

**AFRICAN DEVELOPMENT BANK
AFRICAN DEVELOPMENT FUND**



KINGDOM OF LESOTHO

**COUNTRY PORTFOLIO PERFORMANCE REVIEW
REPORT**

**COUNTRY REGIONAL DEPARTMENT
South Region A
June 2007**

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This report was prepared following a Country Portfolio Performance Review mission, which visited Lesotho in December 2006. The mission team was composed of Mr. S. Olanrewaju (Lead Economist, ORSA), Mr. O. Oladapo (Senior Agricultural Economist, OSAN) and Mr. G. Honde (Country Economist, ORSA). Contributions were received from Messrs A. Babalola (Senior Transport Engineer, OINF), A. Khumbanyiwa (Forestry Specialist, OSAN) and W. Muchenje (Chief Health Analyst, OSHD).

ACRONYMS AND ABBREVIATIONS

ADB	:	African Development Bank
ADF	:	African Development Fund
APPR	:	Annual Portfolio Performance Review
BADEA	:	Arab Bank for Economic Development in Africa
CPPR	:	Country Portfolio Performance Report
CSP	:	Country Strategy Paper
CTB	:	Central Tender Board
DfID	:	United Kingdom's Department for International Development
DCI	:	Development Cooperation Ireland
DO	:	Development Objectives
DPs	:	Development Partners
EDAL	:	European Donor Agencies
EA	:	Executing Agency
ESW	:	Economic and Sector Work
EU	:	European Union
FDI	:	Foreign Direct Investment
GTZ/KfW	:	German Technical Assistance/Kreditanstalt für Wiederaufbau
GoL	:	Government of the Kingdom of Lesotho
HDR	:	Human Development Report (HDR)
HNRRIEP	:	Highlands Natural Resources and Rural Income Enhancement Project
HIV/AIDS	:	Human Immuno Deficiency Virus/ Acquired Immuno Deficiency Syndrome
IP	:	Implementation Progress
ISP	:	Institutional Support Project
KFAED	:	Kuwait Fund for Arab Economic Development
LHDA	:	Lesotho Highlands Development Authority
MFDP	:	Ministry of Finance and Development Planning
MHSW	:	Ministry of Health and Social Welfare
MNR	:	Ministry of Natural Resources
MOPWT	:	Ministry of Public Works and Transport
MTEC	:	Ministry of Tourism, Environment and Culture
MTR	:	Mid-term Review
NHTC	:	National Health Training Centre
NTF	:	Nigeria Trust Fund
PAR	:	Projects at Risk
PIU	:	Project Implementation Unit
PMU	:	Project Management Unit
PP	:	Problem Project
PPPs	:	Potentially Problematic Projects
PRS	:	Poverty Reduction Strategy
PSIRP	:	Public Service Improvement and Reform Programme
QPRs	:	Quarterly Progress Reports
SACU	:	Southern Africa Customs Union
SWAps	:	Sector-Wide Approaches
TA	:	Technical Assistants
TAF	:	Technical Assistance Fund
TM	:	Task Manager
TORs	:	Terms of Reference

CURRENCY EQUIVALENTS

(31 March 2007)

National Currency = Maloti (M)

UA 1.0	=	US\$ 1.508
UA 1.0	=	M 10.939
US\$ 1.0	=	M 7.254

FISCAL YEAR
1 April to 31 March

WEIGHTS AND MEASURES
Metric System

EXECUTIVE SUMMARY

1. **Introduction:** This Country Portfolio Performance Review (CPPR) provides a detailed assessment of the performance of ongoing Bank Group-financed operations in Lesotho in terms of compliance with loan/grant conditions and reporting covenants, processing of procurement and disbursement matters and likelihood of projects to achieve their development objectives. On the basis of the findings, the report proposes an action plan for improving project performance. The report is based on information gathered during the CPPR mission that was undertaken between 4 and 9 December 2006. The last CPPR for Lesotho was done in 1995 and recommended the restructuring of the portfolio by way of cancellation of some loan balances due to poor implementation and utilisation of part of the loan savings to finance new and existing activities.

2. **Bank Group Portfolio in Lesotho:** The Bank Group commenced lending operations in Lesotho in 1974 and, as at 31 March 2007, had been approved for the country loans and grants amounting to UA 285.43. The resources were used to finance 35 projects, three lines of credit, one policy-based programme and seven studies. Following the cancellation of a number of operations totalling UA 52.46 million, Bank Group net commitment stands at UA 232.97 million comprising UA 38.57 million (16.6 percent) from the African Development Bank (ADB) window, UA 186.90 million (80.2 percent) from the African Development Fund (ADF)/Technical Assistance Fund (TAF) resources, and UA 7.51 million (3.2 percent) from the Nigeria Trust Fund (NTF) window. The four ongoing projects consist of one project each in the transport sector (with 56.4 percent of total commitments), social sector (24.0 percent), agricultural sector (17.0 percent) and multi-sector (2.6 percent). The financial commitments relating to ongoing operations amounted to UA 30.79 million, of which UA 8.92 million had been disbursed, representing a disbursement rate of 29.0 percent.

3. **Assessment of the Portfolio Performance:** The performance of Bank Group portfolio in Lesotho is rated satisfactory with an overall performance rating of 2.0. This is mainly influenced by financial and procurement performance. On the other hand, project progress performance is weak. In terms of aging of projects, defined as projects at least eight years, none of the ongoing projects in the portfolio is “aged”. Using a cut-off date of 31 March 2007, the average age for the ongoing projects is 4.4 years, which is slightly higher than the average for the entire 2004 Bank Group portfolio which stood at 4.2 years. While there is no operation that is considered to be a Problem Project (PP) in the ongoing Bank portfolio in Lesotho, two operations can be classified as a Potentially Problematic Project (PPP). In this regard, two projects are considered as Projects at Risk (PARs). They amount to UA 12.64 million, representing a commitment at risk rate of 41.1 percent. The 2004 APPR report also registered two PARs with a commitment risk of 39.2 percent out of five projects in the country in 2004. In this regard, although the 2004 APPR and 2007 CPPR are based on different sets of projects, it can be concluded that the performance of the portfolio has remained stable albeit with a slight deterioration.

4. **Cross-Cutting Issues:** Cross-cutting issues, such as poverty reduction, gender, governance, environment and HIV/AIDS, are discussed and mainstreamed in Bank supported projects in Lesotho. These issues are rigorously followed up and monitored during supervision and mid-term review missions. A review of the operations for the treatment of cross-cutting issues revealed that all the four ongoing projects have the reduction of poverty as a core element of project design and outcome. Specifically, the project in the agricultural sector is helping to

enhance economic activity in the project areas through tourism and related entrepreneurial and service training, while the social sector project is contributing towards building capacity for modern social welfare delivery. With regard to gender, the project in the agricultural sector is targeting over 600 households, which comprise a good proportion of women heads of households, through their participation in the project's nature-based tourism and rural enterprise development activities to enhance their financial development. As for the operation in the transport sector, the participation of skilled and unskilled women in road construction is being encouraged. Although all the ongoing projects have limited negative environmental impacts, specific mitigation measures have been put in place where necessary. Lastly, the issue of HIV/AIDS has also been mainstreamed in almost all the ongoing operations through specific sensitisation and awareness programmes.

5. **Generic Problems:** The main common problems observed in the course of the portfolio review are: project start-up difficulties essentially relating to late loan/grant agreement signature and fulfilment of conditions for entry into force and first disbursement; long response turnaround time between the Bank Group and Government; capacity constraints and weak project management due to lack of a full complement of personnel who are familiar with the Bank's methods; and difficulties in adhering to Bank Group's rules of procedures for procurement and disbursement. In addition to this, failure by the Government to establish fully and effective steering committee in a timely manner has tended to hamper project implementation in Lesotho, especially during their early phases.

6. **Proactive Management of Portfolio:** Several challenges and risks that could negatively impinge on project implementation are identified in ongoing project appraisal reports. The uncertain political situation was mentioned as one of the possible risks. However, this is no longer a threat after the country adopted a relatively more inclusive electoral system and held two peaceful elections in 2002 and 2007. Another risk that was highlighted is that the Government would face difficulties in retaining qualified and skilled staff due to the fact that they are attracted by better-paid jobs in the private sector and South Africa. The Government is, however, undertaking various reforms to improve the incentive structure for retaining civil servants, most notably within the framework of Public Sector Improvement Reform Programme. The Government's commitment to the decentralisation process was included as a potential risk, which could affect the successful completion of the health reforms. It is, nevertheless, worth noting that significant progress has been made by the country in putting in place the policy framework to facilitate implementation of the decentralisation programme. Further to that, elections for the new local government structures were held in 2005. Lastly, the project in the transport sector hinged on the assumptions that all procurement actions would be on schedule to avoid implementation delays. The project encountered some delays in achieving loan effectiveness which resulted in substantial cost overruns. This notwithstanding, the successful implementation of the project will be facilitated by the Board approval of a supplementary loan to cover the financing gap.

7. In order to further improve portfolio performance in Lesotho, the Bank and Government will continue to pursue a number of proactive measures. The specific actions required to improve the performance of each ongoing project and, in turn, each project's likelihood to achieve its development objective, are presented in Annex VII. Further to that, the portfolio improvement plan in Annex VIII clearly indicates other time-bound actions, which are generic in nature, that need to be pursued to enhance the development effectiveness of the portfolio in Lesotho.

8. **Lessons Learned for Future CSP and Portfolio Management:** The portfolio review provides a number of lessons that should be taken into account to improve the quality of future projects and should inform the preparation of the next Country Strategy Paper (CSP) for Lesotho. The first lesson is that with regard to the quality of the portfolio, the transport sector has tended to perform relatively better than other sectors in respect of development objective indicators and in terms of project management performance and the number of project implementation related problems. This issue will, thus, have to be taken into account in determining the strategic orientation of future Bank Group assistance for Lesotho. Second, with the country's Poverty Reduction Strategy increasingly becoming the mechanism for supporting development programmes, there is need for the Bank Group to enhance its harmonisation efforts and deepen its level of coordination with other development partners in Lesotho. Lastly, improving the design of future operations, i.e. quality-at-entry, should help to improve future project implementation in Lesotho. Such efforts should consider rationalising loan/grant conditions for entry into force in order to reduce project start-up delays. Further to that, project institutional capacity and arrangement issues need to be adequately dealt with in the design of future operations given the negative impact they have tended to have on project implementation, especially in the early phases.

9. **Conclusions and recommendation:** This portfolio review exercise has shown that the performance of Bank Group portfolio in Lesotho is generally satisfactory, with an overall rating of 2.0. In spite of this, Bank Group operations continue to face a number of generic problems. This review, therefore, suggests that a lot of effort be pursued by the Bank Group and Government to further improve the implementation of projects in Lesotho. In this regard, the CPPR is making the recommendations highlighted below.

10. The Government should: ensure quick start-up of projects by avoiding delays in loan/grant agreement signature and fulfilment of conditions for entry into force and first disbursement; strengthen the capacity of executing agencies and enhance and the effectiveness of steering committees by appointing committed and relevant stakeholders, especially in case of HNRRIEP and SHRP; adhere to revised implementation and procurement schedules agreed with the Bank Group; and ensure that procurement and disbursement documents sent to the Bank Group are accurate and in conformity with Bank Group procedures. Lastly, regular meeting involving the Ministry of Finance and Development Planning, line ministries and executing agencies should be held to appraise each other on portfolio implementation issues.

11. The Bank Group should: improve the design and minimise the number of loan conditions during project appraisal to facilitate speedy fulfilment of conditions; ensure that launching missions are mounted soon after Board approval; and regularly organise training on project implementation and loan administration in Lesotho, and preferably one by the end of 2007, given that the previous one was organised about three years ago. The Bank should also designate an alternate Task Manager for each project in order to improve communication with the Government and sustain the recent improvement in supervision by ensuring that projects are supervised at least 1.5 times per year or two times per year for PPPs.

12. The Boards of Directors are invited to take note of the recommendations made in this CPPR report, which seek to improve the performance of ongoing portfolio in Lesotho.

I. INTRODUCTION

1.1 Objectives, Structure and Coverage of the Report

1.1.1 The main objective of the Country Portfolio Performance Review (CPPR) is to assess the performance of ongoing Bank Group-financed operations in Lesotho and provide action plan to improve project performance. The report also aims at drawing lessons towards improving the implementation of the current portfolio and the design of future Bank Group interventions in Lesotho. In this regard, the report reviews all public sector projects in Lesotho as at 31 March 2007 that have positive disbursement balances and whose deadline for final disbursement has not yet expired. The last CPPR was done in 1995¹. It recommended the restructuring of the portfolio by way of cancellation of some loan balances due to poor implementation and utilisation of part of the loan savings to finance new and existing activities. The CPPR concluded that delays in loan effectiveness and project start-up, non-compliance with Bank procedures and weak institutional capacity were largely responsible for delays in project implementation in Lesotho although portfolio performance was rated satisfactory. It took nine years before another CPPR was prepared for Lesotho. This is a major lapse Management will avoid in future by preparing CPPR in a timely manner, every two years as required. The findings of the 1995 CPPR are summarised in Box 1.

1.1.2 This report is based on information gathered during the CPPR mission that was undertaken between 4 and 9 December 2006. It is also supplemented by quarterly progress reports and supervision mission reports since the CPPR mission. The report is organised in seven chapters, beginning with the introduction and an overview of Bank Group portfolio in Lesotho in Chapter I. Chapter II reviews the performance of each ongoing project in terms of compliance with loan/grant conditions and reporting covenants, processing of procurement and disbursement matters, and likelihood of projects to achieve their development objectives. Chapter III assesses the management implementation capacity of the Government of the Kingdom of Lesotho (GoL) and the Bank Group, while Chapter IV examines Government's capacity to coordinate donor assistance and the Bank's coordination efforts with other donors. The report then discusses Lesotho's loan repayment and arrears situation in Chapter V, before outlining proactive management of the portfolio relating to the potential future challenges and risks, as well as actions that may be needed to improve the performance of the portfolio in Chapter VI. Lastly, conclusions and recommendations are presented in Chapter VII.

1.2 Size and Composition of Portfolio

1.2.1 The Bank Group commenced lending operations in Lesotho in 1974 and, as at 31 March 2007, had approved for the country loans and grants amounting to UA 285.43. The resources were used to finance 35 projects, three lines of credit, one policy-based programme and seven studies. Following the cancellation of a number of operations totalling UA 52.46 million, Bank Group net commitment stands at UA 232.97 million comprising UA 38.57 million (16.6 percent) from the African Development Bank (ADB) window, UA 186.90 million (80.2 percent) from the African Development Fund (ADF)/Technical Assistance Fund (TAF) resources, and UA 7.51 million (3.2 percent) from the Nigeria Trust Fund (NTF)

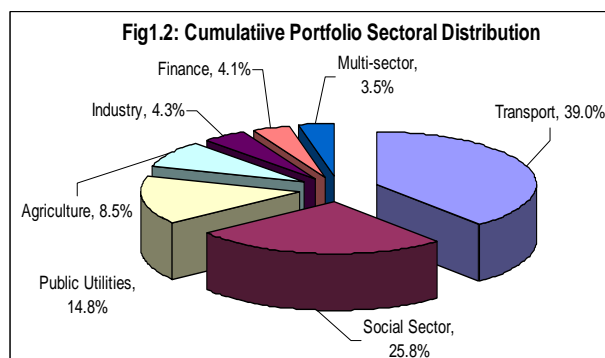
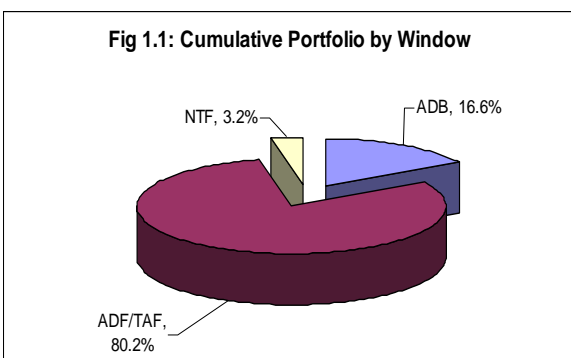
¹ Lesotho: Country Portfolio Review/Restructuring Report (ADB/BD/WP/95/67 - ADF/BD/WD/95/147).

window (see Table 1.1). The most notable cancellation undertaken relates to the Muela Hydro-Power Project for the sum of UA 20.0 million which was effected in May 1995 when there were no disbursements for 24 months after signature due to misprocurement. In addition, three other projects amounting to UA 11.2 million were cancelled before or just after start-up due to inadequate design while loan balances amounting to UA 5.38 million were cancelled following the recommendations of the 1995 CPPR.

1.2.2 As at 31 March 2007, thirty-seven operations have been completed. In terms of sectoral distribution, transport and social sector are the largest recipients of Bank Group financing with shares of 39.0 percent and 25.8 percent, respectively. They are followed by public utilities sector (14.8 percent), agriculture (8.5 percent), industry (4.3 percent), finance (4.1 percent) and multi-sector (3.5 percent). The sectoral distribution reflects Government's priority in infrastructure and social sector. There have been no multinational and private sector operations approved by the Boards of Directors in favour of Lesotho. Cumulative disbursements for all sectors stood at 89.8 percent of total commitments net of cancellations. Annex I presents a summary of Bank Group operations in Lesotho.

Table 1.1: Sectoral Breakdown of Bank Group Approved Loans and Grants
(as at 31 March 2007)(UA million)

Sector	No of Operations	ADB	ADF	NTF	Total	Percentage Share
Transport	13	16.14	74.66	-	90.80	39.0%
Social Sector	9	-	60.00	-	60.00	25.8%
Public Utilities	7	14.41	20.04	-	34.45	14.8%
Agriculture	8	-	19.91	-	19.91	8.5%
Industry	2	8.02	-	2.08	10.10	4.3%
Finance	4	-	4.22	5.43	9.65	4.1%
Multi-sector	3	-	8.06	-	8.06	3.5%
Sub-Total	46	38.57	186.90	7.51	232.97	100.00%



II. REVIEW OF ONGOING PROJECTS

2.1 Ongoing Portfolio

2.1.1 As at 31 March 2007, four ongoing operations were at varying stages of implementation. The operations consist of one project each in the sectors as follows: transport

(with 56.4 percent of total commitments), social sector (24.0 percent), agriculture (17.0 percent) and multi-sector (2.6 percent). The financial commitments relating to ongoing operations amounted to UA 30.79 million, of which UA 8.92 million had been disbursed, representing a disbursement rate of 29.0 percent. A summary of ongoing operations is given in Table 2.1 below and in Annex II.

Table 2.1: Summary of Bank Group Ongoing Operations

(as at 31 March 2007)(UA million)

Sector	No of Projects	ADF Commitment	Sectoral Distribution (%)	Cumulative Disbursement	Disbursement Rate (%)
Transport	1	17.36	56.4%	5.49	31.7%
Social Sector	1	7.40	24.0%	1.71	23.1%
Agriculture	1	5.24	17.0%	1.58	30.1%
Multi-sector	1	0.79	2.6%	0.14	18.3%
Total	4	30.79	100.0%	8.92	29.0%

2.1.2 All the four ongoing projects will be reviewed by this CPPR report. The projects are: (i) Highlands Natural Resources and Rural Income Enhancement Project (HNRRIEP); (ii) Institutional Support Project (ISP) for the Ministry of Finance and Development Planning (MFDP) and the Ministry of Public Works and Transport (MOPWT); (iii) Likalaneng-Thaba Tseka Road Project; and (iv) Support to Health Reforms Programme (SHRP). It should, however, be emphasised that the log-frames for these projects did not systematically build in monitorable indicators that are specific, measurable and time-bound. It is, therefore, not easy to measure whether progress is being made toward implementing activities and achieving objectives. As a proxy, the performance of key outputs as originally indicated in appraisal reports have been used in assessing their likelihood to achieve their development impact.

2.2 Agriculture

2.2.1 **Overview:** There is one ongoing operation in the sector, namely the Highlands Natural Resources and Rural Income Enhancement Project (HNRRIEP), whose details are given in Table 2.3 below.

2.2.2 **Highlands Natural Resources and Rural Income Enhancement Project:** Its sector goal is enhanced and sustainable conservation and management of the unique natural ecosystems in the Central Highlands of Lesotho. The project objective is to alleviate rural poverty, through income generating activities, especially among vulnerable groups, by practicing community-based natural resource management, improving rural infrastructure and providing ecotourism services. The project comprises five components, namely: (i) Natural Resource Management and Conservation; (ii) Ecotourism; (iii) Institutional Strengthening; (iv) Rural Infrastructure; and (v) Rural Enterprise. The status of implementation of key project outputs, as originally indicated in the project's logical framework, is given in the Table 2.2 below.

Table 2.2: HNRRIEP Basic Data and Status of Key Project Outputs
(UA million)

Basic Data								
Grant/ Loan	Date Approved	Date Signed	Entry Into Force	Last Disbursement	Approved Amount	Net Commitment	Disbursed Amount	Balance
ADF								
Loan	07/09/2000	14/03/2001	15/09/2001	31/12/2007	4.49	4.90	1.38	3.11
TAF	07/09/2000	14/03/2001	15/09/2001	31/12/2007	0.75	0.75	0.20	0.55
Accounts Audit:		2005 audit received in December 2006. Audit report for 2006 expected in April 2007.						
Progress reports:		Quarterly progress reports are up to date						
Executing Agency:		Lesotho Highlands Development Authority						
Last supervised:		December 2006						
Status of Key Project Outputs								
Key Output	Performance Indicators				Target Achieved To Date			
Community awareness of the environment increased	<ul style="list-style-type: none"> 300 beneficiaries receive environment awareness training by PY5 100% of target beneficiaries (3600) reached by mobile environment campaign 				<ul style="list-style-type: none"> 390 members of community councils, 1357 herders, 35 schools received training 5755 beneficiaries were reached (159%) 			
Rural Infrastructure in project areas established	<ul style="list-style-type: none"> 250 km hiking/pony trails constructed by PY3 42 km of 4X4 trekking trails constructed by PY3 				<ul style="list-style-type: none"> 52 Km of hiking trails 35 Km of vehicle trails 			
Tourist attractions and activities developed	<ul style="list-style-type: none"> 7 View Points and Picnic Sites 24 Chalets and 4 Over night Huts at Liphofung, Tsehlenyane & Bokong 				<ul style="list-style-type: none"> 2 completed 6 chalets at Liphofung completed, while the rest have 0 – 43% implementation rate 			
Rural Enterprises developed	<ul style="list-style-type: none"> 300 beneficiaries receive tourism related entrepreneurial and service skills training by PY5 				<ul style="list-style-type: none"> Training needs assessment conducted, tourism concept plan developed and 83 beneficiaries trained. International fairs attended in China and Namibia 			
HIV/AIDS prevention and control campaigns conducted	<ul style="list-style-type: none"> 70% of adult and teenage members of beneficiary households reached by end PY5 				<ul style="list-style-type: none"> 13,824 male & 150 female condoms distributed, 200 T-Shirts with HIV/ AIDS messages distributed, 80 peer educators trained & 21 Training of Trainers sessions held 			
Public institutions strengthened to develop tourism	<ul style="list-style-type: none"> 8 staff trained by end of PY5 3 TAs in place by end of PY1 				<ul style="list-style-type: none"> 6 officers attended short courses & project beneficiaries participated in 2 cultural festivals TAs hired 			

2.2.3 Compliance with Conditions Precedent/Commitments: The loan and grant of UA 4.49 million and UA 0.75 million, respectively, were approved in September 2000 and the loan agreement and grant protocol were signed in March 2001. The project was declared effective in September 2001 and had its first disbursement in October 2003. Thus, it took over 12 months for the project to be declared effective and 19 months for “other” conditions to be fulfilled. This was primarily due to delayed enactment by Parliament of the Tourism Act, which was one of the conditions precedent to disbursement of loan and grant proceeds. As regard reporting covenants, while the audit report for the financial year ended 31 July 2005 was submitted to the Bank, the 2006 audit report was still outstanding by the end-March 2007. Quarterly Progress Reports (QPRs) are also being submitted to the Bank in a timely manner. However, the quality of QPRs can be improved by including clear evidence that project activities are achieving stated goals and targets. As a result, this indicator has been less than satisfactory (1.33).

2.2.4 Procurement Performance: Since the Mid-term Review (MTR) of January/February 2006, implementation progress has improved as noted by the December 2006 supervision

mission. The Government is showing increased commitment to the project as evidenced by its effort to speedily implement various procurement actions and adhere to the plan for accelerating project implementation as agreed during the MTR. The procurement of goods and works has picked up especially relating to environmental awareness campaigns, Katse Dam Garden posters, periodicals and manuals, office furniture, IT equipment, protective clothing, vehicles and building materials as well as construction of vehicle and walking trails, chalets and overnight huts as well as view points and picnic sites. Overall, such procurements have been done in accordance with Bank rules. Although the procurement process has now been finalised, the project registered some delays in the recruitment of its Project Manager, a horticulturist and community educationist for the Katse Botanical Garden mainly due to lack of adherence to the Bank's procurement rules. The project management unit (PMU) needs to familiarise itself with such rules in order to avoid unnecessary delays. The procurement indicator has been rated satisfactory (2.0).

2.2.5 Financial Performance: Due to start-up difficulties, the project initially experienced poor disbursement. Fortunately, since the Bank MTR mission of January/February 2006, disbursement has shot up from 1.86 percent to about 31 percent. This notwithstanding, erratic and inadequate provision of counterpart funds by the Government continues to adversely affect the implementation of the project's activities. The problem can mainly be attributed to the quality of work plans and budgets submitted and delays in justifying money previously disbursed by the Project Management Unit (PMU). Further to that, the PMU has been holding payment to suppliers where counterpart funds were inadequate because it wrongly adopted a 75:25 payment system whereby for each payment there was need for 75 percent ADF and 25 percent counterpart funds. Availability of foreign exchange is not a problem. Since the adoption of the Force Account mode of procurement, civil works activities have been implemented at a rapid pace and at much reduced costs. The financial performance indicator has been rated satisfactory (2.0).

2.2.6 Activities and Work Programme: The project suffered delays in implementation as a result of complex institutional arrangements, ineffective Steering Committee, weak PMU, high staff turnover, non-provision of counterpart staff to understudy Technical Assistants (TAs) and inadequate office space. As a result, project implementation is behind schedule given that December 2007 is its closing date. However, following the MTR mission, which made some far reaching recommendations to address project implementation problems, physical implementation has increased from an estimated 5 percent to about 40 percent. The status of the construction works of chalets at Liphofung Caves and Cultural Heritage Site stands at about 95 percent, while that for the rest of project activities ranges from 0-43 percent. Since Force Account mode of procurement is being used for civil works, the PMU can engage as many temporary workers as possible in order for project activities to be speeded up and for the objectives of the project to be realised. This notwithstanding, the location of the PMU in Lesotho Highlands Development Agency (LHDA), a parastatal under the Ministry of Natural Resources (MNR), instead of in the Ministry of Tourism, Environment and Culture (MTEC), the responsible ministry for the project, continues to pose some coordination problems.

2.2.7 Likely Impact on Development: Despite the delay in implementation of this project, it is likely to achieve its development objectives. Specifically, the eco-tourism activities are

expected to enhance the economic and livelihood of the poor in the mountain areas, where the incidence of poverty is high. The Basotho² beneficiaries of the project are already benefiting from various activities being supported by the project, including nature-based tourism activities, entrepreneurial and environmental awareness training, as well as HIV/AIDS awareness campaign. For instance, the beneficiaries participated in two cultural festivals in South Africa where they exhibited their hand crafts. The demand for Lesotho crafts has significantly gone up since then. They also got feedback on how best to improve the quality of their products. This is being incorporated in the training programme being supported by the project. Further to that, HIV/AIDS campaigns are being carried out, which are likely to reduce infection rates thereby positively impacting on productivity (see Table 2.2 on the implementation status of key outputs). The targeted population is also being employed and realising income from the project's civil works activities. The project's objectives are still in line with the Government's priorities and strategy for poverty reduction. It is, however, worth noting that it is not easy to determine whether the project is achieving its targets because no mechanism for doing so was included in the project appraisal report.

2.2.8 Overall performance: The overall performance of the project is rated less than satisfactory (1.69) with an Implementation Progress (IP) of 1.62 and Development Objectives (DO) of 2.0.

Indicator	Compliance with Conditions	Procurement performance	Financial Performance	Activities and Outputs	Impact on Development	Overall Assessment
Rating	1.33	2.0	2.0	1.25	2.0	1.69

2.3 Multi-sector

2.3.1 Overview: There is only one ongoing multi-sector project, namely the Institutional Support Project (ISP) for the Ministry of Finance and Development Planning (MFDP) and the Ministry of Public Works and Transport (MOPWT). Further details of the project are presented in Table 2.3 below.

2.3.2 Institutional Support Project for MFDP and MOPWT: The goal of the project is to contribute to building capacity of the public service system to implement Government's PRSP objectives. The specific objectives are to strengthen: (i) capacity in planning as well as financial and budget management; and (ii) capacity of MOPWT to manage the road system. The project consists of the following three components, namely: (i) Short-term Technical Assistance; (ii) Training; and (iii) IT equipment for MOFDP and planning units in line ministries. The status of implementation of key project outputs is given in Table 2.3 below.

² *Basotho* are people of Lesotho.

Table 2.3: ISP Basic Data and Status of Key Project Outputs
(UA million)

Basic Data								
Grant/Loan	Date Approved	Date Signed	Entry Into Force	Last Disbursement	Approved Amount	Net Commitment	Disbursed Amount	Balance
ADF Grant	24/11/2004	16/05/2005	26/05/2006	31/12/2008	0.79	0.79	0.14	0.65
Accounts Audit:	Not yet due. Expected 6 months after the end of FY06 (i.e. September 2007)							
Progress reports:	Quarterly progress report for the period ended 31 March 2007 expected by end-June 2007							
Executing Agency:	Ministry of Finance and Development Planning							
Last supervised:	October 2006							
Status of Key Project Outputs								
Key Output	Performance Indicators				Target Achieved To Date			
Short-term technical assistance	<ul style="list-style-type: none"> 3 short-term TAs recruited (capital budget, project and training experts) 				<ul style="list-style-type: none"> Recruitment process yet to commence 			
Training	<ul style="list-style-type: none"> 7 MFDP staff proceed for post-graduate studies 10 MOPWT staff go for long-term training Short-term training, in various areas, comprising in-country group training and individual specialised training offered to staff in MFDP, MOPWT & planning units line ministries 				<ul style="list-style-type: none"> Training plan agreed with GoL. No candidate gone for long-term training yet 3 candidates gone for long-term training The training plan has been agreed with GoL. The procurement of consultancy services for short-term in-country group training for MFDP and planning unit staff is underway 			
IT equipment	<ul style="list-style-type: none"> IT equipment (computers & printers) acquired for MFDP & planning units in line ministries 				<ul style="list-style-type: none"> The procurement of IT equipment is at an advanced stage 			

2.3.3 Compliance with Conditions Precedent/Commitments: This indicator has been rated less than satisfactory (1.67). While it took six months for the grant protocol to be signed and, hence, to meet the condition for entry into force, 18 months elapsed for the conditions precedent to first disbursement to be fulfilled. The delay mainly stemmed from the reorganisation process of MFDP aimed at enhancing service delivery that was underway during the initial phase of the project and the resultant delays in the designation of the Project Coordinator from the MFDP and creation of the Project Implementation Committee. Inadequate communication that was experienced between the Bank and the Borrower can also be attributed to the delay. The only “other” condition relating to the enforcement of the bonding system on all trainees is being fulfilled as candidates depart for long-term training. The auditing of the project is not due until end of September 2007 and the quarterly progress report for the period ended 31 March 2007 is expected to be submitted to the Bank by the end of June 2007.

2.3.4 Procurement Performance: The procurement of goods and services has been rated satisfactory (2.0). The tendering process for the procurement of IT equipment by National Competitive Bidding is at an advanced stage. Further to that, the procurement of consultancy services for short-term in-country group training for MFDP and planning unit staff is underway. Although procurement has, to some extent, been slow as project staff become familiar with Bank’s procurement rules, overall, it is being done in accordance with such rules. There is, therefore, need for the Bank to make arrangements for the executing agency (EA) staff to participate in a Bank organised workshop on Project Management.

2.3.5 Financial Performance: Foreign exchange and local currency are being made available and the Government is providing timely and adequate counterpart funding to the project. Following the supervision mission of October 2006, the first disbursement of UA

144,522.45, representing a disbursement rate of 18.3 percent of the grant, was made in December 2006. Based on this, although disbursement is rated less than satisfactory, overall financial performance has been rated satisfactory (2.33). It is expected that the disbursement rate will substantially increase by the end of the year given that the procurement of IT equipment and training consultants is progressing well.

2.3.6 Activities and Outputs: The delay in project start up has haunted project activities. However, following the supervision mission of October 2006, overall implementation of the project's activities has picked up with the tendering process for the procurement of IT equipment and the recruitment of the short-term training consultants for MFDP staff underway. The first set of candidates also left for long-term training in January 2007. In spite of this, the Government has been slow in identifying candidates for long-term training. The performance under this category has been rated not satisfactory (1.5).

2.3.7 Likely Impact on Development: Although it is still early to establish the development impact of the project's activities, it can be concluded that the project is likely to achieve its development objective as it is being implemented as designed. It is supporting Government's efforts to enhance good governance and, hence, is in line with one the PRS' main pillars. Through its focus on building capacity for budgeting and planning, it is likely that scarce public resources will be allocated and utilised more efficiently in line with Lesotho's national development priorities as outlined in the PRS. The Government's capacity to track expenditure on priority areas would also be enhanced. On the other hand, improved capacity in the roads sub-sector should lead to the development of a road network in the country that is capable of supporting national economic development and providing access to communities, in particular those living in isolated rural areas. The fact that the project is addressing the observed dearth of human capacity in Lesotho should in turn help to enhance its sustainability. To ensure that the skills acquired through the training provided by the project are sustainable, the project has incorporated the provision of management training to some senior of MFDP and MOPWT. The project's recurrent budget implication is minimal and should be easily met from the operating budgets of the concerned ministries. The implementation status of key outputs is given in Table 2.3 above. The indicator has been rated satisfactory (2.0).

2.3.8 Overall performance: The overall performance of the project is less than satisfactory (1.92) with IP of 1.9 and DO of 2.0.

Indicator	Compliance with Conditions	Procurement performance	Financial Performance	Activities and Outputs	Impact on Development	Overall Assessment
Rating	1.67	2.0	2.33	1.5	2.0	1.92

2.4 Social Sector

2.4.1 Overview: Except for the Support to Health Reforms Programme (SHRP), all operations in the social sector have been completed. SHRP's details are summarised below.

2.4.2 Support to Health Reforms Programme: Its sector goal is to achieve improved health status through increased access to quality preventive, curative and rehabilitative health care and management services in a sustainable manner. The project objective is to support health sector reforms by strengthening social welfare and mental care delivery at the community, district and central levels. The project consists of the following four components: (i) Social Welfare Services Development; (ii) Strengthening the Mental Care Referral System; (iii) Human Resources Development; and (iv) Programme Management. The status of the implementation of key outputs as originally indicated in the appraisal report is given in Table 2.4 below.

Table 2.4: SHRP Basic Data and Status of Key Project Outputs
(UA million)

Basic Data								
Grant/Loan	Date Approved	Date Signed	Entry Into Force	Last Disbursement	Approved Amount	Net Commitment	Disbursed Amount	Balance
ADF Loan	09/01/2002	17/04/2002	Oct 2002	31/12/2008	6.40	6.40	1.58	4.82
TAF	09/01/2002	14/03/2001	Oct 2002	31/07/2007	1.00	1.00	0.13	0.87
Accounts Audit:		Submitted accounts for 2003, 2004 & 2005. The 2006 report was submitted in December 2006.						
Progress reports:		Quarterly progress reports are up to date						
Executing Agency:		Ministry of Health and Social Welfare (MHSW)						
Last supervised:		November 2006						
Status of Key Project Outputs								
Key Output	Performance Indicators				Target Achieved To Date			
Strengthened Department of Social Welfare	<ul style="list-style-type: none"> 12 short & long term scholarships offered in Social Welfare Services Development 4 TAs recruited (Social Welfare Manager, Mental Care Systems Development, Human Resources Development, Program Management) 				<ul style="list-style-type: none"> 7 candidates gone for long-term training Social Welfare Services Development Social Welfare Manager hired. Evaluation for 1 TA underway 			
Strengthening mental care referral system	<ul style="list-style-type: none"> Extension and renovation of structures at Mohlomi Mental Hospital Procurement of equipment & furniture for Mohlomi Mental Hospital Long-term training in specialised mental care skill TAs to fill position of Psychologist, Occupational Therapist and Neurologist engaged 				<ul style="list-style-type: none"> Overall physical implementation rate is at 43% against 55% construction time elapsed Tendering for procurement underway. IT equipment not dependent on civil works delivered 8 candidates gone for long-term training MHSW unable to identify suitable candidates. MHSW exploring possibility of attaching local candidates to other institutions or engage an institution 			
Human Resources Development	<ul style="list-style-type: none"> National Health Training College (NHTC) upgraded to Faculty of Health Sciences Procurement of furniture and equipment 6 long-term training provided under Human Resources Development 720 trainers, trainees & social workers offered short term training 				<ul style="list-style-type: none"> Overall physical implementation rate stands at 57% against 49% construction time elapsed Procurement process underway. Furniture & equipment not dependent on civil works delivered 4 candidates gone for long-term 113 candidates trained and 600 to be trained shortly in various areas 			

2.4.3 Compliance with Conditions Precedent/Commitments: The loan and grant of UA 6.40 million and UA 1.00 million entered into force in October 2002 after a delay of over 9 months in fulfilling conditions precedent to first disbursement. Most of the “other” conditions have been fulfilled except those relating to the submission of proof for the recruitment of

trainers in sufficient numbers and evidence of the creation of a social work certificate and diploma programme at National Health Training College (NHTC). Auditing of the project is annually done by an audit firm recruited by GoL and good quality reports are submitted to the Bank. The audit report for the financial year ending 31 March 2006 was submitted to the Bank in December 2006. The EA has also been submitting regular and informative quarterly progress report although information concerning progress on civil works was inadequate. Thus, compliance with loan and general conditions has been rated more than satisfactory (2.33).

2.4.4 Procurement Performance: Overall procurement has improved since the supervision mission of February 2005. Since the project has a procurement specialist, procurement is generally being performed in accordance with the Bank's rules of procurement. However, the speed at which such issues, including other project related issues, are dealt with is sometimes hampered by the inability of the Ministry of Health and Social Welfare's management to take quick decision due to capacity constraints. The contracts for civil works at NHTC and Mohlomi Mental Hospital have been awarded. Although specialised medical equipment for Mohlomi Hospital that do not rely on completion of civil works and IT equipment for the Mental Health Department has already been delivered, the procurement of some of the furniture and medical equipment is lagging behind progression of civil works at NHTC in particular. Procurement of equipment, however, normally takes a long time (on average eight months) and there is, therefore, need for GoL to submit draft documents to the Bank for review and approval on a timely basis. There is also need for synchronization of civil works activities with procurement of equipment and fixed furniture. On the other hand, the recruitment of technical assistance to fill the positions of Clinical Psychologist, Occupational Therapist and Neurologist is taking long due to difficulties in identifying suitable candidates. The procurement of goods and works has been rated satisfactory (2.0), while that for consultancy services has been rated less than satisfactory (1.0).

2.4.5 Financial Performance: Although disbursement rates at approximately 25 percent and 13 percent for the loan and grant, respectively, are considered low, the ratios should substantially improve once procurement of equipment picks up before the end of 2008. All the equipment is expected to be in place by January 2008, before the project's completion date. In spite of this, more effort is required especially on the grant resources given the low disbursement rate. Regarding the availability of funds, both foreign exchange and local currency have been made available and the Government is providing timely and adequate counterpart funding to the project. The performance of the co-financier, OPEC, has also been satisfactory. Thus, with the exception of disbursement, which is rated less than satisfactory and should improve substantially in the next few months due to good progress in project implementation, financial performance has been rated satisfactory (2.33) in view of the strong performance of the other criteria relating to this indicator.

2.4.6 Activities and Outputs: In spite of start-up delays that were experienced essentially due to weak institutional arrangement, project implementation is now progressing well after the Core Project Team was strengthened and communication problems between the Government and the Bank were resolved. This is demonstrated by the number of people on training, with: (i) a total of 19 candidates gone for long-term training by March 2007; (ii) 113

candidates trained in various areas during the first phase of short-term training and about 600 candidates to be trained shortly under the second phase. Civil works are progressing well, with overall implementation rate at Mohlomi Hospital of over 43 percent against 55 percent of construction time elapsed. At the NHTC, the overall implementation rate stands at 57 percent against 49 percent construction time elapsed. The quality of civil works is acceptable. Although the project experienced slow implementation during its early phase, it is likely to be completed by its completion date, with one contractor expected to finish civil works by September 2007 and the other one by January 2008. The overall implementation of activities is rated satisfactory (2.0) (see Table 2.4 for the implementation status of key outputs).

2.4.7 Likely Impact on Development: As pointed out above, the project is likely to be completed by its completion date and is also being implemented as designed. It is, therefore, likely to have a significant positive impact on the well-being of the Basotho people through improved access to quality preventive, curative and rehabilitative health centres. The project is building capacity for modern social welfare delivery and support the development of social security schemes and welfare assistance options to assist the Government in lifting people out of poverty. Further to that, the extension and renovation of structures at Mohlomi Mental Hospital, which is progressing well, is likely to lead to an increase in accommodation for psychiatry patients and ensure quality integrative mental health care. The project is also building capacity for training front-line cadre for mental and social welfare care through the expansion of structures at NHTC. It is, therefore, in line with one the PRS' main pillars, namely improved access to health care and social welfare. In terms of project sustainability, while project will lead to the creation of the enabling environment through the adoption of appropriate policies and legislative reforms, the project's capacity building intervention is expected to improve sustainability by providing more skilled care workers. The indicator has been rated satisfactory (2.0).

2.4.8 Overall performance: The overall performance of the project is rated satisfactory (2.06) with IP of 2.07 and DO of 2.0.

Indicator	Compliance with Conditions	Procurement performance	Financial Performance	Activities and Outputs	Impact on Development	Overall Assessment
Rating	2.33	1.5	2.33	2.0	2.0	2.06

2.5 Transport

2.5.1 Overview: Two separate loans of the same project relating to the upgrading of the Likalaneng-Thaba Tseka Road are currently ongoing in transport sector. The initial loan amounting to UA 10.53 million was approved by the ADF Board of Directors in October 2003. The project will contribute towards the sector goal of facilitating economic development and poverty reduction by improving the efficiency of the national transport infrastructure particularly in the rural mountainous areas of the country. The project objectives are to reduce vehicle operating and road maintenance costs and to improve the quality of transport service levels between Likalaneng and Thaba Tseka. The project comprises three components: (i) civil works through upgrading of 85 km of existing gravel road to a Class A bitumen road standard of a width of 7.0-meter carriageway and 1.0-meter paved shoulders on either side

between Likalaneng and Thaba Tseka; (ii) consultancy services for supervision of the above civil works; and (iii) project audit services. The status of the implementation of key outputs is given in Table 2.5 below.

2.5.2 The project experienced substantial cost overruns on all Lots 1, 2 and 3, which are being financed by the ADF, Kuwait Fund for Arab Economic Development (KFAED) and Arab Bank for Economic Development in Africa (BADEA), respectively, mainly due to unforeseen increase in the international price of oil and currency fluctuation, which impacted severely on the cost of road construction. In view of this, in December 2006, the Board approved a supplementary loan for the project for the sum of UA 6.83 million to cover the cost-overrun in respect of Lot 1. The supplementary loan is not yet effective and, hence, is not extensively reviewed by this CPPR report. Its entry into force is only subject to the fulfilment of standard conditions set forth in Section 5.01 of the General Conditions Applicable to Loans and Guarantee Agreements of the Fund. Details of the initial loan are summarised in Table 2.5.

Table 2.5: Likalaneng-Thaba Tseka Road Project Basic Data and Status of Key Project Outputs
(UA Million)

Basic Data								
Grant/Loan	Date Approved	Date Signed	Entry Into Force	Last Disbursement	Approved Amount	Net Commitment	Disbursed Amount	Balance
ADF Loan	29/10/2003	25/05/2004	29/03/2005	31/12/2008	10.53	10.53	5.47	5.06
Accounts Audit:		Not yet due. Expected 6 months after the end of FY06 (i.e. September 2007)						
Progress reports:		Quarterly progress reports are up to date						
Executing Agency:		Ministry of Public Works and Transport						
Last supervised:		January 2007						
Status of Key Project Outputs								
Key Output	Items of Works						Financial Implementation Rate (%)	
An upgraded 2-lane bitumen road with 7m wide carriageway & 1m sealed shoulders on either side for a total of 85km	• Preliminaries, clearing, overhaul, etc.						43.5%	
	• Drains, culverts, etc.						5.3%	
	• Roadworks						14.9%	
	• Primecoat, asphalt, etc.						0.0%	
	• Pitching, gabion, road signs, marking & finishing						0.0%	
	• Bridges							
	• Material testing						33.9%	
	• Dayworks						3.1%	
							6.9%	

2.5.3 **Compliance with Conditions Precedent/Commitments:** Delays were encountered in achieving loan effectiveness due to late fulfilment of conditions, which took a period of 17 months. This was essentially because of the time it took the Bank to accept the documentary evidence submitted by the Government relating to the condition on the budget for the project. The “other” conditions are being fulfilled during project implementation and do not have any adverse impact on the project. Regarding reporting requirements, while auditing of the project is not due until end of September 2007, the Government is submitting quarterly progress reports and is providing timely and adequate counterpart funding to the project. This indicator is rated more than satisfactory (2.5).

2.5.4 Procurement Performance: Some delays were noted in the procurement process due to delays in the fulfilment of conditions. The civil works and supervision contracts for Lot 1, which are being financed by the Fund, were awarded to Messrs Rumdel Construction Limited and Messrs WSP International, respectively. While the bid for Lot 3, being financed by BADEA, has already been awarded and the contractor has taken over the site, procurement activities for Lots 2, which are being financed by the KFAED, are still ongoing.

2.5.5 Financial Performance: The first disbursement was made in August 2006 and since then, the implementation of the project is now progressing well. The disbursement rate on the initial loan now stands at almost 52 percent. GoL is meeting its financial obligations in respect of counterpart funding on Lot 1 and has earmarked adequate funds in the budget for 2007/08 financial year. The project, however, experienced substantial cost overruns on all Lots 1, 2 and 3 and, as pointed out in 2.5.1 above, a supplementary loan for the project was approved to cover the cost-overrun in respect of Lot 1. As regards the performance of co-financiers, while civil works of Lot 2 being financed by KFAED will be re-tendered in due course, a substantial amount has already been disbursed in respect of Lot 3 being financed by BADEA. The financial performance of the project is rated more than satisfactory (2.75).

2.5.6 Activities and Outputs: The implementation of works is progressing well in spite of a slow start brought about by the delays in the loan becoming effective. About 20 percent of the civil works on Lot 1 has been implemented and the quality of work done so far is satisfactory. Given the completion period of 18 months, there is a lapse of time of 33 percent. Physical work done up to March 2007 was about 20 percent against cumulative payments of about 43 percent. Progress in works has been overall satisfactory (2.0).

2.5.7 Impact on Development: Since the project is being implemented as designed (see Table 2.5 above on implementation status), it is likely that the objective of the project to reduce vehicle operation costs and improve the quality of the road transport service levels between Likalaneng and Thaba Tseka will be achieved once all project activities are completed. The project is expected to facilitate economic development and poverty reduction by improving the efficiency of the national transport infrastructure particularly in the rural mountain areas of the country. It will also enable the rural population of the mountainous region to be linked up with the capital city of Maseru. Further to that, considering the agricultural potential of the mountainous rural areas, the project will facilitate commercialisation of agricultural products and inputs. The project's recurrent budget implication will be easily met from the consolidated budget and/or road fund budget.

2.5.8 Overall performance: The project is being successfully implemented and should be able to meet its development objectives. The overall performance of the project is rated more than satisfactory (2.33) with IP of 2.42 and DO of 2.0. The ratings of the project performance indicators after the last supervision mission are as presented below.

Indicator	Compliance with Conditions	Procurement performance	Financial Performance	Activities and Outputs	Impact on Development	Overall Assessment
Rating	2.50	2.50	2.75	2.00	2.00	2.33

2.6 Aging, Potentially Problematic and Problematic Projects

2.6.1 Aging Projects: As defined in the 2004 Annual Portfolio Performance Review (APPR) Report³, the Bank Group considers projects to be aging if they are still ongoing for eight years from the date of approval or technical assistance operations that are at least five years old. Using a cut-off date of 31 March 2007, the average age for the four ongoing projects is 4.4 years. This is slightly higher than the average for the entire 2004 Bank Group portfolio which stood at 4.2 years⁴. Although none of the projects in the current Bank's portfolio in Lesotho is aged, HNRRIEP (6.6 years) and SHRP (5.2 years) are approaching the aging project threshold. There is, therefore, need for their implementation to be speeded up so that they do not fall into this category before their completion dates.

2.6.2 Potentially Problematic and Problem Projects: Potentially Problematic Projects (PPPs) are those operations that are currently rated satisfactory, with IP and DO rates that are greater than 1.5, but have a higher probability of experiencing problems in future in implementation progress or development effectiveness. This classification is based on the fact that a project has at least two of the critical factors listed as areas of concern, including: delays in effectiveness after approval; slow disbursement⁵; less than satisfactory procurement and project management performance⁶; and delays in project completion⁷. On the other hand, Problem Projects (PPs) are defined as those operations with an average IP or DO rating of less than 1.5. Based on these two definitions, while HNRRIEP and SHRP can be classified as a PPP, there is currently no PP in Lesotho (see Table 2.6).

Table 2.6: Potentially Problematic & Problem Projects and Project-at-Risk Situation between 2004 APPR and 2007 CPPR

Critical Factor	HNRRIEP	ISP	Likalaneng-Thaba Tseka Road Project	SHRP
PPPs				
Delays in effectiveness after approval	Yes	Yes	Yes	Yes
<10% disbursed 2 years after loan effectiveness	Yes	No	No	Yes
PPs				
IP or DO less than satisfactory (rated <1.5)	No	No	No	No

Projects at Risk	Potential Problem Projects (PPP)	Problem Projects (PP)	Total (PP+PPP)		Commitment at Risk	
			No.	%	UA mn	%
2004 APPR	2	0	2	40	12.6	39.2%
2007 CPPR Exercise	2	0	2	40	12.6	41.1%

2.6.3 Projects at risk (PAR)⁸, are determined by adding up the total number of PPPs and PPs. In this regard, two projects can be considered as a PAR in the ongoing Bank portfolio in

³ 2004 Annual Portfolio Performance Review (ADB/BD/WP/2006/20/Rev.1-ADF/BD/WP/2006/23/Rev.1).

⁴ 2004 APPR.

⁵ Less than 10% of loan disbursed 2 years after effectiveness or less than 50% of loan disbursed 5 years after effectiveness (3 years for TAF grants).

⁶ Both rated less than 1.5.

⁷ Project not completed after 8 years (5 years for TAF grants).

⁸ Any project or potentially problematic project with a high probability of not attaining its set objectives.

Lesotho. They amount to UA 12.64 million, representing a commitment at risk rate of 41.1 percent. The 2004 APPR report also registered two PARs with a commitment risk of 39.2 percent out of five projects in the country in 2004. In this regard, although the 2004 APPR and 2007 CPPR are based on different sets of projects, it can be concluded that the performance of the portfolio has remained stable albeit with a slight deterioration. The Bank, therefore, needs to continue carrying out rigorous monitoring, supervision and follow-up of its projects in the country. Table 2.6 gives a comparison of the project at risk situation between 2004 APPR and the 2007 CPPR exercise while Annex V summarises the common problems that are affecting each ongoing project in Lesotho.

2.7 Assessment of Supervision Frequency and Quality

2.7.1 The Bank Group's policy requires that projects should be supervised on average 1.5 times per year (i.e. once every nine months). Despite this, the frequency of each project's supervision is influenced by several factors, such as the nature and complexity of the project, stage of implementation with projects tending to need more supervision during the early- and mid-implementation phases than towards project end, as well as the Bank Group's sector and country experience. In Lesotho, Bank Group funded projects are supervised regularly with a mix of a field and desk supervision missions (see Annex VI). All the ongoing projects have been field supervised at least once in 2005 and 2006. Specifically, HNRRIEP was supervised once in 2005 and three times in 2006 (one desk, one field and one MTR), whereas SHRP had two supervision missions (one field and one desk) in 2005 and two field supervision missions in 2006. As for the two other projects that were at their early stages of implementation, they too were each supervised once annually in 2005 and 2006. It is, however, a concern that although HNRRIEP became effective in September 2001, it was only first field supervised in January 2004, whilst SHRP's next field supervision after its launching mission in September 2003 (20 months after approval) was only undertaken in March 2005. Reasons for this shortcoming include the temporary relocation of the Bank headquarters to Tunis and frequent changes of Task Managers responsible for the projects. This lack of supervision could have contributed to project implementation difficulties, such as start-up delays and low disbursement rates, which these two projects experienced during their early phases. From the foregoing, it is, however, worth noting that the number of field supervision missions per project has substantially improved to almost two times a year for HNRRIEP and SHRP since 2005. The Bank Group should, therefore, make every effort to sustain this improvement.

2.7.2 Concerning the length of supervision mission, each ongoing project has been supervised for an average number of seven working days per mission. In terms of quality of the missions, the tendency has been that each project is supervised by one or two sector specialists. The skills mix of supervision missions could have been enhanced, where and when necessary, with the inclusion of specialists in other technical and financial aspects of project implementation, such as procurement, disbursement, finance, cross-cutting issues, etc. In addition to this, the impact of supervision missions is compromised by delays in following up on agreed actions by the Government/EAs. Following each supervision mission, the Bank sends a letter to the Government and EA highlighting major findings and recommendations. However, EAs, particularly HNRRIEP's project implementation unit, have been too slow in implementing decisions.

2.8 Cross-Cutting Issues

2.8.1 Cross-cutting issues are discussed and mainstreamed in Bank supported projects in Lesotho. Such issues are rigorously followed up and monitored during supervision and mid-term review missions. Eight cross-cutting issues are emphasised, namely: (i) poverty reduction; (ii) gender; (iii) governance; (iv) environment; (v) HIV/AIDS; (vi) regional integration; (vii) core labour standards; and (viii) population. While specific details of the key cross-cutting issues that each ongoing project is designed to address can be obtained from the respective appraisal reports, a summary is given in Annex V.

2.8.2 **Poverty Reduction:** All the four ongoing projects in Lesotho have the reduction of poverty as a core element of project design and outcome. For example, HNRRIEP is expected to significantly impact on the poverty status and social standing of a total of over 600 households, or 3,600 individuals, of which about 50 percent comprise retrenched mineworkers and women heads of households. By the end of 2006, 1,358 beneficiaries had received tourism and related entrepreneurial and service skills training. This is likely to enhance economic activity in the project areas as a result of increased sales of handicrafts and new employment for tour guides, waiters, accommodation providers, etc. The increase in income is projected at 25 percent in year seven of the project. In Likalaneng-Thaba Tseka Road Project, the contractor is employing both skilled and unskilled workers from the surrounding areas. The Government has also secured the right-of-way by compensating adequately the displaced people. On the other hand, SHRP is assisting in building capacity for modern social welfare delivery as well as supporting the development of social security schemes and welfare assistance options, which should assist the Government in lifting people out of poverty. The ISP is focusing on building capacity for budgeting and planning, which should lead to scarce public resources being allocated and utilised more efficiently in line with Lesotho's strategic priorities as outlined in the PRS.

2.8.3 **Gender:** As pointed out above in 2.8.2, HNRRIEP is targeting over 600 households, which comprise a good proportion of women heads of households. Their participation in the project's nature-based tourism and rural enterprise development activities will enhance their financial independence. The Likalaneng-Thaba Tseka Road Project is providing training in gender sensitisation and community empowerment to contractors' technical and managerial staff and labour supervisors to ensure that job opportunities on the construction site are made gender equitable. The recent supervision mission, however, noted that of the 211 staff employed by the contractor, only 17 are women consisting of 16 unskilled female workers and one female artisan. The Government has since been advised to encourage the participation of more skilled women in road construction. As for the ISP, it is targeting the lower and middle level professions in the civil service in terms of capacity building, where women usually predominate over men. GoL is also required to ensure that at least 40 percent of the beneficiaries of training are women.

2.8.4 **Governance:** Of the four ongoing Bank interventions, only the ISP has a bearing on governance in the country. It is supporting Government's efforts to enhance good governance capacity through the provision of training and technical assistance (TA), with a focus on improving public financial management systems in the areas of planning as well as in

financial and budget management. The Bank also completed a Country Governance Profile for Lesotho⁹ in 2006, which provides a detailed assessment of major governance issues in the country.

2.8.5 Environment: The four ongoing projects in Lesotho were classified II or III in according to the Bank's guidelines. This implies that they have limited negative environmental impacts, if any. In spite of this, specific mitigation measures have been put in place where necessary. With regard to the Likalaneng-Thaba Tseka Road Project, necessary precautions are being taken through standard engineering practice during rock drilling and blasting operations, disturbance of water courses and production of crushed stones. On the other hand, HNRRIEP is avoiding sites with high biological diversity and using indigenous plant species to re-establish vegetation in disturbed areas. Some 40 percent of the project's budget is allocated to environmental and natural resource conservation activities.

2.8.6 HIV/AIDS: All ongoing Bank Group funded projects have mainstreamed HIV/AIDS. In particular, SHRP is helping to control the spread of AIDS through the adolescent and child welfare programme and HIV/AIDS outreach efforts, while HNRRIEP, in collaboration with Ministry of Health and Social Welfare and the Christian Health Association of Lesotho, has already conducted training for 18 potential trainers of youth peer education. As for the Likalaneng-Thaba Tseka Road Project, the people in the project zone of influence have been sensitised of HIV/AIDS through a number of workshops organised by CARE. In addition, the contractor is implementing HIV/AIDS awareness and gender empowerment programmes as well as administering some HIV/AIDS preventing measures to its workforce as per the contract agreement.

2.9 General Assessment of the Portfolio Performance

2.9.1 Project Progress: This is rated less than satisfactory with a score of 1.89. Although the Government has performed relatively well with regard to reporting covenants, its compliance with loan conditions for entry into force is a concern due to the fact that it took on average 15 months for projects to achieve disbursement effectiveness (of which six months were for *loan approval to signature* and nine months for *loan signature to effectiveness*). The situation appears to have worsened since 1995 when the last CPPR exercise was undertaken, whose findings included that it on average took one year for loans and grants to enter into force (see Box 1). On many occasions, the Government has also been unable to fulfil "other" loans/grant conditions in a timely manner. Such conditions are normally included to create favourable environment for the successful implementation of projects in order to ensure their sustainability. The Government has, however, been able to comply with the Bank Group's General Conditions by signing loans and grants within 180 days from their date of approval. As regard reporting covenants, it has also been able to submit audit and quarterly progress reports to the Bank in a timely manner.

2.9.2 Procurement Performance: In terms of procurement performance, the portfolio is rated at an average of 2.0, which is satisfactory. Generally, however, almost all the projects have experienced some delays in procurement activities during their early phases due to

⁹ Lesotho: Country Governance Profile (ADB/BD/IF/2006/20 – ADF/BD/IF/2006/14).

inadequate institutional arrangements, as was the case with HNRRIEP and SHRP. Limited knowledge of Bank Group's procurement procedures by EA staff has also impinged on project implementation. With increased and more focused guidance by the Bank, procurement performance has in most cases tended to improve steadily during the later stages of project implementation. While the lead time for processing procurement issues has tended to be long, on many occasions procurement has been carried in accordance with Bank Group's procurement rules. To familiarise EAs with such rules, the Bank Group needs to organise for them regular workshops on project management.

2.9.3 Financial Performance: The performance under this category has been rated satisfactory with an average score of 2.25. The availability of foreign exchange and local currency has been timely, except in the case of HNRRIEP where the flow of counterpart funds from the Government was disrupted due to changes in the project's institutional arrangements. However, the performance on disbursement is generally weak although disbursement flows have picked up in almost all projects in view of the commitment the Government has shown in the recent past to adhere to implementation actions agreed with Bank supervision missions. The submission of audit reports has generally been timely and their quality has been acceptable. However, in the case of HNRRIEP, although the recent report was done by a reputable South African Audit firm, its terms of reference (TORs) were not detailed and comprehensive enough relative to the Bank's standard TORs. Consequently, the audit report was less than satisfactory. To address the problem, an appropriate TOR format has been sent to the PMU and the Government.

2.9.4 Activities and Work Programme: This category is rated barely satisfactory with an average score of 1.73, with only two of the ongoing projects scoring at least 2. After experiencing start-up delays as a result mainly of delays in entry into force of the loan/grant, as described above, and compounded by weak institutional arrangements, almost all the activities for all ongoing projects are now progressing well. Specifically, civil works under SHRP and Likalaneng-Thaba Tseka Road Project are progressing well, with an overall progress of over 50 percent for the former. As for HNRRIEP, physical implementation has increased substantially since the Bank's MTR mission of January/February 2006. However, almost all the projects are behind their implementation schedules due to start-up delays.

2.9.5 Impact on Development: With an average rating of 2, this category is rated satisfactory. It is, therefore, likely that all four ongoing projects would achieve their stated development objectives upon completion of project activities. As pointed out in 2.1.2, the measurement of development impact of ongoing projects is hampered by the absence of specific monitorable indicators that are measurable and time-bound, as is the case with recently approved Bank Group projects.

2.9.6 Overall Assessment: The performance of Bank Group portfolio for the four ongoing operations in Lesotho is rated barely satisfactory with an average rating of 1.97 and IP and DO average scores of 1.99 and 2.0, respectively (see Table 2.7). The overall satisfactory performance is mainly influenced by financial and procurement performance, as well as supported by the satisfactory impact on development. On the other hand, project

implementation performance is weak. The common problems experienced by ongoing operations in Lesotho are summarised in Annex V.

Table 2.7: Performance of the Overall Portfolio

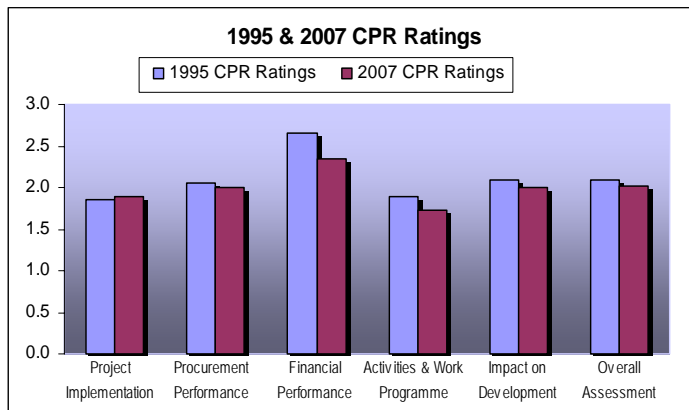
Project Implementation	Procurement Performance	Financial Performance	Activities & Work Programme	Impact on Development	Overall Assessment
1.89	2.0	2.25	1.73	2.0	1.97

2.10 Generic Problems

2.10.1 The main generic problems observed in the course of the portfolio review are: start-up delays mainly relating to the fulfilment of conditions; long response turnaround time between the Bank Group and GoL/Executing Agencies (EAs); capacity constraints and weak project management; inadequate institutional arrangements; and difficulties in adhering to Bank Group's rules of procedures for procurement and disbursement. These issues are elaborated further below.

Box 1: Findings of 1995 Lesotho CPPR Report

The last Country Portfolio Performance Review of the ADB Group portfolio in Lesotho was carried out in 1995 (ADB/BD/WP/95/67 – ADF/BD/WP/95/47), the first initiated since the beginning of operations in the country in 1974. It recommended the restructuring of the portfolio by way of cancellation of some loan balances due to poor implementation and utilisation of part of the loan savings to finance new and existing activities. The results of that portfolio review exercise showed that the performance of Bank Group projects in the country was



satisfactory with an overall rating of 2.1 on a scale of 0 to 3. However, the exercise concluded that projects in the country experienced serious implementation delays mainly due to: (i) delays in the fulfilment of conditions precedent to entry into force; (ii) weak capacity of EAs in terms of staff that were familiar with the Bank's methods; (iii) inadequate supervision missions; (iv) non-compliance with Bank procedures; and (v) delays in obtaining responses from the Bank. Further to that, the submission of audit reports was unsatisfactory. To address these problems,

it was agreed that the Bank should ensure that: launching missions are sent within six months of loan signature; profound assessment of borrower's institutional set up is done at appraisal; TA is provided to EAs; and that a multidisciplinary supervision mission is fielded once a year. On its part, the Government was requested to undertake a comprehensive review of the conditions of the civil service and streamline communication channels between EAs and line ministries. A comparison of the 1995 and 2007 CPPR ratings in terms of project implementation, procurement performance, financial performance, activities and work programme, impact on development as well as overall assessment is given in the Chart above. Although this comparison shows that portfolio performance has remained satisfactory between the two CPPRs, it is clear that there has been some deterioration in the performance of almost all indicators.

2.10.2 **Project start-up delays:** The implementation of projects continues to face start-up difficulties caused by delays in signing and/or fulfilment of conditions in spite of efforts by

the Bank to rationalise and streamline the number of conditions (see 2.9.1 above). There are several reasons why such delays are experienced, with much of the evidence pointing to capacity weaknesses at MFDP and in line ministries, which constrains the ability of the Government to quickly move forward to furnish the Bank with the required evidence on the fulfilment of conditions. Further to that, although most of the grant/loan conditions for the ongoing projects were mainly standard in nature, there were some that were not easy to fulfil. In particular, HNRRIEP required the ratification by Parliament of the Tourism Act and since Parliament is outside the control of Government, it is not surprising that a delay occurred in the fulfilment of the condition. Fortunately, conditions linked to Parliamentary approvals have since been discarded by the Bank. In the case of the ISP, the fulfilment of the grant conditions was adversely affected by the reorganisation that was underway at MFDP, as well as delays by the Government to designate the coordinator for project and create the Project Implementation Committee. The Bank Group too cannot be exonerated of any blame as it took a long time before it could accept documentary evidence submitted by the Government relating to the condition on the budget for the Likalaneng-Thaba Tseka Road Project. In order to reduce project start-up difficulties, there is need for the Bank Group to improve the design of grant/loan condition issues during preparation phases by discussing them with relevant Government officials and stakeholders in order to ensure that they reflect the capacity and ability of Government to expeditiously implement them. This process should, however, not lead to the dilution of the role of conditions as a tool to achieve project quality.

2.10.3 Long response turnaround time between the Bank and Government/EAs:

Although there have been improvements in the communication between the Bank and GoL in the recent past, the response turnaround time still needs to be shortened. It still takes more than a week for courier to travel between the Bank and Lesotho. In addition to this, project related issues are sometimes not expeditiously responded to. The problem in obtaining responses from the Bank reached its peak during the time the Bank was moving its temporary headquarters from Abidjan to Tunis. Since the value for good communication cannot be understated, it is essential to continually strengthen communication lines between the Bank and Government. One of the measures that can be taken is to encourage the use of alternative means of communications, such as e-mail and faxes, in addition to ordinary mail sent by courier. On its part, the Bank could also encourage the designation of an alternate Task Manager I for each project who is fully conversant with the project's day-to-day issues to quickly respond to any issue that may arise in the absence of the substantive TM.

2.10.4 Capacity constraints and weak project management:

Capacity constraints in the civil service have always been critical in Lesotho. While the civil service has in general a shortage of managers to supervise projects and programmes, in most cases EAs do not only lack a full complement of essential staff, but also personnel who are familiar with the Bank's methods. This has resulted in substantial project implementation delays. The capacity weakness is mainly due to high staff turnover related to the effect of HIV/AIDS and the fact that skilled labour is often scooped up by the private sector and South Africa. In addition, key individuals are often rotated to other postings. The Government is partly addressing the issue through the Public Sector Improvement and Reform Programme (PSIRP), whose objectives include improving the effectiveness and efficiency of public service delivery through the provision of incentives to attract and retain high calibre staff in line ministries and project

executing agencies. To improve public service delivery, the PSIRP also focuses on the decentralisation of certain functions to local authorities. However, GoL is currently facing a number of challenges in implementing its decentralisation process, such as lack of capacity at the Ministry of Local Government level to monitor and advise the local authorities effectively and lack of additional sources of revenue for the local authorities.

2.10.5 Inadequate institutional arrangements: The failure to timely establish fully fledged project management units and effective steering committees has tended to hamper project implementation, especially during their early phases, in Lesotho. Both HNRRIEP and SHRP experienced this problem and, consequently, are behind their implementation schedules. It is, therefore, important that institutional capacity and arrangements issues are adequately addressed by the Bank Group during the preparation and appraisal of its operations.

2.10.6 Difficulties in adhering to Bank Group's rules of procedures for procurement and disbursement: The submission of incomplete documents in respect of procurement and disbursement requests has tended to hamper speedy implementation of projects in Lesotho, especially during their early phases. This is partly due to the fact that it requires a long time for project staff to master Bank's methods. This notwithstanding, while HNRRIEP and SHRP experienced such problems during their early phases, their procurement process is now progressing relatively well. On the other hand, the ISP is still at this difficult stage of project implementation. In order to resolve such problems, the Bank Group should continue to provide regular training related to Bank Group's operations, notably procurement and disbursement, to EAs. Procurement problems are also compounded by the over-centralization of procurement within the Central Tender Board (CTB) because of the low approval thresholds, which result in almost all the procurement being referred to the CTB. Unfortunately, the CTB is understaffed and ill equipped to handle its workload effectively.

III. ASSESSMENT OF MANAGEMENT AND IMPLEMENTATION CAPACITY

3.1 Government's Performance

3.1.1 The assessment in section 2 above has revealed that the performance of the Government has generally been satisfactory in terms of compliance with reporting covenants and ensuring that counterpart funds are available on time. Procurement and disbursement have also tended to be satisfactory especially during later stages of project implementation as EAs gain experience in the application of the Bank Group's rules of procedures for procurement and disbursement. The performance of the Government has also been satisfactory in facilitating the coordination of Bank's operations, with the ADB desk office at MFDP playing that crucial role. In spite of this, the effectiveness of the ADB desk office requires further strengthening by the Government clearly designating one of its staff members as the recognised ADB desk officer.

3.1.2 There are also other areas of concern where there is scope for improving the Government's performance, such as prompt signature of loan agreements and compliance of loan effectiveness conditions, which have resulted in some slippage in completion of projects in Lesotho. It takes on average 15 months for projects to achieve disbursement effectiveness.

The recent reorganisation of MFDP should, however, help in addressing such compliance lapses. In some cases, such as HNRPIEP, the problem of non-provision of counterpart staff by Government to understudy Technical Assistants has also been observed. As pointed out in 2.10.4 above, the Government is making efforts to strengthening the human capacity problem in project executing agencies through the PSIRP.

3.1.3 With regard to vehicles for managing Bank Group-financed operations in Lesotho, the Government is currently using established parallel project implementation units (PIUs) with contract staff recruited competitively (such as in agriculture and social sectors) or ministerial project management bodies with civil service staff (like in transport sector and multisector). One major problem that is inherent in both the public and private sectors in Lesotho is capacity constraints (see 2.10.4). As a consequence, whether being implemented using PIUs or with Government staff, projects have tended to be inadequately equipped to carry out their functions. Specifically, projects that are being implemented through PIUs have tended to experience slow project start-up essentially because it has generally taken a long time for the Government to establish effective PIUs and steering committees, as well as to identify key personnel (about three-and-half years for HNRRIEP and SHRP) due to capacity constraint that exist in the country. However, PIUs have generally been able to address such lapses in the medium-term, although it has not been easy to get the full complement of key staff. As PIU staff gain experience with Bank's methods of procurement and disbursement, the level of physical and financial implementation of such projects has tended to improve during the later stages of implementation. This has been the case with HNRRIEP and SHRP. The performance of projects that are being implemented through ministerial project management bodies has been mix. While MOPWT, through the Road Branch as the executing agency, has successfully implemented 12 Bank-funded transport operations and been able to build capacity, the implementation of the multisector project is being adversely affected by lack of capacity, as well as inadequate focus and dedication to the project by MFDP employees charged with the implementation of that project given that they have other responsibilities in its parent ministry.

3.1.4 From the foregoing, it can be recommended that given the general lack of critical number of staff who are familiar with Bank's methods and who can manage the Bank's project cycle within Lesotho's ministries and agencies, the Bank Group may have to continue using independent PIUs in some projects until adequate capacity has been built in relevant Government institutions, as MOPWT has done. In such cases, institutional arrangement issues should be thought about carefully as they have posed problems with regard to HNRRIEP and SHRP. For instance, HNRRIEP is under the Ministry of Tourism, Environment and Culture, yet its PIU is situated at LHDA, which is parastatal organisation under the Ministry of Natural Resources. This complicated institutional arrangement causes unnecessary coordination problems, which is leading to implementation delays. The Bank's MTR mission should have sorted out this problem. In addition, where contracted PIU employees are used, they should be given clear performance indicators and be subjected to continuous evaluation so that their contracts can be terminated if their performance is unsatisfactory. This could have helped to speed up implementation of HNRRIEP where execution of agreed upon actions by PIU staff has generally been slow.

3.2 Bank Group's Performance

3.2.1 In the recent, the Bank Group has stepped up its effort to improve the implementation of its portfolio in Lesotho. With regard to supervision, the Bank is now already undertaking regular missions (see 2.7.1 above), although the quality can further be improved in terms of skills mix of mission to ensure effective resolution of project-related matters in a timely manner. The Bank has also taken a number of steps to address the problems that two potentially problematic projects, HNRRIEP and SHRP, faced especially during their early stages of implementation. In the case of HNRRIEP, given that the project's institutional arrangement was the main cause of delays experienced in the implementation of the project, the Bank's MTR mission of January/February 2006 made some recommendations that resulted in a strengthened Steering Committee and Project Management Unit. As for SHRP, the Bank also took some steps during the March 2005 supervision mission to enhance the capacity of the EA and establish a Steering Committee after the project's institutional arrangements were partly blamed for the slow implementation pace of the project. The Project Core Team members were also invited to visit the Bank's headquarters in November 2005 to assist them in mastering Bank rules and procedures and to enable them to meet their technical counterparts in order to facilitate communication between the two parties. Such proactive steps taken by the Bank have contributed significantly to the substantial progress, in terms of field level activities and rate of disbursement, which the two projects have registered in the past two years. The Bank has also been strengthening communication channels with the Government/EAs by encouraging the use of other modes of communications, such as e-mails, being encouraged.

3.2.2 It is also worth noting that Bank Management is currently revising and streamlining a number of the Bank's business processes which should have some positive impact on the implementation of ongoing Bank portfolio in Lesotho. These, *inter alia*, relate to: (i) the revision of the delegation-of-authority matrix in order to ensure timely decisions making and responsiveness to clients' needs; (ii) streamlining cumbersome procurement and disbursement processes; (iii) greater emphasis in the use of country systems and processes, on a selective basis, in the implementation of development programmes in line with the Paris Declaration on Aid Effectiveness in order to reduce transaction costs, promote ownership and build country capacity and support harmonisation, alignment and managing for results; (iv) establishment of Country Programme Officer positions in Regional Departments and Field Offices to enhance the quality of the portfolio management and administrative follow-up on operational issues; and (iv) improving the design of projects (i.e. quality at entry) to contribute to the quality of operations. Although the last issue is not an option that can be used to improve performance of ongoing projects, project redesign can be used as a tool to improve poorly performing projects.

3.2.3 In addition to the above mentioned initiatives by the Bank, the Bank Group's Regional Office in Mozambique, which also covers Lesotho, became fully operational in August 2005. It is also aimed at improving project implementation in the country. However, the office has not been fully effective in playing its role of enhancing dialogue, facilitating communication between the Bank Group and Government, providing guidance to implementing agencies and enhancing coordination of Bank's activities with those of other partners since its activities at the initial stage concentrated on Mozambique in view of limited staff. With improvement in staffing capacity, its role would expand to other countries in the region.

3.2.4 The Bank's tendency to frequently change its Task Managers (TMs) responsible for projects in Lesotho is one of the areas that needs to be addressed by the Bank. Such changes have tended to break the momentum in project implementation as new TMs familiarise themselves with the project and country specific issues. For instance, at least three TMs have worked on HNRRIEP in the past three years, while both the Likalaneng-Thaba Tseka Road Project and SHRP have also had at least three TMs since they were approved. The changes can be attributed to high staff turnover and the reallocation of staff to new departments in July 2006 following the Board's approval of the Bank's new organisational structure. The Bank should, therefore, ensure the stability of TMs to avoid unnecessary disruption in project implementation.

3.2.5 Lastly, the Bank also needs to pay close attention to helping the Government in strengthening the capacity of its EAs through regular provision of training to familiarise them with the Bank's procedures for the procurement of goods and services, as well as disbursements. Almost three years have passed since the last loan administration seminar was organised by the Bank in Maseru in April 2004. It is, therefore, necessary that another workshop be organised very soon, preferably before the end of 2007.

IV. COORDINATION WITH OTHER DONORS

4.1 Assessment of Government Capacity to Coordinate Donor Assistance

4.1.1 The Department of Development Planning in the MFDP is responsible for coordinating all external assistance to Lesotho, although line ministries collaborate in the planning and implementation of specific donor interventions. The Loan and Guarantee Act designates the MFDP as the sole authority in Lesotho to raise external loans and negotiate the terms and conditions for such loans. The position of GoL, following from this legal requirement, is that the ministry is the responsible agency for coordinating both initiation and preparation of development projects. However, the acute shortage of qualified and skilled personnel, prevents MFDP from effectively carrying out its aid coordination role effectively. For this reason, the Government and its development partners face numerous challenges in aligning development assistance with Lesotho development priorities. The finalisation of the PRS by GoL in November 2004 is, however, currently providing the framework for development partners to improve their coordination, with their interventions increasingly being aligned with the priority areas of the PRS.

4.1.2 To improve their effectiveness, bilateral and multilateral development partners in Lesotho have outside the Government framework also established their mechanisms for consultation and coordination on a wide range of intervention areas. All European development partners (DPs) with a field presence in the country, namely, Development Cooperation of Ireland (DCI), the United Kingdom's Department for International Development (DfID), the European Union (EU), and German Technical Assistance/Kreditanstalt fur Wiederaufbau (GTZ/KfW), have come up with their own mechanism, known as European Donor Agencies (EDAL). This enables them to effectively coordinate their activities in the country in order to improve the effectiveness of bilateral and multilateral donors and their cooperation programmes with Lesotho. It also provides a forum for policy dialogue and facilitates coordination of policy and programme activities among donors and between donors and the Government to avoid overlap and encourage synergy. Besides EDAL, the UNDP has been

assisting the Government in organising Round Table Conferences since 1972 as the main forum for donor consultation for the country. At these meetings, GoL presents its long-term plan for sustainable development and the requisite resources to implement the plan. The last Round Table Conference, the ninth, was held in November 2006. The Bank Group has been represented at these conferences.

4.2 Assessment of Bank Group's Coordination with Other Donors

4.2.1 The ongoing Bank Group projects in Lesotho do not demonstrate evidence of a strong level of donor coordination or harmonisation in terms of project design, joint monitoring and evaluation, as well as project reviews and reporting. In line with the Paris Declaration, DPs in Lesotho are expected, to harmonise their processes and procedures and align them to country systems. In practise, however, the achievement of this has been constrained by the DPs' respective procedures and regulations. For instance, the Bank Group cannot fully enter into Sector-Wide Approaches (SWAs) because of the requirements of its procurement rules. Also in view of lack of field presence as elaborated in 3.2.1 above, the Bank Group has only been able to attend donor coordination meetings when Task Managers are on missions and/or by participating in donors' joint annual sectoral reviews.

4.2.2 With the PRS increasingly becoming the mechanism for supporting development programmes in Lesotho, the need for closer alignment of donor interventions with the country's strategic priorities is mounting. GoL has also finalised sector strategies for health, education, agriculture and water, among others, which provide the opportunity for consolidating the progress that is being made to introduce SWAs. Cognisance of its commitments under the Paris Declaration, the Bank Group could strive to harmonise its efforts and deepen its level of coordination with other DPs in the country in order to maximise synergies, reduce duplication of systems and, thereby, minimise transaction costs and enhance development effectiveness of its intervention. In addition, in recognition of recent efforts by the Government to improve fiduciary systems, the Bank would explore, in the context of the next CSP, the possibility of joining other DPs in the provision of general budget support.

4.3 Assessment of Co-financiers in Co-financed Projects

The Bank Group has always endeavoured to play a catalytic role in mobilising resources for Lesotho. To date, it has been involved in co-financing a number of operations with other DPs in the country. With regard to the ongoing portfolio, the Bank Group is co-financing SHRP with the OPEC Fund and Likalaneng-Thaba Tseka Road Project with BADEA and KFAED. The overall performance of the co-financiers is rated satisfactory. The Bank Group will continue to seek co-financing opportunities with other donors. It will also seek to collaborate with other DPs in undertaking Economic Sector Work (ESW) in order to benefit from their knowledge and field presence as well as to avoid duplication of efforts.

V. LOAN REPAYMENTS AND ARREARS

Lesotho has always been current with its loan repayment obligations to the Bank Group and up to date on its payment of capital subscriptions. Consequently, the Bank Group has never imposed sanctions on Lesotho because of arrears on loan repayments. Lesotho has a sustainable public debt with a satisfactory record of meeting its debt obligations to the Bank.

VI. PROACTIVE MANAGEMENT OF PORTFOLIO

6.1 Potential Future Problems and Mitigation Measures

6.1.1 Several challenges and risks that could negatively impinge on project implementation are identified in appraisal reports of ongoing projects. First, HNRRIEP cites the uncertain political situation in Lesotho as one of the possible risks that could affect its implementation in view of the political disturbances the country witnessed in the wake of the 1998 parliamentary elections. This issue is, however, no longer a threat given that the political situation has since substantially improved after the country adopted a relatively more inclusive electoral system. As a result, two peaceful elections were held in May 2002 and February 2007, which provide a sound basis for political stability. It is, thus, unlikely that there will be a recurrence of the 1998 political instability. In spite of this, strengthening the democratic institutions and culture remains a challenge to the country.

6.1.2 The second risk mentioned by HNRRIEP relates to the poor tourism climate due to lack of appropriate incentives, which could diminish the impact of the project. This, however, has been mitigated by the enactment by Parliament of the Tourism Act in 2002, which was one of the project's loan conditions. The Act has liberalised the policy environment for ecotourism, thereby encouraging local and foreign private investment. Further to that, the Government is taking various steps, with the support of the World Bank project and Millennium Challenge Corporation, aimed at improving investment climate and also announced some substantial tax incentives in the context of the 2006/07 budget.

6.1.3 The third risk that was underscored by the ISP is that the Government would face difficulties in retaining staff trained under the project. This is due to the fact that qualified and skilled labour is attracted by better-paid jobs in the private sector and South Africa. The strict enforcement of the Government bonding scheme is, however, helping in mitigating this problem. In addition, the Government is undertaking various reforms to improve the incentive structure for retaining civil servants, most notably within the framework of PSIRP (see 2.10.4 above), aimed at addressing such shortcomings.

6.1.4 The potential risk associated with a change in the Government's commitment to the decentralisation process, which could affect the successful completion of the health reforms, was highlighted by SHRP. It is, however, worth noting that the Government has made significant progress on this issue. The policy framework to facilitate implementation of the decentralisation programme is now in place and elections for the new local government structures took place in April 2005. The Ministry of Local Government is currently making efforts towards preparing communities to participate in the local government structures. This

notwithstanding, the Government is currently facing a number of challenges in implementing its decentralisation process, including insufficient institutional capacity and lack of additional sources of revenue for the local authorities. The SHRP is already contributing to overcoming institutional weakness by developing management and planning skills in order to sustain an effective decision-making at all levels of the health and social welfare delivery system. The Government is also expediting the implementation of the decentralisation process with the support of its development partners through the PSIRP.

6.1.5 One of the risks related to the implementation of the Likalaneng-Thaba Tseka Road Upgrading Project hinged on the assumptions that all procurement actions would be on schedule to avoid implementation delays. The project encountered some delays in achieving loan effectiveness and, as a result, the project experienced substantial cost overruns due to unforeseen global general price increase in oil and currency fluctuation (see 2.5.2). In spite of this, the successful implementation of the project will be facilitated by the ADF Board approval of the supplementary loan to cover the financing gap in respect of Lot 1. The Government is also making efforts to mobilise additional resources to fund the remaining financial gap on Lots 2 and 3 of the project, which are being financed on parallel basis by other development partners.

6.1.6 The last risk that is explicitly or implicitly referred to in almost all the appraisal reports of ongoing projects is the HIV/AIDS pandemic. About one in four 15-49 year old Basotho are HIV positive, ranking Lesotho the third highest HIV prevalence country in the world, after Swaziland and Botswana. HIV/AIDS is, therefore, one of the biggest threats to the implementation of Government development projects through loss of productive capacity. In recognition of this, the Government has placed fighting the pandemic as a top priority on its development agenda. It has, among other things, opened AIDS clinics in all 18 Government and Christian Health Association hospitals and is providing Anti Retroviral Drugs (ARVs) to infected people free of charge. The Government has also launched the Know Your Status campaign and rolled out HIV Testing and Counselling to a number of health facilities countrywide as a key strategy for accelerating HIV prevention. It is also scaling up Prevention of Mother to Child Transmission of HIV. Further to that, the Bank Group is mainstreaming HIV/AIDS in all ongoing projects.

6.2 Summary of Action to Improve the Performance of the Portfolio

6.2.1 The Bank has been undertaking measures to improve portfolio performance in Lesotho and this manifests itself in the improvements in project implementation over the past few years. This notwithstanding, this CPPR exercise has noted the presence of two potentially problematic projects in the Bank Group portfolio in the country. The problems that affect the performance of most of the ongoing projects have been discussed in detail, including in sections 2.2 to 2.5, 2.10 and 6.1. The specific actions required to improve the performance of each ongoing project and, in turn, each project's likelihood to achieve its development objective, are presented in Annex VII and are summarised in the Table 6.1 below. The implementation of the actions will be followed up by the Bank during supervision missions and other meetings with project staff and Government officials.

Table 6.1: Summary of Specific Actions Required on Ongoing Projects

Major Issues	Actions Required
HNNRRIEP	
Disbursement rate at 31% is low given that the project is scheduled to close on 31 December 2007	GoL should double its effort in order to avoid any further implementation slippages
The institutional arrangement under the project continue to pose a lot of complication given that the project is under MTEC, but its PMU is in LHDA, a parastatal under MNR	If the deadline for the last disbursement is extended, GoL and the Bank should consider resolving the institutional arrangement bottleneck
The status of the construction works of chalets at Liphofung Caves and Cultural Heritage Site stands at about 95%, while that for the rest of project activities ranges from 0-43%	Since Force Account mode of procurement is being used for civil works, the PMU should engage as many temporary workers as possible in order to accelerate the implementation of outstanding project activities
The quality of QPR should be improved by including clear evidence indicating that implementation progress is achieving the project's stated goals and targets	GoL and PMU should recruit a short-term Project Implementation Specialist to assist PMU in setting up a robust implementation and monitoring system
ISP	
The procurement of short-term TAs (capital budget, project and training expert) has not yet commenced	GoL should commence the procurement process by end of third quarter of 2007
The tendering process of IT equipment and the procurement of consultancy services for short-term training have commenced	GoL to finalise the procurement processes by third quarter of 2007
The Government has been slow in identifying candidates for long-term training	GoL to speed up the identification of students to go for long-term training
Although audit report for FY 2006 is not due until after September 2007, there is need to engage the audit firm	GoL to start the process for engaging a suitable external audit firm
EA staff has not yet benefited from a Project Management Workshop organised by the Bank	Bank should make arrangements for EA staff attend a loan administration workshop in-country or elsewhere
SHRP	
"Other" conditions relating to (i) submission of proof for the recruitment of trainers in sufficient numbers; and (ii) creation of a social work certificate and diploma programme at NHTC are not yet fulfilled	GoL should make efforts to expeditiously fulfil these "other" conditions
The speed at which such issues are dealt with is usually hampered by MHSW management's inability to take quick decision due to capacity constraints	MHSW to ensure that project-related decisions are dealt with expeditiously
The procurement of some of the furniture and medical equipment is lagging behind progression of civil works in particular at NHTC	GoL should also synchronize procurement of equipment and fixed furniture with civil works activities
Recruitment of TAs to fill some positions in MHSW is taking long due to difficulties in identifying candidates	GoL to explore other possibilities including attaching local candidates to institutions with necessary experience
Likaneng-Thaba Tseka Road Upgrading Project	
Signature of the Supplementary Loan Agreement still outstanding	GoL to sign supplementary loan agreement by correspondence for it to enter into force as soon as possible in order to ensure a steady and continuous disbursement flow of funds to the project
On gender, of the 211 staff employed by the contractor, only 17 are women consisting of 16 unskilled female workers and one female artisan	GoL is requested to encourage the participation of more skilled women in road construction

6.2.2 In addition to the project specific actions mentioned in Table 6.1, there are a number of others, which are generic in nature, that need to be taken by both the Bank and the Government in order to enhance the soundness and development effectiveness of Bank portfolio in Lesotho. They are appended in Annex VIII and aim at reducing project start-up delays, improving communication channels, strengthening the capacity of EAs and improving procurement and disbursement performance. The Bank will pursue the recommended follow-up actions with the Government during the portfolio review follow-up mission, forthcoming CSP preparation mission and other Bank Group regular mission to Lesotho.

6.3 Lessons Learned for Future CSPs and Portfolio Management

6.3.1 The portfolio review provides a number of lessons that should be taken into account to improve the quality of future projects and should inform the preparation of the next CSP for Lesotho. With regard to selectivity, almost 80 percent of Bank Group's interventions in the country have been in infrastructure and social sectors, of which about half of that has been in the transport sector. The current assistance strategy also minimises the spread of Bank Group activities as it only focuses on infrastructure and social sectors, while the ongoing portfolio also exhibit increased selectivity, again with about 80 percent of operations in these two sectors. As regards the quality of the portfolio, the transport sector has tended to perform relatively better than other sectors in respect of development objective indicators and in terms of project management performance and the number of project implementation related problems. The portfolio quality issue will, thus, have to be taken into account in determining the strategic orientation of future Bank Group assistance for Lesotho.

6.3.2 The loan/grant size of Bank Group interventions has been relatively small. It averaged about UA 6.0 million for both the entire portfolio and ongoing portfolio in Lesotho compared with an average loan size of about UA 12.5 million for the Bank Group's entire ADF portfolio in 2004¹⁰ and an average loan size of approximately UA 12.4 million for ongoing World Bank funded projects in Lesotho as at the end of June 2006. There is, therefore, scope for increasing the size of Bank Group interventions in Lesotho in future in order to reduce transaction costs and increase development effectiveness. However, in view of the concerns over the Government's ability to absorb an increase level of funding in a particular sector as demonstrated by overall slow project implementation in most sectors, it is not guaranteed that larger projects will lead to improved project outcomes. Further to that, Lesotho's actual ADF allocation has averaged UA 14.6 million between ADF-VIII and ADF-X replenishment cycles, which has been used to finance an average of two interventions per replenishment cycle. With very few donors involved in the sectors in which the Bank Group is currently intervening in Lesotho, its sustained presence in such sectors will ensure that the Bank continues to play a leading role in aid coordination and resource mobilisation. In view of this, the average number of two Bank Group interventions per ADF replenishment cycle may have to be maintained as the size of ADF resource allocation to Lesotho increases.

6.3.3 With the PRS increasingly becoming the mechanism for supporting development programmes, there is need for the Bank Group to enhance its harmonisation efforts and deepen its level of coordination with other DPs in Lesotho. In this regard, the Bank Group is

¹⁰ See APPR 2004.

re-examining its procedures and regulations, which complicates its full participation in SWAPs as one of the instruments for assisting its regional member states. In recognition of efforts GoL is making to improve fiduciary standards, in response to the request by the Government and other DPs, the Bank Group would also consider joining other DPs in the provision of general budget support to Lesotho as a way of enhancing the use of country systems and promoting donor coordination and harmonisation.

6.3.4 Improving the design of future operations, i.e. quality-at-entry, should also help to improve future project implementation in Lesotho. Such efforts should consider rationalising loan/grant conditions for entry into force in order to reduce project start-up delays. Further to that, project institutional capacity and arrangement issues need to be adequately dealt with in the design of future operations given the negative impact they have tended to have on project implementation, especially in the early phases.

VII. CONCLUSIONS AND RECOMMENDATIONS

7.1 Conclusion

This portfolio review exercise has shown that the performance of Bank Group portfolio in Lesotho is generally satisfactory, with an overall rating of 2.0. In spite of this, Bank Group operations continue to face a number of generic problems, which are summarised in Annexes VIII. These include: start-up delays; long response turnaround time between the Bank Group and GoL/EAs; capacity constraints and weak project management; inadequate institutional arrangements; and difficulties in adhering to Bank Group's rules of procedures for procurement and disbursement. This review, therefore, suggests that a lot of effort be pursued by the Bank Group and Government to improve the implementation of projects in Lesotho.

7.2 Recommendations

7.2.1 In order to improve the performance and development impact of public sector projects in Lesotho, on the basis of the findings on this CPPR report, the recommendations which are outlined below and in detail in Annexes VII and VIII should be observed and implemented by the GoL and Bank.

7.2.2 **The Government** should ensure quick start-up of projects by avoiding delays in loan/grant agreement signature and fulfilment of conditions for entry into force and first disbursement, as well as improve its compliance with the general conditions. In order to improve the implementation of projects, it should strengthen the capacity of executing agencies and enhance and the effectiveness of steering committees by appointing committed and relevant stakeholders, especially in case of HNRRIEP and SHRP. The Government should also urge EAs, particularly for HNRRIEP and SHRP, to adhere to revised implementation and procurement schedules agreed with the Bank Group. It should also put in place mechanisms that would ensure that procurement and disbursement documents sent to the Bank Group are accurate and in conformity with Bank Group procedures and encourage

regular meetings involving MFDP, line ministries and EAs to appraise each other on portfolio implementation issues and iron out any problems as well as experiences.

7.2.3 **The Bank Group** should contribute towards the quality, development effectiveness and sustainability of its operations by improving the design and minimising the number of loan conditions during project appraisal to facilitate speedy fulfilment of conditions. It should also ensure that launching missions are mounted soon after Board approval of a project in view of the fact that such missions are usually fielded very late in Lesotho. To contribute towards the strengthening of the capacity of EAs, the Bank should regularly organise training on project implementation and loan administration, and preferably one by the end of 2007, given that the previous one was organised about three years ago. In order to improve communication with the Government, the Bank should designate an alternate Task Manager for each project who is fully conversant with a project's day-to-day to quickly respond to any issue even in the absence of the substantive TM. Considering that some ongoing projects were not supervised at all for a number of years following their approval, the Bank should ensure that the recent improvement in supervision is sustained by ensuring that projects are supervised at least 1.5 times per year or two times per year for PPPs.

7.2.4 The Boards of Directors are invited to take note of the recommendations made in this CPPR report, which seek to improve the performance of ongoing portfolio in Lesotho.

Lesotho: Bank Group Operations as at 31 March 2007

No.	Project Title	Window	Approved Date	Signature Date	Effectiveness Date	Approved Amount	Cancelled Amount	Disbursed Amount	Net Commitment	Disbursement Ratio (%)	Status
Agriculture											
1	Phuthiatsana Irrigation Development Project	ADF	26-Nov-74	01-Aug-75	23-Jun-78	4,605,260.00	3,870,823.99	734,436.01	734,436.01	100.00	Cancelled
2	Lesotho Feedlots	ADF	19-Dec-78	17-May-79	26-May-82	4,328,944.00	-0.39	4,328,944.39	4,328,944.39	100.00	Completed
3	Phuthiatsana Rural Development Project	ADF	30-Oct-81	05-Mar-82	14-Dec-83	7,368,416.00	833,673.42	6,534,742.58	6,534,742.58	100.00	Completed
4	Study for Pig-Poultry Industries Development	TAF	13-Jun-85	12-Jul-85		424,000.00	424,000.00	0.00	0.00	0.00	Terminated
5	Institutional Support to Lesotho Bank (Grant)	ADF	30-Oct-90	31-Jan-91	07-Jul-95	1,103,420.00	386,081.38	717,338.62	717,338.62	100.00	Completed
6	Berea Rural Development Project (BRDP)	ADF	08-Jul-98	15-Dec-98		4,500,000.00	4,500,000.00	0.00	0.00	0.00	Abandoned
7	Agricultural Adjustment Loan	ADF	03-Mar-99	24-May-99	07-Aug-00	3,500,000.00	1,718,296.72	1,781,703.28	1,781,703.28	100.00	Completed
	Agricultural Adjustment Loan	TAF	03-Mar-99	24-May-99	03-Mar-01	1,330,000.00	757,715.48	572,284.52	572,284.52	100.00	Completed
8	Highlands Natural Resources & Rural Income Enhancement	ADF	07-Sep-00	14-Mar-01	15-Sep-01	4,490,000.00	0.00	1,379,046.81	4,490,000.00	30.71	Ongoing
	Highlands Natural Resources & Rural Income Enhancement	TAF	07-Sep-00	14-Mar-01	15-Sep-01	750,000.00	0.00	199,428.21	750,000.00	26.59	Ongoing
Sub-Total: Agriculture						32,400,040.00	12,490,590.60	16,247,924.42	19,909,449.40	81.61	
Finance											
1	Industrial Line of Credit	NTF	27-Nov-79	21-Dec-79	22-Jun-83	2,130,000.00	28,650.52	2,101,349.48	2,101,349.48	100.00	Completed
2	Rural Credit and Banking Facilities	ADF	23-Sep-86	04-Feb-87	24-Oct-88	4,236,839.00	15,784.48	4,221,054.52	4,221,054.52	100.00	Completed
3	Agricultural Line of Credit	NTF	18-Dec-89	31-Jan-91	19-Sep-95	3,000,000.00	2,830,856.09	169,143.91	169,143.91	100.00	Terminated
4	Second Line of Credit to LNDS	NTF	15-Dec-94	23-May-95	15-Dec-97	4,500,000.00	1,340,495.70	3,159,504.30	3,159,504.30	100.00	Completed
Sub-Total: Finance						13,866,839.00	4,215,786.79	9,651,052.21	9,651,052.21	100.00	
Industry											
1	Glazed Ceramic Tiles Project	ADB	24-Jun-92	24-Sep-92	02-Mar-93	8,260,000.00	236,935.78	8,023,064.22	8,023,064.22	100.00	Completed
2	Wool and Mohair Processing Project	NTF	24-Jun-92	24-Sep-92	11-May-93	5,000,000.00	2,924,165.07	2,075,834.93	2,075,834.93	100.00	Completed
Sub-Total: Industry						13,260,000.00	3,161,100.85	10,098,899.15	10,098,899.15	100.00	
Multi-Sector											
1	Institutional Support to the Ministry of Finance	TAF	25-Sep-91	13-May-92	18-Jan-94	773,684.00	2,245.05	771,438.95	771,438.95	100.00	Completed
2	Public Utilities Sector Reform Programme	ADF	22-Nov-00	14-Mar-01	16-Oct-01	6,500,000.00	0.00	6,492,628.58	6,500,000.00	99.89	Completed
3	Institutional Support Project for MOFDP & MOPWT	TAF	24-Nov-04	16-May-05	26-May-06	790,000.00	0.00	144,522.45	790,000.00	18.29	Ongoing
Sub-Total: Multi-Sector						8,063,684.00	2,245.05	7,408,589.98	8,061,438.95	91.90	

Public Utilities											
1	Maseru Water Supply	ADF	27-Jun-77	15-Nov-77	16-Feb-79	5,296,049.00	0.01	5,296,048.99	5,296,048.99	100.00	Completed
2	Telecommunications I	ADB	29-Jan-80	15-Feb-80	10-Jul-81	8,730,000.00	951,515.98	7,778,484.02	7,778,484.02	100.00	Completed
3	Water Supply in Four Centres	ADF	16-Dec-82	12-May-83	09-Jan-85	6,078,943.00	0.00	6,078,943.00	6,078,943.00	100.00	Completed
4	Oxbow Hydro-Electric Power Study	TAF	17-Jun-85	12-Jul-85	17-Sep-87	1,151,315.00	126,852.58	1,024,462.42	1,024,462.42	100.00	Completed
5	Maseru Water Supply Phase II	ADB	26-Aug-85	25-Sep-85	10-Apr-87	6,630,000.00	0.00	6,630,000.00	6,630,000.00	100.00	Completed
	Maseru Water Supply Phase II	ADF	26-Aug-85	25-Sep-85	24-Dec-86	7,368,416.00	232,230.38	7,136,185.62	7,136,185.62	100.00	Completed
6	Muela Hydro-Power Project	ADB	01-Dec-92	13-May-93		20,000,000.00	20,000,000.00	0.00	0.00	0.00	Abandoned
7	Electricity Master Plan Study	TAF	15-Dec-92	13-May-93	01-Jun-95	561,842.00	55,844.37	505,997.63	505,997.63	100.00	Completed
Sub-Total: Public Utilities						55,816,565.00	21,366,443.32	34,450,121.68	34,450,121.68	100.00	
Social											
1	Health Services Development	ADF	27-Feb-76	06-May-76	06-Mar-78	2,302,630.00	1,941,301.33	361,328.67	361,328.67	100.00	Completed
2	Rural Health Services I	ADF	16-Dec-83	13-Mar-84	10-Jul-85	5,848,680.00	58.96	5,848,621.04	5,848,621.04	100.00	Completed
	Rural Health II Study	TAF	16-Dec-83	13-Mar-84	17-Jun-86	1,142,104.00	346.35	1,141,757.65	1,141,757.65	100.00	Completed
3	Rural Health Services II	ADF	17-Aug-87	26-Nov-87	09-May-88	11,697,360.00	1,794.50	11,695,565.50	11,695,565.50	100.00	Completed
4	Strengthening Secondary Education	ADF	18-Jan-90	30-Nov-90	14-Mar-94	4,624,602.00	-15.28	4,624,617.28	4,624,617.28	100.00	Completed
	Strengthening Secondary Education Study	TAF	18-Jan-90	29-May-90	20-Nov-92	1,302,368.00	104.93	1,302,263.07	1,302,263.07	100.00	Completed
5	Rural Health Services III	ADF	17-Sep-90	31-Jan-91	30-Dec-91	7,073,679.00	89,695.91	6,983,983.09	6,983,983.09	100.00	Completed
6	Rural Health Services IV	ADF	24-Jun-92	24-Sep-92	05-Apr-94	11,052,624.00	9,355.35	11,043,268.65	11,043,268.65	100.00	Completed
7	Health Study	ADF	05-Nov-97	05-Mar-98	02-Mar-00	800,000.00	2,826.56	797,173.44	797,173.44	100.00	Completed
8	Education II Project	ADF	18-Nov-98	06-Apr-99	05-Apr-00	8,500,000.00	0.00	7,201,842.69	8,500,000.00	84.73	Completed
	Education II Project	ADF	18-Nov-98	06-Apr-99	11-Sep-00	300,000.00	0.00	296,977.97	300,000.00	98.99	Completed
9	Support to Health Reforms Programme	ADF	09-Jan-02	17-Apr-02	24-Oct-02	6,400,000.00	0.00	1,578,006.21	6,400,000.00	24.66	Ongoing
	Support to Health Reforms Programme	TAF	09-Jan-02	17-Apr-02	24-Oct-02	1,000,000.00	0.00	127,559.47	1,000,000.00	12.76	Ongoing
Sub-Total: Social						62,044,047.00	2,045,468.61	53,002,964.73	59,998,578.39	88.34	
Transport											
1	Butha-Butha – Roma-Somokong Roads Study	TAF	25-Mar-75	07-May-75	24-Sep-76	828,947.00	118,014.70	710,932.30	710,932.30	100.00	Completed
2	Butha-Butha – Roma-Somokong Road Construction	ADF	20-Oct-77	15-Nov-77	11-Dec-78	6,171,048.00	12,138.72	6,158,909.28	6,158,909.28	100.00	Completed
3	Maseru International Airport Phase I	ADB	29-Aug-79	08-Oct-79	21-Apr-81	8,000,000.00	88,684.59	7,911,315.41	7,911,315.41	100.00	Completed
4	Joel-Drift Khamana Road Construction	ADF	29-Feb-80	13-Jun-80	28-Apr-81	5,618,417.00	-0.20	5,618,417.20	5,618,417.20	100.00	Completed

5	Lesotho Road Maintenance	ADF	16-Dec-83	13-Aug-84	24-Jan-85	8,059,205.00	2,313,863.92	5,745,341.08	5,745,341.08	100.00	Completed
6	Feeder Roads Study	TAF	14-Mar-84	09-May-84	21-Mar-86	906,315.00	277,637.32	628,677.68	628,677.68	100.00	Completed
7	Masianokeng-Mafeteng-Masianokeng-Roma Road	ADF	19-Nov-84	11-Dec-84	26-Sep-86	6,447,364.00	483,552.35	5,963,811.65	5,963,811.65	100.00	Completed
	Maseru International Airport Phase I (Supplementary)	ADB	14-Dec-84	03-Jan-85	12-Mar-85	12,040,000.00	3,812,188.89	8,227,811.11	8,227,811.11	100.00	Completed
8	Khamane-Oxbow Road Project	ADF	18-Jun-86	16-Jul-86	26-Jun-87	6,424,338.00	824,472.30	5,599,865.70	5,599,865.70	100.00	Completed
9	Oxbow-Mokhotlong Road	ADF	18-Jan-88	30-May-89	05-Dec-90	17,168,409.00	28,775.98	17,139,633.02	17,139,633.02	100.00	Completed
10	Institutional Support to Transport Sector	TAF	22-May-89	30-May-89	28-Aug-91	2,588,156.00	298,159.03	2,289,996.97	2,289,996.97	100.00	Completed
	Oxbow-Mokhotlong Road (Supplementary)	ADF	01-Dec-92	13-May-93	17-Sep-96	2,855,261.00	647.79	2,854,613.21	2,854,613.21	100.00	Completed
11	Two Rural Roads Study	ADF	22-Sep-99	26-Apr-00	22-Dec-00	1,224,000.00	921,345.39	302,654.61	302,654.61	100.00	Completed
12	Mpharane-Bela Bela Road Project	ADF	16-Jan-02	17-Apr-02	30-Sep-02	4,290,000.00	0.00	4,290,000.00	4,290,000.00	100.00	Completed
13	Likalaneng-Thaba Tseka Road Project	ADF	29-Oct-03	25-May-04	29-Mar-05	10,530,000.00	0.00	5,494,125.37	10,530,000.00	52.18	Ongoing
	Likalaneng-Thaba Tseka Road Project (Supplementary)	ADF	06-Dec-06			6,830,000.00	0.00	0.00	6,830,000.00	0.00	Ongoing
Sub-Total: Transport						99,981,460.00	9,179,480.78	78,936,104.59	90,801,979.22	86.93	
GRAND TOTAL						285,432,635.00	52,461,116.00	209,795,656.76	232,971,519.00	90.05	
ADB						43,769,467.00	26,434,412.25	17,335,054.75	17,335,054.75	100.00	
ADF						163,111,881.00	16,298,673.32	118,704,185.31	146,813,207.68	80.85	
TAF						60,924,448.00	6,615,803.56	53,747,679.20	54,308,644.44	98.97	
NTF						17,626,839.00	3,112,226.87	14,514,612.13	14,514,612.13	100.00	

Lesotho: Bank Group Ongoing Operations as at 31 March 2007

Project Name	Window	Approved Date	Signature Date	Effectiveness Date	Approved Amount	Cancelled Amount	Disbursed Amount	Net Commitment	Disburse Ratio (%)
Agriculture									
Highlands Natural Resources & Rural Income Enhancement	ADF	07-Sep-00	14-Mar-01	15-Sep-01	4,490,000.00	0.00	1,379,046.81	4,490,000.00	30.71
Highlands Natural Resources & Rural Income Enhancement	TAF	07-Sep-00	14-Mar-01	15-Sep-01	750,000.00	0.00	199,428.21	750,000.00	26.59
Sub-Total: Agriculture					5,240,000.00	0.00	1,578,475.02	5,240,000.00	30.12
Multi-Sector									
Institutional Support Project for MFDP & MOPWT	TAF	24-Nov-04	16-May-05	26-May-06	790,000.00	0.00	144,522.45	790,000.00	18.29
Sub-Total: Multi-Sector					790,000.00	0.00	144,522.45	790,000.00	18.29
Social									
Support to Health Reforms Programme	ADF	09-Jan-02	17-Apr-02	24-Oct-02	6,400,000.00	0.00	1,578,006.21	6,400,000.00	24.66
Support to Health Reforms Programme	TAF	09-Jan-02	17-Apr-02	24-Oct-02	1,000,000.00	0.00	127,559.47	1,000,000.00	12.76
Sub-Total: Social					7,400,000.00	0.00	1,705,565.68	7,400,000.00	23.05
Transport									
Likalaneng-Thaba Tseka Road Project	ADF	29-Oct-03	25-May-04	29-Mar-05	10,530,000.00	0.00	5,494,125.37	10,530,000.00	52.18
Likalaneng-Thaba Tseka Road Project (Supplementary)	ADF	06-Dec-06			6,830,000.00	0.00	0.00	6,830,000.00	0.00
Sub-Total: Transport					17,360,000.00	0.00	5,494,125.37	17,360,000.00	31.65
GRAND TOTAL					30,790,000.00	0.00	8,922,688.52	30,790,000.00	28.98
ADF					28,250,000.00	0.00	8,451,178.39	28,250,000.00	29.92
TAF					2,540,000.00	0.00	471,510.13	2,540,000.00	18.56

Project Performance Ratings for Ongoing Projects

Project Performance Indicators		HNRRIEP	ISP for MFD and MOPWT	Likalaneng- Thaba Tseka Road Project	Support for Health Reform Program	Average
A.	Project Implementation					
1.	Compliance with loan conditions precedent to entry into force	1	1	3	2	1.75
2.	Compliance with general conditions	2	2	2	3	2.25
3.	Compliance with "other" conditions	1	2	n/a	2	1.67
B.	Procurement Performance					
1.	Procurement of consultancy services	2	2	3	1	2.00
2.	Procurement of goods and services	2	2	2	2	2.00
C.	Financial Performance					
1.	Availability of foreign exchange	2	3	3	3	2.75
2.	Availability of local currency	2	3	3	3	2.75
3.	Disbursement flows	2	2	3	2	2.25
4.	Cost management/recovery	2	n/a	2	n/a	2.00
5.	Performance of co-financiers (where applicable)	n/a	n/a		2	2.00
D.	Activities and Works					
1.	Adherence to implementation schedule	1	1	2	2	1.50
2.	Performance of consultants and technical assistants	1	n/a	2	2	1.67
3.	Performance of contractors	2	n/a	2	2	2.00
4.	Performance of project management	1	2	2	2	1.75
E.	Impact on Development					
1.	Likelihood of achieving project objectives	2	2	2	2	2.00
2.	Likelihood that benefits will be realised and sustained beyond investment stage	2	2	2	2	2.00
3.	Likely contribution of the project towards an increase in institutional capacity	2	2	2	2	2.00
4.	Expected rate of return	n/a	n/a	n/a	n/a	n/a
F.	Overall Assessment					
1.	At present	1.69	2.00	2.33	2.13	2.02
2.	Trend over time	1.73	n/a	2.36	1.96	1.80

Highlands Natural Resource and Rural Income Enhancement Project (HNRRIEP)			
Project Performance Indicators			Rating
			Previous Report
			Current Report
A.	Project Implementation		
1.	Compliance with loan conditions precedent to entry into force		n/a
2.	Compliance with general conditions		n/a
3.	Compliance with “other” conditions		n/a
B.	Procurement Performance		
1.	Procurement of consultancy services		n/a
2.	Procurement of goods and services		n/a
C.	Financial Performance		
1.	Availability of foreign exchange		n/a
2.	Availability of local currency		n/a
3.	Disbursement flows		n/a
4.	Cost management/recovery		n/a
5.	Performance of co-financiers (where applicable)		n/a
D.	Activities and Works		
1.	Adherence to implementation schedule		n/a
2.	Performance of consultants and technical assistants		n/a
3.	Performance of contractors		n/a
4.	Performance of project management		n/a
E.	Impact on Development		
1.	Likelihood of achieving project objectives		n/a
2.	Likelihood that benefits will be realised and sustained beyond investment stage		n/a
3.	Likely contribution of the project towards an increase in institutional capacity		n/a
4.	Expected rate of return		n/a
F.	Overall Assessment		
1.	At present		n/a
2.	Trend over time		n/a
Code:	3	=	Highly satisfactory
	2	=	Satisfactory: occasional problems, Bank should monitor
	1	=	Unsatisfactory: problems, Bank should monitor closely but no immediate action required
	0	=	Highly unsatisfactory: serious problems, Bank action required
	n/a	=	Highly unsatisfactory: serious problems, Bank action required

Institutional Support Project for the Ministry of Finance and Development Planning and the Ministry of Public Works and Transport (ISP for MFDP & MPWT)			
Project Performance Indicators			Rating
		Previous Report	Current Report
A.	Project Implementation		
1.	Compliance with loan conditions precedent to entry into force	n/a	1
2.	Compliance with general conditions	n/a	2
3.	Compliance with “other” conditions	n/a	2
B.	Procurement Performance		
1.	Procurement of consultancy services	n/a	2
2.	Procurement of goods and services	n/a	2
C.	Financial Performance		
1.	Availability of foreign exchange	n/a	3
2.	Availability of local currency	n/a	3
3.	Disbursement flows	n/a	1
4.	Cost management/recovery	n/a	n/a
5.	Performance of co-financiers (where applicable)	n/a	
D.	Activities and Works		
1.	Adherence to implementation schedule	n/a	1
2.	Performance of consultants and technical assistants	n/a	
3.	Performance of contractors	n/a	n/a
4.	Performance of project management	n/a	2
E.	Impact on Development		
1.	Likelihood of achieving project objectives	n/a	2
2.	Likelihood that benefits will be realised and sustained beyond investment stage	n/a	2
3.	Likely contribution of the project towards an increase in institutional capacity	n/a	2
4.	Expected rate of return	n/a	n/a
F.	Overall Assessment		
1.	At present	n/a	1.92
2.	Trend over time	n/a	n/a
Code:	3	=	Highly satisfactory
	2	=	Satisfactory: occasional problems, Bank should monitor
	1	=	Unsatisfactory: problems, Bank should monitor closely but no immediate action required
	0	=	Highly unsatisfactory: serious problems, Bank action required
	n/a	=	Highly unsatisfactory: serious problems, Bank action required

Likalaneng-Thaba Tseka Road Project					
Project Performance Indicators			Rating		
			Previous Report	Current Report	
A.	Project Implementation				
1.	Compliance with loan conditions precedent to entry into force			n/a	3
2.	Compliance with general conditions			n/a	2
3.	Compliance with “other” conditions			n/a	
B.	Procurement Performance				
1.	Procurement of consultancy services			n/a	3
2.	Procurement of goods and services			n/a	2
C.	Financial Performance				
1.	Availability of foreign exchange			n/a	3
2.	Availability of local currency			n/a	3
3.	Disbursement flows			n/a	3
4.	Cost management/recovery			n/a	2
5.	Performance of co-financiers (where applicable)			n/a	
D.	Activities and Works				
1.	Adherence to implementation schedule			n/a	2
2.	Performance of consultants and technical assistants			n/a	2
3.	Performance of contractors			n/a	2
4.	Performance of project management			n/a	2
E.	Impact on Development				
1.	Likelihood of achieving project objectives			n/a	2
2.	Likelihood that benefits will be realised and sustained beyond investment stage			n/a	2
3.	Likely contribution of the project towards an increase in institutional capacity			n/a	2
4.	Expected rate of return			n/a	
F.	Overall Assessment				
1.	At present			n/a	2.33
2.	Trend over time			n/a	2.36
Code:	3	=	Highly satisfactory		
	2	=	Satisfactory: occasional problems, Bank should monitor		
	1	=	Unsatisfactory: problems, Bank should monitor closely but no immediate action required		
	0	=	Highly unsatisfactory: serious problems, Bank action required		
	n/a	=	Highly unsatisfactory: serious problems, Bank action required		

Support to Health Reforms Programme					
Project Performance Indicators			Rating		
			Previous Report	Current Report	
A.	Project Implementation				
1.	Compliance with loan conditions precedent to entry into force			n/a	2
2.	Compliance with general conditions			n/a	3
3.	Compliance with “other” conditions			n/a	2
B.	Procurement Performance				
1.	Procurement of consultancy services			n/a	1
2.	Procurement of goods and services			n/a	2
C.	Financial Performance				
1.	Availability of foreign exchange			n/a	3
2.	Availability of local currency			n/a	3
3.	Disbursement flows			n/a	1
4.	Cost management/recovery			n/a	n/a
5.	Performance of co-financiers (where applicable)			n/a	2
D.	Activities and Works				
1.	Adherence to implementation schedule			n/a	2
2.	Performance of consultants and technical assistants			n/a	2
3.	Performance of contractors			n/a	2
4.	Performance of project management			n/a	2
E.	Impact on Development				
1.	Likelihood of achieving project objectives			n/a	2
2.	Likelihood that benefits will be realised and sustained beyond investment stage			n/a	2
3.	Likely contribution of the project towards an increase in institutional capacity			n/a	2
4.	Expected rate of return			n/a	n/a
F.	Overall Assessment				
1.	At present			n/a	2.06
2.	Trend over time			n/a	1.96
Code:	3	=	Highly satisfactory		
	2	=	Satisfactory: occasional problems, Bank should monitor		
	1	=	Unsatisfactory: problems, Bank should monitor closely but no immediate action required		
	0	=	Highly unsatisfactory: serious problems, Bank action required		
	n/a	=	Highly unsatisfactory: serious problems, Bank action required		

Summary of Performance Rating by Sector and Projects

Project	Compliance with Conditions	Procurement Performance	Financial Performance	Activities and Works	Implementation Progress	Development Objectives
Agriculture						
HNRRIEP	1.33	2.0	2.0	1.25	1.62	2.0
Multi-Sector						
ISP	1.67	2.0	2.33	1.5	1.9	2.0
Social						
SHRP	2.33	1.5	2.33	2.0	2.07	2.0
Transport						
Likalaneng-Thaba Tseka Road Project	2.5	2.5	2.75	2.0	2.42	2.0

Matrix of Common Problems and Cross-Cutting Issues Affecting Ongoing Operations

Item	HNRRIEP	ISP for MFDP and MOPWT	Likalaneng- Thaba Tseka Road Project	SHRP
1. Common problems				
Inadequate or slow staffing of EAs	X	X		X
Lack of adequate supervision during early phases of project implementation	X			X
Long response turnaround time between the Bank Group and GoL/EAs	X	X		X
Difficulties in adhering to Bank's rules of procedures for procurement and disbursement by EA staff	X	X		X
Start-up delays relating to loan/grant agreement signature and fulfilment of conditions for entry into force resulting in slippage in project execution	X	X	X	X
Project cost escalations after Board approval			X	
Untimely and inadequate counterpart contribution	X			
2. Cross-Cutting Issues				
Environment	X		X	
Gender	X		X	
Governance		X		
HIV/AIDS	X		X	X
Poverty Reduction	X	X	X	X

Frequency of Bank Field and Desk Supervision Mission

Supervision/Monitoring Activity	Start Date	End Date
Highlands Natural Resource and Rural Income Enhancement Project (HNRRIEP)		
Field Supervision	22.01.2004	01.02.2004
Field Supervision	29.11.2004	13.12.2004
Field Supervision	20.06.2005	02.07.2005
Mid Term Review	29.01.2006	14.02.2006
Desk Supervision	20.10.2006	22.10.2006
Field Supervision	02.12.2006	12.12.2006
Institutional Support Project for MFDP and MOPWT		
Field Supervision/Launching	05.12.2005	09.12.2005
Field Supervision	07.10.2006	13.10.2006
Likalaneng-Thaba Tseka Road Project		
Field Supervision	26.10.2005	02.11.2005
Field Supervision	24.04.2006	29.04.2006
Field Supervision	21.01.2007	28.01.2007
Support for Health Reforms Programme (SHRP)		
Field Supervision	18.11.2002	22.11.2002
Field Supervision	02.09.2003	16.09.2003
Desk Supervision	30.12.2004	30.12.2004
Field Supervision	05.03.2005	14.03.2005
Desk Supervision	04.10.2005	04.10.2005
Field Supervision	13.02.2006	21.03.2006
Field Supervision	01.11.2006	13.11.2006

Summary of Specific Actions Required on Ongoing Projects

Name of Project	Date Approved	Major Issues	Actions Taken or to be Taken	Date Actions to be Taken
AGRICULTURE				
Highlands Natural Resources and Rural Income Enhancement Project	07-Sep-00	Disbursement rate at 31% is low given that the project is scheduled to close on 31 December 2007. Unless there is significant improvement registered in both physical and disbursement status, the project may be closed by its closing date	GoL and PMU should double their effort in order to avoid any further implementation slippages and to substantially improve the project's disbursement rate	The next supervision mission will review whether the deadline for last disbursement can be extended up to 31 December 2008 as recommended by the MTR
		The institutional arrangement under the project continue to pose a lot of complication given that the project is under MTEC, but its PMU is in LHDA, a parastatal under MNR	If the deadline for the last disbursement is extended, GoL and the Bank should consider resolving the institutional arrangement bottleneck	Immediately a decision is taken to extend the deadline for last disbursement
		The status of the construction works of chalets at Liphofung Caves and Cultural Heritage Site stands at about 95%, while that for the rest of project activities ranges from 0-43%	Since Force Account mode of procurement is being used for civil works, the PMU should engage as many temporary workers as possible in order to accelerate the implementation of outstanding project activities	Immediately. The status will be reviewed during the next supervision mission
		The quality of QPR should be improved by including clear evidence indicating that implementation progress is achieving the project's stated goals and targets	GoL and PMU should recruit a short-term Project Implementation Specialist to assist PMU in setting up a robust implementation and monitoring system	By third quarter of 2007
		The PMU has been holding payment to suppliers where counterpart funds were inadequate because it wrongly adopted a 75:25 payment system whereby for each payment there was need for 75% ADF and 20% counterpart funds.	GoL and PMU should rectify the payment system to take account of the provisions of the Loan Agreement. The Government's contribution under project is not 25% but 16% and is not meant to cover cost of development budget but part of recurrent costs	Immediately. The issue to be followed up during next supervision mission
		The audit report for the year ended 31 July 2006 is yet to be received by the Bank. In addition, the previous audit did not meet Bank standards although it was done by a reputable South African audit firm	GoL to ensure that the 2006 audit report is submitted without delay and is in line with terms of reference sent to it and PMU	Immediately

		Erratic and inadequate provision of counterpart funds	PMU should improve quality of work plans and budgets submitted and avoid delays in justifying money previously disbursed by it	To be followed up during next supervision mission
MULTISECTOR				
Institutional Support Project for MFDP and MPWT	24-Nov-04	The procurement of short-term TAs (capital budget, project and training expert) has not yet commenced	GoL should commence the procurement process by end of third quarter of 2007	Progress to be reviewed during the next supervision mission
		The tendering process of IT equipment by NCB and the procurement of consultancy services for short-term training have commenced	GoL to finalise the processes by third quarter of 2007	Next supervision mission to review the progress
		The Government has been slow in identifying candidates for long-term training	GoL to speed up the identification of students to go for long-term training	There should be substantial progress by July 2007
		The quarterly progress report for the period ended 31 March 2007 has not yet been submitted to the Bank	GoL to submit to the Bank the report by end-June 2007	Immediately
		Although audit report for the 2006 financial year is not due until after September 2007, there is need to engage the audit firm	GoL to start the process for engaging a suitable external audit firm	Immediately
		EA staff has not yet benefited from a Project Management Workshop organised by the Bank	Bank should make arrangements to enable staff attend a loan administration workshop in-country or outside the country	Before the end of 2007
SOCIAL SECTOR				
Support to Health Reform Programme	09-Jan-02	“Other” conditions relating to (i) submission of proof for the recruitment of trainers in sufficient numbers; and (ii) evidence of the creation of a social work certificate and diploma programme at National Health Training College (NHTC) are not yet fulfilled	GoL should make efforts to expeditiously fulfil these “other” conditions	By end of third quarter of 2007
		Although procurement is generally being performed in accordance with the Bank’s rules of procurement, the speed at which such issues are dealt with is sometimes hampered by MHSW management’s inability to take quick decision due to capacity constraints	MHSW to ensure that project-related decisions are dealt with expeditiously	Continuously

		The procurement of some of the furniture and medical equipment is lagging behind progression of civil works at NHTC in particular	GoL to submit draft bid documents for the procurement of equipment to the Bank for review and approval by end-March 2007. GoL should also synchronize procurement of equipment and fixed furniture with civil works activities	End-March 2007
		The recruitment of TAs to fill the positions of Clinical Psychologist, Occupational Therapist and Neurologist is taking long due to difficulties in identifying suitable candidates	GoL is exploring other possibilities including attaching local candidates to institutions with necessary experience or engaging an institution with necessary expertise to assist in developing necessary programmes to provide on-the-job training	The issue will be reviewed during the next supervision mission
		Although the disbursement ratio has improved by the onset of civil works contracts, more effort is required especially on the grant resources whose rate stands at 13%	GoL to substantially improve the disbursement ratio, especially on the grant resources	Immediately. Progress to be reviewed during the next supervision mission
TRANSPORT				
Likalaneng-Thaba Tseka Road Project	29-Oct-03	Signature of the Supplementary Loan Agreement still outstanding	GoL to sign supplementary loan agreement by correspondence for it to enter into force as soon as possible in order to ensure a steady and continuous disbursement flow of funds to the project	By end April 2007
		On gender, the recent supervision mission noted that of the 211 staff employed by the contractor, only 17 are women consisting of 16 unskilled female workers and one female artisan	GoL is requested to encourage the participation of more skilled women in road construction	The next supervision mission will review the progress

Action Plan to Improve the Performance of the Portfolio

No.	Issue/Problem	Action Required	Responsible Body	Timeframe
1.	Project start-up delays	Improve the design of conditions during project preparation and phases by discussing them with Government and relevant stakeholders	Bank Group	During preparation and appraisal of projects
		Avoid delays in loan/grant agreements signature and fulfilment of conditions for entry into force and first disbursement since it takes on average 15 months for projects to achieve disbursement effectiveness	GoL and Bank Group	Soon after Board approval
		Ensure that launching missions are mounted soon after loan signature	Bank Group	Soon after loan signature
		Strengthen the capacity at MFDP, including of the ADB Desk Office, and of line ministries and EAs	GoL	In FY 2007/08
		Minimize the complexity and weaknesses of institutional arrangements for project implementation by adequately assessing such issues during appraisal of new operations and enhance the effectiveness of Steering Committees by appointing committed and relevant stakeholders, especially in case of HNRRIEP and SHRP in the case of ongoing projects	GoL and Bank Group	During appraisal and continuously
2.	Lengthy communication channels between the Bank Group and GoL/EA	Designate an alternate Task Manager for each project who is fully conversant with a project's day-to-day issues to quickly respond to any issue in the absence to the substantive Task Manager	Bank Group	Immediately
		Continue to strengthen communication channels by encouraging the use of alternative means of communications, such as e-mail and faxes, besides ordinary mail	GoL/Bank Group	Immediately
3.	Capacity constraints and weak project management	Ensure that institutional issues are adequately assessed during appraisal of new operations and technical assistance requirements for executing agencies are built into projects where necessary	Bank Group	During appraisal of projects
		Speed up the implementation of the Public Service Improvement and Reform Programme	GoL	Immediately
		Since the last loan administration seminar for EAs was organised by the Bank in Maseru in April 2004, organise another workshop as soon as possible	Bank Group	Preferably before the end of 2007
4.	Non-adherence to Bank Group's methods and difficulties in adhering to reporting requirements	EAs should put in place systems to ensure that procurement and disbursement documents are accurate and in conformity with Bank Group procedures	GoL	Immediately

		Consider the recruitment of procurement specialists in some cases where projects are experiencing procurement problems, such as HNRRIEP	GoL and Bank Group	Immediately
		In line with the Paris Declaration, review country systems (public financial management and procurement systems) during appraisal to determine their adequacy and institutional strengthening required to facilitate their use	Bank Group	Immediately
		Encourage regular meetings involving MFDP, line ministries and EAs to appraise each other on portfolio implementation issues and iron out any problems as well as experiences	GoL	Continuously
6	Delays in project implementation	Make efforts to adhere to revised implementation and procurement schedules agreed with the Bank in respect of HNRRIEP and SHRP	GoL	Immediately
		Avoid frequent changes of Task Managers responsible for the projects in the Bank and project management staff in EAs	GoL and Bank Group	Continuously
7.	Inadequate supervision	Enhance the quality of supervision by adopting a more multidisciplinary approach to mission especially for PPPs, such as HNRRIEP, ISP and SHRP	Bank Group	Immediately
		Mount adequate field supervision mission during the early implementation stages and sustain the recent improvement in supervision by ensuring that projects are supervised at least 1.5 times per year or two times for PPPs	Bank Group	Early project phases and continuously