (CERCs) are being restructured into existing projects, and all new lending from FY18 will consider the addition of a CERC component during project preparation. The program will also seek to introduce results based approaches based on global experience and tailored to available capacity, whenever practical, for example building on experience with the existing performance based health project and introducing disbursement linked indicators and performance based contracts.

42. **The CPF will be flexible to respond to new challenges or unforeseen circumstances.** Without immediate action starting in FY16/17 to adjust government expenditure, a

[9] The actual country allocations for the outer years will depend on the following factors: (i) total IDA resources available; (ii) the country's performance rating, per capita GNI, and population; (iii) the country's financing terms of IDA assistance (grants/credits); (iv) the country's allocation deductions associated with MDRI annual debt service foregone (as applicable); (v) performance, allocation parameters, and IDA assistance terms of other IDA borrowers; and (vi) number of IDA-eligible countries.

macroeconomic deterioration stemming from low SACU revenues could ensue. If the authorities demonstrate a commitment to reform and adoption of a sound macro-economic framework, backed by the adoption of a financial program with the IMF, this could then prompt a DPO series, which could require restructuring the CPF pipeline to free additional resources. This series would deepen Lesotho's' efforts to strengthen public sector performance and diversify the economy towards labor intensive and export oriented private sector. The foundations of such a series would be built through the planned public expenditure review and reforms being supported through technical assistance under the public sector reform project, the social assistance project and the private sector competiveness and economic diversification project. In addition, opportunities will be sought to finance crisis relief and recovery, such as to respond to the drought state of emergency declared in December 2015, and to provide budget relief for essential imports such as food and fuel, such as through the Bank's Crisis Response Window.

43. Phase II of the Lesotho Highlands Project is estimated to cost US$1.6 billion for the water transfer component and US$1 billion for hydropower. Various financing options will need to be explored, including guarantees from South Africa and Lesotho and financing from the New Development Bank (NDB). The funding strategy for the water transfer component is being developed by the South African parastatal, the Trans Caledon Tunnel Authority. IDA financed studies are being carried out by the Lesotho Highlands Development Authority for the hydropower component and are expected to be completed in 2017.

Table 2: World Bank Proposed Commitments 2016-2020 CPF (US$ million)

	IDA17		**IDA18***
By Focus Area	FY16	FY17*	FY18-20
Improving Efficiency and Effectiveness of the Public Sector			
Public Sector Modernization	10		
Social Assistance	20		
Education Quality for Equality	25		
Global Partnership for Education (GPE)**		2	
Regional TB***	15		
Promoting Private Sector Job Creation			
AF Private Sector Competiveness		14.5	
Transport Infrastructure and Connectivity			30
AF Smallholder Agriculture Development			10
Lowlands Water and Electricity			20
Highlands Water Phase II (LHWP II)****			TBD
IPF/DPO			17
Total	**70**	**16.5**	**77+**

*indicative.
** GPE: US$2 million (FY17).
***TB: This amount is funded out of both the country allocation (US$7.5 million) and the regional allocation (US$7.5 million)
**** Lesotho Highlands Water Project II (LHWP II): IBRD with guarantees and/or possible additional IDA resources.

44. The IMF's most recent Debt Sustainability Analysis[10] continued to assess Lesotho's risks of external debt distress as moderate, with major risks related to: (i) the financing structure and

[10] International Monetary Fund (2016): Kingdom of Lesotho: Staff Report for the Article IV consultation, January 12, 2016, Washington D.C.

economic return of the large hydropower plant under the second phase of the Lesotho Highlands Water Project; and (ii) continued volatility of the South Africa rand. CPF support to the design and implementation of the second phase of the Lesotho Highlands Water Project, and improved public investment management under the public sector modernization project will mitigate these risks. The CPF will also support the adoption and implementation of an updated medium term debt management strategy, which would aim, *inter alia*, at diversifying exchange rate risks.

45. The IDA lending program and country policy dialogue will be supported by ASA. The emphasis will be on promoting job creation, poverty and inequality analysis, and a review of public expenditures. Lesotho's program will benefit from regional programmatic studies. In addition, the ASA program will support financial inclusion and strengthening the pension and insurance sectors, and analyze the impacts of the demographic dividend for Lesotho. As in the past, the Bank will disseminate ASA products among broad stakeholders and development partners. Delivery on this analytical agenda will require a strong cross-practice collaboration and team integration.

46. In support of the CPF, the Bank and IFC advisory will work closely together to improve public sector management, health outcomes, the business environment, and the Scaling-up Renewable Energy Program (SREP). The SREP will explore renewable energy opportunities, including investments with synergies with the CPF's water program. The combination of liquid South African banks and firms active in the formal corporate space, and weak local entrepreneurial and industrial base in Lesotho, restricts investment opportunities for IFC. Nonetheless, IFC will continue exploring private sector investment opportunities, and will assess potential projects that have sound financial and economic rationale and meet IFC's standard credit criteria, and will be ready to engage with investment services should opportunities emerge as the effect of the advisory services take hold.

47. A Program Learning Review prepared at mid-term will review progress and suggest program adjustments to the outer years' program. IDA portfolio performance will be reviewed periodically and corrective implementation actions will be taken as needed.

4. Strategic Objectives

4.1 Focus Area I: Improving Efficiency and Effectiveness of the Public Sector

48. The first focus area will be to assist the efforts of the Government of Lesotho (GoL) to contain the size of the public sector, promote better institutions, and improve service delivery. This will begin to address the key constraints to a well performing public sector—namely, how to make the public sector efficient and improve the effectiveness of government services to deliver better to citizens. The four strategic objectives in this area will be to *improve public sector and fiscal management; improve equity of the social protection system; improve basic education outcomes; and improve health outcomes.*

(i) Improve public sector and fiscal management

49. Improving public sector and fiscal management are the building blocks to strengthen government capability and help reduce macro vulnerabilities and crises that potentially harm the poor. Given that Lesotho's public sector is one of the largest employers and service providers and the wage bill is among the highest in the world, taking steps to modernize the public sector is pivotal in addressing the structural challenges identified by the SCD – such as fiscal consolidation, management of SACU receipts, efficiency of public spending, and public investment decision making.

50. The civil service needs to be better managed and controlled based on an establishment list and improved human resources management system. The government spends about 30 percent of GDP in the three social sectors – education, health, and social protection – but progress has been limited. Results are not improving as fast as in neighboring countries in HIV/AIDS prevalence, TB incidence, TB-HIV/AIDS co-infection rates, maternal mortality, and education. In the current HR system, a large number of irregularities, particularly for the social sectors, persist resulting in the bloated public sector and wage bill. An accurate number of public servants including health workers and teachers are not precisely captured in the system. In addition, the Ministry of Education and Training has a significant amount of unbudgeted salary payments, mainly due to hiring a large number of temporary substitute teachers who are not accounted for in the budget. In social protection, improvements are needed in administrative and operational systems, such as management of the Old Age Pension (OAP); and strengthening coordination and harmonization of fragmented programs. Implementing reforms to the pension system is essential to adopt a holistic approach to regulating public and private pension schemes. The CPF provides technical assistance to the government to identify all public sector employees and Old Age pensioners, as well as to identify irregular HR cases, and make human resources and administrative efficiency improvements across the public sector, especially in education, health and social protection.

51. Given the weak relationship between policy priorities and spending patterns, improving the quality of public spending will require strengthened fiscal management. A linkage between the NSDP and budgeting under a Medium-Term Expenditure Framework (MTEF) is missing in the current fiscal management process[11]. The MTEF's outer-year spending plans are rarely used in preparing subsequent years' budgets, and the approach to budgeting remains largely incremental and line-item-based. Policy discussion takes place only when the Budget Framework Papers (BFPs) are being finalized, but BFPs are scarcely reflected in the final budget. Unreliable in-year financial information and annual public accounts introduce high risk to all aspects of fiscal management, including maintenance of fiscal discipline, strategic allocation of resources, efficient service delivery, oversight and accountability.

52. Use of the scarce capital budget through public investment projects needs to be more strategic. The capacity to conduct technical appraisals to adequately assess projects before approval is generally weak and many projects, even large-scale ones, go through an appraisal process that is not sufficiently rigorous. The quality of project appraisal documents from the sectors is poor. Rigorous cost-benefit or cost-effectiveness analyses are rarely done and project proposals often do not set defined physical scopes or hard ceilings on financial resources. Given

[11] Lesotho Public Expenditure Decision Making: an Institutional Analysis of the Budget Process, June 2011, World Bank

the weak link between policy priorities and spending patterns, improving public spending will require strengthening public investment management. Ensuring that NSDP II priorities are integrated into the budget will require a public investment plan that draws on NSDP. An upgrade of the Integrated Financial Management Information System (IFMIS) and more reliable internet are needed to ensure that budget execution follows suit.

53. Timely and reliable economic, social and poverty statistics will be critical to improve fiscal planning, monitor development outcomes in line with the NSDP, and encourage evidence-based policymaking. Information from household surveys can provide the foundation and monitoring mechanism for poverty eradication efforts. Conducting poverty surveys will have a lasting impact on monitoring the NSDP and boosting evidence-based policymaking. To continue to improve monitoring and evaluation, the Bank is partnering with European Union (EU) and United Nations Development Program (UNDP) to leverage its work on monitoring the SDGs and Bank-financed work in statistics and evidence based policy making.

54. *Results sought from improving public sector and fiscal management:*

Proposed new World Bank investments:	*- Public Sector Modernization Project US$10 million* *- Social Assistance Project US$20 million*
Ongoing World Bank investments:	*- PFM Reform Support Project*
ASA:	*- Public Expenditure Reviews* *- Improving Efficiency of Parastatals* *- Strengthening Insurance and Pension Regulation and Supervision* *- Continuous Survey Methodology* *- Poverty Assessment* *- Medium Term Debt Management Strategy* *- Debt Management TA* *- Tobacco Taxation TA* *- PPIAF—PPP policy and unit TA (supported by IFC Advisory)*

Key expected CPF results are a capital budget that is fully derived from the public investment plan, and elimination of irregular HR and payroll cases in the civil service and non-eligible beneficiaries from the OAP.

(ii) Improve equity of the social assistance system

55. The effectiveness and coverage of the Lesotho social assistance programs in reaching the poor and the bottom 40 percent is limited, due to weak capacity and fragmentation and inefficient delivery systems. Lesotho spends about 4.5 percent of GDP on social assistance programs – nearly three times the Sub-Saharan Africa average and twice the middle-income average. Despite high spending, evidence shows that coverage of the poorest 40 percent of the population is limited, with roughly half of such households reporting no social assistance at all[12]. Moreover, programs have had varying degrees of success in reaching the poor and the ability to provide a meaningful safety net in the context of crises, such as El Nino.

[12] Source: Own elaboration of CMS 2013/14 data.

56. Lesotho clearly needs to reform its social protection system to address deep and widespread poverty and the country's vulnerability to climate change, which will impact water resources, the environment, and subsistence agriculture – especially if adaptation measures are not adopted. Concurrently, reforms should address stagnation in the labor market, coordinate with activities in the agriculture sector, and aim to halt the rise in inequality. In addition to improving the administrative mechanisms of social assistance programs, whose weakness leads to considerable leakage and excessive operational costs, authorities must work to strengthen the accuracy of targeting mechanisms and ensure all targeted programs use a common system, as well as to increase access to social assistance among the poorest.

57. *Results Sought from Improving Equity of the Social Assistance System*

Proposed new World Bank investment:	*- Social Assistance Project US$20 million*
ASA:	*- Rapid Social Response TA* *- FIRST TA on Financial Inclusion* *- Forever Young? Southern Africa: preparing social sectors for a changing population (FY16)*

Key expected results are improving the percentage of households receiving an expanded Child Grant Program (CGP) that are in the poorest forty percent of the population.

(iii) Improve Basic Education Outcomes

58. In recent years, the government has implemented measures to address the challenges of primary and secondary education. These include: (a) a simplified curriculum focused on early grade reading and math; (b) distribution of about one million new textbooks and teachers' guides; and (c) construction of 143 additional classrooms, providing greater access to primary school in remote areas. Despite substantial gains in education delivery, the challenge of the low retention of primary school students continuing into secondary education remains.

59. The pattern of education in Lesotho reinforces inequality and maintains the poverty trap. Poor access to education and low school completion rates correlate with low incomes; not surprisingly, Lesotho's poor have the lowest school participation and completion rates. Though access to education is high in the initial years of primary school, retention is low. Boys in rural areas tend to drop out starting in Grade 3 to take up herding; only two boys and eight girls out of every 100 in the lowest income quintile enroll in secondary education. At the national level, the average primary school dropout rate is 9 percent and is expected to worsen in the near term. In the 300 lowest performing schools targeted by the Education Quality for Equality Project, the dropout rate in 2015 reached 18 percent in primary school and 21 percent in junior secondary schools. Other partners, including UNICEF, which is supporting non-formal education programs for drop-out shepherd boys, are critical.

60. Among the few who complete basic education, many lack basic literacy and numeracy skills for employment or further education/training. Due to Lesotho's low quality of education in mathematics and science, secondary school graduates are ill prepared for higher education in the science, technology, engineering and mathematics fields, which are critical to economic growth. Increasing access to and the quality of education – specifically to align skills to labor market needs – will help ensure that Basotho youth are included in the economy. As 60 percent more people are projected to be working age (15-59 years old) by 2050, Lesotho must take steps to enhance its skills base and job opportunities, or increased migration could occur and a prolonged period of socio-economic instability.

61. *Results Sought from Improving Basic Education Outcomes*

Proposed new World Bank investment:	*- Education Quality for Equality US$25 million*
	- Global Partnership for Education US$2 million
ASA:	*- Youth Employment and School to Work Transition in Southern Africa*
	- How to Improve Job Readiness of Post Primary Graduates

The results sought under this objective will be to reduce drop out rates in the 300 lowest performing primary and junior secondary schools. These schools are located mostly in mountainous poor rural areas. Performance criteria includes student flow, examination success rate, resources per student, and poverty level.

(iv) Improve health outcomes

62. The government's commitment to provide essential health care services, including adoption of a universal health care policy, translated into a steady increase in financing to the health sector. 14.5 percent of total government expenditure is now spent on the health sector, representing 11.5 percent of GDP – the highest in the region. Per capita health expenditure is US$123.4 million. Though the government has benefited from international goodwill and assistance to the health sector, the share of development partner funds has fluctuated in the last five years between 6.1 percent and 21 percent of the overall health budget. The ongoing Public Expenditure Review (PER)/Public Expenditure Tracking Survey (PETS) and the Quantitative Service Delivery Survey (QSDS) work is expected to shed light on the functioning of the health sector's public expenditure system, including the planning and management capacities of the Ministry of Health (MoH); financial management; delays in disbursements and volatility of transfers; ways to enhance technical and allocative efficiencies; and accountability mechanisms. This work will also identify why Lesotho has faced challenges in absorptive capacity of the health sector.

63. Introducing a performance-based approach in primary health centers and district hospitals is expected to improve health outcomes, including the HIV/AIDS response, and ensure that non-critical patients are treated locally, with only the most critical cases treated at the Queen Mamohato Memorial Hospital (QMMH) hospital. This will also require reforming the system governing patient referrals between the primary, district and tertiary levels. Aligning TB prevention and care with regional efforts in four countries (Lesotho, Malawi and Mozambique and Zambia) is expected to improve outcomes, including for drug resistant TB infections. Other international partners, such as the Global Fund, PEPFAR, the CDC, Partners in Health, CHAI, and the UN, are active in Lesotho's health sector, focusing on HIV/AIDS, TB, and maternal, child, and infant mortality and – in some cases – also supporting a performance based approach to health care. Critical to success will be close coordination with these partners to be sure that all are working towards the same targets.

64. **The MoH allocates most total health care spending (79.1 percent) to purchasing services of various public and private providers.** The main domestic private providers include the Christian Health Association of Lesotho (CHAL) and Tsepong, with a network comprising the QMMH tertiary hospital and filter/gateway clinics. The partnership mechanism includes the design, construction, and management of the QMMH network for 18 years starting in 2011. Payments to the operator are bundled into a single annual unitary payment for a fixed number of in- and out-patients, with additional patients billed as "extra services". The QMMH is delivering better quality health services to more patients for less unit cost since it opened. Despite these improvements, the health network is facing challenges, and has become a considerable financial burden for the GoL. Recognizing these challenges and finding ways to overcome them will be critical to maintaining recent health gains, while ensuring financial sustainability.

65. *Results Sought from Improving Health Outcomes*

Proposed new World Bank investments:	– *Southern Africa Tuberculosis and Health Systems Support Project US$15 million (US$7.5 million Regional IDA Allocation and US$7.5 million Country IDA Allocation*
Ongoing World Bank investments:	– *HIV and AIDS Technical Assistance Project (HTAP) (US $5 million)* – *Maternal Newborn Health (MNH) Performance-Based Financing Project (incudes incentives for improvements in health systems reforms that influence outcomes across the board, including for HIV/AIDS patients) (IDA US$12 million; MDTF US$4 million)*
ASA:	– *Public Expenditure Review (PER) in the health sector; Public Expenditure Tracking Survey (PETS)/Quantitative Service Delivery Survey (QSDS)* – *Comprehensive Health Financing Status Report: Improving the Long-term financial sustainability of the Lesotho Queen Mamohato Memorial Hospital PPP* – *Queen Mamohato Memorial Hospital (QMMH) PPP Contract Management TA; (IFC Advisory)* – *Tobacco Taxation TA* – *PPIAF – PPP policy and unit TA (supported by IFC Advisory)*

Key CPF results are increased average Health Facility Quality of Care Score at primary care facilities in six districts (Leribe, Mafeteng, Mohale's Hoek, Mokhotlong, Quithing, Thaba-Tseka), improved QMMH contract management, and improved TB treatment success rate nationwide for new and relapse TB cases.

4.2 Focus Area II: Promoting Private Sector Jobs Creation

66. **Justification**. The country faces an unemployment rate of 28 percent, youth unemployment of 43.2 percent, a low ratio of employment-to-working-age population, and a high proportion of employment outside the country, particularly in South Africa. Public employment displaces private sector job creation and serves as a de facto social safety net. The International Labor Organization (ILO) estimates that half of graduates who enter the labor market each year do not get jobs.

67. **To break out of the poverty trap and eradicate extreme poverty, Lesotho must build a vibrant private sector and resilient middle class.** Achieving this will require an export-led model driven by the growth of the private sector. Job growth from private sector expansion is expected to come particularly from agriculture, manufacturing, mining and tourism, as highlighted in the NSDP. This will require an improved business environment, diversification away from the textile sector, renewed enthusiasm for entrepreneurship and stronger public-private sector dialogue. It will also require more effective assets accumulation; better access to formal financial services, which besides policy and regulatory improvements, will also require agriculture productivity increases through agriculture innovations; improved transport connectivity; and training of smallholder farmers in marketing techniques. The use of jobs intensive procurement methods for public works, especially in transport and water, will be critical to help decrease rural unemployment. Renewable energy could help fill shortages of electricity, and even present export opportunities. Expansion of bulk water supply will be critical to serve the dual purpose of providing water key for private sector growth within Lesotho, and to increase export to neighboring countries. Over the CPF period, the WBG will address the strategic objectives of improving the *business environment and diversifying the economy; improving smallholder and MSME agricultural productivity; increasing transport connectivity to facilitate private sector growth; and increasing water and renewable energy supply for industry, agriculture and export opportunities.*

(i) Improve the business environment and diversify the economy

68. **With Lesotho's small size and limited domestic market, the country needs to develop competitive, export-oriented firms able to grow in scale and productivity and create jobs.** This will require adopting policies and incentives for an entrepreneurial, outward-oriented private sector. Such policies include support for trade, FDI, competition, efficient business regulation and access to finance to ensure firms are able to grow and compete in various sectors. Water, apparel, and diamonds have become very successful ventures under global integration and access to export markets. An export driven growth strategy will take time and conviction, and will require drawing lessons and good practices from other countries where government commitment was sorely tested by a lack of private sector response, and initially low FDI.

69. **Lesotho's economy needs to diversify its markets and sectors, and decrease dependence on trade preferences for a few narrow products.** With the advent of the Trans-Pacific Partnership (TPP) Agreement, the duty-free and quota-free access to the US market granted by AGOA, if it is renewed every year, becomes less exclusive. It will be important to ensure Lesotho is resilient once more non-African countries expand their access to the US—particularly the highly competitive Asian ones. To help foster such resilience and ensure sustainable employment, a key priority for Lesotho is to develop other labor-intensive sectors and regional value chains and tap into other export markets.

70. Today, the private sector in Lesotho faces a difficult business environment: regulations are complex, access to financial services difficult, and trade challenging. In addition, foreign investors are not always sufficiently supported after investing in the country, due to capacity constraints in the Lesotho National Development Corporation, which is responsible for the management of factory shells. Domestic capital markets also remain underdeveloped. As a result, instruments for medium-to-long-term finance, typically based on long-term savings channeled through institutional investors like pension funds and insurance companies, are missing in the market. This gap, in turn, means that domestic enterprises often cannot access adequate funds for investments over a longer period. The CPF will support the government in taking a stronger leadership role to cut regulatory transactions costs associated with doing business in Lesotho, and in establishing meaningful public-private dialogue. The CPF will also support the government to work with the domestic and foreign private sector to invest in agribusiness and infrastructure, enabling access to clean water, safe roads, reliable electricity, adequate work places, and more diversified sources of income.

71. Under this strategic objective, the World Bank Group will continue to work with the government and relevant agencies to improve the business environment, increase access to finance, diversify the economy, and improve the efficiency of the customs procedures on Lesotho's borders. In addition, through the ASA program, the CPF will strengthen the analytical underpinnings of the work program, including undertaking a private sector diagnostic to fill knowledge gaps regarding its size and structure, also to monitor changes and trends in Lesotho's economy and job market, and to anticipate possible shocks. IFC's Advisory Services will bring lessons and good practices from tourism and horticulture, and provide technical assistance for simpler and more efficient trade, better government engagement with the private sector, and government efforts to attract and retain FDI. IFC will continue to explore new public-private partnership (PPP) opportunities, working together with the World Bank for the creation of necessary fiscal space and building economic and social infrastructure.

72. *Results Sought from improve the business environment and economic diversification*

Proposed new World Bank investments:	*- Additional Financing for Private Sector Competitiveness and Economic Diversification Project II (US$14.5 million)*
Ongoing World Bank investments:	*- Private Sector Competitiveness and Economic Diversification Project II (Ongoing; US$13.1 million)*
ASA:	*- FIRST TA on Financial Inclusion* *- Financial Inclusion in Southern Africa* *- Employment Dynamics and Jobs* *- Jobs, Growth and Competitiveness* *- GVCs, Competeviness and Integration* *- IFC Investment Climate Advisory Services Program* *- Private Sector Diagnostic*

The expected results are an increase in domestic enterprises registered and operating in the non-textile sectors (including registration of previously informal businesses), and an increase in the number of investment climate reforms during the CPF period. The latter may include, for example, a reduction in the time it takes to register a business, issue a construction permit, get credit, and resolve insolvency, among others.

(ii) Improve smallholder and MSME agriculture productivity

73. The agriculture sector is a smallholder and MSME-based one with characteristics of low productivity, low capacity, and a high degree of dependence on agricultural produce imported from South Africa. Consequently, rural Lesotho, where three-quarters of Lesotho's population and most of the poor reside, risks falling into a poverty trap. International experience clearly demonstrates that the smallholder and MSME agriculture sector, particularly at the early stage of development, is a strong option for poverty reduction, food security, job creation, and stimulating growth in other parts of the economy. Against this background, agriculture and rural development will be one of the priorities of intervention in the CPF and will build on, and expand geographically, successful experiences, for example, promising and viable models in activities such as cash crops, livestock, and agro-processing. These models demonstrate potential in terms of raising productivity, strengthening farmers' capacity, fostering stronger marketing linkage, substituting imports from South Africa, create job opportunities, and promote women's status in rural communities.

74. Successfully unleashing agriculture and the rural sector's potential in eradicating extreme poverty requires efficient coordination with other sectors. Water and irrigation have frequently been identified as a key challenge facing smallholders MSMEs and hence coordinated water interventions could play a significant role in addressing the challenge. Effectively engaging youth into the agriculture sector has a long-term implication on the future of the sector as well as creating job opportunities, and interventions in this area need to be coordinated closely with productive social protection activities. An enabling investment environment is critical to facilitate a smooth rural transformation, but only when coupled with agriculture innovation that could enhance the creditworthiness of smallholder farmers and MSMEs employing modern technologies. In view of possible substantial and long-term negative impact on the agriculture sector from climate change and natural disasters, as evidenced by the on-going El Nino drought, the CPF will support the development of a climate smart agriculture policy framework, focusing on resilience. IFC will explore opportunities in agribusiness and its value chain.

75. *Results Sought from improving smallholder and MSME agriculture productivity*

Proposed new World Bank investments:	*– Additional Financing for Smallholder Agriculture Development Project (US$10 million)* *– Lowlands Water and Electricity IPF (new; US$20 million)*
Ongoing World Bank investments:	*– Smallholder Agriculture Development Project (US$ 10 million)*
ASA:	*- Water Security and Climate Change Assessment* *- Early Warning System TA* *- FIRST TA on Financial Inclusion* *- Climate Smart Agriculture Policy Framework*

CPF results expected are to increase household commercialization level in targeted agricultural areas in four districts (Berea, Botha-Bothe, Leribe and Mafeteng). Household commercialization level, measured through as survey, is defined as the value produce and products sold as a percentage of total value of produce and products.

(iii) Increase transport connectivity to facilitate private sector growth

76. Building and maintaining reliable transport infrastructure is critical to competitiveness and job-creation in Lesotho, including its mining, tourism and agricultural sectors. In the past decade, authorities made investments to expand Lesotho's urban and rural road networks, and rehabilitate existing roads to improve access in these sectors. However, a poor-quality and unevenly distributed road network remains a constraint on growth – especially in isolated highland areas where access to key agriculture markets and tourist sites is constrained by poor connectivity. Nearly 90 percent of Lesotho's unpaved road network remains in fair or poor condition, and road agencies lack capacity to maintain the network, and face institutional constraints. Furthermore, Lesotho faces challenges in road safety, with high fatality rates in densely populated districts, and frequent accidents on roads in mountainous terrain. Access to markets, schools and health centers in villages is often impeded by mountainous terrain, and soil and road erosion due to climate change. Lesotho must strengthen its management of road assets, including by better providing and maintaining roads to account for the impacts of climate change. The transport sector can contribute to jobs creation both through contracting methods that generate employment and improved access and connectivity to markets and services.

77. *Results Sought from increasing transport connectivity to facilitate private sector growth*

Proposed new World Bank investments:	*- Transport Infrastructure and Connectivity Project (US$30 million)*

The expected key results are improved transport connectivity to agriculture markets and tourist sites and the creation of jobs through construction and road maintenance given that job-intensive procurement methods will be favored.

(iv) Increase water and renewable energy supply for industrial, agriculture and export opportunities

78. Water is Lesotho's most important renewable resource, and supports services in urban and rural areas, with direct links to the WBG twin goals. Though the LHWP serves as the economic engine of South Africa's Gauteng Province, and provides revenue streams for Lesotho, the Lowlands Water Supply Program is addressing national water security and service delivery. The government has invested significant resources to improve water supply coverage and levels of service, and continues to focus on sector development. According to the latest official figures (2012), access to an improved water source in urban and rural areas is, respectively, 72 and 63 percent. The Metolong Dam Water Supply Program (MDWSP) is the first of a series of investments envisaged under the Lowlands Program. Financed by nine development partners[13] the MDWSP included the construction of the 73-meter Metolong Dam, a water treatment plant, and a conveyance system to supply water to Maseru and adjoining towns. The MDWSP was inaugurated on November 20, 2015 and will supply 75,000 cubic meters of additional treated water per day to Maseru and its surroundings, meeting domestic and industrial water requirements in the area until at least 2050. The program has also created more than 3,000 jobs during its construction phase, contributing directly to improved human development outcomes, improved water security, and stimulating the environment for private sector development for jobs creation by improving not only access to water, but also electricity, road infrastructure and other basic services. Lesotho's garment manufacturing industry, which encourages urban migration, also depends on a reliable water supply and connections through the urban water utility – Water and Sewerage Company (WASCo).

79. The government will continue to invest significant resources to build a water security platform that simultaneously harnesses competitiveness and job-creation. Rising industrial activity and rapid population growth in and around the Maseru metropolitan area has steadily increased the demand for water and sanitation services. These constraints, coupled with periodic droughts, require a more secure infrastructure to sustain economic growth in key sectors, such as the textile-apparel industry, which is one of the country's largest employers. WASCo's investment operations to expand its network, largely financed by development partners, aims over the long-term to reach 100 percent coverage in urban areas. Such major capital investments also provide an opportunity to generate more jobs, and it will be important, through training and incentives, that these jobs accrue to the Basotho. The long-term sustainability of these infrastructure investments will require an integrated approach to water resources management, which accounts for changes in water quality and quantity (including pollution, climate change-induced erratic rainfall patterns and protracted droughts) and evolving demand (increased urbanization, industrialization and irrigation) to ensure availability of bulk water in the long term. Key partners include the EU and the AfDB, which also provide financing for sewerage and household connections.

80. Results Sought from increasing water and renewable supply for export and domestic industry, household and agriculture use.

Proposed new World Bank investments:	*- Lowlands Water and Electricity IPF US$20 million* *- Lesotho Highlands Water Project Phase II (IBRD) (TBD)*
Ongoing World Bank investments:	*- Water Sector Improvement Project (II) US$53.4 million*
ASA:	*- Scaling-up Renewable Energy Program (US$30 million) (SREP)* *- Water Security and Climate Change Assessment*

Key results are that bulk water supply works are underway or completed in priority water zones, (i.e., those with significant industrial, commercial and/or agriculture water demand), identification

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[13] IDA, along with the Millennium Challenge Corporation, Saudi Development Fund, OPEC Fund, Kuwait Fund, Arab Bank for Economic Development in Africa, Abu Dhabi Fund for Development, the European Investment Bank and The African Renaissance and International Cooperation Fund of the Republic of South Africa

of new viable renewable energy generation projects, and completion of a feasibility study for the hydropower component of Phase II of the LHWP.

5. Implementing the World Bank Program

81. **The high implementation risks and capacity challenges at the portfolio and project levels require focusing limited IDA resources on lending operations that build on ongoing projects with proven track record and implementation arrangements in place.** Other improvements to how the Bank will operate include employment of a health specialist in the Country Office to closely support the government in project implementation and analytical work. The World Bank hired a Country Representative in Lesotho in 2015 to deepen the Bank's partnership with government and partners. The GoL's management of Bank projects and fiduciary tasks is expected to improve under the ongoing Public Financial Management Project, given its support for upgrading and extending Lesotho's Integrated Financial Management Information System (IFMIS) and the PFM Reform Action Plan, which will build capacity for planning and budgeting, cash management, procurement, and internal and external audit. Local job creation will be a key driver when evaluating procurement methods, particularly in agriculture, transportation and water projects.

82. **Strengthening fiduciary controls and internal and external audits, along with regular monitoring and supervision, are areas where the World Bank will continue to work with the government** to lower the risks for fraud and corruption at the project level. Several portfolio reviews revealed a risk of fraud and corruption and governance-related challenges. Instances of fraud and corruption materialized in the previous education project; and allegations of fraud and corruption, not necessarily linked to World Bank projects, persisted in the private sector, water sector, and in the health and agriculture sectors. In support of the PFM Reform Action Plan, a central Reform Secretariat and Steering Committee was established at the Ministry of Finance (MoF), and two Bank projects now incorporate this structure in their implementation arrangements. This will go a long way towards assuring better support for project fiduciary requirements, and lessening the risk of fraud and corruption. The Bank will continue to work with the Government to assess the feasibility of bringing new pipeline operations under the same arrangement.

83. **Considering the small IDA envelope compared to Lesotho's expected needs, the Bank will continue to leverage IDA resources with trust funds and grant windows of global and regional programs.** The trust funds (TFs) supporting implementation of the WBG program are integrated into the strategic objectives, lending, and ASA activities. They allow the World Bank and IFC to realize additional depth and impact, especially in education; health; social development; water; transport; wind power; financial inclusion; and statistical capacity, trade and private sector development. As of May 2016, there were six active grants and eight BETF activities; disbursement in FY14–16 came to US$9.13 million, of which US$2.96 million was in FY16. The bulk of these commitments went to education, and health; the remaining TFs have funded small and targeted Bank- and recipient-executed interventions.

84. **The WBG will be able to respond effectively to development challenges in Lesotho by leveraging IDA resources and collaborating with other development partners.** The WBG will continue to build on strong partnerships and development partner coordination, seeking to mutually leverage support, align scope objectives, and increase complementarity of technical assistance. These include the Abu Dhabi Fund, African Development Bank, BADEA, CDC, China,

Clinton Health Access Initiative, European Investment Bank, European Union, the Global Fund, IFAD, Kuwait Fund, Millennium Challenge Corporation (if a second compact is signed), OFID, Partners in Health, Japan, South Africa, the UN System, USAID and US Peace Corps. The WBG will continue to increase its efforts to promote communication and transparency between development partners and the government, and support the government in aid coordination. It will also seek opportunities to build regional or country capacity through, for example, partnerships with African Centers of Excellence (ACEs), universities, think tanks and/or chambers of commerce.

85. **Making the most of limited resources will require** Global Practices, IFC and MIGA to cooperate and work together as one World Bank Group delivery team using the range of WBG Bank instruments—from ASA services to technical assistance, guarantees and lending.

V. MANAGING RISKS

86. **The overall risk to successful outcomes under the 2016–2020 Lesotho CPF will be s*ubstantial*** (see Table 4). The main residual risks to the CPF program that may critically affect the CPF in achieving its objectives are (a) political and governance; (b) macroeconomic; (c) environmental and climate, and (d) operating (implementation capacity and fiduciary risks), which may transmit to project implementation levels, and thus increase the costs of preparation and delay implementation and disbursement. For elaboration on ratings of the individual risk categories and mitigation measures see Annex 3.

Risk Mitigation

87. **Political and governance risk** manifested in political instability, policy reversals, and weak governance could undermine development progress, and is rated substantial. The political and security situation presents a significant risk that might compound economic vulnerabilities. It may be difficult to sustain the multi-party coalition around pro-reform consensus and commitments and to mobilize sufficient development partner support to maintain a strong capital investment program. In return, this will strain the government's ability to mobilize enough popular support to initiate vital structural reforms, and will strain government capacity to implement complex programs to sustain economic growth. The prime minister has re-affirmed the government's commitment to the strategic objectives of the NSDP, which may ease the risks associated with weak institutions and poor governance. Past experience has also shown that extended periods of political turmoil resulting in changes in leadership expose projects to indecision and gaps in management support and oversight, which impacts on implementation progress. The CPF program is aligned with Lesotho's strategic vision and national development plan, which have been endorsed by successive governments, thus increasing the chance of continued high-level leadership.

88. **Macroeconomic risks are high**. A continuously depressed regional economic environment (resulting notably from low commodity prices and the impact of El Nino on agriculture) would further complicate macroeconomic challenges currently faced by Lesotho. The decline in the country's fiscal revenues is challenging Lesotho's shock-absorption capacity, for

example undermining its ability to scale up social safety nets and address food security issues. To reduce this risk, the Government needs to focus on fiscal consolidation, address long-standing structural weaknesses and encourage private-sector-led growth. At the extreme, an insufficient adjustment could result in losing the loti peg with the South African rand, with likely protracted substantial welfare losses for the population and the poor. Such risks would be partially mitigated by the rapid financial support from development policy operations (DPO), if backed by the adoption of a financial program with the IMF.

89. The government's **limited implementation capacity** remains a major challenge to achieving the CPF objectives, and the risk is high**.** To mitigate this risk, the Bank will: (a) focus its new program in sectors with a proven track record of success and project implementation arrangements in place; (b) continue to work with other development partners to support the government with technical assistance for the implementation of the NSDP and the NSDP II and the coalition development objectives; (c) simplify project design and apply risk-based design features for early risk identification to address these risks in the project design; (d) make more use of the project preparation facility to ensure that project financial management and procurement staff are on board before project effectiveness; and (e) work with the government to assess the feasibility to also use the existing Reform Secretariat and Steering Committee at the MoF, which now support and provide oversight to both the PFM and Public Sector Modernization projects, for new pipeline operations.

90. The fiduciary risks continue to be substantial. Under the last CAS cycle, the World Bank has taken measures to strengthen fiduciary safeguards in all of the projects in the portfolio. The mitigation measures will cover the entire project cycle, including: (a) intensive project supervision and working closely with the GoL; (b) due diligence and bidder background checks before awarding contracts; and (c) strengthening project monitoring physical verifications of civil works, especially of projects with a significant construction component, such as in the water and roads projects, by applying information and communication technologies, stronger involvement of CSOs, and improved mechanisms for beneficiary feedback.

91. The expected environmental changes in weather temperature and precipitation patterns associated with **climate change will increase Lesotho's vulnerability**. First, an altered hydrological cycle, combined with increased temperatures, and the over-reliance on rainfed agricultural practices are predicted to affect food security[14]. Second, the projected changes in precipitation will exacerbate unmet demand for industrial and domestic uses, in the absence of augmentation measures such as increased bulk water supply[15]. Because water resources and subsistence agriculture are key elements of Lesotho's economy, systematic policies and early actions are needed to adequately prepare and manage projected impacts. To adapt to climate change, Lesotho will have to implement strategies, and build institutional capacities, in order to address extreme weather events and help develop effective infrastructure adaptation measures. Lesotho has prepared a National Adaptation Programme of Action (NAPA) in compliance with the United Nations Framework Convention on Climate Change (UNFCC) guidelines. There is a need to continue to support efforts to understand its key vulnerabilities including to **climate-induced disasters**, and to prioritize locally relevant adaptation strategies in key economic sectors, which can be sustainably implemented in vulnerable areas. Lesotho's vulnerability to extreme

[14] Lesotho Water Security and Climate Change Assessment, The World Bank, FY16.
[15] Ibid

weather events including droughts and floods will be further mitigated by increasing the responsiveness of WBG supported projects to rapidly and flexibly address these risks through the addition of CERCs in new IPFs whenever feasible.

Table 3: Systematic Operations Risk-Rating

RISK CATEGORIES	RATING
Political and Governance	Substantial
Macroeconomic	High
Sector strategies and policies	Moderate
Technical design of program	Moderate
Institutional capacity for implementation and sustainability	High
Fiduciary	Substantial
Environmental and Social	Substantial
Stakeholders	Moderate
Overall	**Substantial**

See Annex 3 for a description of all risks.

Annex 1. CPF Results Matrix

Strategic Focus Area I: Improving Efficiency and Effectiveness of the Public Sector		
Justification: Support Lesotho in its transition to a new growth model by assisting the GoL to reduce the size of the public sector, promote better institutions and improve service delivery. This focus area will address the key constraints to a well performing public sector—that is, making the state more efficient and effective.		
Strategic Objective 1. Improve public sector and fiscal management		
Intervention logic: Improving public sector and fiscal management is essential for building capability to reduce macro vulnerabilities and crises that have a significant negative impact on the poor. Government spends about 30 percent of GDP in three social sectors—education, health and social protection— with deteriorating outcomes. Key structural challenges include reducing government expenditures by reducing ghost workers in the civil service and non-eligible recipients of the Old Age Pension, improving public investment decision making and improving public financial management and procurement.		
CPF Objective Indicators	**Supplementary Progress Indicators**	**WBG Program**
Indicator 1: Capital budget is fully derived from public investment plan Baseline (2015): No public investment plan Target (2020): 100% **Indicator 2**: Irregular HR and payroll records corrected/removed Baseline (2015): 0% Target (2020): 90% **Indicator 3**: Non-eligible beneficiaries eliminated from the OAP roster Baseline (2015): 0 Target (2020): 90%	**Progress Indicator 1:** NSDP public investment plan completed Baseline (2015): No Target (2018): Yes **Progress Indicator 2**: Biometric census of all government employees completed Baseline (2015): No Target (2017): Yes **Progress Indicator 3:** Percentage of OAP beneficiaries with a yearly proof of life verification. Baseline (2015): 0 Target (2018): 75%	*ASAs:* – Public Expenditure Review, FY17 – Health Public Expenditure Review (PER)/Public Expenditure Tracking Survey (PETS)/Quality Service Delivery Survey (QSDS); FY17 – Improving Efficiency of Parastatals; FY17 – Medium Term Debt Management Strategy; FY17 – Debt Management TA – FIRST TA on Strengthening Insurance and Pension Regulation and Supervision (Ongoing; US$0.37 million; FY16-17) – Tobacco Taxation TA – Continuous Survey Methodology, FY17 – Poverty Assessment, FY18 – PPIAF – PPP Policy and Unit Development (supported by IFC Advisory) *Lending:* – Public Sector Modernization IPF (New; US$10 million; FY16) – Social Assistance IPF (New; US$20 million; FY16) – PFM Reform IPF (Ongoing; US$5 million) **Partners:** AfDB, EU, IMF, UNICEF

Strategic Objective 2. Improve equity of the social assistance system		
Intervention logic: There is limited effectiveness of social assistance programs to reach the poorest, despite very high spending by international standards (4.5 percent of GDP).		
CPF Objective Indicators	**Supplementary Progress Indicators**	**WBG Program**
Indicator 4: Increased percentage of households receiving the expanded Child Grant Program that are in the poorest forty percent of the population Baseline (2015): 65% Target (2020): 75%	**Progress Indicator 4**: Increased percentage of community councils in the country covered by NISSA-CBT registry Baseline (2015): 0 Target (2018): 50% **Progress Indicator 5**: Enrollment in the Child Grant Program Baseline (2015): 24,500 Target (2017): 36,500 **Progress Indicator 6:** Increase the percentage of adults with a mobile money account Baseline (2015): 50% Target (2018): 54%	*ASAs:* – Rapid Social Response Trust Fund (Ongoing; US$250,000) – Forever Young? Southern Africa: preparing social sectors for a changing population (FY16) – FIRST TA on Financial Inclusion (Ongoing; US$1.49 million) *Lending:* – Social Assistance IPF (New; US$20 million; FY16) **Partners**: EU, FAO, UNICEF, WFP
Strategic Objective 3. Improve basic education outcomes		
Intervention logic: Despite reduced repetition rates and high rates of transition in between cycles, Lesotho has low levels of student retention within cycle, with 62 percent retention at the primary level and 70 percent at the junior secondary level.		
CPF Objective Indicators	**Supplementary Progress Indicators**	**WBG Program**
Indicator 5: Reduction in dropout rate (Grade 1–Grade 6) in targeted primary schools* Baseline (2015): 18% Target (2020): 15% **Indicator 6**: Reduction in dropout rate (Grade 8–Grade 9) in targeted* junior secondary schools Baseline (2015): 21% Target (2020): 18% *Targeted primary schools are the 300 lowest performing schools. They are located mostly in mountainous poor rural areas. Performance criteria includes student flow, examination success rate, resources per student, and poverty level.	**Progress Indicator 7**: Increased number of targeted schools with approved SIPs Baseline (2015): 0 Target (2018): 100	*Lending:* – Education Quality for Equality IPF (New; US$25 million; FY16) – Global Partnership for Education (New, US$2 million; FY17) *ASA:* – Youth Employment and School to Work Transition in Southern Africa – How to Improve Job Readiness of Post Primary Graduates **Partners***:* AfDB, China, Japan, UNESCO, UNICEF, US Peace Corps, Vodacom Foundation

Strategic Objective 4: Improve health outcomes

Intervention logic: Despite government efforts, during the past decade Lesotho has only moderately improved health outcomes at a pace slower than its neighboring countries. This is due to system-wide problems in the health sector, such as low utilization of health facilities, poor quality of services, and drug non-availability. These results reflect poor human resource management practices, poor procurement and FM practices, lack of reliable information for decision making and low patients' awareness, contract management issues plague the QMMH hospital and health network PPP, and its integration with the rest of the health system has proved challenging. Maternal and infant mortality in Lesotho is still among the highest in Sub-Saharan Africa, and the HIV/AIDS prevalence and TB incidence are the highest in the world.

CPF Objective Indicators	Supplementary Progress Indicators	WBG Program
Indicator 7: Average Health Facility Quality of Care Score at targeted primary care facilities* Baseline (2015): 43.8 Target (2020): 60 **Indicator 8**: Improved QMMH contract management Baseline (2015): QMMH contract disputes go unresolved Target (2020): Contract disputes resolved in accordance with mechanisms and timelines established in the QMMH PPP contract **Indicator 9**: Nationwide TB treatment success rate for new and relapse TB cases Baseline (2015): 71% Target (2020): 80% *Targeted primary care facilities are those in the following 6 districts: Leribe, Mafeteng, Mohale's Hoek, Mokhotlong, Quithing, and Thaba Tseka.	**Progress Indicator 8**: Number of targeted primary health facilities with PBF contract Baseline (2015): 35 Target (2017): 97 **Progress Indicator 9**: Develop health care referral system Baseline (2015): no referral system Target (2017): referral system is adopted and in place in all tertiary, secondary and primary facilities **Progress Indicator 10**: PPP contract management unit established and fully functional Baseline (2015): no PPP contract management unit Target (2016): PPP contract management unit established in Ministry of Finance, core staff and funding source identified and approved Target (2017): PPP contract management unit at Ministry of Finance staffed and fully operational, including Standard Operating Procedures **Progress Indicator 11**: Proportion of health facilities with TB smear microscopy Baseline (2015): 17% Target (2017): 20%	*ASAs:* – Health Public Expenditure Review (PER)/Public Expenditure Tracking Survey (PETS)/Quality Service Delivery Survey (QSDS); FY17 – Tobacco Taxation TA; FY17 – Queen Mamohato Memorial Hospital (QMMH) PPP Contract Management TA (IFC) – Comprehensive Health Financing Status Report: Improving the Long-term financial sustainability of the Lesotho Queen Mamohato Memorial Hospital PPP – PPIAF – PPP Policy and Unit Development (supported by IFC Advisory) *Lending:* – HIV and AIDS Technical Assistance Project (HTAP) (Ongoing; US $5 million) – Maternal and Newborn Health Performance Based Financing IPF (Ongoing; IDA US$12 million; MDTF US$4 million) – Southern Africa Tuberculosis and Health Systems Support Project (New; US$15 million; FY16) **Partners:** CDC, China, Clinton Health Access Initiative, Global Fund, Partners in Health, PEPFAR, UNAIDS, USAID, WHO.

Focus Area II: Promoting Private Sector Jobs Creation

With a high unemployment rate of 28 percent, a low employment-to-working-age population ratio, and a high proportion of employment outside of the country, Lesotho development and growth are locked in a poverty trap. To break out, the country will need to focus on a pro-poor and broad-based employment, which is feasible only by building a dynamic, competitive private sector and resilient middle class. Achieving this will require a sustained effort to build an export-led economic model driven by the growth of private sector.

Strategic Objective 5: Improve the Business Environment and Diversify the Economy

Intervention logic: With such a small domestic market, Lesotho needs competitive, export-oriented firms capable of generating significant employment. This requires a stronger business environment, more efficient customs procedures, expanded range of and access to financial services, investment promotion in new sectors, more backward linkages to the local economy, and targeted support to new growth sectors identified in the NSDP (rural area sectors such as agriculture and tourism, and also manufacturing and mining), with high potentials for private sector investment, firm growth, and job creation.

CPF Objective Indicators	Progress Indicators	WBG Program
Indicator 10: Number of areas with investment climate reform progress during the CPF period Baseline (2015): 0 Target (2020): 4 (Reforms expected, for example, in reducing the time it takes to register a business, dealing with construction permits, improving access to finance, and resolving insolvency) **Indicator 11:** Increase in domestic enterprises registered and operational in non-textile sectors Baseline (2015): 17,330 Target (2020): 18,240	Progress Indicator 12: Enhance the technology platforms at the One Stop Business Facilitation Center Baseline (2015): Business registration done online at the One-Stop Business Facilitation Center Target (2018): e-payments accepted at the One-Stop Business Facilitation Center for business registration and licensing services	*ASAs:* – FIRST TA on Financial Inclusion (Ongoing; US$1.49 million) – Financial Inclusion in Southern Africa (Regional, Programmatic, FY15-17) – Employment Dynamics and Jobs (Regional, Programmatic, FY15-17) – Jobs, Growth and Competitiveness (Regional, Programmatic, FY15-17) – GVCs, Competiveness and Integration (Regional, Programmatic, FY15-16) – IFC Investment Climate Advisory Services Program, with an emphasis on Doing Business Reforms, investor attraction and retention, and trade facilitation (Ongoing) – Private Sector Diagnostic FY18 *Lending:* – Private Sector Competitiveness and Economic Diversification IPF Phase II (Ongoing; US$13.1 million) – Additional Financing for Private Sector Competitiveness and Economic Diversification IPF Phase II (New; US$14.5 million) **Partners**: AfDB, EU, USAID

Strategic Objective 6: Improve smallholder and MSME agricultural productivity		
Intervention logic: The development of a competitive private sector and broad-based employment incomes will have to come in large part from the rural areas, where three quarters of Lesotho population and most of the poor reside. With the decline of mining jobs and remittances, the WBG interventions will support Lesotho to generate self-employment by raising the productivity and returns of smallholders and MSMEs. This will spur additional demand for non-farm employment opportunities. Commercially viable smallholder agriculture is essential to increase the share of market output and to establish incentives for adopting technologies and production methods that improve yields and mitigate risks. Increased water supply in rural areas will be essential for improved irrigation. Climate change and extremes need to be mitigated.		
CPF Objective Indicators	**Supplementary Progress Indicators**	**WBG Program**
Indicator 12: Household commercialization level in targeted agricultural areas* Baseline (2015): 64% Target (2020): 70% *Targeted districts are: Berea, Botha-Buthe, Leribe and Mafeteng. Baseline is based on a 2015 mini-survey, and will be verified in 2016 through a comprehensive survey in targeted areas.	**Progress Indicator 13**: Targeted beneficiaries recording better access to markets Baseline (2015): 23% Target (2017): 50%	ASA: – Water Security and Climate Change Assessment (FY2016) – Early Warning System TA (Ongoing) – FIRST TA on Financial Inclusion (Ongoing; US$1.49 million) – Climate Smart Agriculture Policy Framework *Lending:* – Smallholder Agriculture Development IPF (Ongoing: US$10 million) – Additional Financing Smallholder Agriculture Development IPF (new; US$10 million) – Lowlands Water and Electricity IPF (new; US$20 million) **Partners**: FAO, IFAD, WFP, USAID
Strategic Objective 7: Increase transport connectivity to facilitate private sector growth		
Intervention logic: Building key transport infrastructure is critical to competitiveness and job-creation, and to higher returns to tourism, agriculture, manufacturing, and trade activities, which depend on efficient and safe roads.		
CPF Objective Indicators	**Supplementary Progress Indicators**	**WBG Program**
Indicator 13: Number of local agricultural markets and tourist sites with improved transport connectivity Baseline (2015): 0 Target (2020): 5 **Indicator 14:** Number of construction and road maintenance jobs created during CPF period Baseline (2015): 0 Target (2020): 1,000	**Progress Indicator 14**: Kilometers of roads under rehabilitation and/or maintenance Baseline (2015): 0 Target (2017): 200	*Lending:* – Transport Infrastructure and Connectivity IPF (New; US$30 million; FY18) **Partners**: OPEC Fund for International Development (OFID)

Strategic Objective 8. Increase water and renewable energy supply for industrial, agriculture and export opportunities		
Intervention Logic: Water contributes substantial, sustainable revenues to Lesotho's GDP and is its key strategic renewable resource with direct links to the Bank's twin goals. The water sector is central to Lesotho's long-term growth and poverty reduction serving as an intermediate input for improving human development outcomes and private sector development by supplying water in the lowlands for domestic needs and manufacturing, mining and agriculture, and in the highlands also for export. Bank funds are expected to leverage significant financing from other partners, and access roads to major dam sites improve the road infrastructure. The most promising renewable energy sources are water and solar, which are essential to develop to mitigate against climate change.		
CPF Objective Indicators	**Supplementary Progress Indicators**	**WBG Program**
Indicator 15: Bulk water supply works underway or completed in priority water demand zones (ie with significant industrial, commercial and/or agriculture water demand) Baseline (2015): 0 Target (2020): 3 designated water demand zones **Indicator 16**: New viable renewable energy generation projects identified Baseline (2015): 0 Target (2020): 30 MW **Indicator 17:** Feasibility study for hydropower component of Phase II of the highlands water project (includes feasibility of export opportunities) Baseline (2015): not completed Target (2018): completed	**Progress Indicator 15**: Infrastructure Gap Analysis identifies priority areas for provision of bulk supply to meet water demand especially in areas of high industrial, commercial and/or agricultural use and potential Baseline (2015): 0 Target (2017): 4 designated water demand zones **Progress Indicator 16**: Scaling up Renewable Energy Investment Plan completed Baseline (2015): Not completed Target (2017): Completed	*ASAs:* – Scaling-up Renewable Energy TA (Ongoing; US$30 million) – Water Security and Climate Change Assessment (New; FY16) *Lending:* – Water Sector Improvement IPF - Phase II (Ongoing; US$53.4 million) – Lowlands Water and Electricity IPF (New; US$20 million) – Lesotho Highlands Water Project Phase II (New; US$ TBD) **Partners:** Abu Dhabi Fund, AfDB, BADEA, China, EU, EIB, Kuwait Fund, OFID, South Africa, USAID

Annex 2. Mapping CPF Strategic Objectives to SCD Priority Challenges

1. The CPF Strategic Objectives are selected at the intersection of the NSDP goals, the priority challenges identified in the SCD to achieve the twin goals, the WBG's comparative advantage, established capacity through ongoing projects and developments since the SCD was completed in FY15. Several unforeseen events have occurred in the last 18 months: a SACU revenue drop of about 5 percentage points due to a decline in global commodity price, and severe drought in South Africa and Lesotho. The CPF is consolidating efforts where an established WBG track record can make a difference in the medium-term.

CPF Strategic Focus Areas (2) and Risks	CPF Strategic Objectives (8)	SCD Priority Challenges (14)	How SCD priorities have evolved since the SCD was written in 2014
I. Improving efficiency and effectiveness of the public sector	1. Improve public sector and fiscal management	1. Revenue management	Both the SCD and CPF continue to view this not as a high priority, but a secondary one, as Lesotho's revenue management is already strong.
		2. Consolidation of public sector	Although largely similar, the SCD and CPF present a few differences. The CPF gives higher priority to improving public financial management, which is critical to achieving fiscal consolidation. It more strongly emphasizes the efficiency improvements in education and health, given their large share in Lesotho's overall budget. The CPF sharpens the focus and the urgent attention on fiscal risks of the SACU shock, though the SCD foresaw volatility in SACU revenues. However, the 9.4 percentage points drop in SACU revenues in 2016/17 over 2015/16 was not expected.
		3. Public investment management	SCD and CPF the same.
		4. M&E and accountability	SCD and CPF similar; the CPF puts a high priority on statistical capacity.
	2. Improve equity of the social assistance system	5. Efficiency and Effectiveness of social projection system	SCD and CPF are the same. The CPF recognizes improving the efficiency of the social protection system as vital to consolidating the public sector - not as a separate strategy objective.
	3. Improve basic education outcomes	6. Quality and equity of educational outcomes	SCD and CPF the same.

CPF Strategic Focus Areas (2) and Risks	CPF Strategic Objectives (8)	SCD Priority Challenges (14)	How SCD priorities have evolved since the SCD was written in 2014
	4. Improve health outcomes	7. HIV prevention 8. Access to health	The CPF prioritizes not only HIV prevention and access to health, but also TB prevention and treatment and health system reform. A regional framework to address TB in Lesotho, which has the world's highest TB incidence rate, was not a high priority during the SCD. Health system reform has emerged as urgent, particularly to integrate the QMMH PPP with the rest of the hospital system.
II. Promoting private sector jobs creation	5. Improve business environment reform and economic diversification		The CPF recognizes that without business environment reform and economic diversification, other interventions are not likely to be effective in creating private sector jobs.
	6. Improve smallholder and MSME agricultural productivity	9. Smallholder productivity	SCD and CPF the same.
		10. Labor supply	The CPF includes ASA on labor supply, including analysis of reforms of vocational education, training, improvements in information for better matching job seekers and employers. Opportunities for expanding vocational/tertiary technical capacity will be analyzed systematically when preparing projects.
	7. Increase transport connectivity to facilitate private sector led growth 8. Increase water and renewable energy supply for industrial, agriculture and export opportunities	11. Infrastructure	Like the SCD, the CPF emphasizes private sector investment in electricity connections, factory shells, cross border trade facilitation and transport connectivity. The CPF also stresses the importance of bulk water supply and electricity generation to propel private sector investment.
Risks		12. Capacity to implement projects and programs	Weak implementation capacity risk is crosscutting and recognized as a key risk in the CPF.
		13. Political stability 14. Political consensus	This cross cutting risk is recognized as a key risk in the CPF
			The CPF recognizes mitigating the effects of climate change as among the highest crosscutting priorities.
			The CPF recognizes mitigating macroeconomic risks as among the highest crosscutting priorities.

Annex 3. Systematic Operations Risk-Rating Tool

RISK CATEGORIES	RATING	MITIGATION
Political and Governance	**Substantial** Given Lesotho's turbulent political history of failed coalitions and party break-ups, there is a risk of interrupted institutional continuity harming program implementation and achievement of the CPF's strategic objectives.	The CPF program is aligned with Lesotho's strategic vision and national development plan, which have been endorsed by successive governments, thus increasing the chance of continued high-level leadership. Its choice of interventions is focused around sectors where there is an established Bank track record and institutional capacity, minimizing the risk of institutional disruptions due to political turmoil.
Macroeconomic	**High** A drop in commodity prices and drought (El Nino) has led to disappointing growth in SA. The related decline in SACU revenues together with the drought are having severe mid- to long-term impacts on the government's fiscal health. Lack of fiscal shock-absorbers increases risks of breaching the currency peg, social instability, and outmigration to neighboring countries. Recent episodes of political violence prompted some development partners to suspend aid, increasing Lesotho's dependence on shrinking SACU transfers.	A macroeconomic deterioration could prompt a DPO series, underpinned by a PER and reforms supported by investment lending – if the authorities demonstrate a commitment to reform and adopt a sound macroeconomic framework. The CPF is exploring access to CRW resources to address the adverse effects of the El Niño shock and fast-track additional IDA resources to ease fiscal constraints, and support Crisis Emergency Response Components of ongoing projects.
Sector strategies and policies	**Moderate** The strategic objectives of the NSDP and the policy environment in CPF sectors – agriculture, water, transport, private sector development, PSM, health, education and social protection – are overall adequate and sustainable over the CPF period. Nonetheless, there is residual risk that weak sector capacity may impair achievement of CPF objectives.	Support strategic prioritization though programmatic and country analytics (SCD, ASAs).
Technical design of program	**Moderate** There is a risk that the CPF could stretch the limits of government capacity to design successful project interventions.	In addition to ensuring solid analytical underpinnings, project preparation advances are being systematically sought to bolster government capacity for project design.

Institutional capacity for implementation and sustainability	**High** The government's capacity and resources to implement projects is limited due to: weak systems; inadequate competencies and skills; weak monitoring and evaluation; missing and inconsistent data; and poor oversight controls. This weak institutional capacity is highly likely to have immediate and severe impacts on CPF outcomes.	Project interventions rely on proven institutional arrangements and capacities in sectors with established WBG track records, and solid analytical underpinnings and adaptable implementation (e.g., application of CERCs).The Bank will strengthen M&E and statistical capacity through TA and performance based allocation of resources (e.g., Social Assistance Project, Maternal Health Project and Transport Project).
Fiduciary	**Substantial** There is a substantial risk Bank investments under the CPF will suffer due to deviations or non-compliance with key fiduciary principles and core rules (e.g., on openness, transparency, accountability, and effectiveness.) There have been recurrent procurement problems in the Bank portfolio, and Lesotho has only mediocre scores on governance measures (CPIA, PEFA).	All IPFs will consider, where possible, building fiduciary capacity though Bank investments. The PER and health PETS will be instrumental in identifying fiduciary risks. The PFM project will strengthen controls in the FM system.
Environmental and Social	**Substantial** The CPF may be undermined by exogenous factors and conflicts, pertaining to disease, climate change, and property rights (in land and other inputs). Such factors contribute to Lesotho's fragility.	The Bank will enhance Lesotho's resilience through operational engagements in agriculture and social protection, and activities to strengthen state capabilities to address shocks and fragility. Environmental and social management frameworks will mitigate risks within projects. The Bank will support poverty analytics, consider activities to prevent and/or treat HIV/AIDS in all IPFs; and systematically consider gender issues.
Stakeholders	**Moderate** There is a risk that public sector efficiency efforts will be resisted by government employees and their extended families. Infrastructure investments could be resisted by communities affected.	The biometric census will ensure that only non-eligible beneficiaries are eliminated from government rosters and programs. Consultations with local communities during planning and implementation of investments are planned. Local job creation will be a key driver when evaluating procurement methods for infrastructure investments.
Overall	**Substantial**	

Annex 4. Completion and Learning Review
Lesotho Country Assistance Strategy: FY 2010-15[16]

CAS Board Discussion:	June 15, 2010
CAS Progress Report (Board Presentation):	April 29, 2013
Period Covered by the CLR:	July 2009 to June 2015[1]

I. SUMMARY OF KEY FINDINGS

1. The strategic objectives of the five-year *Country Assistance Strategy* (CAS), which were well-aligned with country goals, were to: (i) promote fiscal adjustment and public sector efficiency; (ii) advance human development and improve service delivery; and (iii) enhance competitiveness and diversification of output and exports. CAS interventions covered all the six broad themes of the national development strategy.

2. The program performance in contributing to the achievement of the CAS outcomes is judged to be ***Moderately Satisfactory***. Over the CAS period, the World Bank Group (WBG) supported Lesotho through an IDA credit-cum-grant envelope of US$152 million together with a substantial body of advisory and technical assistance work. IFC provided Advisory Services support largely in facilitating public private sector participation in service delivery; thus, the WBG worked in an impressively integrated fashion. The program achieved notable success in water management and transport with regard to both investments and regulatory reform in infrastructure services, and was also mostly successful in reversing adverse trends in health and widening access to health services; and in business environment and competitiveness. Education objectives were partially achieved. In the two other areas, promoting fiscal adjustment and improvements in public sector efficiency and public financial management and statistics, the objectives are judged to not have been achieved. Economic growth has been associated with only a weak employment response, and growth has not been inclusive.

3. Performance of the WBG in designing and supporting the implementation of the CAS program is rated as ***Fair***. Despite a judicious mid-term correction in the CASPR, the assistance strategy would have benefited from greater focus and selectivity, the scope and nature of interventions were at times overly ambitious and oblivious to client capacity constraints. The results matrix had shortcomings in design. Design strengths can be found in risk identification and mitigation at CASPR stage and in a "One WBG" framework. Technical assistance and advisory work helped address capacity limitations as did coordination with development partners. Supervision needed to be more concentrated and proactive towards solving emerging problems in some sectors.

4. The WBG program was well aligned with the Bank's twin goals of ending extreme poverty and promoting shared prosperity with its focus on sustaining high growth through fiscal

[16] The period covered by the CAS was fiscal years 2010-2014. In view of political instability experienced in Lesotho in 2014-2015, preparations of the successor country partnership framework were delayed to early 2016. This CLR, therefore, covers the fiscal years 2010-2015.

adjustments, improving efficiency in public service delivery, and promoting job creation by stimulating private sector growth. However, shortcomings in fiscal and public finance management have jeopardized long-term growth sustainability and poverty alleviation.

5. The principal lessons are to develop a focused strategy with strong results linkages; give primacy to dealing with capacity weaknesses; employ a wide range of WBG instruments; address knowledge gaps to leverage results; and build further upon the encouraging experience of WBG joint actions across a well-chosen small set of interventions in the forthcoming CPF.

II. DEVELOPMENT OUTCOMES

A. Summary of Country Goals

6. The CAS was aligned with the country goals as articulated in the *Interim National Development Framework* (2009)[17]: (i) acceleration of shared growth, employment and protection of the vulnerable; (ii) addressing the HIV/AIDS epidemic; (iii) governance to improve public service delivery; and (iv) human development. Midway through the CAS period, the authorities published the *National Strategic Development Plan* (FY12/13-FY16/17) which re-affirmed the existing goals, while supplementing them. The objectives of the NSDP were to: (i) pursue **economic growth** that was high, shared, and employment creating; (ii) develop priority **infrastructure**; (iii) enhance the country's **skills base**, technology adoption, and foundations for innovation; (iv) improve **health,** combat HIV and AIDS, and reduce vulnerability; (v) reverse environmental degradation and adapt to **climate change**; and (vi) promote peace and democratic **governance,** and build effective institutions. Lesotho has made advances towards these country goals.

7. ***Growth, inclusion and employment.*** Over the CAS period, real GDP grew by an annual average of 5 per cent or 3½ per cent per head, an encouraging performance taking into account the aftershocks of the global financial crisis that affected revenues from the Southern Africa Customs Union (SACU)[18] as well as adverse weather for agriculture. Growth was supported by large investments in mining and water – two major sectors of comparative advantage for Lesotho – and by a firm fiscal stance until 2013, supported by a Fund extended credit facility arrangement and IDA budget-support operations. However, medium term risks have been amplified by a sharp relaxation of fiscal policy since 2013, characterized by a shift in public spending towards current items (public sector wage bill). Fiscal risks have been exacerbated by a sharp fall in SACU-related revenues from 2015. In the absence of fiscal adjustment, the currency peg with the rand and the inflation outlook will be jeopardized. Thus, the fiscal stance places a question mark over the sustainability of growth.

[17] This interim framework served to guide overall development policies while a strategic development plan was under preparation.

[18] The oldest existing customs union in the world, SACU consists of Botswana, Lesotho, South Africa and Swaziland. Lesotho is allocated a share of the total revenues of SACU consisting of tariffs, duties and excise taxes on total imports of the customs union as well as a development transfer.

8. The employment response to growth has been weak. The shift in the composition of growth from net exports to government consumption, the shrinkage of the tradables sector in a poor private sector investment environment, and low labor intensity of mining and water investments have all dampened employment growth. Thus, the unemployment rate has remained in the 25-30 per cent band over the CAS period. Moreover, growth has not been inclusive. Over the CAS period, real consumption per head of the bottom 40 per cent of the population grew by an annual average of 0.4 per cent, illustrating the tilt in gains from growth towards the better-off. Low skills and educational attainment, the devastating effects of the HIV/AIDS epidemic, and inadequate infrastructure conspire together to promote exclusion. Gini-measured inequality increased from 0.51 to 0.53 and the poverty headcount has stagnated at around 57 per cent over a decade. Poverty is concentrated in rural areas and is associated with hunger, illiteracy, stunting and wasting.

9. ***Infrastructure*** is a significant constraint on growth and inclusion: Lesotho ranked 136 on the logistics performance index in 2014, with a particularly poor score on infrastructure. Only a quarter of households have access to electricity, very few in rural areas. Domestic generation has not kept pace with demand, while the capacity of exporters, Mozambique and South Africa, to expand supply is near-exhausted. Most roads are in lowland areas (25 per cent of the total area) and hence market access is impeded. The country is blessed with an abundance of water, which is transferred to South Africa in accordance with a treaty, used for domestic electricity generation, and ensures that a high proportion of the population has access to safe, potable water.

10. Progress in infrastructure country goals over the CAS period has been encouraging. Lesotho has continued to transfer water to South Africa earning US$47 million in 2015, with a large scaling up of transfers through new investments estimated at US$1.5 billion being at an advanced stage of preparation. Over the CAS period the percentage of the population with access to piped water has risen from 50 to 88.3. The quality of the national road network in good and fair condition has risen from 65 per cent to 88 per cent over the CAS period amidst more secure arrangements for the funding of maintenance. There have been significant gains in the access of the rural population to all-season roads. Capacity within the Government and its agencies to manage the sector has grown. A multi-purpose regulatory authority for electricity and water has been developed. The infusion of economic analysis in policy and regulatory decisions has occurred. In water and energy management, government institutions and agencies for the design and management of complex projects have shown exemplary capability. In transport, the creation of a roads directorate as an agency for managing the roads network, cabinet decision on the road safety council, and the increase in the revenue base of the road fund which reduces the road maintenance funding gap are notable achievements.

11. ***Skills and education.*** The priority given to this country goal is reflected in high spending in relation to GDP – nearly 14 per cent. Seven years of primary education are free. Primary education became compulsory during the CAS period and despite a primary net enrolment rate of only 77 per cent, the MDG goals are within reach. Progress in education and skills is also reflected in the expansion of early childhood care and development through state funding; improved teacher skills and teacher attendance; planned expansion of secondary education through school construction; the creation of combined schools; and rationalization of fees. The Bank project has helped to reduce the primary repetition rate, and there have been gains in the number of qualified teachers and on incentive payments to teachers in difficult or rural schools.

12. Yet, given the scale of spending and the initiation of reforms, outcomes in education have been disappointing; for example, the improvements in primary students' reading and mathematics scores have been modest. The future agenda has to focus on improving access to secondary education, shifting spending from tertiary bursaries to poverty-fighting initiatives, and linking technical and vocational training to future employment prospects, while broadening access and containing high costs. In addition, in the most disadvantaged areas of the country, quality basic education and transition to lower secondary education are problematic. Addressing capacity weaknesses within the Government are a priority.

13. ***Health.*** Over the past decade, health outcomes have worsened, with the adult HIV/AIDS prevalence rate amongst the worst in the world, life expectancy plunging to 49 years, and both maternal and infant mortality being amongst the highest in sub-Saharan Africa. The health care system is plagued by poor service quality, lack of equipment and drugs, a poor referral system between health centers and hospitals, and inadequacy in skilled health care workers. The country has lagged behind in achieving behavioral changes in relation to HIV/AIDS and infection rates remain high in comparative terms. To address these factors, the budgetary allocation for health was doubled over the CAS period to the equivalent of 8 per cent of GDP, but capacity and absorptive constraints have dampened the translation of efforts into outcomes.

14. Yet, over the CAS period some progress can be seen: coverage of HIV prevention, treatment and care has expanded and improvements in community-based HIV prevention and control have been tangible. The coverage of those receiving anti-retroviral therapy has risen. The coverage of prevention of mother to child transmission has increased markedly. The introduction of a public-private partnership for service delivery in a major hospital has resulted in a strong rise in the quality and the number of patients seeking care, resulting *inter alia* in a significant improvement in the proportion of pregnant women delivering their babies in health facilities.

15. ***Environment and climate change.*** National development goals are beginning to reflect risks about climate change and poor agricultural practices such as over-grazing and inadequate attention to water and soil conservation. Climate change is likely to result in increased temperatures and variable precipitation, with implications for water security, groundwater recharge and the conditions for agricultural systems and livestock production. Land access and use laws and practices deter long-term investments in irrigation, conservation, and soil improvements, and lead to sub-optimal farming practices relating to selection of crops and seeds. Government interference in commercialization of farm output also locks the rural sector into poverty. The country is at an early stage of addressing this agenda. Over the CAS period, some improvements in the introduction of new technologies and building links from farm to market can be seen in horticulture, and farms are being assisted in developing long-term investment plans. The Government has begun to examine the feasibility of harnessing renewable energy including wind, solar and hydropower.

16. ***Governance and institutions.*** A key country goal was to strengthen the democratic process; the smooth transfer of power to a new coalition following elections in mid-2012 was encouraging, but a severe setback was experienced in 2014 with the intervention of the military in politics, disruption of the civilian government with the prime minister fleeing to South Africa, and continued fragility with new elections in early 2015 giving way to a weak coalition. Further

country goals have been based on reducing wasteful expenditures, fraud and corruption, and reversing the culture of growing dependency on state hand-outs. Efforts have centered on building an accountability framework to address Lesotho's exceptionally poor governance and corruption-perception rankings, largely through public financial management reforms. Progress over the CAS period has been slow; the credibility, consistency and effectiveness of the budget is still highly weak, procurement practices are improving very slowly, and monitoring and evaluation, financial management and audit practices are rudimentary. A medium-term macro-fiscal framework has been developed but coverage is not complete. A financial management information system (IFMIS) was rolled out but technical and capacity deficiencies limit the effectiveness of the system to control budget execution, produce reliable financial reports and exert financial accountability. The Government has started developing performance contracts and asset declarations for ministers and senior officials. The government adopted a comprehensive medium-term financial sector reform program to improve access to finance, increase alternatives for mobilizing financial resources, promote a savings culture, improve financial sector efficiency, bridge the skills gap in the financial sector, increase financial literacy and improve financial stability and soundness.

17. Institutional improvements over the CAS period can be seen in infrastructure regulation. Achievements were the corporatization of the water utility, with a resulting gain in its performance: reduced water waste, higher coverage of operating costs and debt service costs, widened consumer base; and a unified regulatory regime. Water tariffs provide for a lifeline tariff combined with use of cost recovery principles for higher tariff setting such that the average revenue from water sales just covers operating and some debt-service costs. Energy and water regulation was combined to fall under one authority, the Lesotho Water and Energy Authority, with newly-bolstered capabilities in the use of economic analysis for regulation, modern methods of regulation and its enforcement. In the transport sector institutional achievements centered on improvements in the efficiency of road sector management and strengthening of the institutional capacity of relevant agencies. A fully functioning semi-autonomous Roads Directorate was established, the revenue stream of the Road Fund was expanded, and efficiency of its spending raised. Nevertheless, the current capacity of the roads agencies are still not adequate. Significant steps were initiated also for a more efficient and effective road safety management through establishment of the Road Safety Council; however, its full operationalization is still pending.

18. Other institutional improvements were the use of public private partnership (PPP) frameworks in health and the effective functioning of the National Information System for Social Assistance as a key step towards improved targeting. But important needs must be addressed in the strategic management of health and education programs, in civil service reform to build capacity and reduce wage costs, in procurement, and in safeguarding property rights and the rule of law.

B. Program Performance[19]

19. **The CPS program performance is rated *Moderately Satisfactory*.** The program was constructed around three strategic pillars, six results clusters, and 23 outcome indicators.[20] The program was ***Achieved*** in one strategic pillar: reducing the infrastructure gap and improving capacity to regulate infrastructure services. In two other strategic pillars it was ***Mostly Achieved:*** health and improved service delivery; and business environment and competitiveness. It was ***Partially Achieved*** in education and public sector efficiency; public finance management and statistical services. Finally, in one strategic pillars, it was ***Not Achieved***: fiscal adjustment. Of 23 indicators in the results matrix 17 were fully met or even exceeded or partially met and on track, 6 were not met and not on track or not fully verified.

Pillar One: Fiscal Adjustment and Public Sector Efficiency

1. Results Cluster 1: Fiscal Adjustment and Improved Public Sector Efficiency

20. **Outcomes were not achieved; the results indicators were partially met.** The WBG sought to support fiscal adjustment and improvements in public sector efficiency through a series of three PRSCs, the latter two of which fell within the CAS period, and a development policy grant as well as an investment project, the IFMIS. Advisory work supporting these outcomes consisted of a wide-ranging series of policy notes for the new government presented in late 2012, reports on fiscal sustainability; economic diversification, inclusive growth; accounting and auditing Report on the Observance of Standards and Codes (ROSCs); a public expenditure review; public investment management efficiency review; and gender assessment.

21. The overall performance on fiscal adjustment was disappointing during the CAS period. The original CAS indicator was expressed in terms of non-SACU revenues as a share of GDP.[21] This indicator was dropped at the CASPR. Nevertheless, developments in this indicator are of interest because they provide a measure of the internal revenue mobilization effort and hence also a measure of reducing the vulnerability of the budget to external flows. Non-SACU revenues as a share of GDP rose impressively from a baseline of 29.5 per cent in 2009/10[22] to peak at 37.5 per cent in 2011/12 before falling sharply to 32.1 per cent in 2013/14. The deterioration reflects in part a re-organization of the revenue authority that has disrupted operations. The overall increase can be attributed in part to an increase in the tax base due to growth spurred by business environment improvements supported by the WBG and also to improvements in tax collection.

22. The indicator introduced at the CASPR – non-SACU balance as a share of GDP – measures the fiscal stance, and was targeted to improve from a deficit of 26.8 per cent in 2012/13 to 22 per

[19] General Observation: The assessment of program performance throughout is made difficult by the weak design of the results framework, even after improvements to the results matrix at the mid-point Country Assistance Strategy Progress Report (CASPR) stage. The lack of tight links between indicators and results and, in several cases, even the irrelevance of the indicators means that the causal relationships between actions, outcomes and results are weak or absent.

[20] The discussion in this section relates to the results matrix as revised and presented in the CASPR.

[21] This corresponds to total budget revenues (including grants) *less* revenues received from the Southern Africa Customs Union, i.e., domestically-raised revenues.

[22] The initial baseline related to 2009 and was 27 per cent.

cent in 2014/15. The indicator stood at 30.1 per cent in 2013/14 and 28.6 per cent in 2014/15. Hence, the objective of fiscal consolidation was not achieved; indeed, a substantial fiscal relaxation took place in a pro-cyclical manner at a time of plentiful SACU revenues with a resulting rise in the vulnerability of the economy.

23. The major reason for the disappointing fiscal adjustment outcome can be seen through the second indicator used in the CAS – the wage bill as a share of GDP. This was targeted to fall from 18 per cent in 2009 to 14 per cent in 2014 in the CAS, revised to 16 per cent in 2014 in the CASPR. In the event, this indicator rose to 21 per cent in 2013/14, and 21.6 per cent in 2014/15. This development reflects political pressures to expand public employment. Lesotho has the highest public sector wage bill relative to GDP in sub-Saharan Africa, where the average is around 7½ per cent. Poor payroll controls with a legion of ghost-workers, unreformed civil service recruiting practices, and easy entry into employment in education and local government sectors account for the bloat.

24. Two measures of public sector efficiency were employed. The capital budget execution rate with a baseline of 70 per cent in 2009 and a target of 90 per cent for 2014 as contained in the CAS was dropped in the CASPR because "the Ministry of Finance reviews capital expenditures, project by project, but there is no strategy as yet to reprogram or improve performance of incomplete projects". This justification is hard to understand. This indicator improved to 80 per cent in 2012/13 and to 83 per cent in 2014/15. The other indicator related to the percentage of new investment projects (in number, not value) following a new project cycle management process (PCMP) was met. This indicator with a baseline of zero per cent in 2009 and a target of 50 per cent in 2014 in the CAS was revised to 10 per cent in the CASPR, as the new PCMP was still to be developed and adopted. The result was that the new Public Sector Investment Committee was established in 2013 and now reviews all new capital projects and all projects financed by development partners.

25. The management of the capital budget is a major weakness in the Lesotho fiscal system. Officials must strengthen capacity to plan strategically, relate the capital spending envelope to the fiscal framework, account for the large extra-budget donor capital spending, appraise and prioritize projects, and finally implement projects. Paradoxically, the low rate of capital budget execution has served to dampen the overshooting of the fiscal deficit.

2. Results Cluster 2: Strengthen PFM, Statistics, and Institutional Capacity to Deliver Better Services.

26. **Outcome partially achieved; result indicators partially met.** The program saw improvements in public financial management but at a slower pace than planned and was successful in improving the predictability of release of statistical information. A PEFA assessment has been delayed to 2016, but supplementary evidence sheds some light on progress toward the first three PFM indicators.

27. The first PFM results indicator focused on the budget where improvements in developing a medium-term fiscal framework were registered – a medium term fiscal framework is prepared, debt sustainability analysis is done, strategies for spending plans by ministries exist. However,

inconsistencies between the fiscal framework and expenditure estimates in the budget framework papers exist. A three-year Medium Term Fiscal Framework is prepared on an annual basis, debt sustainability analysis is undertaken annually, and strategies are in place for ministries, which represent 87 per cent of primary expenditure (i.e. excluding debt service charges and externally financed project expenditure). Such strategies fully cost investment and recurrent expenditure – with some inconsistencies between the fiscal framework and expenditure estimates in the budget framework papers of individual ministries. The majority of important investments are selected based on relevant sector strategies and recurrent cost implications, in accordance with sector allocations and included in forward budget estimates for the sector. However, uncertainties about future revenues from the Southern Africa Customs Union (SACU) add greatly to the difficulty of medium-term planning and may explain the large divergences between planned and actual expenditures, especially for investment projects. Government efforts to improve planning and eliminate or reduce these divergences continue.

28. The second PFM indicator relates to predictability and control over budgeting and also accounting, recording and reporting. This indicator was partially met. Through the IFMIS, ministries have on-line access to their budget expenditure information, although concerns about accuracy of information persist. These are being addressed through an IFMIS upgrade that is being tested.

29. The third PFM indicator – legislative scrutiny of external audit reports – suffers from delays in the consideration by the legislature of audit reports; such delays exceed the 12 month period set in the results framework. The ability of Parliament to scrutinize such reports have improved with the FY2013/14 audit report tabled in Parliament in November 2015 and the FY2014/5 one tabled in September 2015. However, examination of audit reports by the legislature usually takes more than 12 months to complete, which is below the target for the indicator set in the results framework.

30. The indicator relating to statistics is met: the department of statistics has prepared and published a six month calendar for posting statistical products on its website. However, only some of the reports placed in the calendar are actually published online.

Pillar Two: Human Development and Improved Service Delivery

3. Results Area 3: Reverse Negative Trends in Health and Improve Access to Services

31. **Outcome mostly achieved. Results indicators mostly met.** Over the CAS period, negative trends in health arising from the HIV/AIDS epidemic and from deficiencies in the public service delivery system were reversed. The results indicators were mostly met, albeit with substantial revisions between the CAS and the CASPR. The WBG supported these results through the HIV/AIDS TA Project; Maternal and Newborn Health Project; and the Water Sector Improvement Project. IFC-supported work on the design and operation of PPPs in health sought to raise efficiency in delivery of health care. IFC completed two PPP projects in the health sector (healthcare waste management and health network with a new hospital and four clinics). A third project for facilities management/IT services for over 150 mostly rural public clinics refurbished with MCC funds was terminated as GoL decided not to proceed with a PPP model.

32. Lesotho has shown a strong commitment to fighting HIV/AIDS, and has enjoyed generous support from development partners, which have funded programs for prevention, treatment, care and support. However, the speed and effectiveness of the uptake of funding has been disappointing, as critical capacity gaps have impeded implementation. These include weak coordinating capacity for multi-sector response; limited research capacity and use of scientific evidence; fragmented and weak monitoring and evaluation (M&E) systems; little capacity for scaling up interventions that address key drivers of the epidemic; and uncoordinated and weak local response capabilities.

33. The IDA project sought to address these gaps in an innovative way that was complementary to efforts of development partners. It envisaged building public and private capacity at national and local levels, and scaling-up an integrated approach, involving tuberculosis. The project also aimed to introduce evidence-based planning and M&E, and assist government and civil society implementers, especially at the district levels. The project has found it difficult to strengthen government capacities, largely for lack of interest within the Government and its reliance on development partners to provide services. It was re-structured to focus on building non-governmental organization (NGO) capacity, to strengthen the supply chain to improve the availability of HIV prevention commodities, principally condoms, and to support districts and communities in mainstreaming HIV activities. This reduced scale of ambition has led to a sharper focus, but the results as measured by improved performance in the use of grants received are still to be achieved. The results on local response were delayed for a variety of reasons – elections, difficulties in implementation.

34. The country's abysmal indicators on maternal and child mortality[23] were to be addressed through an innovative performance-based project, the Maternal and Newborn Health Performance-Based Financing project, approved in April 2013. The project envisaged raising efficiency in health spending by linking financing to objective, transparent and well-understood measures of performance of the service provider. It also aimed to bolster human resources by targeting productivity and performance of staff through incentive-based compensation and training.

35. The results indicators were designed to measure both improvements in trends and access. Annual visits made to the new national referral hospital, including filter clinics, were targeted to rise from 164,624 in 2009 to 285,000 in 2014; visits now exceed 350,000. This development was greatly facilitated by the IFC-supported PPP arrangement for the hospital that led to a rise in quality of care and efficiency of service. Users pay no additional charges at the PPP hospital facilities, which remain publicly-owned. Since the institution of the PPP, overall death rates have fallen by 41 percent and still births are down 22 percent. 70 percent of extremely low birth weight babies now survive compared to nearly nil earlier, and maternal deaths have fallen by 10 per cent. The share of pregnant women delivering in health facilities was targeted to rise from 53.2 percent in 2009 to 60 percent in 2014; latest data (2015) show 76.5 percent. An important measure of the quality of care is to be collected through the health facility quality of care scorecard, devised as part of the Maternal and Newborn Health project. The scorecard is based on measures including staff attendance, reporting, adherence to protocols for child survival, environmental and reproductive health, maternal health, tuberculosis, essential drugs management and community-

[23] Lesotho is off-track with respect to the Millennium Development Goals in child mortality and maternal mortality, despite a high rate of public spending on health at 8 per cent of GDP.

based services. The aggregate score is projected to rise modestly from a 2013 baseline of 43.8 to 50, and currently is 70.7.

36. The IDA program was instrumental in contributing to *Improved Service Delivery* as one of nine development partners supporting the Metolong Dam and Water Supply Program. This improved the reliability, cost and efficiency of water supply to Maseru and major urban centers in the lowlands of Lesotho. In view of the close relationship between the quality of potable water and health, the CAS included an indicator on the overall performance of the water supply utility: the percentage of the urban population with access to piped water supply. This was initially forecast to rise from 50 percent in 2009 to 65 percent in 2014, a figure that was revised in the CASPR to 85 percent in 2014. The result was 88.3 percent of the urban population with access to piped water supply in 2014/15. The IDA contribution to the MDWSP includes the pipeline to the town of Teyateyaneng, as well as institutional, management and safeguards support financed through the Water Sector Improvement Project. The support to the utility over the period has contributed to the target being met.

37. One significant indicator was not met, but has shown improvements. First, the coverage of individuals eligible for anti-retroviral therapy – defined as individuals with a CD4 cell count of below 350 – was targeted to rise from 36 percent in 2008 to 60 percent in 2014, a target that was raised in the CASPR to 65 percent. In 2015, the UN changed the eligibility definition to all individuals living with HIV. Hence the baseline was calculated at 23 percent in 2009, the extrapolated target from the earlier definition can be considered to be 42 percent in 2014; the result was 35 percent in 2014.

38. Four indicators were dropped from the CAS version: (i) the percentage of women using modern family planning methods; (ii) the piloting of performance-based contracts to non-governmental organizations; (iii) the budget execution rate for the Ministry of Health; and (iv) the percentage of individuals between ages 15-49 who received an HIV test in the preceding 12 months, and were aware of the result. These indicators were unrelated to any of the programs supported by the WBG.

4. Results Cluster 4: Education - Building Skills for Enhanced Competitiveness and Improving Incentives

39. **Outcome, partially achieved; results indicators partially met.** Despite clear improvements – in the number and quality of schools, in a rise in secondary school enrollment, in sharper teacher incentives to provide service in remote areas – outcomes in the education sector were partially achieved. The result indicators, revised from the original CAS at mid-term, were partially met. Education reforms and investments were supported through the Basic Education project and a study on education and economic growth.

40. Primary education, already free of cost, became compulsory during the CAS period, but net enrollment rates need to rise in both primary and secondary education.[24] The education program sought to improve quality through several measures: the introduction of a new, simplified

[24] The Millennium Development Goals for access to universal primary education and gender parity in primary net enrolment rate are within reach. Half of primary school pupils are girls.

curriculum and textbooks for grades 1-4; training of teachers and education support staff; provision of monetary and other incentives to retain qualified teachers in rural and remote schools; support to pre-primary education by paying the salary of care-givers; and procurement of play and learning materials. In addition, 31 schools are benefitting from the construction of classrooms and facilities. The report on education and economic growth analyzed higher and vocational education challenges.

41. The project has successfully seen a reduction in the primary repetition rate and measures on the additional numbers of qualified teachers, and on incentive payments to teachers in difficult or rural schools. Enrolment in reception classes for pre-primary education is also progressing. The project experienced severe delays in its initial stages of construction of schools and classrooms for a variety of reasons related to procurement incapacity at the local (district) level, partly reflecting the over-ambitious design of the project, and corrupt procurement practices. The results framework of the project underwent serious revision to simplify the indicators and align them with the objectives of the project. Indicators met included enrollment in pre-primary reception classes, additional classrooms built, pupil to qualified teacher ratio, and total number of beneficiaries.

42. The results indicator relating to the percentage of classrooms meeting national quality standards was envisaged to rise from a baseline of 48 percent in 2008 to 53 percent in 2014. According to the 2014 EMIS survey, 82.6 percent of the existing classrooms meet the construction standard[25] (though the quality standard has not been verified yet). The number of qualified primary teachers was targeted to rise by 600 by 2014; the result was 391. A supplementary indicator was introduced: the pupil to qualified teacher ratio, with a baseline of 59 in 2009 and a target of 50 for 2014; the result was 45 in 2014, and hence this indicator was met.

43. One further indicator in the original CAS – an increase in secondary school enrollment from 97,000 in 2007 to 130,000 in 2014 – was revised at the CASPR from absolute numbers to a net enrollment rate percentage. It provided for a rise from a baseline of 35.8 percent in 2011 to 38 percent in 2014. This indicator was almost met – it stood at 37.7 per cent, which could be due in part to the improvements at the primary level through WBG support. One indicator from the CAS was dropped at the CASPR stage – the requirement that a reform program in post-basic education be prepared and new forms of funding for such education piloted.

Pillar Three: Enhanced Competitiveness and Diversification

5. Results Cluster 5: Improve Business Environment, Trade Facilitation and Export Diversification

44. **Outcome mostly achieved. Results indicators mostly met.** Over the CAS period, noticeable improvements in the business environment have been achieved, but progress in trade facilitation has been slow, and export diversification remains elusive. Moreover, improvements in access to finance have been slower than planned. The impact of advisory work on financial sector reforms is at an early stage, as implementation began towards the end of the CAS period. The WBG supported this theme through Private Sector and Economic Diversification projects; the use

[25] This number might be overestimated due to possible double counting when filling in an EMIS form.

of a trust fund grant to reform in customs; the Smallholder Agriculture Development project; the Integrated Transport project; and the development policy operation. In addition, advisory work has been spearheaded by the IFC in the design and management of Public-Private partnerships in the tourism sector, and the Public Private Infrastructure Advisory Facility (PPIAF) has been used to draft a national PPP strategy and framework. In 2012, IFC started supporting the Government to examine the feasibility of harnessing the country's potential in wind power to develop wind farms with private sector participation. Agreement was reached in 2016 to terminate the upstream project, as the site IFC was working on was much more technically challenging than other sites that had already been licensed but are not being developed. IFC remains involved in the sector jointly with the Bank through the Scaling-Up Renewable Energy Program (SREP). Further advisory work consisted of select policy notes that included private sector development and agriculture, a study on economic diversification, and a report on financial sector development strategy.

45. The private sector development project sought to streamline company registration and licensing, and supported easier issuance of construction permits; reform of visa and work permit procedures; improved access to finance through training in commercial risk assessment; creating the legal and tax basis for leasing; provision of credit guarantees for SME bank borrowing in lieu of collateral; creation of a moveable collateral registry; establishment of a credit bureau; and insolvency reform. Substantial progress has been recorded on improving the business climate, but parts of the project proved to be too complex and ambitious. The visa reform component was dropped given strong government resistance to reforms, and licensing reforms are materializing only under a second investment project and a development policy operation (DPO). The DPO supported a reform of the complex and burdensome system of industrial licensing. This led to new legislation together with the gazetting of supporting regulation in late 2014.

46. Access to financing remains by far the most problematic factor for doing business as measured by the *Global Competitiveness Index,* though some indicators – private sector credit and loan accounts with banks – improved modestly. Although, the planned reform had lesser traction than expected as contract enforcement rather than collateral or guarantees proved to be more of a constraint, progress is evidenced by the drop in the days needed to enforce a contract from 875 to 615 between 2011 and 2012; the establishment of a credit bureau in 2014, which is now operational; legislative changes to improve financial sector regulation; and the adoption of leasing regulations. Economic diversification was to be promoted through skills upgrading in the garments industry, and by broad-based support for horticulture, tourism, and Micro, Small and Medium Enterprises (MSMEs). This was followed by support for investment promotion and building linkages between production and the local economy.

47. The WBG has been well integrated in its response, providing technical support for a tourism PPP project, being active in trying to develop PPPs for the renewable energy sector, and assisting with capacity building in PPP contract management. PPPs have made some progress (particularly in the health sector, as noted earlier) and could prove to be a promising instrument, but capacity shortcomings in contract management – a critical determinant of the success of PPPs in ensuring value and quality in service provision – is proving to be a major impediment.

48. A potentially significant contribution towards raising private investment in the economy was made by IDA advisory work on financial sector reforms that led authorities to adopt the comprehensive medium-term financial sector reform program. IDA and the IMF worked closely in providing support to the development of this program. IDA provides technical assistance in the key areas of financial inclusion and the legal and supervisory framework for the insurance and private pensions industry. The results of reforms supported through this advisory work can be far reaching, and will be felt over the next CAS period.

49. An important objective in economic growth and diversification was raising productivity in smallholder agriculture and branching out into market-oriented outputs. Links to markets was a key goal of the smallholder agriculture project, which sought to provide grants on a competitive basis to promote innovate agri-business activities. It also aimed at fostering agriculture investment plans by providing technical assistance, technology packages, and supporting infrastructure. Despite a slow start, the competitive grants program is showing progress and technology packages have been introduced. Developing marketing links and the formation of investment plans is proving difficult, given the complexities of implementation, but a number of contracts now exist between farmers and traders, and agricultural investment plans are proceeding.

50. The business environment indicators were mostly satisfied: the time taken to register a business fell from 40 days in 2009 to 7 in 2014, to start a business from 40 days in 2012 to 29 (target was 25) in 2014, and to obtain of an industrial license at the one-stop shop from 35 days in 2009 to 5 in 2014. There were no indicators in the results cluster related to access to finance, and the export diversification indicator was weak. The customs reform envisaged the establishment of a single clearance system by 2014, with a functioning single-window. A computerized customs management system, which covers most foreign trade procedures, was implemented, but the plans to develop a single window are ongoing. The country performance in prevalence of trade barriers and burden of customs procedures[26] is disappointing given that it is a member of a customs union, all its imports pass through South Africa, and if it were to abolish customs controls, the domestic economy would likely receive a strong boost.

51. The indicator on the number of rural population with access to all-season roads at the transport project site of Senqu-Senqunyane – a measure of improvement in access to markets by private producers – was targeted to rise from a baseline of nil in 2009 to 9,370 in 2014. This indicator was met: by mid-2015, the number had risen to 77,000. Finally, the (poorly-designed) indicator on export diversification was not met: the number of targeted beneficiaries in smallholder agriculture who adopted production technologies or farming practices was envisaged to rise from 234 in 2011 to a thousand in 2014. The figure was 710.

6. Results Cluster 6: Reducing the Infrastructure Gap and Improving Capacity to Regulate Infrastructure Services

52. **Outcome achieved. Results indicators met.** Over the CAS period, impressive gains in infrastructure – access to safe drinking water and water for industrial use as well as expansion of all-season rural and urban roads – were achieved, and the institutional structure and capacity in regulation advanced notably. All results indicators were met. The WBG supported these

[26] As given in the *Global Competitiveness Index.*

achievements through the Water Sector Improvement project with two additional grants and an additional credit; the Integrated Transport project with an additional credit and grant; together with policy notes on water, a study on a PPIAF regulatory model for electricity, a public investment management efficiency review, and a public investment strengthening technical assistance.

53. Lesotho's population has one of the highest rates of access to safe water in sub-Saharan Africa – around four-fifths of households, but urban growth and the need to secure water for wet industries has necessitated further investments. In expanding the supply of water for household and industrial use in the lowlands, especially Maseru, the Water Sector Improvement project focused on specific investments through the secondary pipeline to the town of Teyateyaneng, as well as environmental and social safeguards, along with institutional reforms and capacity building. The IDA support was part of a larger, multi-donor funded Metolong Dam and Water Supply Program involving nine financing partners, and a substantial contribution from the government. The environmental and social management aspects of the program included an integrated catchment area management plan to protect the environment, an eco-system monitoring and environmental flow program, resettlement policies centered on livelihoods, cultural protection, along with activities aimed at strengthening policy analysis and regulatory reforms. The project supported the institutional achievements in the water sector, including corporatization of the water utility, and the creation of one authority with modern methods of regulation and its enforcement for both water and energy.

54. Improved access to basic services and markets through better quality of road infrastructure was achieved with the construction of two bridges across the Senqu/Senqunyane Rivers, critical for linking the Southeast Corridor, and construction and rehabilitation of associated roads. The completion of the major southeast corridor link resulted in travel time savings of almost three hours, and the upgrading of other major roads reduced transport costs through savings in vehicle operating costs. Improvement of Mantsonyane - Lesobeng rural roads enabled all-season road access for the population in the eastern rural area, which was earlier largely inaccessible. Construction of footbridges and access tracks improved access of the population in the Senqu/Senqunyane area to job opportunities in towns across the river. The share of the rural population with access to an all-season road within Senqu-Senqunyane project area reached the targeted 42 percent. The project also supported institutional improvements that led to greater efficiency of road sector management and increased capacity in the road agencies. Notably, these reforms led to an increase in the share of funding for periodic and routine maintenance of national roads from road user charges, from 50 per cent to 87 percent over the CAS period. Greater efforts to build political support, particularly for the Road Safety Council, would assist reform implementation.

55. The overall performance of the water sector both as regards investment and institutions shows that high quality results can be obtained in Lesotho. The unification of water and electricity regulatory authorities has taken place, and the target of regulation by contract in the water sector and regulatory agency for electricity has been met. The indicator on the economic basis for regulatory decisions, with a target of all decisions (including tariff setting) being fully based on economic rationale in the water and electricity sectors, was dropped at the CASPR stage, but today economic considerations underlie regulatory decisions. The indicators for improvements in the national road network – with an envisaged rise between the base year of 2009 and the target year

of 2014 in the percentage of roads classified as good from 27 to 38 and classified as fair from 38 to 46 – have been met, with 38 percent classified as good and 50 percent as fair.

III. PERFORMANCE OF THE WORLD BANK GROUP

56. **The overall performance of the World Bank Group is rated as *Fair*.** The design and implementation of the CAS program, while successful in some areas (notably infrastructure), failed to contribute to the achievements of CAS objectives in several areas. Despite a well-judged set of mid-course corrections in the CASPR, adaptations to changing circumstances were slow and proactive engagement was not a characteristic of implementation assistance efforts.

A. Design

57. **The CAS was well-aligned with country development goals, but lacked selectivity.** The strategy covered each of the six principal country goals – growth, infrastructure, health, education, environment and governance/institutions – through both financial and advisory support. The attempt to provide comprehensive support led to loss of focus given low government capacity in absorbing and implementing new ideas and initiatives. The strategy reflected an inadequacy to think through priorities, and select interventions judiciously in areas of WBG comparative advantage, which also coincided with the Government's ability and willingness to act.

58. **Program design reflected learning from international experience.** As a member of SACU, and with a currency pegged to the rand, Lesotho shares the economic shocks of other members, particularly South Africa. The design of the economic program took account of this framework and learned from the experiences of other members, in particular through a study on managing regional revenue volatility. In health, given the common challenges of HIV/AIDS and maternal health, the CAS design was influenced by regional experience. The trans-national characteristics of water and energy were informed by international experiences elsewhere.

59. **The design of WBG interventions lacked concentrated firepower.** Greater attention to quality (especially quality at entry) across a smaller set of interventions would likely have had higher development and demonstration impacts. The four year CAS period saw credits or grants in fiscal adjustment (three), public financial management, health (two), education, private sector development (two), agriculture, infrastructure – 11 in all. Such a project pace put a large strain on the preparation and implementation capacities of the country, especially when, as often, projects embedded ambitious institutional or policy reforms.

60. **The scope of interventions, the degree of ambition in design, and attention to implementation constraints were not always optimal.** The budget support operations were not able to leverage durable fiscal adjustment; more effective results might have been achieved with a programmatic approach to medium-term fiscal adjustment and with concentrated attention to underlying factors on both revenues and expenditures and PFM, instead of widening the scope to include private sector development and social sector reforms. The scope of agriculture and private sector development projects appears to be too diffuse, as implementation experience shows. Projects have tended to serve diverse purposes (for example, agriculture in fostering the

formulation of investment plans, innovation, technology and marketing) or have been too ambitious (education in attempting to de-centralize procurement in a poor governance environment, while attempting to mainstream implementation within the ministry of education instead of using a project implementation unit). In health, systemic and management changes were sought in a low capacity, low absorption environment where the commitment of the government to reforms was doubtful. The design of most projects needed to better reflect implementation constraints.

61. **The CASPR (mid-2013) made a commendable effort to re-focus the assistance program.** The assistance strategy was adapted to reflect the emergence of a new coalition government in mid-2012 with some new priorities. A renewed effort was placed on supporting fiscal adjustment, and the focus sharpened through efforts to scale up results from successful operations, and deepen engagement in maternal and newborn health, investment climate reform, and public financial management – with well-tailored supporting advisory work. The CASPR built in lessons from governance and fiduciary challenges in the Bank's education and integrated transport projects, providing greater attention to supervising civil works and eligibility of expenditures. Mid-term corrections included a strengthening of partnerships to deal with capacity weaknesses and concentrate efforts of development partners towards common goals.

62. **The results matrix was re-structured in the CASPR.** The original matrix contained indicators with no or tenuous relationship with critical objectives and project components (e.g., in budget-support operations, education, water), or were not related to any of the CAS instruments (e.g., in budget support operations, education, health, transport), or were not measurable or monitorable (e.g., education, health). Some indicators did not represent results, but rather actions or outputs (e.g., agriculture). However, even with the amendments, the results matrix lacked indicators that satisfactorily measured progress with respect to program or project goals.

63. **IFC's focus on service delivery by supporting technical assistance for public-private partnerships was a sound strategic choice.** It turned out to be highly complementary to the IDA program. WBG advisory products were tailored to country needs and analytically rich and country-specific, and provided strong underpinnings for lending activities. Ways must now be found to convey their key messages so that client policies are better informed by WBG advisory work.

64. **Critical risks to the CAS program were well identified:** (i) fiscal slippage; (ii) implementation capacity; (iii) weak governance and policy reversals; and (iv) fiduciary risks. The CAS design sought to address these risks by building a partnership with the IMF to provide macroeconomic advice and financial support, build wider partnerships to provide technical assistance and analysis, and implement measures to strengthen fiduciary safeguards and governance in WBG projects.

B. Implementation

65. IDA financial support helped Lesotho address fiscal and balance of payments financing needs in a period of global economic slowdown and high development priorities. Project implementation was slower than envisaged in the middle years of the CAS period (Table

1), largely because misprocurement in two projects – education and transport – was being corrected, and the design aspects of some other projects, such as agriculture and health, led to weak implementation progress. At the CASPR stage, a determined effort was made to address portfolio weaknesses. The disbursement ratio recovered strongly in 2014 showing that attention to procurement problems and restructurings of projects can yield rich dividends. However, average implementation periods are still too lengthy. Further improvements in disbursements can be expected from more intensive supervision, by enhancing quality at entry, greater attention to governance and safeguards, and joint monitoring of results.

Table 1: Lesotho – Selected IDA Portfolio Indicators

Fiscal years	2010	2011	2012	2013	2014	2015
Disbursement ratio:						
Lesotho	26.3	31.8	14.8	17.7	24.9	22.8
AFR Region target	24.0	19.0	20.7	21.0	22.0	22.0
Number of projects	7	7	6	6	8	8
Projects at risk	1	1	1	1	0	2
Problem projects	1	1	1	1	0	2

66. **Technical assistance and advisory work provided critical knowledge and eased capacity constraints.** WBG investments in advisory products have been impressive, with knowledge products on fiscal adjustment, expenditure policies, diversification and inclusion, and public financial and capital budget management. The CAS supported social sector studies (education, health and social protection) and policy work in infrastructure. A conspicuous gap was poverty work, which is now being addressed in the 2016-20 CPF. IFC support to Lesotho is purely advisory and well-implemented with initial successes in PPP design and management, renewable energy, and tourism. These efforts have enriched the dialogue and contributed to project design. Dissemination should now be scaled up to ensure messages are internalized by policy-makers.

67. **Supervision could have benefitted from more concentrated efforts.** As a small, low-profile country, Lesotho may not be attracting enough staff time and experience in some sectors. Some sector missions are no more than twice a year and short, perhaps just enough to attend to the critical supervision check-list, but not to offer thoughtful on-the-ground advice to the client nor creative solutions to emerging problems. The program requires a pro-active approach to supervision and an anticipation of incipient problems; it also requires close client contact. Supervision fell short of standards in education in the first half of the CAS period with an inadequate appreciation of project implementation difficulties arising from complexity in design and client unpreparedness. Misprocurement was detected at a late stage.

68. The field presence is small, and with just one sector specialist. Nonetheless, the local office punches well above its weight and its role as a trusted advisor to the Government, a counsel to development partners, and its firefighting abilities across a range of implementation problems are all widely recognized.

69. **Coordination with development partners is achieved through both the Pretoria and Maseru offices.** The principal partners are the multilaterals: the AfDB, the EU and the UN group. US-MCC has not renewed its compact thus far. IDA has worked with the AfDB, the EU and the IMF on macroeconomic reforms and budget-support operations; with UN institutions as well as US-MCC on education, health and social protection; and with FAO and International Find for Agricultural Development (IFAD) on agriculture. IDA leadership in the coordination of development partners in the water sector, such as in the Metolong Dam and Water Supply Project, has been notable.[27]

70. The smallholder agriculture project is implemented jointly with IFAD and with FAO, a close advisory partner. IDA provided advisory work on social protection to UNICEF in the design of its social protection project. It is particularly important to coordinate closely with UNAIDS on HIV/AIDS work, given that IDA is a sponsor of this organization set up expressly to maximize the results of development partner activities. Coordination is improving with the presence of a health specialist in the Country Office. Offices of development partners in Maseru typically employ a range of sector specialists. Partners state that the absence of similar specialists in the Bank Country office impedes coordination. More generally, a greater exchange of information and documents and ideas at an upstream stage, sharing of implementation experiences in real time by electronic means, could go a long way towards coordination.

IV. ALIGNMENT TO CORPORATE GOALS

71. The twin corporate goals had not been established in their current form at the formulation of the CAS; nevertheless, the strategy was aligned with these corporate goals. The goal relating to extreme poverty was to be achieved by sustaining growth through fiscal adjustments and expenditure reforms. This goal and the second to promote shared prosperity were to be achieved through attention to job growth in the private sector and improvements in education and health services delivery, supported by infrastructure developments that benefitted the rural population. The CAS program envisaged budget-support operations to support the policy measures necessary to ensure sustained growth. On inclusion, the private job generation program provided for business environment reforms, improved access to finance, and support for two promising areas for job creation: horticulture and tourism.

72. The links to poverty, shared prosperity and sustainability were not retroactively articulated in the CAS results framework at the mid-point stage, and no measures of poverty or inclusion were embedded in the program or in the framework. The absence of knowledge-work on poverty and distribution and gender has been a conspicuous weakness. This made the development of a program sharper in selectivity and focus on the corporate goals more difficult.

[27] Financiers of this project, apart from the government, are the United States' Millennium Challenge Corporation, the Abu Dhabi Fund, the Kuwait Fund, the Saudi Fund, the Arab Bank for Economic Development in Africa (BADEA), the OPEC Fund for International Development (OFID), the European Investment Bank (EIB), and the Republic of South Africa.

73. As current economic prospects indicate, lack of fiscal adjustment has jeopardized growth prospects; moreover, the economy over the CAS period became less inclusive, with the income growth of the bottom quintiles falling behind the average rate of growth.

V. LESSONS

74. **Lesson 1: A focused strategy with strong results linkages.** A critical lesson is the importance of the country assistance strategy concentrating on a small number of areas where the development pay-off was likely to be the greatest. The fragmented approach over the CAS period led to disappointing development results and insufficient successful outcomes. The areas of intervention should be determined through a rigorous country diagnostic process taking into account the state of current knowledge and WBG ability to excel in client support, *inter alia,* by transplanting lessons from other development experiences. A related lesson is that a parsimonious results framework should be developed with strong causal links between actions, outcomes and results, rooted in CAS interventions, and being attributable to such interventions.

75. **Lesson 2: Dealing with capacity weaknesses.** The CAS experience reveals that strategy/policy formulation as well as implementation (including M&E and results focus) to be the binding constraint within the Government and its agencies. The lesson is to place a major effort on bolstering capacity in all its critical dimensions; this will require thoughtful, practical research as well as wide involvement of development partners. It will fundamentally require working on a systemic basis going well beyond interventions at the project level. A further lesson is to take explicit account of this constraint in the design of WBG interventions, particularly related to complexity, ambition, scale of policy or implementation innovations aimed for under each intervention. It is clearly essential to ensure implementation capacity well ahead of project appraisal.

76. **Lesson 3: Employing a range of WBG instruments** to deal with the variety of planning and implementation challenges faced by Lesotho is likely to yield a rich pay-off. First, a programmatic approach can help ensure consistency of vision and effort over the extended period that Lesotho needs for development success, and will permit adjustments to the implementation pace in light of experience. Second, budget-support operations in particular should be structured along programmatic lines with medium-term fiscal adjustment, adherence to fiscal rules, and improvements in spending quality, being the underlying principles. Third, a thoroughly coordinated approach involving the government and key development partners is required to support systemic change across sectors in a weak capacity environment, and to ensure adherence to common goals and frameworks, making sure core needs within the sector are addressed. Such an approach should be piloted in a sector. Finally, analytical work can help maintain WBG readiness in areas where the government lacked interest, but where an appetite for change could emerge. M&E plays a critical role in ensuring the effectiveness of interventions, given the need to continually adapt the program mix to emerging experiences and evolving government commitment and capacity.

77. **Lesson 4: Addressing knowledge gaps.** The CAS program has suffered from the absence of a poverty assessment. A poverty profile, poverty maps, research on causes of poverty in its

critical dimensions – are all central to ensuring the effectiveness and inclusivity of the strategy. This set of work has now been initiated. Impact evaluation and inclusiveness measures will also be assisted by such analysis. Gender considerations have been commendably strong in the health portfolio, and to a degree in education by incentivizing boys to remain enrolled, but they need to be further embedded in the assistance strategy. The overall lesson is that a pro-active addressing of knowledge gaps could leverage up results considerably.

78. **Lesson 5: Building further WBG joint actions.** Lesotho has benefitted from the WBG working together, especially IDA projects linked to IFC technical assistance as in health. IFC has identified an important capacity gap in service delivery with success. The lesson is to learn from that experience to replicate the successful elements to other areas where private sector can play a growth-enhancing role – energy and water, training and vocational education, tourism, trade facilitation – and to look for opportunities in IDA activities constrained by client capacity.

CLR Annex 1: CAS Progress Report Results Matrix

CAS RESULTS AREAS, OUTCOMES AND TARGETS (As revised by the CASPR)	Progress towards CAS Period Outcomes	World Bank Group Activities to Achieve Outcomes
Pillar One: Fiscal Adjustment and Public Sector Efficiency		
Results Cluster 1: Fiscal Adjustment and Increased Public Sector Efficiency ***Outcome 1: Fiscal adjustment*** **Indicator:** Non-SACU balance as a share of GDP improved **Baseline:** Deficit of 26.8 percent in 2012/13 **Target:** Deficit of 22.0 percent in 2014/15 Result: Deficit of 28.6 per cent in 2014/15 ***Outcome 2: Public sector efficiency*** **Indicator:** Wage bill reduced as share of GDP **Baseline:** 18% in 2009 **Target:** 16% in 2014 Result: 21.6% **Indicator:** Percentage of new investment projects (in number) following the new Project Cycle Management Process **Baseline:** 0% in 2009 **Target:** 10% in 2014 Result: All capital projects supported from Government funds and all projects supported by external financial resources submitted and approved by PSIC to qualify for financing.	**Not Achieved** **Not Met** **Not Met** **Met**	Lending Activities: Series of three PRSCs, the latter two of which fell within the CAS period. Development policy grant. Advisory work: A wide-ranging series of policy notes for the new government presented in late 2012, Fiscal sustainability; Economic diversification, Inclusive growth; Accounting and auditing ROSC; A public expenditure review; Public investment management efficiency review; Poverty and gender assessment. Debt Management Performance Assessment Developing a Medium-term Debt Management Strategy
Results Cluster 2: Strengthen PFM, Statistics, and Institutional Capacity to Deliver Better Services ***Outcome 3: PFM*** **Indicator:** PEFA P1-12 rating **Baseline:** C+ in 2009 **Target:** B+ in 2014 **Indicator:** PEFA P1-24, P1-25 rating **Baseline:** D in 2009 **Target:** C in 2014 **Indicator:** PEFA P1-28 rating **Baseline:** D+ in 2009 **Target:** C in 2014 ***Outcome 4: Statistics*** **Indicator:** The BoS has prepared and disseminated a six month calendar for posting statistical products on the BoS website (Yes/No) **Baseline:** No calendar for posting statistical products on BoS website in 2012. **Target:** Six months for posting statistical products on BoS website prepared and disseminated in 2014.	**Partially Achieved** **Partially Met.** Progress in medium-term fiscal frameworks and budget linkages made, but line budgets not always consistent with framework. **Partially met.** On-line budget expenditure information exists but accuracy is still a challenge. **Partially met.** The time it takes for the government to submit reports to Parliament has improved, but Parliamentary scrutiny of annual audits takes over 12 months to be completed. **Met.** Updated monthly. www.bos.gov.ls	Lending Activities: PFM Project Development policy grant Advisory Work: Public Investment Management Efficiency Review Accounting and auditing ROSC; Public expenditure review; IDF for Lesotho Institute of Accountancy NISSA TA

Pillar Two: Human Development and Improved Service Delivery		
Results Cluster 3: Reverse Negative Trends in Health and Improve Access to Services ***Outcome 5: Improving Trends*** **Indicator:** Average health facility quality of care score for target districts, Leribe and Quthing. **Baseline: 2013 43.8%**. **Target:** 50% Actual (2015): 70.7% **Indicator:** Annual visits made to the new national referral hospital (including the filter clinics) **Baseline:** 164,624 in 2009 **Target:** 285,000 visits in 2014 Actual (2014): 300,000; (2015): 377,000 **Indicator:** Percent of pregnant women delivering in health facilities. **Baseline:** 53.2 percent in 2009 **Target:** 60 percent in 2014 Actual (2015): 76.5% ***Outcome 6: Improved Access*** **Indicator:** Coverage of all HIV+ people eligible for ART[28] **Baseline:** 23% in 2009 **Target:** 42% in 2014 Actual: 35% **Indicator:** Percentage of population within program target areas with piped water supply **Baseline:** 50% in 2009 **Target:** 85% in 2014 Actual (2014/15): 88.3%	**Mostly Achieved** **Met** **Met** **Met** . **Partially Met, on track** **Met on track**	Lending: HIV/AIDS TA Project; Maternal and Newborn Health Project; Water Sector Improvement Project Advisory Work: IFC-supported work on the design and operation of PPPs Public expenditure review Health sector review.
Results Cluster 4: Build Skills for Enhanced Competitiveness and Improve Incentives ***Outcome 7: Building skills*** **Indicator:** Percentage of classrooms meeting national quality standards increased **Baseline:** 48% in 2008 **Target:** 53% in 2014 Actual: 82.6% **Indicator: N**et Enrollment Rate (NER) in secondary schools increased **Baseline:** 35.8 percent in 2011 **Target:** 38 percent in 2014 Actual (2014): 37.7 percent ***Outcome 8: Improving incentives*** **Indicator:** Increase in qualified teachers at primary level **Baseline: zero** **Target:** 600 by 2014 Actual: 391	**Partially Achieved** **Partially verified** (against construction standards; quality standard not available.) **Mostly Met, on track** **Not Met** A supplementary indicator is defined to be the **Pupil-Qualified Teacher Ratio.** Baseline was 59 in 2009, target was set at 50 for 2014 and the result is 43. This indicator is **Met.**	Lending Activities: Basic Education project, funded by the Education for All Fast Track Initiative Grant Advisory Work: Education and economic growth.

[28] Initial targets were set for individuals with a CD4 count of less than 350. The global definition was subsequently changed to all individuals living with HIV. This adjustment is reflected in the indicator and the target in the results framework

<table>
<tr><th colspan="3">Pillar Three: Enhanced Competitiveness and Diversification</th></tr>
<tr><td>Results Cluster 5: Improve Business Environment, Trade Facilitation and Export Diversification
Outcome 9: Business environment
Indicator: Time taken to register a business is less than 14 days.
Baseline: 40 days in 2009
Target: Less than 14 days in 2014
Actual: 7 days
Indicator: Time taken to start a business.
Baseline: 40 days in 2012
Target: less than 25 days in 2014
Actual: 29 days
Indicator: Time taken to get an industrial license at the One Stop Business Facilitation Centre
Baseline: 35 days in 2009
Target: Less than 7 days in 2014
Actual: 5 days
Indicator: Number of rural population with access to all-season road (at project area: Senqu-Senqunyane area)
Baseline: 0 in 2009
Target: 9,370 in 2014
Actual: 77,000
Outcome 10: Trade facilitation
Indicator: Customs clearance through implementation of computerized single window and single customs clearance system improved.
Baseline: Two customs clearance processes at the border in 2009
Target: Single customs clearance process in 2014
Outcome 11: Export diversification
Indicator: Number of targeted beneficiaries who have adopted improved production technologies and/or farming practices in target areas increased.
Baseline: 234 in 2011
Target: 1,000 in 2014
Actual: 710</td>
<td>Mostly Achieved

Met

Mostly on track

Met

Met

Not Met

Not Met</td>
<td>Lending Activities:
Private Sector and Economic Diversification projects I and II
Trust fund grant to reforms in customs,
Smallholder Agriculture Development project,
Integrated Transport project,
Development Policy Operation.

Advisory Work:
IFC with the World Bank -- design and management of public-private partnerships in the health, renewable energy and tourism sectors
PPIAF to formalize the national PPP strategy and framework. Policy notes on private sector development and agriculture,
Study on economic diversification,
Report on financial sector development strategy.</td></tr>
<tr><td>Results Cluster 6: Reducing the Infrastructure Gap and Improving Capacity to Regulate Infrastructure Services
Outcome 12: Reducing the infrastructure gap
Indicator: : Quality of national road network improved
Baseline: 27% good and 38% fair in 2009
Target: 39% good and 46% fair in 2014
Result" 38% good; 50% fair
Outcome 13: Regulation
Indicator: Mandate of Lesotho Electricity Authority (LEA) expanded to cover water regulation.
Baseline: Divided regulatory function between electricity and water.
Target: Regulation by contract in the water sector and regulatory agency for electricity sector.</td>
<td>Achieved

Met

Met</td>
<td>Lending Activities:
Water Sector Improvement project with Additional Credit,
Integrated Transport project.

Advisory Work:
Policy notes on water,
PPIAF regulatory model for electricity,
Public investment management efficiency review
Public investment strengthening technical assistance.</td></tr>
</table>

CLR Annex 2: Planned vs. Actual IDA Lending Program (FY10-FY15)

	CAS IDA Lending Program (in US$ million)					Actual Lending (in US$ million)					
Lending	**FY10**	**FY11**	**FY12**	**FY13**	**FY14**	**FY10**	**FY11**	**FY12**	**FY13**	**FY14**	**FY15**
HIV/AIDS TAL	5.0					5.0					
PRSC II	15.0					25.0					
Integrated Transport (Additional Financing)	15.0						15.0				
PRSC III		15.0					18.0				
Agriculture/Rural Development		10.0						10.0			
Water Sector APL2 (Additional Financing)			10.0					13.0			
PRSC IV/DPG1			20.0						20.0		
HD Project			5.0						12.0		
PRSC V/DPC2				15.0							
Infrastructure Development				10.0							
PRSC VI					15.0						
Maseru Urban Development Project					15.0						
Public Financial Management Reform TA Project										5.5	
Private Sector Development and Competitiveness Project										13.1	
Water Sector Improvement Project – Additional Financing										15.4	
TOTAL IDA	**35.0**	**25.0**	**35.0**	**25.0**	**30.0**	**30.0**	**33.0**	**23.0**	**32.0**	**34.0**	**0.0**
Grants	20.0		10.0			20.0					

CLR Annex 3: Summary of Non-Lending Services

Product	Completion FY	Cost (US$000)	Audience[1]	Objective[2]
Accounting and Auditing ROSC	FY10	70	G,B,B	KG, PD
Lesotho: Sharing Growth by Reducing Inequality and Vulnerability: Choices for Change	FY10	446	G,D,B	KG,PD,PS
Policy Notes:				
i. Lesotho Investment Climate Policy Note	FY10	334	G,D,B	KG, PS
ii. Realizing Potential of FDI to Diversify Lesotho's Exports: An Assessment of Key Opportunities and Constraints	FY10	75	G,D,B	KG,PS
Lesotho: Regulatory Model for Power and Water Sectors	FY11	287	G,D,P	KG, PS
Post Disaster Needs Assessment Heavy Rains 2010/11	FY11	178	G,D,B	KG,PD,PS
IFC – Development of a draft PPP Policy for Lesotho:				
i. From Enabling to Encouraging	FY11	61	G,D,B	KG, PS
ii. Diagnostics Review	FY11		G,D,B	KG, PD
Public Investment Management Efficiency Review	FY12	169	G,D,B	KG,PD,PS
Lesotho Joint IDA-IMF Staff Advisory Note on the PRSP	FY12	19	G,D,B	KG,PS
IFC –Fleet Services Review	FY12	50	G,D,P	KG,PD,PS
Debt Management Performance Assessment (DeMPA)	FY13	5	G,B	KG,PS
Lesotho: A Safety Net to End Extreme Poverty	FY13	87	G,D,P	KG,PD,PS
Public Expenditure Review	FY13	249	B	KG
Selected Policy Notes	FY13	100	G	PS
Investing for a Changing Economy, Skills Development with Equity	FY13	347	G,B	KG,PS
CAS Progress Report	FY13	28	G,D,P	KG,PS
Lesotho: Economic Diversification and Role of FDI Policies	FY13	71	G,D,B	KG,PS
Review of National Information System for Social Assistance (NISSA)	FY14	96	G,D,B	KG,PS
Financial Sector Development Strategy	FY14	250	G,B,D,P	PS
Developing a Medium-Term Debt Management Strategy	FY14	53	G,B	KG,PS
Systematic Country Diagnostic	FY15	131	G,B,D,P	KG,PD
Lesotho Gender Study – Female Migration in Lesotho	FY15	80	G,B,D,P	KG,PD

[1] Government, Development Partner, Bank, Public Dissemination
[2] Knowledge Generation, Public Debate, Problem Solving

Annex 5. Indicators of Bank Portfolio Performance and Management

Population (millions) (2014)	2.1	IDA, Blend or IBRD	IDA
GNI ($billions) (Atlas) (2014)	2.8	IDA 16 allocation (SDR)	
GNI per capita ($) (2014)	1,330	% Change over IDA15	
GDP growth (%) (2014)	3.6%	Inflation Rate (%) (2015)	3.2%

Ranking in Doing Business Report (2015)	114*

Data as of : May 08, 2016

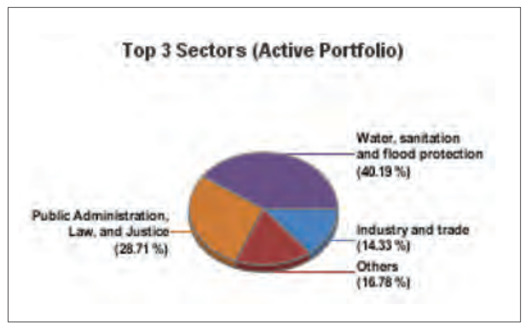
WBG Net. Commitments/Committed Undisbursed ($m) *

IBRD/IDA Exposure Data as of : Jun 30, 2015

WBG	Net Commitments/ Committed	Undisbursed ($m) *	Exposure (total sums disbursed & outstanding ($m)
IBRD	0.0 [1]	0.0	0.0
IDA	109.0 [1]	51.3	281.9
IFC	0.0 [2]	0.0	0.0
MIGA			[3]
World Bank Group	**109.0**	**51.3**	**281.9**

1.Net Commitments for active portfolio projects. 2.Outstanding balances or Undisbursed Commitments. 3.MIGA Guarantees for Exposure

IBRD/IDA	
Net Commitments ($m)	# of projects in portfolio
109.	0 7
Disbursements in FY16 ($m)	% Undisbursed
17.2	47.0
# projects in FY16 pipeline	Of which Approved (YTD) (#)
3	1
Commitments ($m) in FY16 pipeline	Of which Approved (YTD) ($m)
55.0	10.0



Bank Data as of : May 08, 2016

Current IFC Committed Portfolio												
IFC's own account ($m USD)									Syndicated ($m USD)		IFC AMC ($m USD)	
Loan		Equity		Quasi Equity (LN & ET)		GT (incl. Trade Fin) and Risk Mgm		IFC Total	B-Loan		Quasi Equity (LN & ET)	
Exposure	Cmtd	Exposure	Cmtd	Exposure	Cmtd	Exposure	Cmtd	Cmtd	Exposure	Cmtd	Exposure	Cmtd
0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

IFC Investment Business - Top 5 Sectors (IFC Committed $m USD)			IFC Advisory Services - Business lines ($m USD funds managed)
1	Oil, Gas and Mining	0.0	
2	Nonmetallic Mineral Product Manufacturing	0.0	
Total		**0.0**	

IFC Data as of : Apr 30, 2016

MIGA		
	Currently Active	Total
# of Projects Guaranteed for Investment		
Guarantees Gross Exposure ($m)		

MIGA Data as of : Mar 31, 2016

Annex 6. Lesotho Operations Portfolio

(as of June 3, 2016)

Project Name	Date, Board App	Rev Closing	Proj Age in Yrs	Net Comm Amt ($m)	Tot Disb ($m)	Tot Undisb Bal ($m)	% Disb
LS Education Quality for Equality	05/26/2016	06/30/2021	0.1	25.00	0.00	25.45	0.0%
LS - Smallholder Agriculture Dev Project	11/10/2011	03/31/2018	4.6	10.00	4.55	4.49	45.5%
LS-PFM Reform Support Project	02/06/2014	07/03/2017	2.4	5.50	0.52	4.55	9.4%
LS-Public Sector Modernisation Project	03/24/2016	05/24/2020	0.2	10.00	0.00	10.30	0.0%
LS-HIV & AIDS TAL (FY10)	08/27/2009	06/30/2016	6.8	5.00	4.92	0.01	98.4%
LS-Maternal & Newborn Health PBF (FY13)	04/11/2013	06/30/2017	3.2	12.00	2.36	8.69	19.7%
LS-Social Assistance Project	06/03/2016	05/30/2020	0.0	20.00	0.00	20.05	0.0%
LS-Second Pvt. Sector Competitiveness	10/31/2013	04/30/2019	2.6	13.10	6.44	5.93	49.2%
LS- TB and Health Systems Support	05/26/2016	09/30/2021	0.0	15.00	0.00	15.00	0.0%
LS-Water Sector Imp. Proj (Second Phase)	05/26/2009	06/30/2016	7.1	53.44	36.12	15.27	67.6%
Total				**169.04**	**54.92**	**109.74**	**35.7%**

Advisory Services and Analytics

Analytical

- Lesotho Water Security and Climate Change Assessment, FY16
- Forever Young?Southern Africa:getting social sectors ready for a changing population, FY16
- Health Public Expenditure Review (PER)/Public Expenditure Tracking Survey (PETS)/Quality Service Delivery Survey (QSDS), FY17
- Comprehensive Health Financing Status Report: Improving the Long-term financial sustainability of the Lesotho Queen Mamohato Memorial Hospital PPP, FY17
- Improving Efficiency of Parastatals, FY17
- Public Expenditure Review, FY17
- Medium Term Debt Management Strategy, FY17
- Youth Employment and School to Work Transition in Southern Africa (Regional, Programmatic, FY15-17)
- How to Improve Job Readiness of Post Primary Graduates, (FY15-17)
- Employment Dynamics and Jobs (Regional, Programmatic, FY15-17)
- Jobs, Growth and Competitiveness (Regional, Programmatic, FY15-17)
- GVCs, Competeiveness and Integration (Regional, Programmatic, FY15-16)
- Financial Inclusion in Southern Africa (Regional, Programmatic, FY15-17)
- Poverty Assessment, FY18
- Private Sector Diagnostic, FY18
- Climate Smart Agriculture Policy Framework, FY18

Advisory

- Continuous Survey Methodology
- Debt Management Technical Assistance
- Tobacco Taxation Technical Assistance
- Rapid Social Response Technical Assistance
- FIRST
    - Technical Assistance on Strengthening Insurance and Pension Regulation and Supervision
    - Technical Assistance on Financial Inclusion
- Early Warning System Technical Assistance
- Scaling Up Renewable Energy
- Investment Climate Advisory Services Program, with an emphasis on Doing Business Reforms, investor attraction and retention, and trade facilitation (IFC)
- PPIAF – PPP Policy and Unit Development (IFC)
- Queen Mamohato Memorial Hospital (QMMH) PPP Contract Management TA (IFC)

Annex 7. Statement of IFC's Held and Disbursed Portfolio

Product	Completion	Cost US$000	Audience	Objective
IFC – Wind Energy PPP Programme	Ongoing	1,200	G	PS, KG, PD
IFC – Health Care Facilities PPP	FY15	1,000	G	PS
IFC – Health Care Waste Management Pilot PPP	FY14	260	G	PS
IFC – Tourism Programme	FY14	1,000	G	PS, KG, PD
IFC – QMMH capacity building	FY14	780	G	PS
IFC – Review of GoL Fleet	FY13	50	G	PS
IFC – PPP Policy	FY12	95	G	PS, KG, PD
IFC – QMMH PPP Transaction Advisory	FY09	1,200	G, B	PS

Annex 8. Summary of Stakeholder Consultations

1. **The CPF was developed in partnership with the government and in close consultation with diverse stakeholders**. Concept-level consultations for the CPF began in May 2015 with the cabinet, development partners, civil society organizations (CSOs), and representatives of the private sector. The consultations took place after most new Cabinet Ministers had been sworn-in. These initial consultations sought views and feedback on the appropriateness of the CPF's focus areas, strategic objectives, and proposed intervention areas, and whether the WBG had missed important areas.

2. **A second round of consultations took place in May 2016, also with the cabinet, development partners, CSOs and the private sector,** after the World Bank had shared a second corporate review draft of the CPF with key government counterparts for their review. This second round focused on three questions: (i) how can the WBG support Lesotho's ministries to improve their efficiency and effectiveness; (ii) how can the WBG support the government to encourage private sector jobs creation; and (iii) how can the WBG enhance its collaboration with partners working in the same areas.

3. **The SCD document proved critical to shaping the CPF.** Completed in June 2015, the SCD document informed the CPF process, and its steps were important in identifying priorities to eliminate extreme poverty and promote shared prosperity in Lesotho. All stakeholders validated the findings from the SCD, as well as the relevance of the CPF focus areas for addressing major constraints to poverty reduction.

4. An overarching theme of the consultations was how the WBG can support the development goals of the NSDP, and how to increase the WBG's selectivity, accounting for its comparative advantages and those of development partners. Accordingly, the CPF has been linked to government priorities articulated in these goals: (i) create high, shared, and employment generating growth; (ii) develop key infrastructure; (iii) ensure public asset development and management; (iv) enhance Lesotho's skills base, technology adoption and foundation for innovation; (v) improve health, combat HIV and AIDS and reduce vulnerability; and (vi) reverse environmental degradation and adapt to climate change.

5. **The two-pronged consultation process for the CPF was organized and co-led by GoL** through the Ministry of Development Planning (MDP). The process involved:

a. **Formal consultations**: Meetings with the MDP and Ministry of Finance, and broader consultations with government ministers and principal secretaries. The key focus of these meetings was to agree on the CPF strategic focus areas and objectives, and discuss interventions thereof.

b. **Informal consultations**: Meetings with bilateral and multilateral development partners in Lesotho (e.g., China, EU, UN Agencies, USA) to discuss the CPF's strategic focus areas and objectives, particularly to identify opportunities for complementarity and strengthened partnerships.

c. **Meetings with various groups of stakeholders**, including CSOs and organizations from the private sector. The focus of these meetings was to discuss the proposed CPF strategic areas and objectives, and to explore how the WBG – through partnerships with stakeholders and beneficiaries – can make project implementation more effective and timely.

6. **The stakeholders engaged in this staged consultation process agreed that the CPF presents a comprehensive approach to addressing identified development challenges**. Stakeholders agreed that the CPF aligns to government priorities in the NDSP, and validated the CPF's two focus areas and strategic objectives (see Figure 4 in the main text).

7. Key takeaways and recommendations from the consultations that helped shape the CPF's approach are noted below:

(a) *Reduce the size of the government, rebuild buffers, and improve service delivery by achieving fiscal consolidation and modernizing the public sector*. Participants agreed that public spending is large, regressive, inefficient and largely ineffective. They agreed the high wage bill is a pressing burden for Lesotho. Some participants suggested scope for the government to outsource functions to the private sector, such as in health.

(b) *Facilitate a competitive, export-oriented private sector by aligning incentives and developing key infrastructure.* Lesotho faces macro-fiscal vulnerabilities and lack of infrastructure critical to growing a vibrant private sector. Participants discussed scope for Lesotho to leverage its water resources and various options for hydropower potential to export water and electricity to other countries.

(c) *Increase the returns to self-employment by raising productivity of smallholders and microenterprises*. Lesotho's domestic private sector is small. Participants noted that business growth is stymied by weak access to finance from commercial banks and agreed with the measures supported by the CPF to address this challenge.

(d) *Improve health and education outcomes by reducing the disease burden and enhancing and aligning skills.* The country faces poor outcomes in health and nutrition, and inadequate education outcomes. Participants urged better development partner coordination in health, and supported measures to increase taxation of tobacco and alcohol, as the government assumes the costs of addressing its harmful effects.

(e) *Reform social protection to reduce fragmentation, and improve targeting, efficiency and linkages.* Participants urged improved coordination of social protection programs, both within ministries and with development partners.

(f) *Strengthen implementation of Public Private Partnerships.* Participants supported further capacity building of PPP management and for managing the QMMH PPP, in particular, in the short and medium-term.

(g) *Improve coordination of development programs*. Public officials, development partners, and representatives of the private sector and civil society recommended strengthening coordination mechanisms, and improving oversight of development initiatives. Representatives of CSOs and the private sector noted a potential role for them to provide "third party monitoring" of development programs.

Map of Lesotho

The World Bank
UN House, 13 United Nations Road
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