

**AFRICAN DEVELOPMENT BANK GROUP**



**LESOTHO: COUNTRY ASSISTANCE EVALUATION**

**OPERATIONS EVALUATION DEPARTMENT  
(OPEV)**

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<sup>1</sup>This Report was prepared by Mr. O. OJO, Chief Evaluation Officer, OPEV, following a concurrent mission with the World Bank to Lesotho in June 2000. Following an earlier understanding on collaboration between the two institutions, Chapters 1 and 2 of this Report were jointly prepared and therefore common to the evaluation Reports of both institutions. Background papers for this report were prepared by Mr. Jose HORTA and Mrs. Lola DARE, (Consultants) on Transport and Social Sectors respectively. Questions on the report can be addressed to Mr. G. M. B. KARIISA, Director, OPEV, extension 4052, or to Mr. O. OJO, on extension 4262.

## ACRONYMS AND ABBREVIATIONS

ADB	:	African Development Bank
ADF	:	African Development Fund
AIDS	:	Acquired Immunodeficiency Syndrome
APPR	:	Annual Portfolio Performance Review
AR	:	Appraisal Report
BADEA	:	Arab Bank for Economic Development in Africa
BCG	:	Bacille, Calmette and Guerin
BNP	:	Basotholand National Party
BSP	:	Basotho Congress Party
CAE	:	Country Assistance Evaluation
CHAL	:	Christian Health Association of Lesotho
CPRP	:	Country Portfolio Review Report
CSP	:	Country Strategy Paper
DO	:	Development Objectives
DPT	:	Diphtheria, Pertusis and Tetanus
EPCP	:	Economic Prospects and Country Programming
EPI	:	Expanded Programme of Immunization
ESSP	:	Education Sector Strategy Paper
FAO	:	Food and Agricultural Organisation of the United Nations
GDP	:	Gross Domestic Product
GOL	:	Government of Lesotho
HC	:	Health Centres
HIV	:	Human Immunodeficiency Virus
HMIS	:	Health Management Information System
HSA	:	Health Services Arcas
HSSP	:	Health Sector Strategy Paper
IBRD	:	International Bank for Reconstruction and Development (The World Bank)
IDA	:	International Development Association
IP	:	Implementation Performance
IPA	:	Interior Political Authority
LAC	:	Lesotho Airlines Corporation
LCD	:	Lesotho Congress for Democracy
LCU	:	Labour Construction Unit
LEC	:	Lesotho Electricity Corporation
LHDA	:	Lesotho Highlands Development Authority
LTC	:	Lesotho Telecommunications Corporation
LWHP	:	Lesotho Highlands Water Project
MHC	:	Maternal and Child Health
MOE	:	Ministry of Education
MOF	:	Ministry of Finance
MoHSW	:	Ministry of Health and Social Welfare
MoPWT	:	Ministry of Public Works and Transport
NCDC	:	National Curriculum Development Council
NHTC	:	National Health Training Council
NTF	:	Nigerian Trust Fund
ODA	:	Official Development Assistance
OED	:	Operations Evaluation Department (of the World Bank)

OPEC	:	Organisation of Petroleum Exporting Countries
OPEV	:	Operations Evaluation Department (of the African Development Bank)
PCR	:	Project Completion Report
PHC	:	Primary Health Care
PIU	:	Project Implementation Unit
RB	:	Roads Branch
RHSP	:	Rural Health Services Project
RMCs	:	Regional Member Countries
RSA	:	Republic of South Africa
SACU	:	South African Customs Union
SADC	:	Southern African Development Cooperation
SFM	:	Supplementary Financing Mechanism
SIDA	:	Swedish International Development Agency
SHD	:	Sustainable Human Development
SSA	:	Sub-Saharan Africa
UA	:	Unit of Account
UNDP	:	United Nations Development Programme
VHW	:	Village Health Workers
WASA	:	Lesotho Water and Sewage Authority

## **PREFACE**

1. This Report evaluates Bank Group assistance to the Kingdom of Lesotho since it started operations in that country in 1974. The report was based on materials gathered during the mission to Lesotho in June 2000 and on a review of relevant Bank documents.
2. The major objective of the report is to evaluate Bank assistance to Lesotho and the strategy underlying that assistance. Bank assistance to Lesotho started without a strategy but as time went on, the need for some kind of strategy was felt. Even as a strategy started to emerge in 1988, it was still difficult to discern a consistent trend in the emerging strategy. However, Bank strategy (and its accompanying assistance), has shifted over time, with the shift (a rather accidental one), reflecting the changing situation in the Republic of South Africa. In the early period, emphasis was on infrastructure as the country tried to reduce the constraints imposed by its location inside South Africa. The second phase saw a shift to the promotion of growth and poverty reduction. One of the findings of this report is that Bank Group strategy towards Lesotho was relevant, even though it was more accidental than deliberate. It was also efficacious in that it achieved most of its objectives.
3. The Bank was however, found wanting in the area of non-lending assistance. Its contribution to policy dialogue and advice was poor, while its contribution to economic and sector work was non-existent. This verdict notwithstanding, the Bank has certainly filled a resource gap in Lesotho. But in order to continue to be relevant, Bank strategy must be repositioned to address the key developmental challenges facing the country. These are poverty, unemployment, HIV/AIDS epidemic, weak institutional capacity, private sector development, vulnerability to external policy changes, and governance issues.

## **EXECUTIVE SUMMARY**

1. This Report evaluates Bank Group assistance to the Kingdom of Lesotho. On the basis of an earlier understanding between the Bank and the World Bank, the evaluation was carried out jointly by the two institutions. Chapters 1 and 2 of the Report, which were prepared jointly, are common to the evaluation reports of both institutions. The present evaluation report focuses on the main sectors of Bank's assistance, namely the transport and social sectors, while the World Bank focuses on poverty and poverty-related issues, the Lesotho Highlands Water Project, human resource development and private sector development<sup>1</sup>. Resource constraints preclude the inclusion of the agricultural sector which, on cumulative basis, accounts for 13.1% of Bank approved loans and grants as of December 31, 1999.
2. Lesotho is a small, mountainous country surrounded completely by the Republic of South Africa. It is also a poor country, with about half of the population living below the poverty line. The country is also characterized by severe income inequality, with a Gini coefficient of about 60%. The country's socio-economic development has been influenced considerably by its geographical location inside the Republic of South Africa. Until 1994, South Africa operated an apartheid policy, which induced an array of world-wide sanctions. Lesotho suffered the consequences of the sanctions along with the country. While the country has recorded (in spite of this and other constraints), some impressive growth performance in the past, it now faces monumental developmental challenges, which include poverty, unemployment, weak institutional capacity, incidence of HIV/AIDS and global changes, in particular, changes within South Africa.
3. Bank Group strategy in Lesotho was influenced rather inadvertently, by the political and geographical considerations. In the early years of its intervention, Bank Group strategy was aimed at developing the basic infrastructure with the objectives of linking the major urban areas with the remote mountainous areas, and of obviating the necessity of making detours through South African road network. As a result of this, the Bank invested heavily in the transport sector. Following the collapse of apartheid, Bank Group strategy changed from emphasis on infrastructure to that of promoting growth and alleviating poverty. It is however doubtful if the strategy achieved its objectives, as poverty remains prevalent in the country.
4. This Report found Bank Group strategy in the transport sector relevant to the needs of the country, as there was need to link up the urban areas with the remote mountainous areas of the country. Political expediency also required the country, during the apartheid, to reduce its dependence on the road network of South Africa. The strategy achieved this objective in that the country is now more or less linked up with an efficient road network. The achievements in the transport sector are sustainable as the Government makes regular and adequate budget provision of the maintenance of investments in the sector. Bank assistance has similarly enhanced institutional development in the sector as the Ministry of Transport is now adequately equipped to carry out regular maintenance works. The assistance has also contributed to the development of indigenous road contractors.

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<sup>1</sup> The Executive Summary of the World Bank report is attached as Annex X.

5. There was no Lesotho-specific strategy in the social sector other than the broad Bank policies approved in 1986. In the health subsector, Bank interventions have increased the number of facilities and equipment and have marginally contributed to an increase in infrastructure and to an improvement in the quality of education. They have also supported increases in the number of qualified teachers and in strengthening institutional capacity to manage education and curriculum development.
6. The sustainability of achievements in the health subsector is uncertain. Government expenditure (capital and current) on the sector is on the decline while the institutional capacity for managing the installed structures is not available. While there is an effective Project Implementation Unit in the Ministry of Health, institutional and operational linkages between the health centers and the four (Bank) projects are not clearly articulated. There is a dearth of human capacity in both rural and urban areas for managing the installed structures. It is estimated that about 75% of trained staff have been lost, mostly to the Republic of South Africa. The sustainability of the achievements in the education subsector is assured by the sustained government expenditure in the sector. Bank assistance has also contributed to institutional development, as there has been a significant improvement in all the intervention schools. The Central Inspectorate has also been strengthened to be able to carry out its supervisory functions.
7. Overall, Bank performance in Lesotho can be rated as just satisfactory, with its performance in non-lending operations (policy advice and dialogue, economic and sector work), being rated as unsatisfactory. Indeed, the Bank has not made any significant contribution to the enhancement of knowledge of the economy of Lesotho. The Bank has made some modest contribution to the country's institutional development, while the sustainability of the achievements of its interventions appears likely. Although the bulk of Bank assistance was in social capital and not in directly productive activity, it can still be said that to the extent that the assistance (in social capital) achieved its objectives and thereby facilitated growth, Bank assistance can be said to have an overall satisfactory outcome. Non lending assistance was however, not satisfactory. The sustainability of the outcome appears likely, given the demonstrated commitment of the government (through budgetary provisions) to the intervention projects. The impact on institutional development is however, modest as the country continues to experience weakness in institutional capacity. This is made worse by the outflow of trained manpower to the Republic of South Africa.
8. The major lesson that can be learnt from this experience is that, prior economic and sector work is critical to the formulation of appropriate Bank strategy towards a country. This would tend to ensure that the Bank does not "fly blind" in its operations in a borrowing country. In terms of future directions, Bank strategy should endeavour to focus on aspects of current development challenges facing Lesotho. These are poverty, unemployment, weak institutional capacity, HIV/AIDS epidemic, private sector development, and vulnerability to external (mostly South Africa) policy changes, and governance issues.

## 1. ECONOMIC AND SOCIAL BACKGROUND

### 1.1 Background

1.1.1 Lesotho has had a tumultuous history. It attained independence in 1966 from Britain as a constitutional monarchy, with a parliamentary system of government consisting of a National Assembly and a nonelective Senate. However, Lesotho's democratic process remains fragile, marked by conflict between two major political parties—Basutoland National Party (BNP) and Basotho Congress Party (BCP)—between factions within these parties or formed by them, as well as by an endless power struggle between civilian and military regimes. Since independence, there have been more than four military coups and 23 years of authoritarian rule, including seven years of military government. Elections were generally contested by the opposition parties, followed by civil unrest and army mutiny, and intervention by neighboring states to restore order.

1.1.2 The decade of the 1990s under review in this evaluation continued to be a period of political upheavals. At the beginning of the decade, the military council decided to hold elections in 1993 after which a new constitution was introduced. The one-sided result ultimately led to tensions between the new BCP government and the military. A palace-led *coup d'état* ensued which was later reversed. There was labor unrest in 1994 and the king died in 1996. There was another one-sided election in May 1998 resulting in more conflict over the allocation of political power. The intervention of troops from the Republic of South Africa (RSA) and other neighboring countries to quell devastating riots in September has had major political repercussions. The impact of the events of 1998 is still felt throughout Lesotho. An Interim Political Authority (IPA)—made up of two members of each of the 12 parties that had contested the 1998 elections—was created to review Lesotho's electoral system, to promote and create conditions conducive to a more durable peace, and to prepare for new elections within a period of 15 to 18 months. The period allowed for the new elections expired in May 2000 without any elections being held. A new election date is set for May 26, 2001, but it is possible that it will be postponed once again. There is currently no agreement among the various political parties on appropriate security and political arrangements, leading to continued political uncertainty with a negative impact on public administration, private investment, and economic development.

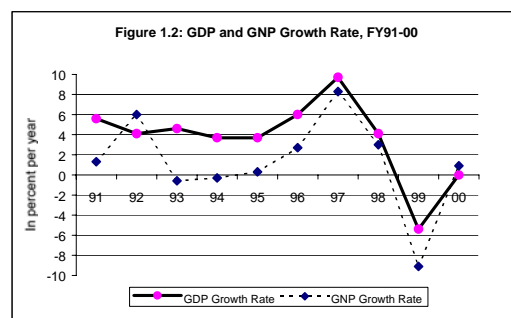
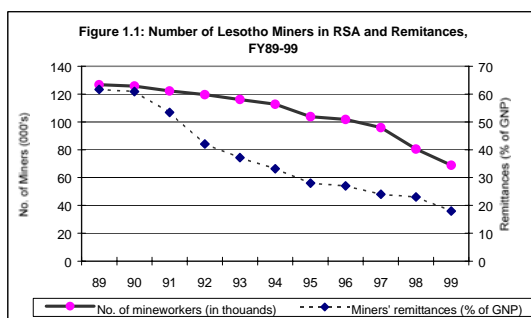
### 1.2 The Economy

1.2.1 Lesotho is a poor and landlocked country with a GNP per capita of US\$570 in 1998. Eighty percent of the population of nearly two million lives in rural areas. Two thirds is mountains and steep valleys with a temperate subtropical climate, and erratic rainfall. Its economy is based on limited agriculture and manufacturing (clothing, textile, and leather) supplemented by large remittances from Lesotho mineworkers in RSA and recently by the sale of water to RSA. The service sector has traditionally been the largest contributor to GDP with a share of 45 percent. The importance of agriculture in national output has declined considerably over the years—from 45 percent in 1966 to 14 percent in 1996. In contrast, the industrial sector's contribution to national output has increased significantly.

1.2.2 This country is completely encircled by and economically heavily dependent on RSA, from where 90 percent of its imports come and to which 65 percent of its exports go. The gold mines in RSA have been a major source of employment for Lesotho's labor force and remittances to the economy. The contraction of the South African gold industry and the decision of RSA government to rationalize migrant labor schemes have, however, led to a sharp reduction in the number of Lesotho's miners in RSA from 127,000 in 1989/90 to only 69,000 in 1998/99. As a consequence, miners' remittances dropped precipitously from 62 percent of GNP in 1989/90 to 18 percent of

GNP in 1998/99 (Figure 1.1). Lesotho is a member of the South African Customs Union (SACU).<sup>2</sup> It shares the customs receipts collected by SACU members which are then distributed on the basis of revenue sharing formula. Lesotho's share of SACU receipts rose from 12.6 percent of GNP in 1988/89 to 14.3 percent of GNP in 1998/99, reflecting largely the construction of the first phase of Lesotho Highlands Water Project (LHWP). However, these receipts are expected to decline as LHWP-related activities wind down. The SACU revenue-sharing formula is to be revised and tariff levels are envisaged to decline in line with the trade liberalization in the subregion, because the Southern African Development Cooperation (SADC) has agreed on a free-trade protocol for its members.<sup>3</sup> Finally, while some revenues have declined, the export of water to RSA continues to generate substantial income amounting to 18 percent of government revenues in 1998. After a prolonged period of political instability, general elections were held in May 1998, in which a newly formed party (Lesotho Congress for Democracy) within the ruling BCP won all but one of the 80 parliamentary seats with only 60.5 percent of the popular vote. The results were contested by the opposition parties, which alleged widespread rigging. The subsequent protests led to civil unrest and an army mutiny in September. At the request of the newly elected government a South Africa-led SADC force was brought into Lesotho to restore order. A new Interim Political Authority (IPA) comprising 24 members, two from each of the 12 largest political parties, was set up to promote and create conditions conducive to a more durable peace and to hold general elections by May 2000. However, considerable uncertainty remains with regard to the political situation, as there is no agreement among the various political parties on an appropriate electoral system, security, and political arrangement.

1.2.3 GDP grew at an annual average rate of 3.8 percent during the past decade, but current prospects seem less bright (Figure 1.2). Indeed, economic growth dropped sharply in 1997/98 and by 1998/99 real GNP had declined by 9.1 percent from its previous level.<sup>4</sup> This reversal took place as a result of the sharp drop in LHWP-related investment, weak growth in manufacturing and agriculture on account of adverse weather conditions, and declining migrant remittances from RSA. Moreover, economic activity, particularly foreign direct investment, tapered off in response to political instability in 1998. Lesotho's growth prospects over the medium term are expected to remain difficult as a result of: (i) political instability and the uncertain outlook for foreign direct investment; (ii) continuing decrease in miner remittances; and (iii) the expected drop in SACU receipts from 2001/02, because of the anticipated changes in the revenue-sharing formula; and (iv) the decline in LHWP-related investment.



<sup>2</sup> Members of SACU are: Botswana, Lesotho, Namibia, South Africa, and Swaziland.

<sup>3</sup> SADC members are: Angola, Botswana, Democratic Republic of the Congo, Lesotho, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Swaziland, Tanzania, Zambia, and Zimbabwe.

<sup>4</sup> Over the past decade, GNP grew, on average, at a much slower rate than GDP, owing in part to the fall in miners' remittances over the years (Figure 1.1).

### 1.3 **Poverty, Inequality, Social Conditions, and Gender Bias**

1.3.1 Lesotho's poverty and inequality remained extremely high during 1993–1999 (Table 1.1). The Gini coefficient for Lesotho is one of the highest in the world, implying that in a country with a high incidence of poverty—half of the population in 1999—many of the poor suffer extreme levels of deprivation. The national average incidence of poverty has not changed much over the 1990s, except that urban poverty is slightly lower and rural poverty slightly higher, reflecting the substantial growth in manufacturing and services and the stagnation of crop agriculture and the deterioration of the range lands. Poverty and inequality also have geographical, regional, occupational, and gender dimensions. Poverty is overwhelmingly rural: about 90 percent of the poor are in rural areas and are concentrated among farmers, shepherds, women, and in the country's mountainous regions (e.g., Thaba Teska and Mothotlong). Unemployment, a major cause of poverty, remains extremely high—about 40 percent, according to the 1997 Labor Force Survey. While economic growth is an important pre-requisite for improving welfare, it should be pointed out that strong economic performance during 1994–1997 was not accompanied by declining levels of unemployment, poverty and inequality.

**Table 1.1: Lesotho's Poverty and Inequality Profile, 1993–1999 (in percent)**

	<i>Rural</i>		<i>Maseru (Capital)</i>		<i>Other Urban</i>		<i>All</i>	
	<i>1993</i>	<i>1999</i>	<i>1993</i>	<i>1999</i>	<i>1993</i>	<i>1999</i>	<i>1993</i>	<i>1999</i>
Incidence								
Poverty <sup>a</sup>	54	56	28	22	27	29	49	51
Extreme Poverty <sup>b</sup>	29	37	14	10	11	15	26	33
Intensity (Poverty Gap)								
Poverty	27	30	13	22	12	27	24	30
Extreme Poverty	10	14	4	11	5	14	9	14
Population Share	82	80	14	15	4	5	100	100
Gini coefficient	0.55	n.a.	0.58	n.a.	n.a.	n.a.	0.57	0.597

<sup>a</sup> The percentage of the population spending less than half of the mean consumption level; <sup>b</sup> those consuming less 25 percent of the average.  
n.a.= not available.

Source: *Sechaba Consultants (1994) cited in World Bank Lesotho: Poverty Assessment Report, August 1995, Report No. 13171-LSO; and Sechaba Consultants (1999).*

1.3.2 Lesotho's social indicators are generally better than the Sub-Saharan Africa (SSA) average, but below the SADC subregion average (see Table 1.2 and Annex Tables 1.1 and 1.2). Lesotho has, for example, one of the highest literacy rates in SSA. However, due to inefficiency and poor quality of the educational system, only a small percentage of students reach the higher levels.<sup>5</sup> Consequently, at the secondary school level, Lesotho's enrollment is worse than the region and subregion. Overall, the UNDP Human Development Report for 1999 ranks Lesotho as 127<sup>th</sup> out of 174 countries in terms of human development index.<sup>6</sup>

1.3.3 Despite the progress achieved in improving social indicators in recent years (Table 1.2), the delivery of social services is weak. Health personnel are insufficient, health centers are not adequately equipped, and schools lack teaching materials. For instance, the population per physician exceeds 20,000, double the average for SADC. The share of total government resources devoted to the health sector has steadily declined since 1995. Moreover, the stated commitment to primary health care is not supported by the 30–40 percent of recurrent health resources allocated to Queen Elizabeth II Hospital. Similarly, budget priorities and equity in distribution of educational resources remain skewed with the National University of Lesotho absorbing about one fifth of all recurrent expenditure on public education. Recently, the government started to phase-in free

<sup>5</sup> Less than 4 percent of children entering primary school successfully complete secondary school and only 10 percent of students entering secondary school successfully complete that level (Sechaba Consultants, 1999).

<sup>6</sup> The human development index is a composite index that measures a country's achievements in terms of life expectancy, educational attainment, and adjusted real income.

primary education and its first year of implementation witnessed increases in enrollments. However, with 80 percent of the population living in rural areas characterized by mountainous terrain and remote villages, the challenge of delivering social services is daunting.

1.3.4 However, progress in the overall quality of life in Lesotho has not been evenly distributed between males and females (Table 1.2). Boys receive less education than girls. Lesotho's net primary enrollment rate for boys is much lower than in the SADC subregion. Adult male illiteracy is 29 percent, compared to a very low 8 percent for women. The bias against boys and men may stem from the fact that parents still view working in South African mines as the most promising job prospect for males, an occupation believed to require physical strength and endurance more than skills in literacy and numeracy.<sup>7</sup> Because of this long tradition of Lesotho men obtaining employment in South African mines, the number of *de facto* female-headed households is higher than in many other SSA countries. However, Lesotho's women have only the legal status of perpetual minors. For example, although the land act of 1979 and the 1992 amendment provide tenure security to both women and men, women have limited access to economic resources and services such as rural credit.

**Table 1.2: Social Indicators in Lesotho and Comparator Countries**

	<i>Lesotho</i>		<i>Comparator groups</i>	
	<i>1980</i>	<i>1997</i>	<i>Subregion (SADC) 1997</i>	<i>Region (SSA) 1997</i>
Life expectancy (years)	53	56	54	51
Total fertility	6	5	5	5
Infant mortality (per thousand births)	119	93	80	92
Population per physician	30,435	20,082	11,704	--
Net primary enrollment (% of age group)	67	69	75	--
Male	55	63	75	--
Female	80	74	75	--
Gross primary enrollment (% of age group)	104	109	106	78
Male	85	103	106	85
Female	122	114	105	71
Primary pupil-teacher ratio	48	48	39	34
Gross secondary enrollment (% of age group)	18	29	37	30
Adult illiteracy (% of pop. 15 years and above )	29	18	27	42
Male illiteracy (% aged 15–24 years)	30	19	13	20
Female illiteracy (% aged 15–24 years)	5	2	18	30

*Source:* World Bank, World Development Indicators, (various issues).

<sup>7</sup> Sechaba Consultants (1999) noted that 11 percent of all boys between 6 and 15 work as shepherds instead of going to schools. It has been traditional for youths to seek employment in mining after they finish shepherding.

## 2. **DEVELOPMENT CHALLENGES**

### 2.1 **Political Instability: A Constraint to Sound Governance**

The existing political system of first-past-the-post allowed the ruling Lesotho Congress for Democracy party to take virtually all parliamentary seats in 1998 elections with only 60.5 percent of the vote. Although the BNP won 24.4 percent and the BCP 10.4 percent of the vote, this only gave them one out of 80 parliamentary seats. The opposition parties feel that they should gain a share of power reflecting their popularity, thus ensuring a credible political system. To this end, a reformed electoral model—Mixed Member Parliament System—has been proposed, with 80 seats awarded on a first-past-the-post basis and 50 seats awarded according to proportional representation. However, official agreement on the exact timetable for implementing the new electoral process has been delayed, leading to considerable uncertainty. Meanwhile, the government signed a Defense Pact with SADC countries, allowing them to interfere at very short notice should the need arise. Implementing a new electoral system that addresses these issues and results in greater political stability, and therefore more stable governance, remains a key challenge.

### 2.2 **Poverty Reduction: The Overarching Objective of Lesotho's Development**

2.2.1 Reducing poverty has been, and still remains, the overarching objective of Lesotho's economic and social development. Lesotho is a predominantly rural country and poverty is overwhelmingly rural. While migration is a classic strategy for reducing rural poverty, it is not an easy option for Lesotho's poor because of the increasingly limited alternative income earning capabilities outside the farm sector for unskilled workers. Helping the poor out of this trap requires a combination of economic, social, and institutional strategies. Ideally, these include fostering labor-intensive growth, improving broad-based institutional capacity, promoting private sector development, and investing in human resource development. These are the issues Lesotho must face, but addressing them successfully is an enormous challenge particularly given the country's alarming poverty and unemployment levels.

2.2.2 GDP growth for agriculture, the sector that employs most of the poor, has been disappointing—around 1.8 percent per annum during the nineties, which was a drastic reduction from its 6 percent per annum during the second half of the 1980s. Population grew at an average rate of 2.6 percent during the last decade, indicating negative per capita growth. Agricultural GDP continues to be influenced by wide yearly fluctuations in output such as the drop of 16 percent in GDP between 1991 and 1992 due to droughts. Finally, Lesotho's agricultural performance was also below overall SSA growth rate of 2.2 percent per annum in the 1990s. The slow agricultural growth has contributed to worsening rural poverty (Table 1.1). As a result of the sharp reduction in the number of Lesotho's miners in RSA, miners' remittances—on which many rural households depend for their subsistence—declined significantly.<sup>8</sup> For a population with shrinking nonagricultural sources of income, it has serious consequences for food security.

### 2.3 **Strengthening Institutional Capacity**

Lesotho's efforts to sustain broad-based growth and reduce poverty are impeded by an inefficient government bureaucracy, and limited absorptive capacity for external assistance. While most of these problems have been known for many years, inadequate administrative and institutional capacity in the Ministry of Finance and other central government agencies appear to have seriously impeded policy formulation, coordination, and implementation. The authorities also

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<sup>8</sup> For example, 86.5 percent of migrant workers came from the rural areas in 1996 (National Employment Services, p. 16).

need to strengthen their data management systems as the timeliness and reliability of national accounts, poverty, and social data have been of particular concern. This has been a well-known chronic problem and hence development assistance to Lesotho must urgently address weaknesses in the administrative and institutional infrastructures, including a poor economic management capacity. This may include providing economic management support that would strengthen the Ministry of Finance capacity to analyze policy issues, such as fiscal management that would support improvements in budget preparation, monitoring and execution, and domestic resource mobilization that would increase tax revenues.<sup>9</sup>

## 2.4 **The Role of the State in Services and Production**

2.4.1 Basic problems stem from a large public enterprise sector, mainly public utilities, that has been generating significant losses for many years. These losses have been financed by a fragile banking system characterized by weak management, excessive political involvement in the credit allocation process, and weak banking supervision. A liquidator was appointed for one state-owned bank, following its closure and the privatization of another bank is a first step toward improving the efficiency of the financial sector. In addition, Lesotho has made progress in building a supervisory framework and strengthening the management of the financial sector. But, the failure to deal with the underlying problems of the losses by public enterprises and the health of the banking system left the fundamentals unresolved.

2.4.2 To date, slow progress has been made on imposition of financial discipline on loss-making public utilities, reforming public enterprises, and rationalizing the role of the state. The Lesotho Telecommunication Corporation (LTC) and the Lesotho Water and Sewage Authority (WASA) are making financial losses, constituting a burden on the budget. Reforming of these utilities, including electricity—Lesotho Electricity Corporation (LEC)—is crucial. Furthermore, the long-term future of the Lesotho Highlands Development Authority (LHDA), which manages LHWP, after the current construction program is completed in about 2003, and before a possible second phase starts up (at the earliest in 5–10 years time) is not being addressed. Recently the Government has started a program to restructure/reform the utility sector.<sup>10</sup> However, the privatization process has evolved more slowly than expected; only 24 public enterprises out of 54 have been brought to the final phase of sale. Finally, clarification is needed of government policies regarding the provision of guarantees to the public enterprises and onlending of funds by government to parastatals. In some cases, these guaranteed credits helped to delay the implementation of overdue restructuring and raised the contingent liabilities of the government.

## 2.5 **Private Sector Development: Key for Growth**

Growth and employment creation in the nonfarm sector remains a priority in order to absorb the labor surplus in agriculture. Lesotho's labor force, however, is characterized by a growing number of unskilled and semiskilled workers, and the labor market is characterized by a sluggish growth in employment opportunities, and a very high unemployment rate (40 percent).<sup>11</sup> Labor-intensive manufacturing output (garment, footwear, and electronics) grew substantially during the first half of the decade, though starting from a very small base. This growth was due largely to an

<sup>9</sup> The Ministry of Finance is in the process of staffing its newly established unit—Fiscal Analysis and Policy Unit.

<sup>10</sup> LTC is currently being privatized, with 70 percent being sold to the private sector; LEC is likely to follow, within the context of a new Master Energy Plan, although much needs to be done before this takes place. As for WASA, this is likely to be restructured in such a way that certain components would be privatized while others would remain under Government control. Currently, WASA has a 90 percent collection rate and only 22 percent unaccounted for water (a relatively low rate).

<sup>11</sup> The labor force is growing at a rate of 20,000–25,000 new entrants per year, while the employment absorptive capacity of the country is limited to about 6,000–8,000 only. Furthermore, the unemployment situation is made worse by the massive retrenchment of migrant miners in RSA.

increased export of garments and footwear financed by foreign investors.<sup>12</sup> A number of investment policy reforms were implemented to improve the environment for private investment.<sup>13</sup> Foreign investments were attracted, but government subsidies were essential for this, and there is no indication that, once the subsidies are phased out these activities will continue. Furthermore, the country was less successful in encouraging indigenous investment, helping investors take advantage of opportunities created by LHWP, and diversifying investments into higher value added activities, and creating linkages between the larger export-oriented firms and microenterprises. Growth prospects in the private sector have been adversely affected by political uncertainty, limited infrastructure, high cost of utilities, weaknesses in the financial sector, a land policy which discourages foreign investors, and a legal system that is not capable of protecting investors. Indeed, private sector activities—including manufacturing, trade, and construction, particularly LHWP—have recently declined, reflecting in part the negative impact of an unsettled internal political environment.<sup>14</sup>

## 2.6 **Human Capital Development: Key for Jobs**

2.6.1 Lesotho's size and unique geographic circumstances make it essential that human capital be well adapted to the domestic and, more importantly, subregional labor market. The country must meet the challenge of a post-apartheid shift in migrant labor demand in South Africa from largely unskilled mine workers to skilled and semi-skilled workers. The easy advantage of greater educational opportunities enjoyed by Lesotho workers in the past will be reduced over time as South Africa develops its own human capital. Thus, maintaining the competitiveness of Lesotho workers within the regional market will require sustained attention to the quality of education and training. Among the major challenges will be reversing the trend of declining net enrollment rates for primary education among children, vastly improving outcomes and efficiency in primary and secondary education, adapting technical and vocational education and tertiary education to private sector demand in the sub-regional labor market, and striking an appropriate and sustainable balance in public funding for various levels of the education system. Finally, maximizing the productivity of all human capital in Lesotho will only be possible if gender disparities in educational and economic participation are reduced.

2.6.2 A major challenge in the coming decade will be to successfully develop the institutional capacity, integrated information systems and reliable survey instruments necessary to assess the evolution of health, nutrition and demographic status in the country, as well as the performance of health services. With years of disparate donor-supported investments in training, technical assistance and consulting services, Lesotho has failed to develop the most basic integrated health information system and has suffered a continual drain of qualified personnel in this area. Lesotho is facing one of the most serious health and social welfare threat of the new century: the HIV/AIDS pandemic. Based only on a very small sentinel surveillance system, UNAIDS estimates an adult (age 15–49) HIV prevalence rate of 23.6 percent for Lesotho in 1999—one of the highest rates in the world but comparable to other countries in the Southern Africa subregion (Annex Table 2.1). With one in four adults probably infected, and a tenfold increase in reported AIDS cases between 1995–99, Lesotho can expect to see dramatic increases in infant, child, and adult mortality rates resulting in a severe decline in life expectancy—and the negative social, economic, and financial

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<sup>12</sup> Light manufactured exports grew by about 40 percent per year from 1991 to 1994, though starting from a very small base, and helped in creating 8,100 jobs (Lesotho's labor force was estimated at 701,977 in 1997).

<sup>13</sup> These included establishing the Investment Promotion Center as a one-stop shop to foreign investors, removal of the T-Bill tax exemption and replacing the costly tax holiday with a general 15 percent corporate tax.

<sup>14</sup> Surveys conducted in the wake of riots showed that over 1,000 businesses reported damage of more than \$43 million to premises and, with close to 6,000 jobs being lost (Sechaba Consultants, 1999). A government report estimated that \$26 million would be required to replace damaged public and private buildings. A UNDP/World Bank mission estimated the total cost of reconstructing damaged properties at \$34 million in 1998.

consequences of losing people in their most productive years. Overcoming social and cultural barriers to addressing HIV/AIDS and implementing a multisectoral response for prevention, care and community support as well as subregion cooperation will be key challenges in the years ahead.

## 2.7 **Vulnerability and Globalization**

According to the Commonwealth/World Bank vulnerability index, Lesotho is one of the most vulnerable small countries in the world.<sup>15</sup> This vulnerability poses formidable challenges as aid flows may continue to decline and Lesotho's preferred access to RSA and the world market is eroded in response to sub-regional developments and global trade arrangements.<sup>16</sup> Sub-regional changes include: (i) ongoing retrenchment of Lesotho miners in RSA as the price of gold declined, (ii) the potential adverse impact on Lesotho's privileged access to the RSA market owing to the envisaged broadening of the SACU free-trade zone to cover more countries in Southern Africa, and (iii) the projected drop in SACU receipts from 2001/02 as SACU revenue-sharing formula is revised and SADC has agreed on a free-trade protocol for its members, leading to reduction in tariff levels and the size of the overall pool of receipts from the customs union. Both national policy change and external support will be needed in response to the changing global economic environment, particularly sub-regional developments. Domestic policy challenges include not only policy reforms to enhance Lesotho's competitiveness and increase private sector investment and employment but also complementary public policy action and investment, providing better infrastructure, including reforming public utilities, high investment in education and health care, promoting political stability, and fostering democratic institutions and well established property rights. Also actions will be needed to create safety nets to ease the hardship some will face in the process of adaptation and to avoid an increase in poverty.

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<sup>15</sup> The index ranks developing countries according to measurable components of exposure (e.g., lack of diversification, extent of export dependence, and impact of natural disasters) and resilience to external shocks (World Bank, 2000).

<sup>16</sup> Indeed, following the agreement on post-Lome arrangements recently concluded between the EU and the 71 African, Caribbean, and Pacific (ACP) countries, the latter will have to gradually give up the principle of nonreciprocal trade preferences. More importantly, the phasing out, by 2004, of the Multifibre Arrangement will remove incentives to invest in APC clothing. Under the current agreement, Lesotho's textile exports to the United States and Canada are not subject to quota restrictions. As a result almost all of the growth of Lesotho's exports to the US—which increased by 73 percent between 1994 and 1998—came from the textile sector, mainly garments, constituting over 80 percent of Lesotho's total merchandise exports.

### **3. BANK GROUP ASSISTANCE TO LESOTHO**

3.1 This section reviews Bank Group assistance to Lesotho. It covers the evaluation of the strategy which governed both Bank non-lending assistance (policy dialogue and advice, economic and sector work, aid coordination and resource mobilization) and lending assistance. The tentative conclusion that can be drawn from the evaluation is that, overall, Bank Group assistance can be described as moderately satisfactory, with non-lending assistance being rated as unsatisfactory. The assistance is also sustainable over the long-term as a result of its impact on institutional development and overall government commitment to the process of development.

#### **Bank Group Strategy in Lesotho**

##### The 1988 Strategy

3.1.1 Although the Bank started operations in Lesotho in 1974, it was not until 1988 that the Bank developed a strategy towards the country. In the aggregate, Bank Group strategy towards Lesotho was not in any way different from its overall mandate of promoting economic and social development of its regional member countries. But in the pursuit of this objective in Lesotho, the Bank had to make strategic choices. As spelt out in the 1988 Economic Prospects and Country Programming Paper (EPCP), Bank Group strategy in the medium term, “will continue to be the provision of basic socio-economic infrastructure, especially the road network and rural airfields, potable water and health”. It was also added that: “The continuing inaccessibility of most of the Eastern Highlands districts mean that the development of a reliable road and rural airfields will remain high on the agenda. Due to the nature of the terrain, the programme will necessarily be expensive. Continued ADF participation in this sector will therefore remain on the high side”. It was also argued that considerable attention would be given to improving rural incomes through supporting medium-scale agricultural and agro-industrial projects. The EPCP also recognised the existing manpower constraints in Lesotho. Hence it proposed the provision of institutional support to various ministries, in particular to the transport ministry, and the Ministry of Finance and Economic Planning.

3.1.2 With respect to the social sector, the 1988 EPCP noted that as a result of its mild climate, Lesotho is largely free from major tropical diseases. But with only a total of 2204 hospital and clinic beds (or 1.45 beds per 1000 inhabitants), the country is below half of the WHO recommended ratio for Africa. As a result, its recommended strategy for the Bank was one of strengthening intermediate health units which provide the necessary back up services to the primary units. Although subsequent CSPs were silent on the basic thrust of Bank strategy in the health sector, the guiding principle contained in the 1988 EPCP was the driving force behind Bank intervention.

3.1.3 While Lesotho has one of the highest literacy rates in Sub-Saharan Africa, the inefficiency of the educational system does not permit more than a small percentage of students to reach higher levels. The country’s performance is thus constrained by the dearth of well-trained personnel to manage economic development. Thus Bank Group strategy, right from the 1988 EPCP, was aimed at addressing the dearth of human resources for national development, the high proportion of unqualified teachers, and the limited and unequal access to educational opportunities. The priority areas identified include basic education, manpower development (vocational, technical and teacher training) and institutional strengthening to manage educational development.

### The 1996 and 1998 Strategies

3.1.4 The next attempt to articulate a strategy for Lesotho was in 1996, with the production of the Country Strategy Paper (CSP)—the successor document to the EPCP. In the CSP, the Bank Group recognised the need to address the constraints facing the economy, such as the shortage of skilled manpower, unemployment, and inadequate infrastructure and increased poverty. From these array of constraints, the Bank had to make some choices. Thus it choose to concentrate its intervention on agriculture and public utilities during 1996-98. The 1999 CSP covering the period 1999-2001, is perhaps the most comprehensive attempt to situate Bank intervention in the context of a well-defined strategy. Inspired by the global concern for poverty reduction and the Bank's Vision document, the CSP articulated a strategy aimed at contributing to government's agenda for poverty reduction through projects and programmes for sustainable growth, employment creation and human resource development. It then proposed a series of incentives, which would be put in place to encourage private sector development. In this regard, agriculture would attract the bulk of Bank lending (65%), followed by the social sector (35%). The strategy also recognises that private sector development is an essential component of the drive for poverty reduction.

### **Relevance of the Strategy**

3.1.5 When set against the prevailing economic and political situation of the time, Bank Group strategy, as formulated in 1988, was a relevant one to pursue. Completely surrounded as it were, by South Africa, whose political ideology of apartheid was evoking worldwide sanctions, the Kingdom of Lesotho certainly faced a hostile development environment. The internal road network being under-developed had warranted making detours through South Africa even when making domestic travels. Such detours became expensive both politically and economically in view of sanctions against South Africa. The development of an efficient road network, which could reduce the country's dependence on South Africa, thus became a matter for survival for the country. The development of a road network also became an imperative, as there was need to link the mountainous areas of the country with the major urban areas. Such a road network would facilitate the movement of goods and people from the mountain areas to the cities. Bank Group strategy, which in fact coincided with that of the government, was thus a relevant one to pursue in the light of the circumstances then prevailing. The development of air transport was predicated on the fact that as a mountainous country, it would take some time and considerable amount of resources to link the country by a road network. Although the outcome of this strategy might have turned out to be unsatisfactory, it was also a relevant strategy to pursue at the time.

3.1.6 The 1996 CSP was formulated against the background of the collapse of apartheid and worsening poverty situation in Lesotho. With the collapse of apartheid, the use of South African road network became less cumbersome. Besides, Lesotho had made considerable progress in linking the country with a credible road network. Thus the shift in strategy from the development of infrastructure towards programmes and projects (for example in agriculture, health and education) that could contribute to poverty reduction was indeed a relevant strategy to pursue. The 1999 CSP continued the emphasis on poverty reduction. Again this is a relevant objective to pursue given the depth and severity of poverty in Lesotho and the Bank's renewed commitment to its eradication in its regional member countries.

3.1.7 Bank Group strategy in the social sector was similarly relevant, given the limited number of health facilities. As it will be shown below, most Bank interventions were aimed at simply providing health facilities—a direct response to the observed shortage of such facilities. In the education subsector, the shortage of skilled manpower was already constraining national economic management. Thus any strategy aimed at filling this gap would be a relevant one both to the needs

of the country, as well as to the Bank's education strategy as spelt out in the 1986 ESSP. The strategy was also relevant to the national goals of improving teacher quality and building capacity for curriculum development. It provided support to strengthen public and private sector collaboration for education and nested an education study as a component of Education I.

3.1.8 Although Bank's strategy towards Lesotho, particularly in the transport and social sectors, can be described as relevant, the strategy appears to have been undermined by three key factors. One was the inadequate attention paid to governance issues in the country. This was made possible by the absence of a forum for policy dialogue (for example a platform like that provided by policy-based lending). The second factor was the slow response to HIV/AIDS related issues in Bank's lending to the health sector. The Bank was more concerned with the provision of physical health facilities rather than measures to monitor and prevent the spread of AIDS at a time when that epidemic was ravaging the country. Finally, Bank strategy paid little attention to poverty issues. Indeed, it was not until the 1996 CSP that poverty issues entered the centre stage in Bank intervention. Even at this late stage, there was no explicit poverty-reduction programme put in place, not to talk of any attempt to understand its depth and dynamics.

## **Non-lending Assistance**

### Institutional Support

3.1.9 While Bank lending operations started in Lesotho in 1974, it took some time for the Bank to appreciate the advantages that could be derived from investing in non-lending activities, which could have enhanced the effectiveness of its lending programmes. Thus there was little by way of economic and sector work, policy dialogue and advice. But the Bank did provide (albeit in a rather incoherent manner), some institutional support to certain ministries like transport and finance and economic planning. The aim of the institutional support to the transport sector was to strengthen and sustain government's capability in the sector. Specifically, it was aimed at improving the planning and management of investment and expenditure in the sector, improving the administration and management of civil aviation, and developing a programme of maintenance for the sector. Some its components include training and management studies. The support was relevant to the problem at hand as it assisted the government to develop an independent road network and enhance government capacity for the management of the transport sector. The support was also efficacious in that it achieved its objective of strengthening the capacity of the government for managing the transport sector. The Feeder Roads study was aimed at preparing detailed engineering designs including tender documents for Likalaneng-Thaba Tseka Road, and carrying out the feasibility study including preliminary designs of two rural roads (Roma-Ramabanta-Semonlong-Sekare Road). As this assistance is still on-going, it is difficult to make pronouncements on its achievements. But it is relevant in the sense that it would provide a sound basis for making a decision one way or the other on the feasibility of proceeding with the construction of the roads.

3.1.10 The institutional support to the Ministries of Finance and Economic Planning was aimed at strengthening the analytical and administrative capability of these two vital ministries. One of the features of Lesotho is the dearth of human and institutional capacity for policy formulation and implementation. The focus of the support is on human resource development through training and institutional development. The latter is to be achieved through the provision of essential materials like personal computers. Although the assistance is still under implementation, it can be said tentatively, that it is achieving its objectives as members of both departments have been trained and both departments are now equipped with personal computers. The assistance is also relevant as it is aimed at addressing the observed dearth of human and institutional capacity in Lesotho. The assistance however faces a major risk. As a result of the combined effects of low domestic wages, the collapse of Apartheid, and its porous borders with South Africa, many of the trained personnel

are now finding more attractive employment opportunities in South Africa. Its sustainability is therefore uncertain.

### Economic and Sector Work, Policy Advice and Dialogue

3.1.11 Except for the mandatory preparation of the EPCP and the CSP, the Bank has not carried out any economic and sector work on Lesotho. While the Bank has invested heavily in the transport and social sectors, it did so with limited knowledge of these and other sectors. The Bank was not at all involved in the authoritative and strategic study on the economic and social development of Lesotho—The Strategic Economic Options for Lesotho. This study, which benefited from the analytical, technical and financial support of the World Bank and the Swedish International Development Agency (SIDA), laid the basis for a post-apartheid development strategy. It has proved useful in the formulation of the World Bank's assistance strategy for Lesotho and in the formulation of the country's own development agenda. In the absence of Bank involvement in this influential study, the Bank found itself increasingly tied to the policy framework and long-term development agenda as set up by the World Bank and the country.

3.1.12 The Bank's major economic documents (the EPCP and the CSP) have rarely been used as instruments of advice and policy dialogue, partly because they are not rooted in serious economic analysis. Indeed they have served mainly as instruments for programming Bank interventions in Lesotho. The fact that Lesotho has never benefited from a policy-based lending programme from the Bank probably accounts for this void in policy interaction. But in spite of these shortcomings on the part of the Bank, mention must be made of the Bank's study on economic integration in Southern Africa. The study made a persuasive case that all countries in Southern Africa have much to gain from various forms of regional cooperation and from launching a determined effort to integrate the regional market. As a small country in the regional market, Lesotho has much to gain (and much to fear) from the economic integration of the Southern African economies. To date however, it is not obvious how the Bank has used the findings of the study to affect its interventions (particularly in air transport) in Lesotho. Mentioned should also be made of the Bank's study (financed by the Government of Japan) on "Long-term Finance in Southern Africa and SADC Countries". Again, it remains unclear how far this study has influenced Bank Operations in Lesotho.

3.1.13 In recent years however, the Bank has taken some hesitant steps to enhance policy dialogue and advice. It took the unsuccessful initiative to encourage the government to accept the Supplementary Financing Mechanism (SFM) for the repayment of interest on ADB loans. But the government did not show sufficient interest in the initiative, as it does not consider its debt burden serious enough for the purpose. The Bank is currently engaged in dialogue with the government on private sector development. A public utilities reform project, which would facilitate the reform of telecommunications, water, and electricity and their eventual privatization, is being planned for Board discussions before the end of 2000. While these new initiatives appear to be in the right direction, it is too early to judge them for relevance and impact. But overall, it can be concluded that Bank contribution to policy dialogue and advice to date cannot be judged to be anything but unsatisfactory.

### Aid Coordination and Resource Mobilization

3.1.14 Table 3.1 shows average net flows of Official Development Assistance (ODA) on a per capita basis for the 1990-94 and 1995-97 periods. Lesotho's per capita ODA exceeded the Sub-Saharan African average by more than 50 percent, but was on par with the SADC sub-region. IDA's net disbursements per capita to Lesotho over this period, representing less than 10 percent of the country's total ODA flows, were low relative to the comparator countries. However, Lesotho

received additional net IBRD disbursements per capita averaging US\$10.4 per year over the 1990-97 period, indicating a high level of dependence on World Bank resources.<sup>17</sup> Aid was high in the 1980s and early 1990s due to Lesotho's position as a frontline state during the apartheid era in South Africa, but since 1994 net ODA has declined steadily. However, external assistance to Lesotho has been delivered in a setting of political uncertainty, which continues to have a negative impact on development. Also, there are substantial differences among donors in terms of assistance strategy that are due to different readings of the political environment. The different perspectives have resulted in different levels of commitment by the remaining donors to supporting the development programmes.

**Table 3.1: Official Development Assistance (ODA), Annual Average, 1990-94 and 1995-97**

	<i>Lesotho</i>		<i>SADC</i>		<i>SSA</i>	
	1990-94	1995-97	1990-94	1995-97	1990-94	1995-97
Net ODA per capita (US\$)	74.6	53.4	79.5	60.3	44.5	37.2
Net AfDF-ODA per capita (US\$)	8.2	4.3	3.6	1.2	1.7	1.4
IDA commitments per capita (US\$)	6.2	8.6	6.6	4.1	7.6	5.7
IDA disbursements per capita (US\$)	4.1	4.7	4.3	4.6	5.9	5.7

Source: OECD Geographical Distribution of Financial Flows to Aid Recipients.

3.1.15 The United Nations Development Programme (UNDP) has been at the forefront of convening Roundtable Conferences on Lesotho, with the Bank actively participating in them. At these meetings, the government of Lesotho presents its long-term plan for sustainable development and the requisite resources to implement the plan. Available information shows that the coordination of development assistance has been effective. In 1992 for example, this coordination played a key role in counteracting the severe impact of the drought then ravaging Lesotho and the rest of Southern Africa. In 1997, aid coordination also played a major role in enlisting donor support for the government's poverty alleviation efforts. This resulted in donor pledges of about \$336 million for five years to finance a new and targeted approach to poverty reduction, through improvements in primary health and education services and employment creation for the poor.

3.1.16 The Bank has also been active in co-financing activities. To date, it has co-financed four projects in Lesotho with bilateral and multilateral development partners. It co-financed a water project with the Organisation of Petroleum Exporting Countries (OPEC) Fund and NORAD; road projects with IDA, the Arab Bank for Economic Development in Africa (BADEA), and OPEC Fund and Kuwait Fund, and a health project with OPEC Fund. Co-financing arrangements are being planned for the Agricultural Sector Adjustment Programme, which was presented to and approved by the Boards in March 1999. The Agricultural Sector Adjustment Programme represents Bank Group's financing of the first phase of the Lesotho Agricultural Sector Development Programme (ASDP) – a longterm development programme spanning about ten years. The first phase of the ASDP is being financed through the Agricultural Policy and Capacity Building Project by various donors, including the Bank Group, the World Bank, the European Union, among others.

### Conclusion

3.1.17 While the Bank has stepped up its efforts to make its non-lending activities more effective in recent years, the performance to date shows that the Bank has not been effective in its non-lending assistance to Lesotho. Indeed, its performance is rated as unsatisfactory. Its programme of technical assistance remains fragmented and incoherent. It remains largely unresponsive of Bank lending programmes. Bank's role in policy dialogue and advice is weak while it has not made any contribution to economic and sector work. But it has however coordinated well with other donors,

<sup>17</sup> About 80 percent of Lesotho external debt of US\$641 million is multilateral (World Bank, 1998).

in particular, with the World Bank, presumably because as a small player in aid delivery, it had to coordinate well with a bigger provider of aid to Lesotho. As for future directions, the Bank would need to strengthen its non-lending assistance as the components of this assistance are preconditions for the success of its lending operations.

### **Lending Assistance**

3.1.18 Since it started operations in Lesotho in 1974, the Bank has approved loans totaling UA 274.81 millions, comprising UA 88.66 millions of ADB resources, UA 170.72 of ADF resources and UA 15.43 million of NTF resources. These resources were used to finance twenty-seven projects, three lines of credit and six studies. Following the cancellation of a number of loans (UA 50.96 million) in the wake of the portfolio restructuring exercise of 1994, Bank Group net commitment now stands at UA 223.85 million. Twenty-three operations have been completed. In terms of sectoral distribution, Public Utilities and Transport sectors are the main beneficiaries with 28% and 26% of the portfolio respectively. They are followed by Social sector with 24%, Agriculture with 13% and Industry with 9%. As of December 1999, UA 175.82 millions have been disbursed, representing a disbursement rate of 78.5% (Table 3.2). A breakdown of the projects is contained in Annex II.

**Table 3.2**  
**Sectoral Breakdown of Bank Group Approved Loans and Grants**  
(31 December, 1999) (Net Commitments in UA million)

Sector	No. of approved operations	ADB	ADF/TAF	NTF	TOTAL	%
Agriculture	8	-	27.16	2.13	29.29	13.1
Industry	4			12.50	20.76	9.3
Transport	10	-	57.07	-	57.07	25.5
Public Utilities	7	35.40	26.27	-	61.67	27.5
Social	7	-	54.29	-	54.29	24.3
Multisector	1	-	0.77	-	0.77	0.3
Total	37	43.66	165.56	14.63	223.85	100
% of Total approvals		24	70	6	100	

Source: ADB: Lesotho, Country Strategy Paper, 1999-2001

3.1.19 Table 3.3 below shows OPEV ratings of 14 completed projects in Lesotho<sup>18</sup>. The table shows that in terms of Implementation Performance (IP), ten projects (or 85.7% of completed projects) were rated either unsatisfactory or highly unsatisfactory, whereas two projects (or 14.3%) were rated as satisfactory. Poor project implementation performance has always been the experience of the Bank in Lesotho. In 1994, a portfolio review report of Lesotho recommended the cancellation of several loans as a result of poor implementation. The 1998 Country Portfolio Performance Review Report (CPPR) concluded that delays in loan effectiveness and project start-up, non-compliance with Bank procedures and weak institutional capacity are largely responsible for Lesotho's poor record on IP criterion. On Development Objective (DO) criterion, the table shows that ten out of the rated projects (71.4%) had satisfactory ratings whereas only four (28%) had unsatisfactory or highly unsatisfactory ratings.

<sup>18</sup> As not all completed projects are subject to OPEV evaluation, there could be a discrepancy between Table 3.3 and Annex V. These evaluations were carried out before the current use of the MDB recommended evaluation criteria (i.e. relevance, efficacy, efficiency, institutional development and sustainability).

**Table 3.3**  
**OPEV : Evaluation Ratings of Completed Projects**

COUNTRY	PROJECT NAME	SECTOR	IP_ASSESS	DO_ASSESS
LESOTHO	HEALTH SERVICE DEVELOPMENT	HEALTH	HUS	S
LESOTHO	BUTHA-BUTHA-ROMA-SOMOKONG ROAD CONSTRUCTION	ROAD TRANSPORT / HIGHWAYS	HUS	S
LESOTHO	JOEL-DRIFT-KHAMANA ROAD CONSTRUCTION	ROAD TRANSPORT / HIGHWAYS	HUS	S
LESOTHO	MASERU WATER SUPPLY	WATER SUPPLY	HUS	US
LESOTHO	PARC D'ENGRAISSEMENT DU BETAIL	AGRICULTURE	HUS	US
LESOTHO	PHUTHIATSANA INTEGRATED RURAL DEVELOPMENT (ADF)	RURAL DEVELOPMENT	HUS	US
LESOTHO	TELECOMMUNICATIONS I PROJECT	TELECOMMUNICATIONS	US	US
LESOTHO	LINE OF CREDIT TO LESOTHO BANK	AGRICULTURE	S	S
LESOTHO	RURAL HEALTH SERVICES	HEALTH	HUS	S
LESOTHO	RURAL HEALT SERVICES II	HEALTH	HUS	S
LESOTHO	RURAL CREDIT AND BANKING FACILITIES	AGRICULTURE	US	S
LESOTHO	ROAD MAINTENANCE	RAILWAYS/TRANSPORT	S	S
LESOTHO	FOUR CENTRES WATER SUPPLY AND MASERU II WATER SUPPLY PROJECTS	WATER SUPPLY	US	S
LESOTHO	KHAMANE – OXBOW ROAD PROJECT	ROAD TRANSPORT / HIGHWAYS	US	S

**Notes:**

- S : Satisfactory  
 US : Unsatisfactory  
 HUS : Highly Unsatisfactory

3.1.20 In terms of aggregate performance, Bank portfolio in Lesotho appears satisfactory. According to the Annual Portfolio Performance Report (APPR), the portfolio has also been improving over time. For example, in 1998 and 1999, the APPR found that there were no problematic projects on the Implementation Progress (IP) and Development Objectives (DO) criteria. But on the Project-at-risk criterion, the report found that three projects (3% of the portfolio) were at risk. On commitment basis, this amounts to UA 10.37 millions (or 19% of total commitments) that were at risk. The age profile of the portfolio also appears reasonable by Bank standards—the age was an average of 6.25 years between 1995 and January 2000. In January 2000, it was 5.6 years. All these are indicative of an ever-improving portfolio, and this improvement might be due to institutional strengthening, particularly in the transport sector.

### 3.2 **Sector Analysis**<sup>19</sup>

#### (i) **The Transport Sector**

##### **Efficacy**

3.2.1 Bank Group assistance to the transport sector comprises thirteen operations as listed in Annex III. The net commitment in the sector is U.A. 78.52 million, representing 30 % of total commitments to the Kingdom of Lesotho. The portfolio comprises nine infrastructure construction projects, and one institutional support project. The infrastructural facilities funded by the Bank

<sup>19</sup> The rest of this report evaluates Bank assistance in the Transport and Social Sectors. The background papers on the two sectors, which also include the ratings, are available upon request.

Group were road sections of the western (A2 and A1) and northern (A1) perimeter main road, and sections of penetrating main roads (A3 and A5) as well as the new international airport of Maseru. Among the three studies, the first study resulted in the construction of three new sections of the northern perimeter main road, but the feeder roads study did not result in any construction activity. A Feeder Roads Project was planned in March 1994 but was not appraised by the Bank to this date. The third (ongoing) study concerns two important penetrating roads that provide access to the central mountain areas.

3.2.2 With the exception of the new international airport, the transport sector projects achieved their major goals of providing low cost access to remote areas of the country and connecting the major population and economic centres. Access to all districts and important population and production centres has been provided. As a result, it is no longer necessary to transit through the roads of South Africa when travelling from Maseru to the remote areas of the country. Traffic growth rates after construction exceeded appraisal expectations with the exceptions of the mountain roads from Khamane to Oxbow and from Oxbow to Mokhotlong. In 1994, the length of primary, secondary and tertiary road network was estimated to be 5,323 kilometres. As of the time of this evaluation, the total length was estimated at 6,216 kilometres, excluding urban roads.

3.2.3 In the air transport sub-sector the construction and furnishing of a new international airport were satisfactorily carried out. Comprehensive training and technical assistance were provided to the new international airport and the Department of Civil Aviation. A feasibility study and detailed design of domestic airports (1990 - 1991) and a management study of Lesotho Airlines Corporation (LAC) were also carried out.

### **Efficiency**

3.2.4 The implementation of Bank Group projects in the transport sector is noted for long delays. Delays in completion of road projects varied from 7 to 62 months and had a tendency to increase overtime and the loan deadlines were often extended. Time overruns varied from 29 to 113 % while cost overruns varied from 13 to 53 % (Annex IV). Cost overruns sometimes resulted from extensions in scope of projects and very often from technical shortcomings.

3.2.5 Road projects resulted in lower vehicle operating costs and were generally followed by high traffic growth rates. The new sealed roads are providing low cost access to rural areas for persons and goods, particularly agricultural inputs and outputs and contributing to rural development.

3.2.6 With the exception of two projects, the road sub-sector projects were efficient with economic internal rates of return higher than 12 % at completion and at post-evaluation. The exceptions were the mountain roads from Khamane to Oxbow and from Oxbow to Mokhotlong. For the first road, a 22 km long section climbing from the foot hills (1750 m) to the high plateau (> 3000 m), an attempt was made to decrease construction costs and improve the efficiency of the project by adopting a substandard cross section and cut steep slopes, which resulted in serious environmental and safety hazards and an internal rate of return of about 6 % at completion and post-evaluation.

3.2.7 At the time of its construction, the Maseru international airport was relevant to the development needs of the country. It served the purpose of reducing the isolation of Lesotho during the apartheid era as it provided means of transportation which is independent of South Africa. But with the collapse of apartheid and the progress made in road construction, air traffic reduced considerably. Although the airport can be useful in winter when road transportation becomes difficult, there is no doubt that in relation to the cost of construction, maintenance and the cost of trained personnel, the project has become inefficient over time. The Department of Civil Aviation is

currently marketing the new international airport for cargo transport, following cargo congestion in regional international airports. It is still hoped that the airport could be used for shipment to Europe of fresh vegetables and fruits from Lesotho as well as fish and seafood from South Africa.

### **Institutional Development**

3.2.8 In broad terms, Bank Group activities in the transport sector have supported institutional development in Lesotho. All the projects, without exception, resulted in significant enhancement of institutional capability. Transport sector projects also contributed to the development of the private sector by providing jobs to the national road construction industry which now comprises more than fifty active contractors both labour intensive and equipment oriented. The former Labour Construction Unit has carried out a programme for training of labour based contractors on unsealed road maintenance. On the other hand the Roads Branch has promoted training of truck haulage subcontractors in mechanical road construction. The institutional support to the Ministry of Transport has strengthened the capacity of the government for managing the sector, while many of the studies have assisted in the formulation of road projects.

3.2.9 The successful implementation of the ten projects in the transport sector by the Borrower and its implementing agencies are indicative of institutional strengthening. The training components of some of the projects have actually enhanced human resource development, while valuable experience has been accumulated in road construction by both public servants and private sector operators. In the seventies and eighties, many road departments were managed by expatriate technical staff. The training components of some of the projects have obviated the need for such expatriates.

3.2.10 The use of direct labour for road construction and maintenance within the Roads Branch (RB) and the Labour Construction Unit (LCU) has not adversely affected the development of private contractors in Lesotho, and has indeed been an advantage in the training of contractors. Labour intensive contractors have carried out 181 routine, periodic maintenance and upgrading contracts for the LCU between 1997 and 2000 or an average of 60 contracts a year.

### **Sustainability of the Achievements**

3.2.11 Available data from the Roads Branch and from the Department of Rural Roads shows that, since construction, all sealed roads have been regularly maintained. Some sections have also been strengthened by the LHDA to carry the heavy traffic required by its dam construction activities. Road projects have therefore been satisfactorily sustained. Some road sections are reaching the end of their 15 year structural design life, namely sections of A1, A2, A3 and A5 that were rehabilitated in 1985, 1987 and 1988. However no sign of structural fatigue is apparent in these sections. A detailed study for strengthening and upgrading of the Butha Buthe to Oxbow section of A1 was commissioned to a consultant and works are programmed under the Road Rehabilitation and Maintenance Project. But in two projects (Khamane - Oxbow and Oxbow - Mokhotlong roads), winter maintenance was ignored. As a result, the Roads Branch has no capacity for winter maintenance and access between Khamane, Oxbow and Mokhotlong is not all weather as expected.

3.2.12 The sustainability of the road sub-sector is further assured by the appropriate allocation of resources by the Government for maintenance. Available evidence shows consistent allocation (of about 20% of total road expenditure) for road maintenance. While budget allocations were sufficient for routine and periodic maintenance of sealed roads, they did not permit proper maintenance of the whole network. A backlog of maintenance was accumulated in the unsealed road network, but more money was allocated in recent years to reabsorb the backlog and bring the unsealed road network to good condition.

3.2.13 The country also has the relevant institutions for ensuring sustainability. The Ministry of Public Works and Transport (MoPWT) now has overall responsibility for the transport sector. The rural road network and main urban roads are managed by two different departments of the MoPWT: the Roads Branch is responsible for the sealed road network and for unsealed roads with high volumes of traffic, whereas the Department of Rural Roads has responsibility for all low-volume unsealed roads. Both departments operate a pavement management information system.

3.2.14 Based on Government commitment, social and financial support and management effectiveness, it can be said that future prospects for road maintenance and project sustainability are bright in Lesotho. This statement is reinforced by the following observations. Lesotho has been able to address most critical issues of the road transport sector, such as the backlog of road maintenance, appropriate management and sustained financial resources for the road network, institutional reform and road users involvement, enforcement of axle load limits, road safety action plan, well adapted guidelines and standard specifications for road and bridge construction.

3.2.15 Finally, the Government of Lesotho has also achieved remarkable results in training and promoting both labour intensive and plant oriented contractors. The national road contracting industry already comprises more than fifty units dealing with both rehabilitation and maintenance of unsealed as well as rehabilitation and construction of bitumen sealed roads. The Department of Rural Roads is currently managing labour intensive contracts and the low-volume, unsealed road network. The Roads Branch is currently managing machine intensive contracts and the high-volume road network. It also has three regional units for routine and periodic maintenance. Additional contractors and supervisors training programmes and pilot projects are being discussed with donors.

3.2.16 The limited achievement in the air transport is however not sustainable. This is due partly to the decline in passenger traffic over time and partly to the increasing importance of road transport. As the country got connected by roads, air transport became relatively more expensive. But in the years ahead, the airfield could (in addition to its use to transport fresh vegetables and fruits from Lesotho to Europe and fish and sea food from South Africa), serve the useful purpose of serving South African towns near the Lesotho border.

### **Performance of the Bank**

3.2.17 Bank Group assistance focused on the development of the main road network with six projects and a total length of 368.9 km of newly constructed and rehabilitated trunk roads. With the exception of the new international airport, which only achieved its physical objective, transport projects generally achieved their objectives. But Bank Group interventions witnessed significant technical shortcomings. Technical shortcomings (such as lack of consideration of waterlogged soils and frost conditions) repeatedly caused difficulties in two roads (Joel's Drift to Khamane and Khamane to Oxbow Roads) and three successive projects (Joel's Drift to Khamane, Khamane to Oxbow and Oxbow to Mokhotlong Roads). The implementation of road construction in several projects witnessed unnecessary design reviews, redesigns and design changes. Inappropriate specification and contract clauses, departure from well established standards and codes of practice, poor investigations and unforeseen site conditions, mistakes in lime stabilisation of natural materials and pavement design also caused cost and time overruns.

3.2.18 The less-than satisfactory performance of the Bank is also evident in other stages of the project cycle. Out of a total of ten projects, only six were subjected to self-evaluation in the form of project completion reports (PCR). Two important projects, the new international airport and the institutional support project, were not subjected to self-evaluation. Only road construction projects

(six projects) were self-evaluated and, among these, four have been subject to post-evaluation by the Operations Evaluation Department. In the area of donor co-ordination however, the Bank performed very well, as it co-ordinated its activities with the World Bank (through cofinancing operations, 3.1.16).

3.2.19 Thus, overall, Bank performance can be rated as just satisfactory. While the Bank delivered the resources for financing the construction of the roads, it did not carry out any sector study in order to inform itself of the situation on the ground. In several cases, the road designs were considered inadequate. But the Bank did well in the areas of aid coordination, cofinancing and institutional development.

### **Performance of the Borrower**

3.2.20 The figures in Annex IV on time and cost overruns indicate poor concern of the Borrower for time effectiveness. The Borrower generally complied with reporting requirements, except for annual audited reports. Procurement was generally satisfactory. The Borrower and its implementing agencies are in the process of improving their performance and have gained experience in the course of implementing successive projects. In spite of poor manpower resources and lack of experience, they were always committed to successful implementation of projects.

3.2.21 The Borrower created suitable conditions for project sustainability and regularly maintained the roads. Institutional reform in the road sector is progressing with Roads Board, the establishment of the Roads Fund and the establishment of a central road authority. The performance of the Borrower, which continues to improve, can be rated as satisfactory.

#### ii) The Social Sector

3.2.22 Since commencement of Bank Group assistance in 1974, a total of 8 operations, (6 in health and 2 in education) have been approved for support in the Social Sector. In addition, the Bank has provided support for the conduct of a health study. By the beginning of 1998, operations in the Social Sector amounted to UA 55.73 million, representing 23.49% of Bank total commitment to the Kingdom of Lesotho (Annex V).

#### **Health Sub-sector**

3.2.23 Bank Group assistance has provided support for the strengthening of immunization services and renovation and/or upgrading of district hospitals. The goal was to provide better referral services for rural clinics/health centers, and to offer technical support to public health and other health promotion activities in the Health Service Area (HSA) wherein the district hospital is located. A total of 6 projects have been supported in the health sector. A secondary health care study was implemented as a component of the first Rural Health Service Project in 1976 and a health study is still on-going.

#### **Efficacy**

3.2.24 A major constraint in assessing the efficacy of Bank strategy in the health subsector is the absence of time-bound, measurable goals and indicators for evaluation and impact assessment in the appraisal reports. Evaluation is also constrained by the absence of baseline data against which the impact of intervention can be assessed, thus making it difficult to assess the contribution of the projects to the attainment of the overall sector goal to provide more and improved health services on a sustainable basis. Furthermore, there was no prior sector work that could have served as a good basis for Bank intervention. Such a study could also have for example, identified private

operatives like the Christian Health Association of Lesotho (CHAL), and recommend strategies for strengthening existing collaboration between public and private providers of health care.

3.2.25 Nonetheless, the assessment of efficacy relies principally on discrete measures obtained from government published and unpublished reports and from other donors; and from an analysis of social indicators in Population Data sheets published annually by the Ministry of Economic Planning and Development. These provide national, and in some cases, district estimates of access to health care and demographic characteristics but are of limited value in the assessment of health status of the target population. Data on utilization was obtained from routinely collected information on consultations, referrals and re-attendance from the Statistics Unit of the Ministry of Health and Social Welfare from 1992 to 1998. This data is also of limited value as it is incomplete and inaccurate.

3.2.26 This limitation notwithstanding, Bank interventions achieved their stated objectives. Under RSHPI, 31 health centers and 10 new ones were constructed. The renovated/new health centers comprise 22% of the total national coverage of 187 health centers in 1995. RHSP I also constructed and renovated staff houses, waiting mothers' lodges and food stores. However, these health centers did not provide for staff accommodation, consequently, the mothers' lodges have been converted to staff accommodation.

3.2.27 RHSP II-IV has completed the construction, equipping and furnishing of 8 district hospitals in Leribe, Mhale's Hoek, Butha-Buthe, Mafeteng, Quthing, Mokhotlong, Berea and Qacha's Neck. This comprise 90% of government owned district hospitals in Lesotho, but have excluded those owned by non-governmental partners in the health system, particularly those managed by CHAL, raising questions of equity in access and quality of health care. The exclusion of CHAL hospitals was premised on a need to prioritize investments in health, and the absence of guarantee for loans disbursed to support assistance to CHAL hospitals. An analysis of trends on hospital utilization suggests higher mean number of annual consultations, referrals and re-attendance in districts where the Bank has provided support for facility renovation and strengthening.

3.2.28 Bank assisted projects have contributed significantly to the number of health centers and rehabilitation of district hospitals in Lesotho. A total of 8 district hospitals were renovated, equipped and furnished. Thirty-one health centers were also renovated while 10 new ones were constructed. These have also been furnished and equipped. A very commendable feature is the extensive use of solar power in all ADF facilities.

3.2.29 Improvements have also been reported in the health condition of the Basotho. It is reported for example, that in the decade up to 1998, life expectancy increased from 51.0 years to 53.7 years, and infant mortality declined from 113 per 1000 live births to 89.7 per 1000 live births, partly as a result of these interventions. The first intervention in health aimed to strengthen immunization services. It is reported that the number of children less than one year who had received the 3<sup>rd</sup> dose of Diphtheria, Pertusis and Tetanus (DPT) increased by 43.59% from 24,744 in 1981 to 35,531 in 1985. During the same period, there was an increase of 19.15% and 67.15% in the numbers vaccinated against tuberculosis and measles respectively. The percentage of children immunized rose from 31% for 3<sup>rd</sup> dose of DPT in 32% in 1976 to 68% in 1985, a 2-fold increase (Annex VI). The reported increase in numbers immunized against measles was more pronounced, rising from a zero percent level in 1976 to 67% in 1985. It was reported that for 1984, approximately 91% of the actual beneficiaries of the programme had been reached through fixed and outreach immunization services provided by Bank assistance, and coverage extended to cover all parts of the country. However, mountainous areas remain under-served.

## **Efficiency**

3.2.30 Although virtually all the projects experienced significant slippages in completion, but there were no cost over-runs. In health projects where cost data was available, there was a mean cost under-run of 0.33 UA million. The doctor per population increased 1:13905 in 1992 to 1:16548 in 1998, and the dentist per population ratio from 1:104,712 in 1992 to 1:113,998 in 1998. The corresponding figures for nurses were 1: 2761 in 1992 to 1: 2340 in 1998. The number of consultations increased from 29,269 in 1991 to 40,842 in 1998. There was no discernable trend in referrals during this period as they fluctuated between 247 in 1994 and 460 in 1996. In the case of re-attendance, it increased from 3,388 in 1992 to 5,860 in 1998. These aggregate results notwithstanding, there is evidence that the mountainous areas remain under-served. The health sector of Lesotho, like the rest of the economy, is suffering the adverse effects of the collapse of apartheid. Following this development, the migration of labour to South Africa has become easier as labour responds to better remunerations and better living conditions in that country. Thus the health sector is currently facing severe problems of brain drain from Lesotho to South Africa. This has significantly reduced the availability of all cadres of skilled human resource for the sector.

3.2.31 There is evidence of poor utilization of installed facilities. The district hospitals are being consulted for primary health ailments. This represents a misuse of district level facilities that were designed for primary level care. There was no provision for staff accommodation under RSHPI, hence mothers' lodges have been converted to staff accommodation.

3.2.32 Capacity building was a major objective under RHSP I-IV. Accordingly, field officers were trained to implement EPI at the local level but were later deployed to district hospitals, creating a vacuum in the implementation of EPI at community levels. Doctors, dentist, nurses and nurse-clinicians were also identified for both in-country, regional and overseas training. However, training and capacity building components of all projects were under-utilized, and of those trained, it is estimated that only about 25% are retained. Besides the low numbers of suitably trained staff to manage these facilities, the staff deployment policy of the GOL has limited the numbers of staff posted to these centers, or retained there for periods long enough for mobilize local communities for participation in the management of these facilities. It is also observed that often times, the staff are unable to use the equipment provided on account of its sophistication and lack of training. This situation is compounded by the high post-training attrition of health workers from public sector service in Lesotho. Health centers were not clearly delineated by health service or district area and local responsibility for their management remained unclear. There is also an emerging threat to security in the urban filter clinics, as local bandits now raid these for its equipment in the absence of staff to manage the clinics.

## **Institutional Development**

3.2.33 Bank assistance has aided the establishment of an effective Project Implementation Unit (PIU) in the MOHSW. The capacity of the MOHSW to implement and manage civil works and procurement has been significantly enhanced by the intervention. The unit has also been strengthened to manage Bank procurement, disbursements and reporting procedures. It is important to mainstream this PIU into broad activities in the MOHSW for wider institutional development impact.

3.2.34 Institutional and operational linkages between the health centers project and the four RHSP projects are not clearly articulated. Health centers established to provide services at the local level are poorly linked to the district hospitals. This linkage is required for the development of an efficient referral system, and for sustained capacity building/technical resource for health systems

development based on the PHC approach. This has limited contribution of the projects to the establishment of a decentralized health system for health care delivery in Lesotho.

3.2.35 The MOHSW was unable to identify candidates for training, and the few that were trained were lost to more attractive positions in the Republic of South Africa (RSA). The absence of a health management information system, which includes an inventory of human resource for the health system limits the ability to quantify proportion lost to attrition. It is however estimated by officials of the MOHSW that this may be up to 75% of health workers who have been trained. This level of loss of trained staff has limited the contribution of Bank assistance to impact meaningfully on human resource development and availability, and consequently institutional strengthening for service delivery and health management.

### **Sustainability of Achievements**

3.2.36 While per capita government expenditure in Lesotho has increased from M 507 in 1992 to M 1203 in 1998, there is a decrease in percentage total expenditure in health from 38.0% in 1992/93 to 25.6% in the year 1998/99. This represents a decline of 32.6% in health in relation to total expenditure. Capital expenditure as a percentage of total expenditure on the social sector dropped sharply from 48.1% in 1992/93 to 12.5% in 1998/99 a decline of 74.0%. Current expenditure increased from 9.2% of total current expenditure of the government in 1989/90 to 9.7% to 12.6% in 1994/95. It has since then declined gradually to 9.5% of total current expenditure of government in 1997/98 (Annex IX).

3.2.37 Over the years, government budgetary commitment to health relative to other sectors, has dropped significantly, with a greater drop in capital investments. This decrease in capital investments raises doubts about the ability of the government to maintain investments in infrastructure and equipment in health. The drop in current expenditure also highlights a limitation of GOL to sustain maintenance and operations in health in the absence of continued donor investment and improvements in distributive allocations in health.

3.2.38 The Government has traditionally charged user fees for the use of health facilities. These fees have increased from M2.0 in 1970 to a current high of M5.0 for up to one week of outpatient consultation. Similar increase is also reported in the cost of in-patient charges in the period being evaluated. The increase in user charges from M2 to M5 may actually be counterproductive in terms of Lesotho achieving its major policy objective of increasing access to health services, especially for the rural deprived and the vulnerable groups. The effect of the increase is to have deprived those who cannot afford to pay and, by the large, to have lured away needy users to alternative cheaper, substandard and unreliable sources of health care provision. The objective of the increase is to enable the Government to meet recurrent costs, but the M5 charge is a not even enough to help meet operations and maintenance costs. This cost recovery strategy is therefore doomed to fail because it deprives the needy of basic health services and may in the medium and long term translate into lower productivity rates – a price that may be much higher than maintaining the former user charge of M2 and adopting an alternative strategy of collaborating with the private sector. In this case, tapping Lesotho's potential capacity for private health care provision could lure away beneficiaries (who can afford to pay) from public health services to private facilities.

3.2.39 The previous gains in EPI vaccine coverage are also rapidly declining as the personnel trained to manage and implement EPI at the community and health center levels have been deployed to manage district hospitals. Current figures from the Lesotho Population data sheets report full immunization coverage of 67% in 1996. This represent a decline of 26% from the level reported in 1985. Reported coverage for BCG in 1998 was 57.0%. This is very disturbing in the

face of resurgent epidemic of tuberculosis infection consequent upon the new threat posed by the HIV/AIDS epidemic and rising levels of poverty.

3.2.40 Institutional capacity for the maintenance of these structures is also largely not available in these rural settings, more so, with dwindling donor support for the Social Sector in Lesotho. The MOHSW was unable to provide a human resource development plan, or accurate numbers of those trained and proportion lost on account of deployment from the primary facility of identification, or to migration outside Lesotho. It is estimated that about 75% of the staff trained have been lost. The availability of a human resource development plan for the MOHSW could not be ascertained at the time of this evaluation.

3.2.41 The Project implementation Unit (PIU) established to manage RHSP projects is centrally located, with offices and staff located only in Maseru. This has limited the ability of district level staff to contribute to project design and implementation. It is also largely staffed by officers with qualifications in civil works and engineering who have limited exposure to health management and systems design. The overall effect has been that projects have been implemented as mainly engineering concerns, with minimal attention paid to health systems development, management and planning. Infrastructure and equipment were of acceptable standards and quality.

3.2.42 Provider attitude and staff motivation are real threats to sustainable health care delivery in the constructed facilities. It was observed during the visit to the Berea district hospital that consumer attempts to access health care services are attended by long waits, often without information on procedures or any reason for the wait. This becomes more alarming in the presence of supplies, equipment and facilities for effective and efficient patient care. Consequently, it is reported that end-users increasingly patronize traditional and unorthodox health care providers for more efficient and user-friendly services, or resort to the use of local herbal remedies.

3.2.43 The sustainability of the Primary Health Care approach to health systems development depends largely on community initiatives and partnerships at all stages from design to evaluation. There has been insignificant community participation in the design of infrastructure and the location of facilities. The management of the facilities provided by ADB investments rests solely with the public sector. This remains a major obstacle to sustainability of the public sector projects in health.

### **Performance of the Borrower**

3.2.44 The borrower is the GOL, while the Ministry of Health and Social Welfare (MOHSW) is the executing agency of all projects in the health sector. The initial design of the HSDP was ambitious as it did not recognize the inability of both institutional and manpower capacity to manage and implement the project. Consequently the HSDP had to be redesigned to exclude the construction of a maternity wing for the Queen Elizabeth II (QEII) hospital in Maseru and construction works in the nurse hostel and school of nursing. The implementation of HSDP was plagued by prolonged delays, with an overall implementation delay of about 45 months. The borrower was also unable to fulfill loan conditions and in some cases, had to make significant changes to project design after its approval i.e. exclusion of civil works in QE II and the nurse's hostel. Design issues were eventually resolved by reduction in the scope and magnitude of proposed activities.

3.2.45 The implementation of all training and capacity building components of the projects were unsatisfactory. Approved budgets were not disbursed for this category of assistance, as the GOL was unable to identify suitable candidates for training in the indicated cadres. This failure to utilize approved amounts for capacity building has recurred in all projects in health. On account of the health deployment policy of the GOL, the manpower trained for the established centers have not

been retained in the centers. This has had negative impact on service quality and the effective utilization of equipment/infrastructure.

3.2.46 The institutional capacity to identify projects, manage and implement them is weak as evidenced by the low availability of skilled human resource. This situation is made more difficult by the absence of information for health management. The only information system available is a disease reporting and notification system, which is itself incomplete and inaccurate. The absence of a robust health management information system has been a major constraint in assessment of project contribution to the overall sector goals of improving the health status and quality of life of the Basotho.

3.2.47 There was significant slippage in completion of all projects in the health subsector, with a mean slippage of 28 months. However, technical assistance and supervisory missions from the Bank significantly improved institutional capacity to comply with Bank reporting and procurement procedures. Current projects are thus implemented with minimal delays. All borrower's report (quarterly, financial and project completion) have been submitted on time and the GOL has honored all legal covenants of the project and is not in arrears to the Bank.

### **Performance of the Bank**

3.2.48 Bank performance was generally unsatisfactory. Clear targets and strategies were not defined in log matrices of appraisal reports. Log frame matrices, which came into existence in 1996, were prepared for the more recent projects, RHSP III-IV, but there were significant divergence between activities in the log frame and planned output. As a result of this, appraisal reports did not clearly define measurable indicators of impact/success, set time-bound targets or country sensitive strategies to foster local ownership or community participation, which is the bedrock of the PHC approach. It is thus difficult to assess progress towards attainment of goals stated in the Bank's sector strategy papers or the efficacy of its intervention in health.

3.2.49 Although the sector strategy papers indicated health improvement as the overall goal of Bank intervention, projects in health were implemented as mere engineering or finance projects, as little or no attention was paid to the participation required by the PHC approach or to the development of indicators or strategies to measure overall impact on health status. Appraisal reports focused on the design of structural components of the intervention and the numbers of equipment to be procured. In their self-evaluation, PCRs also focused on achievements in these areas. All documents paid very limited attention to health status, equity, improved access and community participation, all of which are components of the sector goals of improvement in health. Several assumptions were made in the projection of the potential contribution of these projects to the overall sector goals of improving the status of target populations and promoting equity in access. These include a presumption that increase in numbers of facilities would by themselves increase access of rural populations to health care services. Consequently, the project design did not give adequate consideration to the epidemiological pattern of disease and were not placed in the context of an overall health plan.

3.2.50 The Bank did not ensure the availability of appropriately trained manpower as a component of project appraisals, more so where there is a huge investment in infrastructure. This remains the major limiting factor in efficient utilization of investments in health in Lesotho.

3.2.51 There exists a unique partnership between the GOL and CHAL in the management of health centers and district hospitals with CHAL managing about 40% of health facilities, and providing 50% coverage in Lesotho. Intervention in RHSP I supported only 8 of CHAL operated clinics, and none of the CHAL HSA's were included in all other RHSP projects. This unfortunate failure to

harness the uniqueness of private-public partnership for health, and the comparative advantage of CHAL institutions in community engagement and outreach programmes has resulted in inequities in health care delivery and access to quality medical care. Bank assistance has strengthened only the public sector hospitals, with an almost total neglect of CHAL hospitals and centers that provide 50% coverage for health care delivery, particularly to the rural poor. There was no consumer consultation in the location and design of district hospitals and health centers. Thus improvement in infrastructure, equipment and facilities was not accompanied by a sense of local ownership of the facilities. The exclusion of CHAL hospitals from the project of assistance also meant that there remained inequities in the distribution of facilities and services, and thus in access to quality health care.

(b) **Education Sub-sector**

3.2.52 Bank intervention in the education sector in Lesotho commenced in 1990. At the time of evaluation, two projects have been supported with a total investment of 14.72 UA million (Annex V). Education I focused principally on secondary education and was national in scope, while Education II provides support for both secondary and primary education in the three districts of Thaba-Tseka, Qacha Nek and Quthing. Both projects were designed and approved in the period covered by the ESSP of 1986 with the goal of improving education quality in science and technical subjects and to strengthen capacity of the Central Inspectorate for monitoring, supervision and curriculum development.

**Efficacy**

3.2.53 As in the health sector, evaluation is also limited by failure to pre-define targets, or pre-select indicators for evaluation and obtain baseline information in the completed Education Project I. The evaluation of the efficacy of the strategy is also limited by lack of information. While the borrower has prepared a PCR, the Bank is yet to finalise its own PCR. In the case of Education II, the only available information is contained in the borrower's progress report. The achievements in this report refer to those of Education I project and for Education II, the report assesses the progress of implementation.

3.2.54 The achievements are assessed for the period commencing from 1992 to 1998 for which some educational indicators were available from the annual population data sheets published by the Department of Planning and Economic Development. During this period, there was a 13.97% increase in the number of secondary schools (179 to 204) and a 5.09% increase in the number of primary schools. Primary school student enrolment rate also increased from 51,908 in 1992 to 71,475 in 1998, an increase of 37.7%. Enrolment in secondary schools increased from 55,342 in 1993 to 71,475 in 1996. There were also improvements in teacher: student ratios in both secondary and primary schools.

3.2.55 The 1998 impact assessment report of the MOE evaluated the educational system between 1990 and 1996. The report observed that the number of students passing junior certificate examinations increased from 59.2% in 1990 to 71.9% in 1996. There was also an increase in the numbers who passed the COSC examinations from 27.8% in 1990 to 34.2% in 1996. Gender participation in education in GOL is unique. The statistics reveal positive female participation in education with 54% female enrolment. There is a real threat that with this trend, males in the long term may be marginalized in educational achievement. The observation that males of primary school age are often herding cattle and those of secondary school and higher ages have emigrated to South Africa for less professional, though higher paying occupations in the mines may be indicative of this potential for males to be marginalized.

3.2.56 Bank intervention in education has provided 18 science units comprising of a laboratory, preparation room and classroom. It has also supported the construction of 18 practical subjects units each of which comprise of a storeroom, workshop and drawing room. This represents a contribution of 64.29% and 100% respectively of the total national increase in the number of science laboratories and practical subjects workshop between 1990 and 1998. A total of 31 schools have been beneficiaries of this intervention. All constructed buildings have been furnished, equipped and are currently fully functional. In addition, sets of reference library books for science laboratories and practical workshops have been purchased and supplied to all sites. Thirty-six staff houses have been constructed and furnished.

3.2.57 The percentage of qualified teachers has also increased from a level of 72.5% in 1990 to 81.6% in 1996. Correspondingly, the number of expatriate teachers dropped from 21.9% to 17.0%, and the percentage of expatriate science teachers from 41.8% to 25.4% during the same period.

3.2.58 The Central Inspectorate for Education and the National Curriculum Development Council (NCDC) have been strengthened for supervision by the purchase of project vehicles and spare parts. In-country and overseas training has been completely utilized and has covered curriculum development and schools inspection. The quality and quantity of teachers in the science subjects have also been significantly improved by various in-country courses and short-term training courses in overseas institutions.

3.2.59 Capacity building component of the project was completely utilized and a zero percent attrition rate reported for both in country and overseas training. Projects have effectively integrated quantitative and qualitative development in education, but are limited in the non-availability of indicators, and a management information system to monitor progress towards the achievement of the overall sector goal of improved quality and access to both formal and non-formal education, and the provision of human resource required for national development.

### **Efficiency**

3.2.60 There is insufficient data to estimate cost efficiency in projects in education as project completion reports are yet to be prepared. There was a huge slippage in both loan effectiveness and completion of Education project I. The estimated slippage in completion date is 96 months. It is not possible to assess efficiency in cost as no project completion report was available at the time of this evaluation.

3.2.61 There has been a decrease in the proportion of unqualified teachers from 72.5% in 1990 to 81.6% in 1996. This has been achieved through in-country and overseas training. Both long and short-term courses have been offered and attrition rate dropped. A teaching session was in progress in one the project schools visited and a high level teacher and student motivation was observed.

3.2.62 It is worthy of note that Education II became effective in December 1999, about five months before the evaluation. The progress report submitted by the Borrower reflects principally preparatory activities, as intervention is yet to commence.

### **Institutional Development**

3.2.63 There has been a significant improvement in infrastructure in all intervention schools with the construction of science and practical subject workshops. Although not all schools had the benefit of having both a science laboratory and a practical subject workshop, the distribution of the 31 beneficiary secondary schools was national. It is also noted that the numbers of both secondary

and primary schools have increased, with consequent increase in access to education as evidenced by enrolment ratios (Table 1.2 and Annex I).

3.2.64 The Central Inspectorate has also been strengthened for supervisory functions by both training and support of the purchase of a vehicle to improve support logistics. This has made meaningful contribution to an increase in the number of supervisory visits to schools. Staff quality has improved and the institutional capacity for curriculum development strengthened.

3.2.65 In country and overseas training have resulted in an increase in the number of qualified teachers. Attrition rate is low and has decreased progressively from 13.0% in 1990 to 8.8% in 1996.

### **Sustainability of Achievements**

3.2.66 The percentage of government recurrent expenditure in education in relation to total expenditure rose from 18.1% in 1989/90 to 22.1% in the 1992/93 to 45.1% in 1995/96. Thereafter, it declined progressively to a level of 27.9% in 1998/99. The percentage of government capital expenditure in education in relation to total expenditure also declined from 16.1% in 1992/93 to 12.5% in 1995/96 and an all time low of 9.9% in 1997/98 (Annex IX).

3.2.67 Government expenditure per primary school pupils increased from M86 to M385 an increase of 37% in real terms, and for secondary education from M432 to M1331, an increase of 188% between 1992 and 1996. Further more, the impact assessment report of 1998 observed that total cost of education inclusive of indirect costs i.e. travel, uniforms school meals etc. has increased sharply, an increase that is observed to be beyond the sustainable capacity of many Basotho families.

3.2.68 Spending on secondary education as a percentage of total expenditure of the Ministry of Education (MOE) declined from 31% in 1990 to 26% in 1996. Spending on technical and vocational education however increased from 2.7% to 5.6%, and for University education from 19% to 27% over the same period. In spite of these achievements, there still exists the problem of high pupil: teacher ratio of 59:1 in 1998 and inadequate teaching materials. In addition, of the school-aged population, only 57, 000 (21.5%) were enrolled in school at the end of 1998. The introduction of free primary education in January 2000 has worsened the already high pupil-teacher ratio, thereby necessitating the recruitment of unqualified teachers to meet the demand for primary education.

3.2.69 Traditionally, missionaries and the churches have managed schools in Lesotho while Government participation has provided grants to support the payment of teacher's salaries and the purchase of teaching aids. The Education Sector Development Policy of the GOL of 1992 was developed in response to the complexity in the management of the educational system and design a more coherent policy and management structure for the schools that provides for greater participation by parents and the local community. This has fostered a sense of local ownership of the educational system, a factor that is of import to its sustainability. This is relevant to the Bank's policy and support for the adoption of participatory approaches to education development that involves beneficiary groups and stakeholders, not merely in project implementation, but also in the design and choice of interventions in the sector.

### **Performance of the Borrower**

3.2.70 Implementation delays were common occurrences among projects in the Bank portfolio in Lesotho. In the case of the Education I Project, there was a completion delay of 96 months. This was principally due to a delay in compliance with the legal covenants and conditions of the project. At the time of the evaluation, all project activities had been completed but a PCR was yet to be written. This delay is principally due to the failure of the executing agency to familiarize its managers with Bank financial management, reporting and procurement procedures. It also took over 3 years to establish an effective project implementation unit and to identify a project manager to oversee implementation. These lapses have however been addressed and it is anticipated that the implementation of Education II would proceed with minimal delays. It is worthy of note that there have been significant improvements in preparation for this second project and there is increased confidence in borrower capacity to manage and implement the project. The borrower experienced difficulties in compliance with the legal covenants of the project, another factor responsible for the prolonged period between the date of approval and effective date of the loan. These limitations have however been rectified in the on going Education II project. On the basis of all these, Borrower performance can be judged as unsatisfactory.

### **Performance of the Bank**

3.2.71 Although projects were identified in the context of the country's development priorities and Bank sector strategy in education, there was inadequate assessment of the capacity of the GOL and its executing agency in the education sector, i.e. the Ministry of Education, to implement and manage the Education I project at the time of its identification and appraisal. Consequently, there was a prolonged slippage of 96 months in completion of the project, and even at the time of the evaluation, no project completion report was available for review. There was inadequate supervision during the first few years of implementation of the Education I project. This is partly responsible for the slippage in effective and completion dates of the project.

3.2.72 The Education I project was designed during the ESSP of 1986 and the appraisal did not clearly specify indicators of outcome and impact assessment, thus making it difficult to quantify the contribution of the project to improving educational quality. This limitation has been addressed in the design of the Education II project which has approximately developed log frames. On a balance, it can be said that Bank performance was barely satisfactory.

## **3.3 Cross-cutting Issues**

3.3.1 Until recently, the cross-cutting issues of environment and gender did not figure prominently in Bank Group lending and policy. Hence, the older projects in its portfolio, including all those in Lesotho, did not show explicit concerns for these issues. One of the findings of the present evaluation is that Lesotho scores low on both issues.

3.3.2 As pointed out earlier (1.3), the poverty situation in Lesotho has a gender bias – more women are poor than men. Although the Land Act of 1979 and 1992 tried to accord equal tenure security to both sexes, it is still true that women have limited access to economic resources such as credit. The government is aware of this bias against women and has therefore, taken steps to address the situation. It has set up a Ministry of Youth and Environment to develop programmes and projects for ameliorating the gender bias. In the area of education, however, women appear to be doing better. National adult illiteracy rate is 29%, whereas it is 7.5% for females and 28.5% for males.

3.3.3 Environmental issues were similarly not taken into account in Bank lending to Lesotho. This evaluation found that design shortcomings resulted in serious environmental hazards on the Khamane-Oxbow road. There was also no provision for winter maintenance on some roads. On some other roads, serious environmental hazards were created by inappropriate design of cut slopes. The establishing of the Ministry of Youth and Environment is indicative of the willingness of the government to correct current environmental problems and safeguard against future problems in all its development projects. Recent interventions however indicate that the Bank is now more serious about environmental issues. For example, the recently approved Lesotho Highlands Natural Resources and Income Enhancement Project have some 40% of its budget allocated to natural resources management and conservation of the highlands of Lesotho.

#### 3.4 **The Counterfactual**

The economy of Lesotho grew at annual average rate of 1.3 per cent during the past decade. The growth rate has fluctuated sharply and even declined in the late 1990s. The bulk of Bank lending has not been allocated to directly productive activities but rather to social (overhead) capital. To the extent that this has facilitated growth, Bank contribution can be said to be indirect. But can the recorded achievement have taken place in the absence of Bank intervention? The answer is probably in the negative. The Bank obviously filled a resource gap in Lesotho. While it cannot be credited with the entire outcome, it can lay claim to whatever has happened in Lesotho—success or failure. The responsibility for economic outcomes in Lesotho is therefore to be shared by all donors and the government of Lesotho.

#### 4. **OVERALL ASSESSMENT**

4.1 The Bank Group has intervened on a systematic basis in Lesotho since 1974. Its net commitment currently stands at UA 223.85 million. In terms of sectoral distribution, Public Utilities and Transport Sectors, are the main beneficiaries with 28% and 26% of the portfolio respectively. They are followed by the Social Sector (24%), Agriculture (13%) and Industry (9%). The bulk of interventions were not in directly productive activities, but rather in social capital – transport, public utilities, health and education. The interventions may not have led to direct impact on GDP growth rates. But in so far as they eased constraints in the affected sectors, they must have facilitated economic growth.

4.2 Although not explicitly stated, Bank intervention in Lesotho appeared to have been informed by the history and geography of Lesotho. Geographically, Lesotho is a small, mountainous country, which is completely surrounded by the Republic of South Africa. Being landlocked and surrounded by South Africa, Lesotho suffered as a result of apartheid-induced sanctions on the former. Thus government policy was aimed at reducing the country's vulnerability to developments in South Africa, including its dependence on the country's road network. Bank Group strategy, as spelt out in the 1988 EPCP, coincided with that of the government. In that EPCP, the Bank decided to pursue a strategy of assistance which placed emphasis on the development of infrastructure, mostly road networks. With the collapse of apartheid, Bank Group strategy appeared to have shifted emphasis to the promotion of growth and poverty reduction.

4.3 The Bank had no strategy for its limited interventions in non-lending activities. There was also no prior economic and sector work to facilitate lending activities. (This is probably not unique to Lesotho). While the more recent CSPs have been used as instruments of policy dialogue (for example, in the context of Agriculture Sector Reform Programme and the Public Utilities Sector Reform Programme), this cannot be said of the earlier EPCPs. Indeed there was practically no policy dialogue prior to 1996. There was, in addition, nothing coherent about the limited institutional support programmes and technical assistance programmes which the Bank provide to Lesotho. The programmes were also not geared to be supportive of Bank lending activities.

4.4 Sectorally, Bank Group lending to the transport sector coincided with government development imperatives of the time. The 1988 EPCP merely mentioned the inaccessibility of most of the eastern highlands as the prime motivation for Bank intervention in the transport sector. There was no explicit reference to the transport constraints posed by location of Lesotho inside South Africa. In spite of this shortcoming, the strategy achieved its objective. In the road sector, it achieved the objective of linking the major urban centres with the rural areas. It also achieved the objective of reducing the country's dependence in South Africa's road network. Bank intervention has also strengthened the capacity of the various government departments connected with the sector. Similarly, implementation agencies have been strengthened through training. The Department of Rural Roads has a direct labour force unit which is equipped and trained for labour intensive rehabilitation and the construction of new unsealed roads.

4.5 The transport sector projects also contributed to the development of the private sector by providing jobs to the national road construction industry which now comprises more than fifty active contractors. Their labour intensive operations have resulted in significant employment generation. They have also carried out about 181 routine maintenance and upgrading contracts for the Labour Construction Unit (LUC), between 1997 and 2000—an average of 60 contracts per year. The LUC has also embarked on an extensive programme of training for labour based contractors on unsealed road maintenance. Similarly, the Roads Branch has promoted the training of truck haulage subcontractors in mechanical road construction.

4.6 Bank assistance in the Social Sector came early in the history of Bank-Lesotho relationship. There was no Lesotho-specific strategy in the sector other than the broad Bank sector policies approved in 1986 (for Health and Education). Bank interventions in the two sectors, which were guided by the sector policies, were relevant to situation prevailing in Lesotho at the time. Bank assistance in the health sector has contributed to an increase in the number of health facilities per population and has constructed 10 health centers, renovated 31 and upgraded 8 district hospitals

4.7 Although the projects have increased the number of facilities and equipment, they have contributed only marginally to the overall sector goals of improving the health status of the population of Lesotho. Good buildings do not make for better health. While the availability of the infrastructure promoted consumer confidence, poor service and provider attitude soon eroded it. The projects were also presumptuous of institutional and human resource capacity for health systems management and development. The civil works focus of the projects also meant that little attention was paid to the development of a decentralized information management system or to building institutional resource for health systems monitoring, evaluation and planning.

4.8 Bank assistance in education has significantly contributed to an increase infrastructure for education and improvement in the quality of education in science and practical subjects. They have also supported increases in the number of qualified teachers and also in strengthening institutional capacity to manage education and curriculum development. Trained capacity has been retained and numbers of Basotho children enrolling in, and completing education have increased. The focus of the interventions covered infrastructure and operations, with a significant amount of investment on human resource and institutional strengthening. However, appraisal documents have not documented the intended useful life of physical structures and vehicles provided for logistic support. They have also not included strategies for sustainable maintenance of increases in current expenditure, particularly teacher's emoluments, infrastructure, private sector participation in education as well as the development of a management information system to monitor and evaluate effect of various interventions on teacher quality, access to education and quality of education.

4.9 In conclusion, it can be said that Bank assistance to Lesotho has certainly filled a resource gap in the country. But the delivery of that assistance was not carried out in the context of a clearly defined strategy. Perhaps this is understandable, given that the use of a pre-defined strategy to guide aid allocation is a recent phenomenon in the Bank. Be that as it may, Bank assistance to the country can be judged as barely satisfactory. Lending assistance performed relatively better than non-lending assistance. Bank assistance in the latter area is indeed, poor. As it is very well known, aid is not just about the provision of finance. Effective aid should include finance as well as the provision of ideas. The Bank has provided finance through its various interventions, but it has failed to provide ideas which can continue to generate and sustain economic growth.

## 5. **LESSONS AND RECOMMENDATIONS**

### 5.1 **Lessons**

5.1.1 The single most important lesson arising out of this review is the imperative of situating Bank assistance in the context of a well-defined strategy. Apart from the fact that a strategy makes the evaluation of assistance easier, it also enhances the effectiveness of Bank intervention in a country.

5.1.2 Another lesson is that the advantages of prior economic and sector work cannot be over-emphasised. Prior economic and sector work would establish the critical areas needing intervention and the pitfalls to be avoided in such interventions. In addition, such economic and sector work would enhance the quality of the country CSP. In Lesotho, there was no such activity on the part of the Bank. In its various interventions in Lesotho, the Bank was more or less “flying blind”.

5.1.3 In most of the projects in Lesotho, there were no previously specified indicators of measuring the outcomes of such projects. The current insistence on the use of log-frames in project planning should resolve this problem for future evaluations.

## 5.2 **Recommendations**

5.2.1 In future, the Bank should ensure that its lending operations are based on prior economic and sector work. This would improve the quality of the operations and thereby enhance their development effectiveness.

5.2.2 The timing of a country assistance evaluation should be such that its findings can find their way into the next CSP for a country. This is the only way to ensure that the country assistance evaluation is not just an academic exercise.

5.2.3 Lesotho and the Bank could mutually benefit from an enhanced Bank presence in the country. For the Bank, it would facilitate the implementation of its projects, many of which are plagued by implementation delays. It would also provide the opportunity to provide on-the-spot policy advice and dialogue. The country itself would derive great benefit from having Bank’s presence in the country. Lesotho is a small country and may therefore not qualify for a country office on the basis of Bank criteria for such offices. The recently opened Bank office in South Africa could be sufficiently staffed in order to be able to take on development issues relating to Lesotho.

5.2.4 The installed air transport facilities are currently being underutilised. The government should be encouraged to share the facilities with other countries, notably South Africa, as a means of promoting economic integration in the subregion.

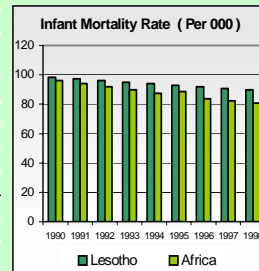
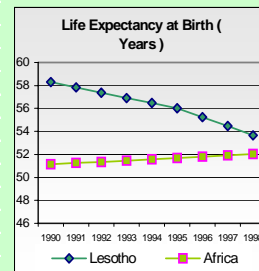
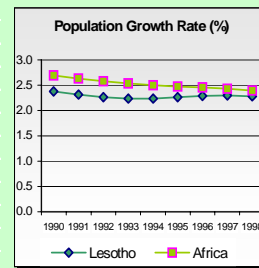
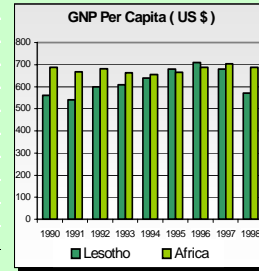
5.2.5 The Bank should reposition itself to be able to respond to the observed development challenges facing Lesotho. These are: poverty, inequality, unemployment, AIDS/HIV epidemic, weak institutional capacity, private sector development and vulnerability to external policy changes, and governance issues.

5.2.6 The database for operational activities (mostly health and education) in Lesotho is weak. The Bank should dialogue with the government on the possibility of providing some technical assistance in this area.

5.2.7 In order to meet the high demand for primary school teachers consequently upon the introduction of free primary education, the Government should consider the introduction of in-service training of unqualified teachers who had been recruited.

**LESOTHO : BASIC DATA SHEET**  
**COMPARATIVE SOCIO-ECONOMIC INDICATORS**

	Year	Lesotho	Africa	Developing Countries	Developed Countries
<b>Basic Indicators</b>					
Area ('000 Km <sup>2</sup> )		30	30,061	80,976	54,658
Total Population (millions)	1998	2.1	748.0	4,718.9	1,182.2
Urban Population (% of Total)	1998	28.1	38.2	39.6	75.6
Population Density (per Km <sup>2</sup> )	1998	67.9	24.9	58.3	21.6
GNP per Capita (US \$)	1998	570	687	1,250	25,890
Labor Force Participation - Total (%)	1998	41.0	43.7	...	...
Labor Force Participation - Female (%)	1998	15.1	37.0	...	...
Gender -Related Development Index Value	1997	0.6	0.5	0.6	0.9
Human Development Index (Rank among 174 countries)	1997	127	n.a.	n.a.	n.a.
Population Living Below \$ 1 a Day (% of Population)	1986-87	48.8	45.0	32.2	...
<b>Demographic Indicators</b>					
Population Growth Rate - Total (%)	1998	2.3	2.4	1.6	0.3
Population Growth Rate - Urban (%)	1998	5.7	4.3	3.1	0.6
Population < 15 years (%)	1998	40.1	42.9	33.2	18.8
Population >= 65 years (%)	1998	4.3	3.2	19.7	26.7
Dependency Ratio (%)	1998	83.1	86.9	61.7	48.8
Sex Ratio (per 100 female)	1998	96.9	99.3	103.3	94.8
Female Population 15-49 years (millions)	1998	0.5	176.2	1,213.4	296.8
Life Expectancy at Birth - Total (years)	1998	53.7	52.7	64.0	75.4
Life Expectancy at Birth - Female (years)	1998	54.7	53.4	65.8	79.1
Crude Birth Rate (per 1,000)	1998	34.5	37.7	23.8	11.0
Crude Death Rate (per 1,000)	1998	13.2	13.7	8.4	10.3
Infant Mortality Rate (per 1,000)	1998	89.7	80.7	58.9	9.0
Child Mortality Rate (per 1,000)	1998	118.8	116.1	76.2	10.4
Maternal Mortality Rate (per 100,000)	1996	610	698	488	30
Total Fertility Rate (per woman)	1998	4.6	5.0	2.9	1.6
Women Using Contraception (%)	1991-92	23.0	...	56.0	70.0
<b>Health &amp; Nutrition Indicators</b>					
Physicians (per 100,000 people)	1990-96	5	23	76	253
Nurses (per 100,000 people)	1988-96	51	89	85	780
Births attended by Trained Health Personnel (%)	1990	60	...	54	99
Access to Safe Water (% of Population)	1990-97	57	55	72	100
Access to Health Services (% of Population)	1995	80	60	80	100
Access to Sanitation (% of Population)	1990-97	38	45	43	100
Percentage of Adults (aged 15-49) Living with HIV/AIDS	1997	8.4	5.7	...	...
Incidence of Tuberculosis (per 100,000)	1995	250	201	157	24
Child Immunization Against Tuberculosis (%)	1996	46	77	88	93
Child Immunization Against Measles (%)	1996	43	63	79	90
Underweight Children (% of children under 5 years)	1990-97	16	26	31	...
Daily Calorie Supply	1996	2,222	2,406	2,650	3,222
Public Expenditure on Health (as % of GDP)	1995-97	3.7	1.4	1.8	6.3
<b>Education Indicators</b>					
Gross Enrolment Ratio (%)					
Primary School - Total	1996	107.7	79.5	100.0	103.0
Primary School - Female	1996	113.7	73.0	93.8	103.2
Secondary School - Total	1996	30.7	28.3	50.4	100.3
Secondary School - Female	1996	36.5	25.7	45.3	101.8
Primary School Female Teaching Staff (% of Total)	1996	79.1	45.0	51.0	82.0
Adult Illiteracy Rate - Total (%)	1997	17.7	43.5	28.2	1.3
Adult Illiteracy Rate - Male (%)	1997	28.5	33.0	19.6	1.0
Adult Illiteracy Rate - Female (%)	1997	7.5	51.6	35.8	1.5
Percentage of GDP Spent on Education	1994	8.8	3.5	3.9	5.9
<b>Environmental Indicators</b>					
Land Use (Arable Land as % of Total Land Area)	1996	10.7	5.9	9.9	11.6
Annual Rate of Deforestation (%)	1990-95	...	0.7	0.4	-0.2
Annual Rate of Reforestation (%)	1980-90	16.0	4.0	...	...
Per Capita CO2 Emissions (metric tons)	1996	...	1.1	2.1	12.5



Source : Compiled by the Statistics Division from ADB databases; UNAIDS; World Bank Live Database and United Nations Population Division.

Notes: n.a. Not Applicable

**LESOTHO: LIST OF PROJECTS****1. Completed Projects for which PCR has been done**

i.	Phuthiatsana Integrated Rural Development	ADF 7.37 million
ii.	Rural Health Services I	ADF 5.85 million
iii.	Rural Health Services II	ADF 11.70 million
iv.	Masianokeng-Mafereng / Roma Roads Rehabilitation	ADF 6.45 million
v.	Maseru Water Supply	ADF 5.30 million
vi.	Institutional Support to Transport Sector	TAF 2.59 million
ii.	Glazed Ceramic Wall / Floor Tiles	ADB 8.26 million
viii.	Four Centres Water	ADF 6.08 million
ix.	Health Services Development	ADF 2.30 million
x.	Rural Health I Loans Savings	TAF 1.14 million
xi.	Rural Health Services III	ADF 7.07 million OPEC Fund 2.50 million
xii.	Maseru II Water Supply	ADF 7.37 million ADB 6.63 million
xiii.	Road Maintenance	ADF 8.06 million
xiv.	Khamane-Oxbow Road	ADF 6.42 million

**2. Completed Projects for which PCR has not been done or has not been finalised**

i.	Rural Credit and Banking facilities	ADF 4.24 million
ii.	Industrial Line of Credit	NTF 2.13 million
iii.	Feedlot	ADF 4.33 million
iv.	Phuthiatsana Irrigation Project	ADF ...61 million
v.	Leribe-Oxbow / Roma-Semonkong Roads Study	TAA 0.83 million
vi.	Leribe-Butha Buthe-Joel's Drift Road	ADF 6.17 million
vii.	New Maseru Airport	ADF 8.00 million
viii.	Joel's Drift-Khamane Road Feeder Roads Study	ADF 5.62 million TAA 0.90 million
ix.	New Maseru Airport I (Suppl.)	ADF 12.04 million
x.	Phuthiatsana Integrated Rural Development	ADF 7.37 million
xi.	Oxbow-Mokhotlong Road Project	ADF 20.03 million
xii.	Institutional Support to Transport Sector	ADF 2.59 million
xiii.	Electricity Master Plan	TAF 0.561million

**3. Cancelled Projects**

i.	Pig and Poultry Development	TAA 0.39 million
ii.	Wool and Mohair Scouring Plant	NTF 5.00 million
iii.	Muela Hydro-power	ADB 20.00 million
iv.	Lesotho Bank Line of Credit and Institutional Support	

**SUMMARY OF TRANSPORT SECTOR PROJECTS IN LESOTHO**

No.	Name	Project Components	Loan Number	Loan Amount (UA Million)		
				ADB	ADF	TAF
1.	Leribe-Oxbow/Roma-Semonkong Roads Study.	Detailed Engineering Design	FS/LES/TR/75/2			0.83
2.	Leribe-Butha Buthe-Joel's Drift Roads	Construction and Construction Supervision	CS/LES/TR/77/5		6.17	
3.	New International Maseru Airport I	<ol style="list-style-type: none"> <li>1. Preliminary Works (Government of Lesotho)</li> <li>2. Construction of Airport Infrastructure (BADEA, Saudi, Abu Dhabi and Kuwait Fund, OPEC, Govt.)</li> <li>3. Buildings and Nav aids (AfDB, Government)</li> <li>4. Navigational Aids and Telecommunications (European Development Fund)</li> <li>5. Electricity Power Distribution and Airfield Lighting (Government of Finland)</li> <li>6. Housing Infrastructure (Government of Lesotho)</li> <li>(7, 8, 9, 10) Housing for Airport Staff (Govt. of Lesotho)</li> </ol>	CS/LES/TR/79/001		8.00	
4.	Joel's Drift-Khamane Road	Construction and Construction Supervision	CS/LES/TR/80/7		6.62	
5.	Road Maintenance Project (Fourth Highway Project).	<ol style="list-style-type: none"> <li>(1) Rehabilitation of the Maseru, km6 to Leribe, km87.7 Road: Rehabilitation Works and Construction Supervision</li> <li>(2) Rehabilitation of 19.5 km urban roads in Maseru (The World Bank)</li> <li>(3) Improvement of 444 km unsealed roads (The World Bank)</li> <li>(4) Traffic Counting and Enforcement of Axle Load Limits (The World Bank)</li> <li>(5) Review of the Domestic Construction Industry (The World Bank)</li> <li>(6) Technical Assistance to the Roads Branch and Plant and Vehicle Pool Services (The World Bank)</li> <li>(7) Procurement of Training Facilities for the Roads Branch (The World Bank)</li> <li>(8) Fellowships for the Roads Branch and Plant and Vehicle Pool Service (The World Bank)</li> </ol>	CS/LES/TR/84/11		8.06	
6.	Feeder Roads Study.	<ol style="list-style-type: none"> <li>(1) Study of Tertiary Roads</li> <li>(2) Detailed Design of Selected Feeder Roads</li> </ol>	CS/LES/TR/84/13			0.90
7.	Masianokeng-Mafeteng/Roma Roads Rehab.	Rehabilitation Works and Construction Supervision	CS/LES/TR/84/14		6.45	
8.	New Maseru International Airport II	Refer to 3	CS/LES/TR/84/004	12.04		

9.	Khamane-Oxbow Road	Construction and Construction Supervision	CS/LES/TR/86/18		5.60	
10.	Oxbow-Mokhotlong Road	(1) Design Review (2) Construction Supervision (3) Technical Assistance to the Roads Branch (121 man/month)	F/LES/TRA-ROAD/87/20		17.17	
11.	Institutional Support to Transport Sector	(1) Study on Manpower, Training, Technical Assistance and Institutional Requirements of the Roads Branch, 1991 (2) National Transport Study Lesotho, 1994 (3) Management Study of the Lesotho Airways Corporation (4) Rural Airfields Feasibility Study and Detailed Design (5) Technical Assistance on Transport Planning and Economics to the Ministries of Planning, Economic and Manpower Development, Transport and Communications, and Works (55 man/month) (6) Technical Assistance to the Department of Civil Aviation (63 man/month) (7) Two fellowships in Transport Planning and Economics	F/LES/GR-IS/89/1		2.60	
12.	Oxbow-Mokhotlong Road (Supplementary)	Refer to 10	F/LES/ROAD/93/SUP/8		2.86	1.22
13.	Two Rural Roads Study	Feasibility Study and detailed Design				

**Annex IV**

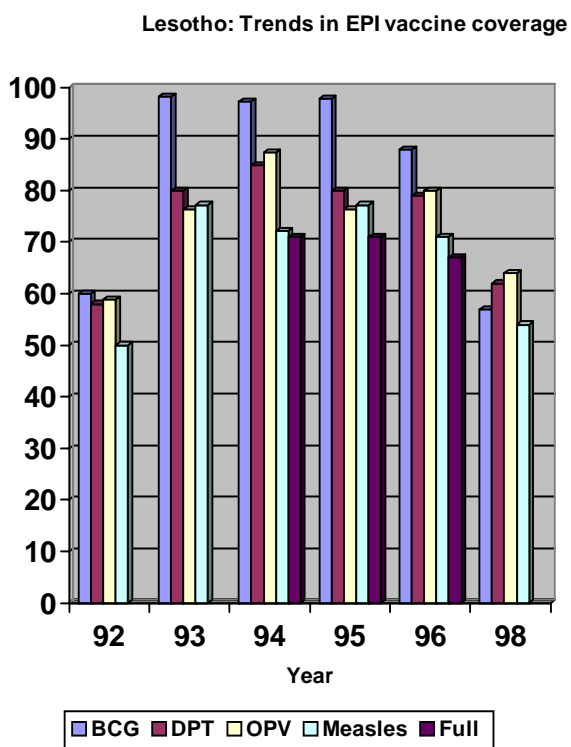
**PERFORMANCE EVALUATION OF TRANSPORT SECTOR PROJECTS IN LESOTHO**

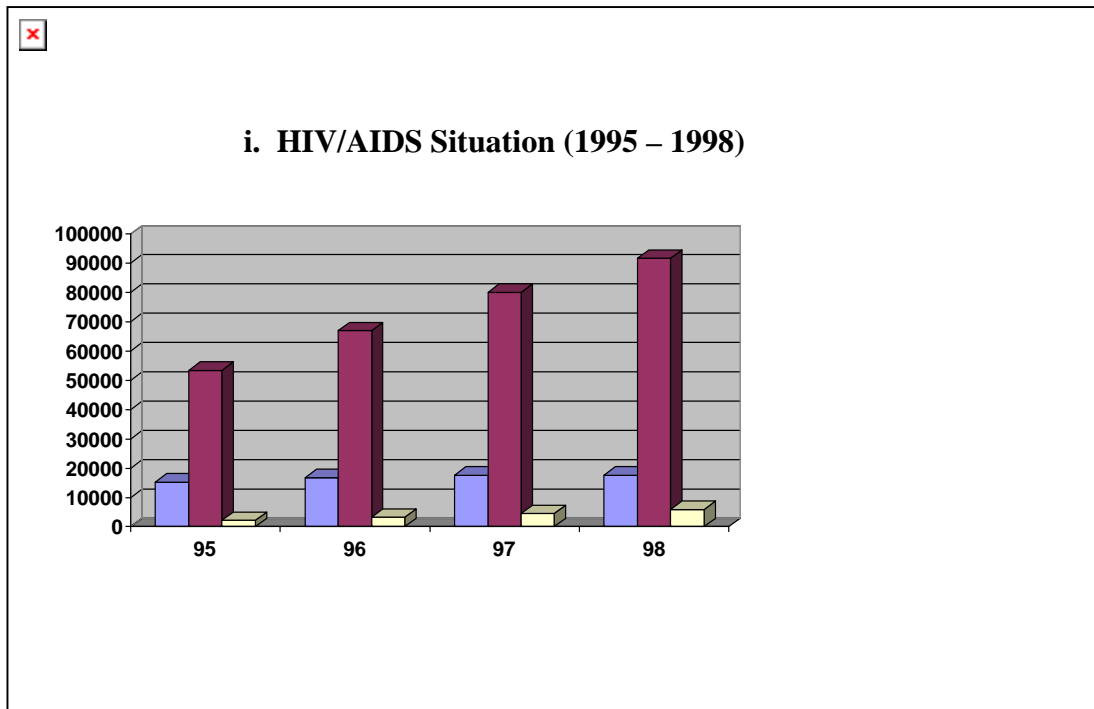
Project Identification			Project Dates			Performance Indicators						Performance Evaluation Rating					
No.	Name	Components	Appraisal	Completion	Evaluation	Overrun (%)		Slippage (month)			No. of Loan Extensions	Implementation Performance	Project Outcome	Relevance of Achievement	Institutional Development	Project Sustainability	Efficiency EIRR (%)
						Cost	Time	Effectiveness	Completion	Last Disb.							
2.	Leribe-Butha Buthe-Joel's Drift Roads	Construction and Construction Supervision	Sept. 1977	June 1984	Dec. 1985	13	29	9	7	24	0						21.5
4.	Joel's Drift-Khamane Road	Construction and Construction Supervision	Jan. 1980	June 1984	Dec. 1985	25	113	10	18	-12	0						15.5
5.	Road Maintenance Project (Fourth Highway Project)	Rehabilitation of the Maseru, km6 to Leribe, km87.7 Road; Rehab. Works and Construction Supervision	Nov. 1983	Mar. 1993	Sept. 1997	16	67	8	18	6	1	2.2	2.4	2.6	1.8	2.3	24.7
7.	Masianokeng-Mafeteng /Roma Roads Rehab.	Rehabilitation Works and Construction Supervision	Feb. 1984	May 1996		16	60	4	25	48	1						21.0
9.	Khamane-Oxbow Road	Construction and Construction Supervision	Mar. 1986	July 1998	May 1999	12	73	7	18	33	1	1.8	2.0	2.7	2.0	2.4	6.6
10., 12.	Oxbow-Mokhotlong Road	(1) Design Review (2) Construction Supervision (3) Technical Assistance to the Roads Branch.	Oct. 1986	June 2000		53	90	24	62	54	2	1.5	2.5	2.4	3.0	2.7	5.5

**PROJECTS IN THE SOCIAL SECTOR**  
**LESOTHO (1974 – 1998)**

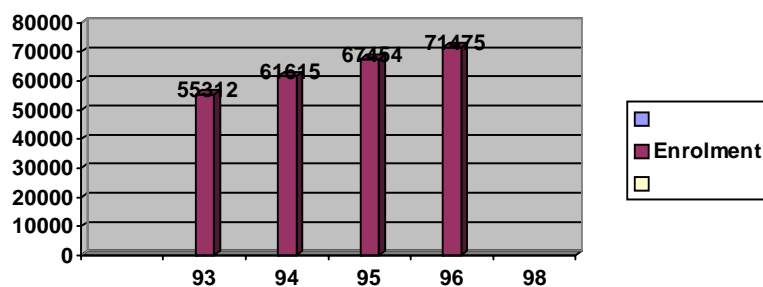
<b>Projects</b>	<b>Year of Approval</b>	<b>Source/s of Finance</b>	<b>Amount Approved (UA million)</b>	<b>Status</b>
<b><u>Health</u></b>				
Health Services Development Project	1976	ADF	2.30	Completed
Rural Health Services Project I	1984	ADF	5.85	Completed
Rural Health I Savings Loan	1984	TAF	1.14	Completed
Rural Health Services Project II	1987	ADF	11.70	Completed
Rural Health Services Project III	1991	ADF	7.07	Completed
		OPEC Fund	2.50	
Rural Health Services project IV	1992	ADF	11.05	On-going
Health Sector Reform Study	1997	ADF	0.80	On-going
<b>Total</b>			<b>39.9</b>	
<b><u>Education</u></b>				
Strengthening of Secondary Schools: Education Project I	1990	ADF	4.62	Completed
		TAF	1.30	
Strengthening of Secondary Schools: Education Project II	1995	ADF	8.5	On-going
		TAF	0.3	
<b>Total</b>			<b>14.72</b>	
<b>TOTAL SECTOR ASSISTANCE</b>			<b><u>53.63</u></b>	

**g. Trends in EPI Vaccine Coverage**





**h. Trends in Secondary School enrolment**



**CURRENT EXPENDITURE IN THE SOCIAL SECTOR**  
**(1989 – 2000)**

<b>Year</b>	<b>Health Sector % of Total</b>	<b>Education Sector % of Total</b>	<b>Social Sector % of Total</b>
1989/90	9.2	18.1	27.3
1990/91	9.7	23.8	33.5
1991/92	10.2	22.9	33.1
1992/93	11.0	22.1	33.1
1993/94	11.1	23.6	34.7
1994/95	12.6	29.0	41.6
1995/96	11.7	45.1	56.8
1996/97	11.1	31.5	42.6
1997/98	9.5	28.4	37.9
1998/99	10.8	27.9	38.7
1999/2000*	9.9	24.7	34.6

\* Note that figures are from budget estimates only

**Executive Summary of World Bank's Country Assistance Evaluation of Lesotho**<sup>20</sup>

1. This country assistance evaluation was prepared in collaboration with the African Development Bank (AfDB). Lesotho's economic and social development since 1990 and the development challenges facing the country were prepared jointly, whereas the evaluation of the performance of each institution over the decade was conducted in parallel. The AfDB assistance program was directed mainly to transport and social sectors and hence the AfDB evaluation focuses on those sectors. The recommendations and findings of the AfDB evaluation (using a different methodology from OED) are presented as Attachment A. The World Bank evaluation focuses on poverty, inequality and rural development, macroeconomic reform, human capital development, and private sector development. Of course, the large Bank-assisted *Lesotho Highlands Water Project* (LHWP) has major implications for all of these thematic areas.
2. Lesotho is a poor, small, mountainous, landlocked country of about 2 million (predominantly rural) people established as a British protectorate in 1868. Its economy is based on agricultural and pastoral production relying on limited natural resources, and light manufacturing (textiles, clothing, and leather) supplemented by large, though declining, remittances from Lesotho miners in South Africa and the sale of water to South Africa through the LHWP. Poverty and inequality are extremely high—half of the population lives below the poverty line—and Lesotho's Gini coefficient, 60 percent, is one of the highest in the world. External aid, 50 percent higher per capita than the average for Sub-Saharan Africa, though declining, was provided in a setting of political uncertainty with limited government ownership, which hampered program implementation. Despite macroeconomic successes that led to stability and growth in the early to mid-1990s, the country's development continues to be challenged by political instability, widespread poverty, high unemployment, weak institutions, considerable government control of services and production, and a high incidence of HIV/AIDS.
3. During the 1990s, World Bank assistance has evolved from an early and successful emphasis on stabilization and growth to greater emphasis on poverty reduction and private sector development in the mid- to late 1990s. Throughout the decade the Bank supported joint work with the government and the IMF on successive Policy Framework Papers, Poverty Assessment, and Strategic Economic Options Report in which the government charted its post-apartheid economic strategy. Other analytical work planned by the Bank was only partially achieved, however; particularly notable for their absence were periodic reviews of the allocation and uses of public expenditures. The successful macroeconomic policies and the substantial impact of construction in the LHWP helped the country achieve an average GDP growth of close to 4 percent per annum. As construction associated with this project slowed down, and growth in rural areas and the private sector remained depressed, the growth rate slumped to an estimated 2 percent by 2000. In the social sectors, support for the health sector also failed to achieve its objectives, but Bank-assisted education programs were successful. By the end of the decade, poverty and inequality had increased from their already alarming levels 10 years earlier. One out of four adults was infected with HIV/AIDS, even while population continued to grow at a rate of 2.6 percent p.a., constraining per capita income growth and poverty reduction.
4. The outcome of Bank assistance programs has been evaluated in terms of the Bank's services and products, the development effectiveness of the program, and the extent to which the outcome of the program is attributable to the Bank's efforts. In terms of each of these three criteria, the Bank's assistance program was evaluated as moderately unsatisfactory.

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<sup>20</sup> The report from which this Executive Summary is extracted is yet to be cleared by the Management of OED.

The sustainability of the assistance is rated as uncertain, since growth has depended on large inflows of aid and private investment, which is likely to decline. In addition, the economy remains vulnerable to policy changes in the whole subregion, which could be detrimental to Lesotho's growth and employment. An improved environment for growth and private sector development depends also on enhanced political stability and better governance, and deeper parastatal reform. The Bank's contribution to such institutional changes has been modest.

5. The LHWP was the most significant activity among the Bank's services and products. Although the Bank financed less than three percent of the first-phase of LHWP cost of US\$2.6 billion, it played an important role in facilitating an agreement between South Africa and Lesotho, being a catalyst for aid and private capital contributions, and providing advice on project formulation and implementation. The project has been an engineering and economic success, but continues to struggle with substantial social problems related to the massive construction and resulting resettlement. Notwithstanding the success of the important LHWP in generating sustained export revenue for Lesotho, the Bank did not provide adequate technical support for the improvement of rural welfare from the proceeds of water sales and erred by not insisting on the inclusion of the power component as an integral part of the project. Another unresolved issue is the long-term future of the Lesotho Highlands Development Authority after the current construction program is completed in about 2003 and before a possible second phase starts up (at the earliest in 5–10 year time). Finally, the outcome so far for the other Bank assistance programs (agriculture and rural development, health, and private sector development) has been unsatisfactory, except for education.
6. In terms of development effectiveness, the Bank supported the IMF analysis and assistance programs which resulted in impressive macroeconomic performance during most of the 1990s. The Bank made a major contribution to education. On the other hand, it is not apparent that the Bank's assistance was effective in rural development, poverty reduction, health, or private sector development.
7. While the success of the LHWP and education programs can be attributed to Bank assistance, it is also clear that the unsatisfactory results in agriculture and rural development, health, and private sector development are, at least in part, attributable to poor quality at entry for the projects involved.
8. This evaluation suggests that future World Bank assistance should continue to be centered around reducing poverty and inequality in the short term by focusing on key constraints to rural institutions such as improved land tenure, research, extension and grazing management, better rural infrastructure and an enhanced enabling environment for private sector development. There should be greater attention to the quality of education and human capital development at all levels, particularly in the poor mountainous regions, so as to increase future employment prospects for rural poor in Lesotho and internationally. HIV/AIDS control should also feature prominently in the agenda through the development of institutions capable of monitoring and coping with HIV/AIDS. The Bank should improve its assessment of the political risks associated with its program and also take leadership on promoting consensus on economic and social reforms among donors. To facilitate this role a stronger operational representation for the World Bank in Maseru or more frequent interaction with the government and development partners from the Bank's office in Pretoria is indicated.