AFRICAN DEVELOPMENT BANK
AFRICAN DEVELOPMENT FUND

KINGDOM OF LESOTHO

2008-2012
COUNTRY STRATEGY PAPER

REGIONAL DEPARTMENT
South Region A
September 2008

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This report was prepared following Country Strategy Paper preparation and dialogue missions, which visited Lesotho in December 2007, March 2008 and September 2008. The former mission team was composed of Mr. S. Olanrewaju (Lead Economist, ORSA), Ms. G. Geisler (Gender Expert, OSHD), Mr. B. Ram (Chief Power Engineer, OINF), Mr. A. Scholle (Renewable Energy Consultant, ORPC) and Mr. G. Honde (Country Economist, ORSA). Any inquiries concerning the report may be referred to Messrs A. Beileh (Acting Director, ORSA) and George Honde (Country Economist, ORSA).

ACRONYMS AND ABBREVIATIONS

ADB	:	African Development Bank
ADF	:	African Development Fund
AGOA	:	African Growth Opportunity Act
CGP	:	Country Governance Profile
CMA	:	Common Monetary Area
CPAR	:	Country Procurement Assessment Review
CPIA	:	Country Policy and Institutional Assessment
CPPR	:	Country Portfolio Performance Rating
CSP	:	Country Strategy Paper
DFID	:	United Kingdom's Department for International Development
DPs	:	Development Partners
EDB	:	Ease of Doing Business
ESW	:	Economic and Sector Work
EU	:	European Union
FDI	:	Foreign Direct Investment
FTA	:	Free Trade Area
GBS	:	General Budget Support
GDP	:	Gross Domestic Product
GCI	:	Global Competitiveness Index
GNI	:	Gross National Income
GoL	:	Government of the Kingdom of Lesotho
GSP	:	Growth Strategy Paper
HDI	:	Human Development Index
HIV/AIDS	:	Human Immuno Deficiency Virus/ Acquired Immuno Deficiency Syndrome
IFMIS	:	Integrated Financial Management Information System
LCD	:	Lesotho Congress for Democracy
LHWP	:	Lesotho Highlands Water Project
MCC	:	Millennium Challenge Corporation
MDGs	:	Millennium Development Goals
MFA	:	Multi-Fibre Agreement
MOFDP	:	Ministry of Finance and Development Planning
MTEF	:	Medium Term Expenditure Framework
NDP	:	National Development Programme
NMES	:	National Monitoring and Evaluation System
NTF	:	Nigeria Trust Fund
ODA	:	Overseas Development Assistance
PAF	:	Performance Assessment Framework
PEMFAR	:	Public Expenditure Management and Financial Accountability Review
PFM	:	Public Financial Management
PPPs	:	Private-Public Partnerships
PRS	:	Poverty Reduction Strategy
PSIRP	:	Public Service Improvement and Reform Programme
RSA	:	Republic of South Africa
SACU	:	Southern Africa Customs Union
SADC	:	Southern African Development Community
SAPP	:	Southern African Power Pool
SMEs	:	Small and Medium Enterprises
SSA	:	Sub-Saharan Africa
TAF	:	Technical Assistance Fund
T&C	:	Textile and Clothing
TVET	:	Technical and Vocational Education and Training
UNDP	:	United Nations Development Programme

FISCAL YEAR OF BUDGET
1 April to 31 March

CURRENCY EQUIVALENTS
(30 September 2008)

National Currency	**=**	**Maloti (M)**
UA 1.0	=	US$ 1. 60151
UA 1.0	=	M 12.0959
US$ 1.0	=	M 7.70

WEIGHTS AND MEASURES
Metric System

EXECUTIVE SUMMARY

i. **Country Context:** Recent socio-economic developments in Lesotho have been shaped by the country's unique geography, resource endowments, colonial history, developments in neighbouring South Africa and regional and global developments. While the country's nascent democratic institutions are gradually evolving, its political stability and tolerance have been frequently tested. Although political stability has been achieved, strengthening the democratic institutions and culture remains a challenge to the country.

ii. Lesotho's prudent macroeconomic management has ensured economic stability. Real gross domestic product growth was strong at 7.2% in 2006 and 4.9% in 2007. The country's economic outlook is positive with growth projected to average over 5.3% in 2008-2012 due to further expansion of diamond mining activities, continued recovery of the textile sector and rising public investment. The realisation of such growth prospects will, however, continue to be highly vulnerable due to external shocks and is also threatened by weakening of the global economy. Both overall fiscal balance and the current account continued to register surpluses, reflecting large transfers from Southern African Customs Union (SACU). However, SACU high receipts are transitory and, therefore, fiscal management is expected to become more challenging in the near future. External debt has been brought down to sustainable levels mainly due to Government's deliberate policy to use part of the SACU windfalls to retire its debt. However, inflation has become a challenge given that, in line with trends in South Africa, it continues to rise due to continued increased in global food and fuel prices.

iii. Despite Lesotho's real GDP growth being above the population growth rate, poverty remains widespread with more than half of the population of Lesotho living below the poverty line. The country also continues to face a number of challenges, including: high vulnerability to exogenous shocks due to the country's narrow production and export base; weak capacity and skill shortages in all sectors due to poor quality secondary and tertiary levels; low levels of infrastructural facilities; weak public service delivery and public financial management systems; and underdeveloped financial intermediation. Further to that, the country's high incidence of HIV/AIDS also remains one of the biggest threats to the implementation of its development agenda. The country needs to address these weaknesses in order to take full advantage of the opportunities available to it, such as: its unique geography which generates a number of positive spillovers for the country; access to international export markets with preferential treatment; abundant water resources; and the country's natural beauty.

iv. **Lesotho's Development Agenda:** The priorities and strategies for promoting economic growth and reducing poverty are outlined in Lesotho's Poverty Reduction Strategy (PRS), which originally covered the 2004/05-2006/07 period, but was extended up to April 2010, when it will be replaced by a National Development Plan (NDP). The PRS' priority areas of actions are grouped within four key pillars of policy objectives: (i) accelerating shared and sustainable economic growth; (ii) human development; (iii) protecting and enabling disadvantaged groups; and (iv) good governance. To complement the PRS, the Government has: (i) introduced budget framework papers in all line ministries for 2009/10-2011/12 period; (ii) finalised a Growth Strategy Paper (GSP) to identify potential drivers of growth; and (iii) completed an Issues Paper for the NDP (2008/09-2009/10) in order to ensure that a strategic document exists to guide the budgeting process during the intervening fiscal years. Both the GSP and Issues Paper will also inform the development of the fully NDP.

v. **2008-2012 Bank Group Strategy:** The CSP is built on the analysis of and closely aligned with GoL's development agenda as outlined in the PRS. It was prepared following broad based consultations with government and various stakeholders. In order to support Government's efforts towards enhancing the country's competitiveness and diversity the country's export base, the proposed Bank assistance strategy for Lesotho places emphasis on: (i) improving governance; (ii) expanding infrastructure; and (iii) human resource development with emphasis on technical and vocational education and training (TVET). This will contribute towards Lesotho's efforts to reduce poverty through the promotion of private-sector led economic growth. The Bank's focus is selective and on key areas where it has a comparative advantage as demonstrated by proven expertise from previous interventions. The areas selected take into account the complementarity of Bank interventions with those of other development partners in order to ensure efficiency and effectiveness of Bank operations.

vi. Given that the CSP covers the period 2008-2012, it elaborates the next strategy for Bank Group operations in Lesotho under ADF-XI (2008-2012) and part of ADF-XII (2011-2012) programming cycles. On the basis of the evaluation of the country's performance of 2007, for ADF-XI, Lesotho's resource allocation for the three-year period has been set at UA 16.02 million, of which UA 7.13 million will be provided on a grant basis. This allocation will be used to finance public sector activities focusing on improving governance and expanding infrastructure (energy). With regard to governance, the Bank operation will be in the form of general budget support, which will focus on improving transparency and accountability in the management and use of public resources. As regards infrastructure, Bank intervention will support investment in the electricity supply sector whose main outcomes will be to enhance electricity access and ensure improved efficiency. With regard to the Bank's private sector activities in Lesotho, Lesotho's relatively strong risk framework provides plenty of space for such lending. The Bank should, therefore, step up its efforts to identify bankable projects in the country.

vii. **Risks:** Some of the risks that might confront the implementation of the Bank's strategy relate to: insufficient institutional capacity; Lesotho's high HIV/AIDS prevalence rate; deterioration of the external environment; and political instability. A number of mitigating actions are, however, in place, to reduce the potential of such risks from materializing.

viii. **Recommendation:** The Boards of Directors are invited to approve the strategy proposed for Lesotho covering the period 2008-2012. It places emphasis on: (i) improving governance; (ii) expanding infrastructure; and (iii) human resource development, with emphasis on TVET.

I. INTRODUCTION

1. The Boards of Directors are invited to approve the Country Strategy Paper (CSP) proposed for Lesotho covering the period 2008-2012. It is built on the analysis of and closely aligned with the development agenda of the Government of the Kingdom of Lesotho (GoL), the Poverty Reduction Strategy (PRS), following broad based consultations with Government and various stakeholders. In order to support Government's efforts, the proposed assistance strategy emphasises improving governance; expanding infrastructure; and human resource development with emphasis on technical and vocational education and training (TVET). This will contribute towards Lesotho's efforts to reduce poverty through the promotion of private-sector led shared-economic growth.

2. The last CSP for Lesotho[1], covering the period 2005-2007, was approved by the Boards of Directors on 15 March 2006. Its overarching objective was to contribute towards Lesotho's poverty reduction efforts through the promotion of private-sector led economic growth by focusing on infrastructure development and enhancing human capital. In approving the CSP, the Boards commended GoL for its prudent macroeconomic policies, which have ensured economic stability. They, however, expressed concerns about Lesotho's vulnerability to external shocks arising from its heavy dependence on a mono-export product. Hence, they underscored the need for Lesotho to pursue structural reforms aimed at restoring external competitiveness and enhancing economic diversification. The Executive Directors also emphasised the need for the authorities to speed up the implementation of reforms aimed at enhancing public sector delivery. Since the approval of the CSP, GoL has continued to make great strides in implementing reforms, which address some of the Boards' concerns.

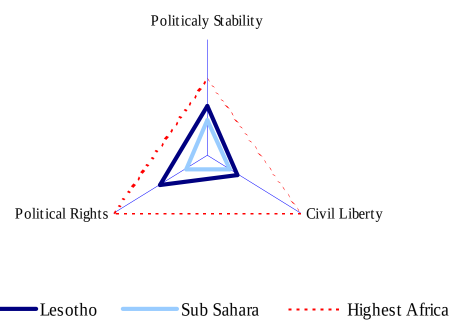
3. This document is organised in four chapters, beginning with the introduction. Chapter II analyses salient political, economic and social developments and prospects, while Chapter III outlines the areas of intervention under the proposed Bank strategy. Conclusions and recommendations are presented in Chapter VI.

II. COUNTRY CONTEXT AND PROSPECTS

A. Political, Economic and Social Context

i. Political Context

Chart 1: Political Context



Source: AfDB Statistics Department, African Economic Outlook, 2008 and the WB Governance Indicators

4. Lesotho is a constitutional monarchy with the King as head of state, but its executive powers are vested in an elected Prime Minister. Although Freedom House currently ranks the county above the average for sub-Saharan African (SSA) countries in terms of political stability (see Chart 1), since the time the county attained political independence from British rule in 1966, its political stability and tolerance have been frequently tested, especially in the wake of general elections, which are held every five years. While there were no incidents following the May 2002 elections, some post-election related disputes ensued in the aftermath of February 2007 elections when the allocation of parliamentary seats on the basis of proportional representation became a bone of contention. The

[1] Lesotho – 2005-2007 Country Strategy (ADB/BD/WP/2006/08- ADF/BD/WP/2006/09).

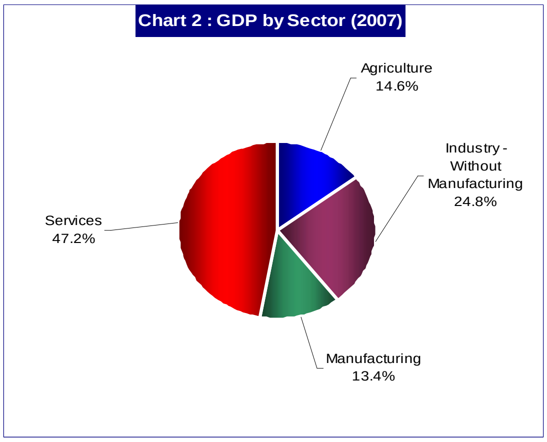
Southern African Development Community (SADC) had to be invited into the country to facilitate dialogue between the ruling and opposition parties, while legal cases on the dispute have proceeded slowly through the courts.

5. Fourteen parties competed in the parliamentary elections, which were moved forward by three months from April 2007 after some members of parliament crossed the floor, leaving the Government with a slim majority. The Lesotho Congress for Democracy (LCD) retained power, taking 61 of the country's 80 constituencies, heralding a third term for the incumbent prime minister. The LCD administration has continued to show its commitment to prudent macroeconomic management and policy reform as demonstrated later in this CSP. The political impasse needs to be resolved to enable the Government to focus on its socio-economic agenda. The conclusion that can be drawn from the recent political events is that strengthening the democratic institutions and culture remains a challenge to the country.

ii. Economic Context

6. Lesotho's economic progress has mainly been shaped by developments in the more economically dominant and sophisticated neighbouring Republic of South Africa (RSA), which surrounds it on all sides. Prior to 2000, the country was highly dependent on remittances from migrant workers employed in RSA mines, which generated about 50% of its gross national income (GNI), and where almost half of its male labour forces were employed. Lesotho recorded its strongest performance in 1988-97 with gross domestic product (GDP) growing by an average of over 6.0% mainly due to public investment in Lesotho Highlands Water Project (LHWP), an ongoing project developed to tap Lesotho's abundant water resources, its main natural resource, mainly for sale to RSA. The economy stagnated in 1997-2001 due to the completion of the construction of LHWP, political disturbances in 1998 and the fall in remittances from mineworkers. This period of weak growth coincided with a diversion of foreign direct investment (FDI) towards RSA as economic sanctions associated to the apartheid era ended. Investors who were previously attracted to Lesotho could now invest directly across the border.

7. The structure of the Lesotho economy has shifted significantly over the past three decades. The contribution of the primary sector to income has been declining mainly because of the stagnation of agricultural activities essentially due to unpredictable climatic conditions. The secondary sector has increasingly become the main driver for economic growth and formal employment mainly as a result of the expansion of manufacturing activities. The tertiary sector has remained the largest contributor to GDP, although its role has been slowly falling in recent years. The sectoral contribution to GDP is shown in Chart 2.



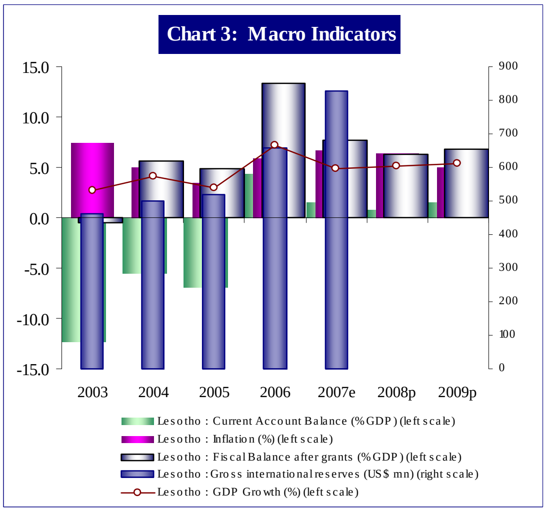
Source: AfDB Statistics Department, African Economic Outlook, 2008

8. **Growth and Growth Drivers:** Since the turn of the century, exports of textiles, propelled by the United States' African Growth and Opportunities Act (AGOA) that allows duty and quota-free access for textile exports into the country, became Lesotho's main engine of growth. Real GDP growth slumped in 2005 due to the fall in agricultural output resulting from adverse weather and the decline in manufacturing output, itself mainly caused by investor concern regarding how long Lesotho's duty free access to the United States (U.S.) market under AGOA would

last and the cessation of quotas in January 2005 under the Multi-Fibre Agreement (MFA). Since then, growth recovered impressively to 7.2% in 2006 and 4.9% in 2007, which was driven by the strong performance of the mining sector arising from the opening of two diamond mines. The economy was also boosted by modest recovery of the manufacturing sector, specifically the garment sector, which was influenced by the halt in the maloti appreciation, the easing of investors worries about the future of AGOA following the extension of the third country fabric provision to 2012 and imposition of global limitation against Chinese imports until 2008, as well as tax reforms and proactive measures taken by the Government in 2006 to address the concerns of the industry.

9. According to GoL projections, real growth will remain robust at 5.2% in 2008 and 5.4% in 2009, driven by: the mining sector due to the expansion of existing diamond mines and the opening of new ones; the recovery of agriculture supported by the expansion of block farming; continued turn around of manufacturing activities, though moderate, which will benefit from current government reforms to improve the business climate; and strong performance in construction activities driven by high public investment in infrastructure, including roads and water-supply projects. The realisation of the strong growth scenario will, however, continue to be highly vulnerable to external shocks, and is threatened, *inter alia,* by: the weakening of the global economy, particularly the U.S. economy, which could reduce Lesotho's export earnings, and; developments in RSA, which could reduce migrant mineworkers' remittances and also cause bottlenecks in Lesotho's construction sector. The shortage of electricity also provides threats to economic growth.

10. **Macroeconomic Management:** Lesotho has continued to make progress towards macroeconomic stability (see Chart 3). For the fourth successive year, its overall fiscal balance registered a surplus in 2007. The sharp fiscal consolidation has been driven by a substantial increase in receipts from Southern Africa Customs Union (SACU), which accounted for about 62% of Lesotho's total revenue in 2006/07, and reflects GoL's commitment to long-term fiscal sustainability despite the SACU windfall receipts. The sharp increase in SACU receipts in recent years is due to both high economic activity in RSA and the impact of a new sharing formula that became effective in 2005. Further, Lesotho received adjustment payments due under the previous sharing arrangements. SACU receipts are, however, transitory. Hence, fiscal management is expected to become more challenging in the near future. The receipts are likely to decline substantially after 2009/10 due to tariff reductions related to trade liberalisation and the possibility of SADC Customs Union and SACU merging and/or a new revenue sharing arrangement being negotiated by SACU members.



Source: AfDB Statistics Department, African Economic Outlook, 2008

11. External sector performance continued to strengthen, with the current account remaining in surplus for the second successive year in 2007, reflecting large transfers from SACU receipts and the increase in textile exports. Hence, international reserves remained high at over six months' coverage of imports. Although exports are projected to remain strong essentially due to expansion in mining and manufacturing activities, the current account could narrow down as

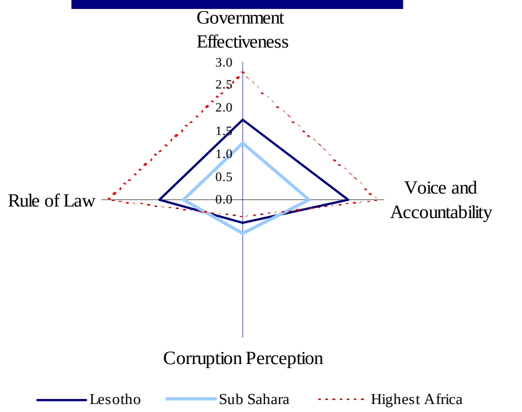
imports are expected to accelerate faster due to continued increases in global food and oil prices. Lesotho's external debt has been brought down to sustainable levels as a result of deliberate policy by GoL to use part of SACU windfalls to retire its nonconcessional debt. In spite of this, medium and long term debt sustainability continues to be sensitive to exchange rate shocks, new borrowing terms and shocks affecting the country's narrow export base. Annual average inflation rose to 6.1% in 2006 and 7.2% in 2007 mainly due to the impact of rising food prices, with a weighing of almost 40%, and international oil prices. On a quarterly basis, inflation was estimated to have risen to 10.5% for the period ending December 2007, in line with developments in RSA where inflation remained above the targeted band of 3% to 6%. The current trend is expected to continue in 2008, and there are concerns on whether Lesotho will be able to keep its inflation rate under double digits in the near future. Lesotho is currently only able to produce about 30% of its food needs.

iii. Governance

12. Lesotho is ranked relatively better than the average for SSA countries on most governance elements (see Chart 4). Notwithstanding its ranking, as highlighted by the Bank's Country Governance Profile (CGP) finalised in 2006, Lesotho's Public Financial Management (PFM) systems suffer from some shortcomings in budget preparation and execution, internal controls, fiscal reporting and audit. Such deficiencies were also underscored by the World Bank's 2007 Public Expenditure Management and Financial Accountability Review (PEMFAR). The CGP also drew attention to the challenges GoL was facing in improving its procurement system and decentralising the functions of central government to local authorities. GoL has since continued to make great strides towards addressing these weaknesses by implementing reforms, with the support of its development partners, which are anchored by the Public Service Improvement and Reform Programme (PSIRP).

13. The PFM reform component of the PSIRP focuses, *inter alia,* on improving the link between the country's poverty reduction strategy and the annual planning and budgeting processes through the introduction of a three-year Medium Term Expenditure Framework (MTEF) in six pilot ministries in 2005/06, before extending it to all line ministries. The reforms also involve replacing the outdated government financial information system with a new Integrated Financial Management Information System (IFMIS) by the end of 2008. GoL also intends to enhance the legislative basis for the PFM through the enactment of the Public Financial Management and Accountability Act, which will be presented to Parliament in 2009. The performance of oversight institutions, including the Public Accounts Committee and Auditor General's office, is also being strengthened through capacity building in the areas of IT auditing and performance auditing.

Chart 4: Governance (Score 0-3)



Source: AfDB Statistics Department using data from WDI, WB, 2008

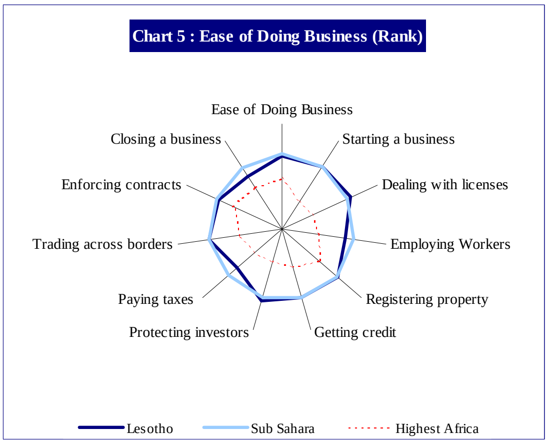
14. Modernisation of the procurement system is also underway and a Country Procurement Assessment Review (CPAR) exercise was completed in October 2007 to review the progress made on procurement reforms. The CPAR identified some improvements that should be further pursued by the GoL in the areas of: legislative and regulatory framework; institutional framework and management capacity; procurement and market practices; and integrity and transparency. Lastly, Lesotho is also gradually

implementing a decentralised system of functions, resources and authority from the central government to local authorities. Following the first elections of local government structures in April 2005, progress has been made, particularly on the establishment of the Local Government Service Commission and capacity building activities for District and Community Councils. Challenges GoL continue to face include delays in the development of the fiscal decentralization strategy.

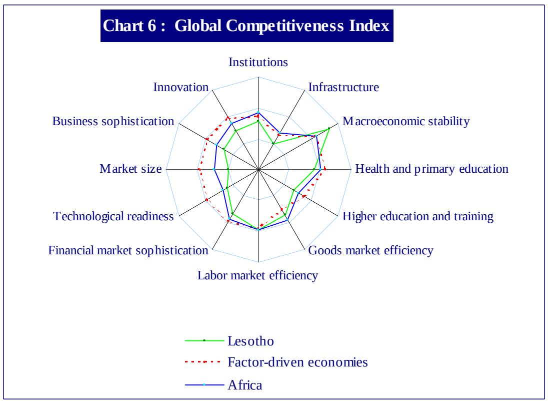
iv. Business Environment and Competitiveness

15. ***Business Environment:*** The private sector business climate in Lesotho is complemented by the country's access to the range of RSA's developed infrastructures and wider capital and financial markets. A related benefit is the possibility for investors to borrow from the entire Common Market Area (CMA) at low rates of interest. Lesotho also has ready access to the relatively sophisticated intermediate inputs and goods market of RSA. A key regional advantage to private sector activity in Lesotho is its access to international export markets with preferential treatment in the European Union (EU), U.S. and Japan. These factors have been behind the relative attractiveness of Lesotho in regional industrial location, and the rapid and dynamic growth of export-based manufacturing, principally in textiles in recent years. Besides the country's relatively low wages, these factors are also complemented by GoL's deliberate policy to offer investors incentives similar to those found in export processing zones and provide them with serviced industrial estates and factory shells through Lesotho National Development Corporation.

16. GoL's policy on private sector development, as articulated in the PRS, is that the private sector is best placed to promote investment and growth, with it providing the enabling environment for private sector participation in economic activity. However, Lesotho has not made any significant strides in improving the business climate in recent years. Obstacles to private sector development that still exit relate to outdated laws and regulations, which impose unnecessarily long and complex procedures for the registration and licensing of firms, as well as administrative requirements that make it unnecessarily long and cumbersome to obtain work and resident permits. According to the 2008 Ease of Doing Business (EDB) published by the World Bank, it takes 28 days to register a business and 73 days to start a business in Lesotho. Overall, it ranked Lesotho 124^{h} out of 178 countries compared to 119th the previous year. Lesotho is ranked below other SACU countries (with the exception of Swaziland) and eighth among SADC countries (Chart 5 shows how it fares vis-à-vis averages for SSA countries on key EDB indicators).



Source: AfDB Statistics Department using Doing Business Databases, WB, 2008



Source: AfDB Statistics Department using data from WEF, 2008

17. Cognisance of the weaknesses, with the support of the World Bank and Millennium Challenge Corporation (MCC), GoL is currently undertaking major policy

reforms, including measures to improve the business environment and reduce the costs of doing business by reviewing several obsolete laws and business procedures, increase economic diversification through skills development, improve access to credit and increase the participation of women in the formal sector. A Trade Facilitation and Investment Centre, a one-stop-shop, has also been established to assist investors to rapidly obtain company registration, tax compliance, import and export permits as well as work and residence permits.

18. ***Competitiveness:*** The weak competitiveness of the Lesotho economy also reflects several constraints that are critical to determining the level of productivity of the country, such as low levels of infrastructural facilities, poor quality of education and training, limited access to quality financial services and modern technology and inefficient marketing, etc. This is evidenced by the 2007 Global Competitiveness Report by the World Economic Forum (WEF), which ranked Lesotho 124th out of 131 economies surveyed in terms of the Global Competitiveness Index (GCI), below other SACU countries, viz, RSA (44), Botswana (76), Namibia (89) and SSA economies average (see Chart 6). As a factor driven economy, Lesotho needs to address the above mentioned issues to maintain competitiveness. Some of these issues are further discussed in the context of discussing Lesotho's challenges and weaknesses in paragraphs 32 to 38.

v. Regional Integration and Trade

19. As highlighted before, Lesotho's challenges and opportunities are greatly influenced by its inherent integration in the economy of RSA. With regard to trade, Lesotho attaches considerable importance to its membership of SACU, which governs trade between RSA and four smaller Southern African countries (Botswana, Lesotho, Namibia and Swaziland). The union represents an important source of fiscal revenue for the smaller states (BLNS states), especially Lesotho given that SACU revenue accounted for over 35% of Lesotho' GDP in 2006/07, compared to Swaziland (27%), Namibia (14%), Botswana (10%) and RSA (1.4%). Lesotho's high dependence on trade taxes for fiscal revenue means that it cannot unilaterally implement trade policy and undertake trade liberalization.

20. Lesotho is also a member of the CMA, which integrates Lesotho, Namibia and Swaziland into the South African money and capital markets. The parallel circulation of the South African rand in the territories of the smaller countries alongside national currencies, which are pegged at par to the rand, poses challenges for the smaller states as it limits their discretion in monetary and exchange rate policies. This makes it difficult for Lesotho to adjust quickly to external shocks other than through coordinated decisions with its neighbours, particularly RSA. In spite of such limitations, Lesotho's membership of CMA generates some positive spillovers arising from the policy credibility of the South African Reserve Bank. It allows unrestricted transfer of funds without any transaction costs and foreign exchange risks, whether for current or capital transactions, between CMA member states, which has facilitated cross-border trade among them. It has also enabled Lesotho to enjoy low and stable interest and inflation rates. These factors have provided the foundation for Lesotho's financial stability and contributed towards enhancing investors confidence investors in the Lesotho economy.

21. Like all Southern African countries, Lesotho actively participates in the 14-member SADC. It joined the SADC Free Trade Area (FTA), which was launched in August 2008. By eventually eliminating tariffs on goods produced in the region, Lesotho's participation in the FTA should contribute towards expanding and diversifying its markets for textile and other products and, hence, help to mitigate its vulnerability to external shocks. However, like other SADC countries, if Lesotho is to fully take advantage of the FTA, it needs to urgently address various challenges, including

transport infrastructure, which continue to impose significant costs on trade transactions. Long delays at its border posts with RSA also need to be resolved. The FTA precedes a customs union planned by 2010, a common market by 2015, monetary union by 2016 and a single currency by 2018. Lesotho has already met all the macroeconomic convergence criteria in terms of inflation, budget deficit, external debt, foreign reserves, etc, under SADC. Further to FTA, together with Botswana, Mozambique and Swaziland, Lesotho also signed an interim (goods only) Economic Partnership Agreement with the EU in November 2007. This allows for duty-free and quota-free access to the EU market as of 1 January 2008.

22. Lesotho is a very open economy. In 2006, its imports accounted for over 95% of GDP, of which about 77% came from SACU (mainly RSA), while North America was the largest destination of its exports accounting for 65% of total exports. Lesotho is also linked to the South African labour markets. Traditionally, the country's unskilled *Basotho*[2] male workers have migrated to work in RSA's mines, whose remittances have been important for the country's balance of payments and as a source of income for many households. However, recent mass redundancy of such workers and their associated inability to fulfil the role of family breadwinner, has increased the vulnerability of many households in Lesotho as they now have to rely more on the unpredictable agricultural output for their livelihood. Although it also suffers from serious capacity constraints at home, Lesotho has been exporting its educated and most talented manpower to RSA, reflecting the demand-pull effects arising from RSA's recent strong growth and skill shortages. This has created severe capacity constraints in Lesotho, especially in the public service.

23. From the foregoing analysis, regional integration is considered critical for the survival of Lesotho, both to maintain job opportunities and as a platform for future growth. Given that Lesotho is not able to adjust to many economic challenges other than through coordinated decisions with its neighbours, particularly RSA, it needs to strengthen its cooperation with the South African Government so that it can press for improvements in policy coordination. Since trade is crucial to Lesotho's drive towards sustained economic growth, the country needs to continue its efforts of lowering its costs of trading through the reforms already underway.

vi. Social Context

24. ***Poverty, Social Inclusion and Equity:*** The incidence of poverty in Lesotho remains a concern in spite of the strong economic growth in recent years. The 2002/03 Household Budget Survey finalised in 2007, indicated that slightly over half of the population, at 50.2%, still lived below the poverty line in 2002/03, an improvement from 62.1% registered in 1994/95. The leading cause of poverty is rising unemployment, estimated at 23.2% of the total labour force in 2002/03, and underemployment resulting from a series of structural changes which began in early 1990s with the decline of mining in RSA. Income inequality, though still high, has also been showing declining trends, with the Gini coefficient decreasing from 0.57 in 1994/95 to 0.52 in 2002/03. In 2007, Lesotho's overall human development index (HDI) was 0.549, ranked 138th out of 177 countries, compared to 0.497 and 149th, respectively, in 2005.

25. On progress in achieving the Millennium Development Goals (MDGs), while the country will almost certainly meet the targets for attaining universal primary education and eliminating gender disparity in primary and secondary education, it is unlikely to achieve targets on halving poverty, eradicating hunger, as well as reducing under-five and maternal mortality rates (see Annex IV). The slow progress in improving social indicators and attaining MDGs can be attributed to the high HIV/AIDS prevalence rate, chronic drought, reduction in remittances

[2] People of Lesotho.

from migrant mineworkers and poor coverage of basic health services. In 2006, about one in four Basotho (15-49 years) were HIV positive, ranking Lesotho the third highest HIV prevalence country in the world. As a result of the impact of AIDS, average life expectancy is estimated to have fallen from 60 years in 1996 to about 42 years by 2006.

26. GoL's thrust in promoting quality of life and social well being is focused on ensuring access to quality services, improving efficiency in the delivery of social services as well as the promotion of clean and healthy environment and sustainable use of natural resources. To achieve this, the share of the total Government budget spent on the social sectors has increased steadily to 46% (or 31% of GDP) in 2008/09 budget, of which education accounted for about 22% of total expenditure (14% of GDP), among the highest in SSA countries, and public health about 10% of total expenditure (7% of GDP). While Lesotho's literacy level is among the highest on the continent, with the overall population literacy rate standing at 83% in 2006, the country continues to face significant challenges in the education sector, especially in mountain regions, following the introduction of free primary education programme in 2000. These include: low coverage and poor quality of basic education due to lack of teaching aids, materials and facilities; low retention rate of pupils in primary education; low transition rate to secondary education; and poor quality and relevancy of secondary and tertiary education. To address these challenges, GoL is implementing the Education Sector Strategic Plan for the period 2005-2015.

27. In the health sector, the gains that were made on infant and under-five mortality as well as life expectancy indicators up to 1996 have been eroded due to the HIV/AIDS pandemic. This has been aggravated by poverty, poor nutrition and environmental sanitation, unhealthy lifestyle, lack of access to appropriate and well-equipped health facilities for the provision of basics health care and the limited number of health service staff skilled in maternal and child health care. The 2004 National Health and Social Welfare Policy and the 2004/05–2010/11 Health and Welfare Strategic Plan underpin GoL's health sector development programme.

28. ***Gender:*** Lesotho is one of a few African countries with a reverse gender gap in favour of women, especially in terms of literacy rates, which has enabled them to compete for employment. In spite of this, evidence suggests a rise in gender-based violence, partly related to the return of laid off mine workers from RSA, which has created a disjuncture between traditional role models and reality where in many households women have become the sole breadwinners, while men still claim status as household head. GoL has committed itself to gender equity. The adoption of the 2006 Legal Capacity of Married Persons Act is a major milestone as the law that took women as minors and placed them under the perpetual custody and protection of men has been abolished. However, what the Act entails in practice is yet to be fully appreciated and understood. Resources are being provided under MCC assistance to facilitate its implementation.

vii. Environment and Climate Change

29. Due to steep slopes and fragile soil formations, it is estimated that Lesotho loses 39.6 million tonnes of soil (0.25% of total arable land) per year due to soil erosion. The direct consequence of this is a decline in agricultural production, exacerbating the problems of food shortages and poverty. The use of biomass as the main source of energy in rural areas has also resulted in the depletion of vegetation and a decline in biodiversity. In view of limited achievements of the past in managing and conserving the environment, GoL is undertaking a number of initiatives, including: revision of Environment Act of 2001 to give the National Environment Secretariat the legal basis to enforce regulations laid out in the Act;

encouraging soil conservation through improved production; raising public awareness and promoting environmental education; and strengthening management of solid and water waste. Lesotho has also ratified a number of United Nations conventions.

B. Strategic Options

i. Country Strategic Framework

30. ***Government Development Agenda:*** Lesotho's Poverty Reduction Strategy (PRS), which originally covered the period 2004/05-2006/07, articulates priorities and strategies for poverty reduction in Lesotho through economic growth and empowerment of the poor. The PRS was extended until April 2010, when it will be replaced by a National Development Plan (NDP). GoL has now decided to move away from a PRS process towards a more comprehensive planning framework that would not only reflect financial and human capacity issues, but also place emphasis on growth priorities. It, however, feels that the PRS' contents are still valid as they continue to reflect Lesotho's priorities and strategies for poverty reduction, which were identified through an extensive and elaborate national-wide consultative process and are unlikely to change in the medium-term. The PRS' priority areas of actions are grouped within four key pillars of policy objectives as shown in Table1.

31. To complement the PRS, the Government has: (i) introduced budget framework papers in all line ministries for 2009/10-2011/12 period in order to ensure that the budget remains focussed on the PRS priorities; (ii) finalised a Growth Strategy Paper (GSP) to identify potential drivers of growth and ensure that the next budget estimates focus on growth oriented activities; (iii) completed an Issues Paper for the NDP (2008/09-2009/10) in order to ensure that a strategic document exists to guide the budgeting process during the intervening fiscal years; and (iv) finalised a PRS Progress Report. Both the GSP and Issues Paper will also inform the development of the fully NDP.

Table 1: PRS in Short

PRS Pillars	PRS Priority Areas of Action
I: Accelerating shared & sustainable economic growth	o Private sector development o Tourism o Mining & quarrying o Agriculture o Economic infrastructure o Protecting & conserving environment
II. Human development	o Education & training o Healthcare o HIV & AIDS epidemic o Social infrastructure
III. Protecting and enabling disadvantaged groups	o Women's empowerment o Youth & children's issues o Other disadvantaged groups o Food insecurity
IV. Good governance	o Improving public service delivery o Deepening democratic institutions o Justice, safety & security

ii. Challenges and Weaknesses

32. Lesotho's **geographical location and landlocked position** pose various challenges to the country as already indicated in paragraphs 19-23. Further, **poverty is still high**, although it has declined, and **unemployment remains high**, which is exacerbated by the retrenchment of migrant mineworkers from RSA due to lack of education, skills and opportunities.

33. Lesotho's **growth prospects remain extremely vulnerable to external risks,** including slowdowns in its markets and exchange rate fluctuations. This is aggravated by the country's high dependency on an insufficiently diversified textile-based. In spite of the expansion in diamond mining, the country needs to further diversify its export base in order to ensure sustainable economic growth.

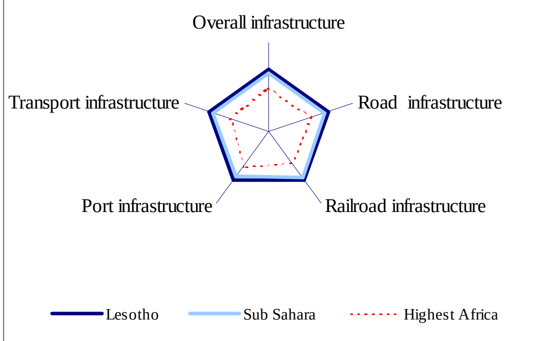
34. The **temporary preferential trade treatment for exports Lesotho is currently enjoying is threatened by various global** events. Under the new rounds of World Trade Organisation talks, the U.S. and EU are likely to reduce their average level of tariffs on textile products. There are also no guarantees that the AGOA initiative will last beyond 2012. Should these threats materialise, Lesotho may have to face stiff competition as its traditional markets are being opened up to more efficient and larger suppliers from China and the Far East. This could

happen before Lesotho has internalised technological benefits from the textile and clothing (T&C) industry given that the industry has so far created very little backward linkages with the local economy and there has also been limited "learning by doing" in terms of transfer of skills to local entrepreneurs. This is compounded by the general lack of skilled labour despite the country having excess supply of low wage labour forces.

35. Closely related to the weak competitiveness of the Lesotho economy (see paragraphs 16-18), **low levels of infrastructural facilities**, including inadequate road transport network and lack of reasonably priced and efficient utilities (electricity, water and telecommunication services), continue to constrain private sector development and economic growth in Lesotho. This is demonstrated in Chart 7, which shows that the quality of infrastructure in Lesotho is essentially below that prevailing in most SSA countries. For instance, the T&C industry has been facing inadequate water supply and waste treatment facilities, which affects the factories involved in "wet" activities. Lesotho is also increasingly experiencing sporadic power outages and load shedding as a result of electricity shortages in RSA and the Southern African Power Pool (SAPP) since it is a net importer of electricity mainly in winter. These problems, if not immediately addressed, will continue to act as disincentives to new foreign and domestic investment, as well as dissuade garment manufacturers from engaging in further expansion of their existing operations and diversifying into higher value added processes.

36. **Customs revenue from SACU is likely to substantially fall beyond 2009/10** (see paragraph 10). Should such fiscal risk materialise, it will threaten Lesotho's efforts to achieve high economic growth targets as GoL will be compelled to reorient public expenditure and adopt a conservative fiscal stance. This could also affect Lesotho's progress towards the achievement of the MDGs. GoL should, therefore, resist pressures to increase spending

Chart 7: Infrastructure 2008



Source: AfDB Statistics Department using data from WEF, 2008

37. The Lesotho economy continues to **face some institutional constraints, including ineffective public sector delivery and weak PFM systems**, as well as inadequate and low institutional capacity in key areas of macro-economic planning and management (see Table 2). Institutional capacity constraints pose a major threat to the implementation of policy reforms and public development programmes/projects, as well as other private sector investment projects. This problem is compounded by the fact that Lesotho has been losing its skilled technical and managerial human resources to RSA, which itself is also experiencing capacity constraints in coping with its booming economy. The impact of HIV/AIDS on skilled personnel has also been high. The weak human capital in the country has also been made worse due to low enrolment rates and poor quality at the secondary and tertiary levels, as well as inadequate public spending on health and shortage of appropriately trained health personnel.

38. The country's **banking sector is shallow and less developed** in terms of infrastructure, competition among banks and credit culture, although it is sound financially (see Table 2). It is dominated by South African owned banks, which

concentrate on holding short-term government securities instead of lending to the public, in general, and small and medium enterprises (SMEs), in particular. Their risk-aversive behaviour can be attributed to lack of bankable project proposals and high probability of default by borrowers because of Lesotho's lack of mechanisms to enforce repayment of loans due to lack of effective debt recovery laws and commercial courts. Furthermore, there is no credit bureau and reporting system and the inter-bank market is underdeveloped. Access to banking services by households and SMEs in Lesotho is, therefore, limited and the sector has failed to play an active role in mobilising resources necessary for boosting the country's productive base. Recently, the Central Bank of Lesotho stepped up its efforts to enforce financial regulation and supervision to stop the flourishing of unlicensed deposit-taking institutions. They were operating illegal pyramid savings schemes, which posed risks to depositors and the financial system with serious social and economic consequences.

Table 3: Lesotho CPIA Ratings 2005-2007

Year	A. Economic Management			B. Structural Policies			C. Policies for Social Inclusion / Equity					D. Public Sector Management and Institutions					Overall Rating
	1 Macro	2 Fiscal	3 Debt	4 Regional Int./Trade	5 Fin. Sec.	6 Business Reg. Frame	7 Gender Equality	8 Equity Pub. Resource	9 Human Resources	10 Social Protection	11 Environmt.	12 Property Rights	13 Budget Managemt.	14 Revenue Mobilization	15 Public Admin.	16 Corruption Pub. Sector	
2005	4.0	4.0	4.5	4.0	3.5	3.5	4.0	3.5	4.0	3.5	3.5	3.0	3.5	4.0	3.0	3.5	3.84
2006	4.0	4.0	4.5	4.0	3.5	3.5	3.5	3.5	4.0	3.5	3.5	3.0	3.5	4.0	3.0	3.5	3.71
2007	4.0	4.0	4.5	4.0	3.5	3.5	3.5	3.5	3.5	3.0	3.5	3.0	3.5	4.0	3.0	3.5	3.66

iii. Strengths and Opportunities

39. **Medium-term macroeconomic outlook for Lesotho is positive** according to Government projections. In 2007-2011, real GDP growth is envisaged to remain strong in the range of 5.5% per year (see Annex III (A). The **risk framework for the country** is also relatively strong. The 2008 African Development Bank (ADB) Sovereign Risk Rating for Lesotho is 3 (on a scale of 1 to 10, 1 being the strongest) and the external credit rating by international rating agency Fitch is at "BB-". Both ratings are on the basis of solid macroeconomic performance, strong growth trends and good debt management policies. Additionally, GoL is undertaking various reforms aimed at creating credible and technically competent institutions within government that should provide a real opportunity for improving public decision making and accountability in service delivery and, thereby, contribute towards private sector development (see paragraphs 12-14).

40. Lesotho's **unique geography generates a number of positive spillovers for the** country (see paragraphs 19-23). It also gives the country access to RSA expertise and advanced technology, as well as investment resources. Thus, in spite of weaknesses in business climate, Lesotho has managed to attract FDI, mainly in its T&C industry. New investment from RSA is also flowing into the country to take advantage of tax incentives introduced in 2006.

41. Lesotho has **access to international export markets with preferential treatment in the U.S. under AGOA's third country fabric provision**, which has boosted its T&C industry, and the EU under the everything but arms (EBAs) legislation. Since its T&C industry mainly focuses on manufacturing low-end cut-make-trim apparel with little value added, there is considerable opportunity to build on the successes of the industry to diversify into higher value added processes apparel and facilitate entry of other light manufacturing export-oriented activities. Presently, there are over 3000 product lines eligible for quota free and duty free access to the U.S. market under AGOA, most of which remain untapped. Lesotho also has the potential to strengthen the linkages of the T&C industry with the domestic economy and diversify the market for its finished goods to neighbouring RSA and SADC, taking advantage of the opportunity

provided by the SADC FTA. This potential can be realised if there is adequate public investment in skills training and complementary infrastructure.

42. Although Lesotho has limited natural resources, it has **abundant water resources located in the mountain areas**. The LHWP now provides the country with a steady stream of royalties besides other spin-offs, including tourism and electricity. In addition, with support of MCC and other development partners, GoL is currently making further investment in the water sector through the construction of the Metolong dam, which will provide water for domestic and industrial use. Once completed, the project could enable Lesotho to take full advantage of AGOA beyond 2012 by attracting the location of water-thirsty fabric production activities.

43. **Mining activities in Lesotho have potential for further expansion** and should contribute towards diversification of the country's export base. They effectively came to an end in 1982, when the mining and quarrying sub-sector accounted for about 4% of GDP, due to unstable diamond prices which adversely affected the viability of diamond mining. The sub-sector has, however, been resuscitated in recent years. From virtually nothing (0.1% of GDP) in 2000, its output increased substantially to 6.7% of GDP in 2006. The drastic growth has mainly been influenced by the opening of diamonds mines in Lets'eng in 2004 as well as in Liqhobong. The sector's future outlook is, therefore, bullish given that the mine in Lets'eng is expected to double its capacity and a third mine in Kao is due to open in 2008. Two other mines in Kolo and Mothae are expected to be opened in due course following positive prospecting results. GoL's strategic focus for the mining sub-sector is to promote both small- and large-scale mining activities by strengthening the institutional, policy and regulatory framework through the implementation of the Mines and Mineral Act of 2005. Although mining creates little employment opportunities and has limited linkages with the local economy, GoL believes that the PFM reforms already underway will provide a strong governance and institutional framework that will ensure that increased public revenue emanating from mining activities is effectively used to achieve broader objectives of poverty reduction.

44. **Tourism has been identified as an important source of growth and employment creation** in Lesotho in the medium-term, especially in rural areas, given its labour-intensive nature. It employs about 25,000 people and welcomes about 30,000 visitors (mainly from RSA). Lesotho's strength and potential in tourism emanate from the country's picturesque beauty, unique ecosystem and wide biodiversity, attractive dams (constructed through the LHWP) and snow-covered mountain slopes during winter. All these features are ideal for various activities, such as trekking, camping, mountain biking, hiking, water-sport and skiing. This is complemented by the country's close proximity to RSA, with its extensive network of tour operators, which gives Lesotho the possibility of twinning with RSA's tourism authorities to include and promote Lesotho as a destination. The sector registered strong growth averaging about 6.7% per year in 2002-2006 and, hence, its share of GDP rose to 2.3% in 2006 after remaining stable at about 1.5% for many years. Tourism's potential for propelling economic growth and generating employment, however, continues to be constrained by, *inter alia*, undeveloped physical infrastructure, minimal investment in the sub-sector, limited local entrepreneurship and capacity, as well as lack of effective marketing. To address these challenged, GoL is updating the 1994 Tourism Master Plan and adopted the Ministry of Tourism, Environment and Culture Strategic Plan 2005-2008.

Table 3: Donor Matrix

PRS Pillars/Priority Sectors	Donor												
	IDA	EU	ADF	Irish Aid	DFID	MCC	UN Agcies	IFAD	Arab Funds	JICA	Others	Total	%
PRS Pillar I: Accelerating Shared and Sustainable Economic Growth													
Private Sector Developmnt	53.1											53.1	1.4
Water Supply						272			211.6			483.6	12.9
Tourism											78	78	2.1
Agriculture					25.5		2.1	69				96.6	2.6
Economic Infrastructure	133.2	125.7	145					46				598.9	15.9
Protecting Environment											4.4	4.4	0.1
PRS Pillar II: Human Development													
Education	213.6		74	71						65	130	553.6	14.7
Health	58		92	84		96.9	34.2				110.6	475.7	12.7
HIV/AIDS & TB	43.4						49.9				226.8	320.1	8.5
Water & Sanitation	94.1	179.1							155.2			428.4	11.4
PRS Pillar III: Protecting and Enabling Disadvantaged Groups													
Women, Youth, Chld & Dis.		40.7					4.5				17.3	62.5	1.7
Food Security							24.5					24.5	0.7
PRS Pillar IV: Governance													
Public Service Delivery		137.6	11.3	50	65.8	113	17.3				125.5	520.3	13.8
Deepening Democracy											57	57	1.5
Total	**595.4**	**483.1**	**322.3**	**205**	**91.3**	**482**	**132.5**	**115**	**515.8**	**65**	**749.6**	**3756.7**	**100.0**
%	**15.8**	**12.9**	**8.6**	**5.5**	**2.4**	**12.8**	**3.5**	**3.1**	**13.7**	**1.7**	**20.0**	**100.0**	

C. Developments in Aid Coordination/Harmonisation and ADB Positioning in Lesotho

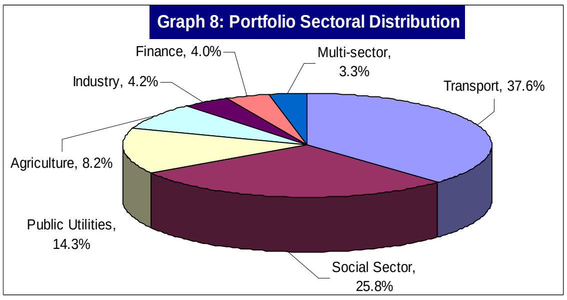
i. Aid Coordination and Harmonisation

45. In the past, development partners (DPs) interventions in Lesotho have not demonstrated 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. This can partly be attributed to the small size of aid[3] and inadequate capacity for aid coordination. The finalisation of the PRS in 2004 has, however, provided the GoL and its DPs with the framework to engage in efforts to harmonise aid procedures, align them to country systems and prepare the ground for increased SWAps and programming lending.

46. GoL is making efforts to address weaknesses in donor coordination. To strengthen its aid coordination capacity, it has sought technical assistance from the United Nations Development Programme (UNDP) to assist it in establishing a clear Government focal point for coordination of development assistance. Further to that, Lesotho recently signed the Paris Declaration. In recognition of recent efforts by the GoL to improve fiduciary systems, a number of key DPs have agreed to commence general budget support (GBS) operation in Lesotho, which should contribute towards the successful implementation of the Paris agenda at the national level. Official development assistance (ODA) in support of the implementation of Lesotho's poverty reduction strategy from its partners amounts to about 5% of the country's annual budget. Besides the ADB, Lesotho's leading DPs are the World Bank, EU and MCC. The IMF continues to undertake annual consultations following the completion of the Poverty Reduction Growth Facility in 2004. Table 3 shows current donor activities in Lesotho.

ii. ADB Positioning in the Country

Graph 8: Portfolio Sectoral Distribution



47. The Bank Group commenced lending operations in Lesotho in 1974 and, as at 30 June 2008, had approved for 51 operations amounting to UA 294.00 million.

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[3] In 2006, Lesotho's net total official development assistance was estimated at 5% of GDP and net total ODA per capita at about US$ 36, compared with averages for ADF-only eligible countries of 10% and US$ 44, respectively.

Following cancellations, net commitment stands at UA 241.54 million comprising UA 38.57 million (16.0%) from the ADB window, UA 195.47 million (80.9%) from the ADF/Technical Assistance Fund (TAF) resources, and UA 7.51 million (3.1%) from the Nigeria Trust Fund (NTF) window. The portfolio sectoral distribution is shown in Chart 8. Annex II (A) presents a summary of Bank Group operations in Lesotho.

48. The Bank completed its Country Portfolio Performance Review Report (CPPR) for Lesotho in June 2007, which rated the quality of the portfolio as satisfactory. The common problems that were highlighted by the CPPR as contributing to project implementation delays include: start-up delays essentially relating to the fulfillment of conditions; communication difficulties between the Bank and Government; capacity constraints and weak project management; frequent changes to project management teams; and difficulties in adhering to Bank Group's rules of procedures for procurement and disbursement. GoL has been making progress to address these generic problems by, among other things: putting in place mechanisms that would ensure that procurement and disbursement documents sent to the Bank Group are in conformity with Bank procedures; and encouraging regular meetings involving the Ministry of Finance and Development Planning (MOFDP), line ministries and executing agencies to appraise each other on portfolio implementation issues and iron out any problems, as well as share experiences. It has also introduced reforms of the public procurement system. Increased use of the Bank's Regional Office in Mozambique, which also covers Lesotho, is also facilitating implementation of Bank projects in Lesotho. Trends in the Lesotho's portfolio performance between 2004 and 2008 are presented in Table 4 and Annex II (B).

iii. Lessons Learned from Previous CSP

49. The proposed Bank strategy draws on the lessons of the last CSP, which are highlighted in the 2005-2007 CSP Completion Report. In implementing the last assistance strategy, the Bank approved two operations in line with its areas of focus on infrastructure development and enhancing human capital. However, the progress made towards achieving the operations' targeted outcomes during the CSP period was minimal. This is essentially because both operations were still at their early phases of implementation. Besides lending operations approved during the CSP period, there were three other ongoing operations at varying stages of implementation in agriculture, multi-sector and social sector. Although all the three operations experienced start-up delays mainly due to difficulties in entry into force of the loan/grant conditions, which was compounded by weak institutional arrangements, their outputs were, to a large extent, being implemented as designed and the operations were expected to close in 2008. It was, however, not easy to carry out an assessment of the progress they were making toward achieving their intended outcomes given that their log-frames did not systematically build in monitorable indicators that are specific, measurable and time-bound.

Table 4: Trends in Portfolio Performance (2004-2008)

Performance Indicator		Evolution		Comparison	
		Lesotho 2004	Lesotho Mid-2008	AfDB 2006	World Bank 2005
Implementation & Impact	o Time from approval to effectiveness (in months)	-	-	17	n/a
	o Average project age (in years)	3.4	4.5	4.3	3.1
	o Disbursement Ratio (%)	19%	42.8	37	26.5%
	o Average Project Size (in million UA)	9.9	6.8	12.17	n/a
	o Problematic projects (% of ongoing project)	2.0	2.1	47	n/a
	o Projects at Risk (PAR (% of commitments)	39.2%	30.6	45	4.5%
Harmonization & Alignment	o % Support relying on RMCs PFM and Proc. Systems	0%	0%	-	n/a
	o % Aid provided as Program-based Approaches	0%	0%	12%	n/a
	o Number of Co-financed Projects		37.5%	20%	n/a
	o Leader of Donor Working Groups in the Field	0	0	n/a	0
	o Joint ESW and % total ESW	0%	n/a	0%	n/a

Source: 2006 Annual Portfolio Performance Review and other ADB documents

50. The assessment of the outcomes of the CSP was hampered by the low implementation level of Bank interventions approved during the period. It was also affected by lack of baseline data and insufficient capacity to gather timely and credible information in Lesotho due to delays by GoL in putting in operation its poverty monitoring system. There was also weak aid coordination mechanism in Lesotho. These problems were compounded by capacity constraints in the country. The prospects for the next CSP are improved by the fact that: (i) GoL is already making efforts to strengthen its statistical capacity and the National Monitoring and Evaluation System (NMES) (see paragraph 65); and (ii) measures are being pursued by GoL with assistance from the UNDP to strengthen aid coordination capacity, while DPs in Lesotho are pursuing efforts to enhance the harmonisation of their development assistance through, *inter alia,* such mechanisms as the proposed budget support.

51. To strengthen its capacity, GoL is also making efforts to resolve issues of attraction and retention of high calibre personnel in the public service in the context of the PSIRP. The Bank will also continue to support GoL in strengthening the capacity of its officials by mainstreaming capacity building activities in its projects. The strengthened staffing capacity of the Regional Office in Mozambique will also ensure closer Bank engagement in Lesotho and, hence, enable the office to play a bigger role in overseeing the implementation of Bank operations, as well as enhancing dialogue with development partners in the country. Intensified training for project staff in Lesotho in the area of loan administration and project management will also be used as a country portfolio improvement tool.

III. BANK GROUP STRATEGY FOR LESOTHO

A. Rationale for Bank Group Intervention

52. Based on extensive discussion held with GoL and its stakeholders and taking into account interventions of other DPs, the Bank's strategy for Lesotho for the 2008-2012 period places its emphasis on: (i) improving governance; (ii) expanding infrastructure; and (iii) human resource development with emphasis on technical and vocational education and training (TVET). Two self-reinforcing thematic strategic areas of intervention by the Bank as indicated below are, thus, being proposed. Like the previous CSP, this strategy's overarching objective is to contribute towards Lesotho's poverty reduction efforts through the promotion of private sector-led economic growth. It seeks to relieve some of Lesotho's key constraints, including weaknesses in PFM systems, inadequate infrastructure and lack of skilled labour, in order to support Government's efforts towards enhancing the country's competitiveness and export diversification drive.

53. GoL recognises the importance of improving the quality of public expenditure and public service delivery. This is particularly important given the role the government plays in Lesotho in promoting economic growth and reducing poverty since public expenditures account for over 50% of GDP. Given the weaknesses in the country's PFM systems, there is, thus, scope for increasing the effectiveness and efficiency in the utilisation of public resources in a manner that contributes to broad-based private sector-led growth and the needs of its citizens in an equitable manner. The current underutilisation of the capital budget is also a reflection of weaknesses in budget preparation and execution. Through this strategy, the Bank intends to provide financial support that will complement the measures that GoL is undertaking aimed at further strengthening its PFM systems and improvements in service delivery. The new strategy will also seek to address some of Lesotho's weaknesses identified by the Bank's 2007 Country Policy and Institutional Assessment (CPIA) rating exercise (see Table 2), which in terms of performance benchmarks, rated Lesotho moderately strong on macroeconomic management and structural policies, but moderately weak in the areas of social inclusion and equity, public sector management and governance. Furthermore, the prospective decline in

SACU revenues beyond 2009/10 could creates fiscal challenges. Hence, Lesotho needs to urgently make significant progress on its PFM reform efforts to maintain the sustainability of its public finances. The Bank's strategy will support one of PRS' priorities (i.e. Improving Public Service Delivery).

54. GoL also realises that poor quality and low levels of infrastructure, including electricity, continue to impede Lesotho's economic growth and diversification efforts. Generally, GoL is concerned about the current and anticipated **electricity shortages** in RSA and SAPP since Lesotho is a net importer of electricity and the country's continuous strong growth will require better and more reliable sources of power. GoL considers the electricity shortages a potential threat to its growth strategy. Thus, in its PRS, it accords high priority to the energy sector, in terms of setting up new electricity generation facilities and transmission and distribution systems in order to mitigate power shortages and increase access to reliable and affordable supplies of energy. This will help to improve Lesotho's competitiveness and productivity and hence support private sector development, economic growth and job creation. Access to electricity remains high on the agenda and the target of 25% electrification by 2015 requires current electrification rates to more than double in order to meet the target. GoL furthermore states that some parts of the country are not suitable for grid electrification and that renewable off-grid energy supplies are required in these remote areas. In this regard, the Bank's new strategy will focus on infrastructure (energy), which is consistent with PRS' priority (Economic Infrastructure).

55. GoL's attempts to diversify the economy from its current dependency on low-end textile and clothing industry, which employs a largely low-paid female workforce, also continue to be frustrated by lack of skilled labour. Currently, the greatest challenge for the education sector is the need for a rapid **expansion of the secondary and tertiary education sectors**, including supply of infrastructure, teacher training, and equipment. Another concern is the quality and relevancy of education. It is felt that curricula should reflect new priorities and that there should be a shift towards science and technology. Thus, technical and vocation education and training (TVET) that is geared towards supplying skills will be an essential ingredient of the growth strategy and will help increase the employment chances also of men who are currently missing out in the dominant textile industry. Availability of technical and managerial skills will also facilitate the structural transformation of the country through the transfer of skills and "learning by doing" under AGOA arrangement. The PRS has recognised this weakness and has, therefore, placed the provision of a suitable skill base to support economic growth as one of its priorities. The next Bank assistance strategy is consistent with the PRS as it seeks to support PRS' Pillar I (Accelerating Shared and Sustainable Economic Growth) and one of its priorities (Human Development)

56. Since the CSP covers a five-year period, it elaborates the next strategy for Bank Group operations in Lesotho under ADF-XI (2008-2010) and part of ADF-XII (2011-2012) programming cycles. On the basis of the evaluation of the country's performance of 2007, for ADF-XI, Lesotho's resource allocation for the three-year period has been set at UA 16.02 million, of which UA 7.13 million will be provided on a grant basis. This allocation will be used to finance public sector activities focusing on improving governance and expanding infrastructure (energy). During the remaining CSP period (2011-2012), the Bank will focus on human resource development, with emphasis on TVET. The Bank's continued focus on governance during ADF-XII cycle will be reviewed in the context of the CSP mid-term review.

B. Deliverables and Targets

Pillar I - Improving transparency and accountability in management and use of public resources

57. The objective of the proposed Bank intervention under this pillar is to support the implementation of GoL's poverty

reduction strategy. It will assist GoL in improving the policy and institutional environment for public service delivery with a view to facilitate poverty reduction and accelerate progress on the MDGs. The Bank operation will influence policy actions that focus on establishing an effective public sector and sound fiscal policy management, including improved transparency and accountability in the management and use of public resources. Its expected outcomes include: improved monitoring and evaluation of GoL service delivery; improved budget preparation and execution; improved financial reporting; and strengthened external audit and public oversight. The Bank operation under this pillar will be in the form of GBS. Besides contributing towards the harmonisation agenda, the facility will also provide the Bank with an opportunity to participate in a donor coordinated policy dialogue with GoL on various issues that are central to improving the environment for growth and poverty reduction in the country.

58. GoL first requested GBS during the Ninth Donor Roundtable Conference held in November 2006 in order to ensure that the implementation of its poverty reduction strategy is underpinned by predictable flow of resources. As confidence in the country's PFM systems has been growing due to GoL's commitment to reforms, various DPs have indicated their willingness to join the GBS, including the EU, United Kingdom's Department for International Development (DFID), Irish Aid and World Bank. To evaluate the capacity of GoL, the Bank participated in the CPAR exercise (see paragraph 14) and a PEMFAR was finalised by the World Bank in 2007. Another sign of confidence in Lesotho's PFM systems is the approval by the World Bank of its GBS operation for Lesotho in May 2008 totalling US$ 15.9 million.

Pillar II - Promoting economic growth and diversification

59. The purpose of providing Bank assistance under this pillar will be to assist GoL to achieve some of its energy infrastructure requirements, including generation and transmission, distribution networks and cleaner sources of energy with low carbon content. The objective of the Bank intervention will be to improve the living conditions of the *Basotho* people and to contribute to poverty reduction and economic growth by providing expanded, sustainable electric power at affordable cost. Thus, the intervention will support investment in the electricity supply sector to enhance electricity access and ensure improved efficiency. The main outcome of the intervention will be the provision of electricity to new customers and reduce inefficiencies due to inadequate transformation and transmission capacity in the system. The refurbishment of a mini hydro plant will also result in the reduction in power outages. GoL has also joined the World Economic Forum-Energy Poverty Action alliance to develop a pilot project to experiment with alternative institutional arrangements to accelerate the electricity access rate in the country, which will also be supported by this proposed intervention. Two MDGs are being targeted by this proposed Bank intervention namely: (i) eradicating extreme poverty since infrastructure development is vital for private sector development, improvement of competitiveness and productivity, broadening of access to basic services and job creation; and (ii) reversing the loss of environmental resources as more rural people use less biomass energy in favour of electricity.

60. The objective of the other Bank intervention under this pillar is to contribute towards GoL's efforts aimed enhancing the marketability of skills provided by the education and training system and increasing the supply of trained labour force for a growth oriented and diversified economy. This will be done through improving access to quality secondary and tertiary education, as well as revamping TVET to adopt it to production, marketing and entrepreneurship needs of the market and catering to the needs of larger numbers of male students who entered the school system since the introduction of FPE in 2000. The outcome targeted by the CSP's proposed intervention include a TVET and technical education that is more responsive and relevant to the job market and increased supply of labour with skills, knowledge and attitudes to promote a

dynamic and sustainable economy. The proposed intervention will complement an ongoing Bank assistance in the education sector. The MDGs being targeted by the proposed Bank intervention relate to: eradicating extreme poverty, which is likely to be achieved through enhanced productivity and job creation resulting from increased skills development; and addressing gender equality.

61. The proposed Bank public lending activities during the CSP period are presented in Table 5. The tentative results expected from the proposed Bank interventions, key objectives for each new intervention and their expected overall contribution to Lesotho's development agenda, are presented in Thematic Results Matrix in Annex I (A).

Table 5: Indicative Bank Programme for Lesotho for 2008-2012
(to be financed under ADF-XI and part of ADF-XII)

Project/Activity Title	Planned Board Submission/Approval	Indicative Amount	Region Covered
Lending Activities (in UA million)			
Energy			
1. Lesotho Electricity Supply Project	2008	8.9	
Governance			
2. Budget Support Program	2009	7.1	n/a
Education			
3. Skills Enhancement Project	2011	10.0	
Non-Lending Activities			
1. AGOA/Trade Study	2009		n/a
2. Country Governance Profile	2010		n/a
3. Country Gender Profile Update	2011		n/a
4. Economic Diversification Study	2011		n/a

62. ***Non-lending Assistance:*** Besides financing public sector activities, the Bank will continue to invest in other activities, such as economic and sector work (ESW). It will do so by enhancing its collaboration with other DPs in order to benefit from their knowledge and to avoid duplication of efforts. Such analytical work will provide the foundation for future Bank operations in Lesotho and policy dialogue with stakeholders, taking into consideration the demand for such products from the client. Concrete activities that will be undertaken during the CSP period include a Country Governance Profile and an update of the Country Gender Profile. Given that the textile and clothing industry has become the main engine of growth in recent years, propelled by AGOA, the Bank will undertake a study on how AGOA or the textile and clothing industry could be used as a tool for Lesotho's economic and structural transformation and an export diversification study. The former could draw lessons from the success of small countries, such as Mauritius, that have enjoyed sustained growth and transformation.

63. ***Multinational Projects:*** Although the Bank has not supported any regional integration project in Lesotho, the country has the potential to benefit from regional integration projects, such as improvement of facilities at South African ports, border crossings into and from South Africa, as well as railways and roads that connect Lesotho and South Africa. The Bank should pursue such assistance in the context of its Regional Assistance Strategy Paper for Southern Africa and initiatives, such as New Partnership for Africa's Development (NEPAD). Inter-governmental dialogue between Lesotho and RSA on multinational projects also needs to be encouraged in order to enhance Lesotho's potential for accessing resources from regional operations envelope.

64. ***Bank Private Sector Strategy:*** The Bank has not yet financed any project in Lesotho under the private sector window. However, recent initiatives being pursued by GoL aimed at improving the business environment should increase the opportunities for financing private sector projects in the country. The International Finance Corporation, for instance, is advising GoL on the structure and implementation of a public-private partnership (PPP) for the

replacement of the country's main referral hospital, an investor is on the ground to establish a mini hydropower project and a Malaysian investor is opening a technical college. During the next CSP, the Bank should, therefore, step up its efforts to identify bankable private sector projects and explore opportunities for leveraging private investment to build PPPs, as well as provide technical assistance and capacity building in support of PPPs. As highlighted in paragraph 39, Lesotho's **risk framework is relatively strong** and provides plenty of space for the Bank's private sector activities in the country.

65. ***Monitoring and Evaluation of Bank Assistance:*** The Bank strategy has been prepared on the basis of the results framework. To ensure that the monitoring of the CSP outcomes and intermediate indicators does not impose heavy reporting and administrative burden on GoL, the Bank will rely on the national poverty monitoring system, the NMES, which is now operational. So far, the NMES Coordinator has been engaged, the core list of national development indicators is being streamlined and a national development information database, called DevInfo, is being put into operation with support provided by the UNDP and United Nations Children's Fund. Nevertheless, NMES's effectiveness continues to be hampered by lack of: (i) a legislative framework that would require line ministries to regularly supply it with data; (ii) credible and reliable administrative data from line ministries and agencies; and (iii) statistical capacity in the Bureau of Statistics and across government departments. To address these weaknesses, GoL is preparing a National Strategy for the Development of Statistics (NSDS), which is being supported by the ADB. The ADB is also supporting improvements in national accounts and price statistics through the International Comparison Programme (ICP-Africa).

C. Country Dialogue Issues

66. To enhance policy dialogue with GoL and deepen knowledge of the country, the Bank will continue to provide non-lending services to Lesotho in the form of ESW (see paragraph 62). The dialogue will be reinforced by the recent efforts by the Bank to strengthen its Regional Office in Mozambique, which covers Lesotho.

67. ***Policy reform***: By working with other DPs in the context of the budget support operation, the Bank will be able to undertake dialogue with GoL on various Government reform actions that are contained in the GBS' Performance Assessment Framework (PAF). The PFA, which was jointly developed by GoL and its DPs, provides the main coordination framework for consultation with GoL on the effectiveness of GBS. It includes key benchmarks and indicators on five broad themes: (i) growth and macroeconomic performance; (ii) governance and PFM (including budget process, financial management, procurement, institutional reforms, decentralisation, anti-corruption and civil service reform); (iii) human development (including education, health and HIV/AIDS); and (iv) capacity development. The joint donor bi-annual reviews of PAF will be the main mechanism for pursuing the dialogue.

68. ***RSA as a growth pole for neighbouring states:*** The Bank will explore how it can play the role of a broker and advisor between GoL and its neighbouring countries, particularly RSA, on issues like macroeconomic policy coordination, employment, investment, education, etc., to ensure that the existing regional arrangements (CMA and SACU) promote sustained growth in all member states as a whole and help smaller member states adjust better to external shocks. Such dialogue can be facilitated by a series of ESW undertaken by the Bank.

69. ***Portfolio review:*** The Bank and GoL will continue to work in collaboration with a view to enhancing the performance of the portfolio because of the need to improve development effectiveness. Improving understanding of the Bank's procurement and disbursement rules among GoL authorities will be the main focus of the dialogue with Government. A CPPR will be undertaken during the CSP period.

D. Potential Risks and Mitigation Measures

70. ***Insufficient institutional capacity:*** Lesotho has limited Government administrative capacity which can adversely affect the implementation of key reform measures, the Bank strategy and public projects/programmes. To address the shortage of skills, GoL is undertaking measures to improve access to quality secondary and tertiary education, which is partly supported by an ADF ongoing intervention. GoL is also making efforts to improve the incentive structure for attracting and retaining high calibre personnel in the public service within the framework of the PSIRP.

71. ***Lesotho's High HIV/AIDS prevalence rate*** is one of the biggest threats to the implementation of its reform agenda and public development programmes and projects, future Bank operations in the country should continue to mainstream HIV/AIDS. GoL is tackling the pandemic through various intervention and mitigation strategies under the umbrella of the National Aids Commission. They include the opening of voluntary counselling and testing centres in a number of health centres, a countrywide voluntary testing (Know Your Status) campaign, the provision of free Anti-Retroviral Therapy and scaling up prevention of mother to child transmission of HIV. It is being supported by the Global Aids Fund and other donors.

72. ***Deterioration of the external environment:*** Lesotho is highly vulnerable to external shocks, specifically due to its narrow production and export base and the expected fall in SACU revenues beyond 2009/10. The surge in oil and food prices and the fall in remittances from mineworkers in RSA the country is facing is also increasing macroeconomic risks and adding inflationary pressures. If such risks continue to prevail, they may lead to a diversion of resources from the poverty agenda. Mitigation measures being pursued by GoL include efforts to support growth and diversify the economy through the ongoing Growth Strategy Paper and efforts to improve the business climate and to accelerate PFM reforms in order to improve public resource allocation. In the worst case scenario, DPs could provide additional resources, which could possibly be channelled through general budget support.

73. ***Political instability:*** There is a potential risk that political tension could undermine the implementation of the Bank strategy and the Government's poverty reduction programme. This risk is mitigated by the fact that such political disputes have mainly occur in the aftermath of general elections. The next elections are not due until 2012. Mediation efforts being facilitated by the SADC should also help in strengthening of democratic institutions and culture in Lesotho.

IV. CONCLUSION AND RECOMMENDATION

74. **Conclusion:** Lesotho's prudent policies have ensured macroeconomic and financial stability in recent years. However, the country remains insufficiently diversified and extremely vulnerable to external shocks. It is also unable to quickly adjust to many economic challenges and external shocks other than through coordinated decisions with its neighbours, mainly RSA. Furthermore, the prospective decline in SACU revenues is expected to create pressures on the fiscal position in the near future. To assist GoL to address some of the key constraints to private sector-led economic growth, the Bank's proposed strategy for the period 2008-2012, focuses on: (i) improving governance; (ii) expanding infrastructure; and (iii) human resource development.

75. **Recommendation:** The Boards of Directors are invited to approve the strategy proposed for Lesotho for the period 2008-2012 on the basis of an indicative allocation of ADF-XI resources amounting UA 16.02 million, of which UA 7.13 million will be provided on a grant basis. The allocation is based on the current country performance assessment.

Annex I (A) - CSP Results-Based Framework (2008-2012)

Country Development Goals (PRS)	Issues hindering the achievement of Country Development Goals (sector issues)	FINAL OUTCOME (expected by the end of the CSP in 2012)	FINAL OUTPUTS (expected by the end of the CSP in 2012)	MID-TERM OUTCOMES (expected at CSP Mid-Term by 2010)	MID-TERM OUTPUTS (expected at CSP Mid-Term by 2010)	ADB Interventions expected to be ongoing during the CSP period (new and ongoing)
PILLAR I – IMPROVING TRANSPARENCY AND ACCOUNTABILITY IN MANAGEMENT AND USE OF PUBLIC RESOURCES						
Governance						
Improved service delivery through the establishment of an effective public sector and sound fiscal policy management including improved transparency and accountability in public financial management	PFM system suffers from deficiencies in budget preparation and execution	Improved monitoring and evaluation of GoL finances and service delivery Planning, budgeting and spending responsive to the PRS	IFMIS is implemented and operational MTEF rolled-out to all line ministries	n.a.	n.a.	Budget support programme (expected Board presentation: Q1 of 2009; ADF-XI: UA 7.1m)
	Weaknesses in public accounting	Improvement in the preparation and processing of annual financial statements	Annual consolidated financial statements are presented for external audit within 12 months of the end of financial year			
	Weaknesses in external audit and oversight resulting from various factors, including delays in account preparation, lack of financial resources and skilled staff	Adequacy of existing Audit Act reviewed to see if amendments are required	Public sector audit is carried out in accordance with international standards			
	Public procurement has limited integrity and transparency	More efficient and professional procurement systems ensure transparency, equity and economy in Government procurement	CPAR action plan implemented and all line ministries adhere to revised procurement regulations			
	The Directorate on Corruption and Economic Offences (DCEO) is not very effective	Reduction in corruption within public sector	Number of corruption cases brought before the court of law			
PILLAR II – PROMOTING ECONOMIC GROWTH AND DIVERSIFICATION						
Infrastructure (Energy)						
Increased access to electricity from 13% in 2008 to 25% in 2015	Low electricity access rate Sporadic power outages due to electricity shortages in RSA	Increased supply of and access to electricity as well as efficiency of the electricity sector	174 km of 33kv lines commissioned 1500 connections and 350 Solar Home Systems effected	Increased domestic use of electricity to fulfil energy needs Increased economic activity as a result of availability of electricity	Construction of Maseru and Hlotse substations Construction of 43Km 33Kv lines Mphaki Pilot Project	Lesotho Electricity Supply Project (expected Board presentation: 12-2008; ADF-XI: UA 8.9m)

	and Southern African Power Pool (SAPP)	Improved quality of life of citizens An environmentally sustainable energy system	in Mphaki 5000 additional customers in Maseru and 1500 in Hlotse substations Mini hydropower plant (2MW) rehabilitated and commissioned	Increased economic activity in industrial, agricultural and commercial sectors as a result of availability of electricity Expanded use of clean energy and partial replacement of non-renewable energy sources Improved utility performance Reduced power outages during peak time	Rehabilitation of Mantsonyane hydropower plant	
			Education			
Adapting and improving training to produce workers with marketable skills	Poor quality and relevance of secondary and tertiary education Lack of technical and managerial skills	Increased supply of labour force with skills, knowledge and attitudes to promote a dynamic and sustainable economy A TVET and technical education more responsive and relevant to the job market Expansion of training and development opportunities for all Basotho	75% of TVET students graduating with employable skills	% of TVET students graduating with employable skills % of girls taking TVET courses	TVET curriculum aligned with labour-market needs Number of TVET staff participate in market driven courses Number of TVET institutions with teaching/learning materials Number of training room at Lesotho College of Ed and at Lerotholi Polytechnic constructed, furnished and equipped	Skills Enhancement Project (expected Board presentation: 2011; ADF-XII: UA 10.00m)

Annex II (A) - Bank Group Operations as at 30 June 2008

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	2,317,614.26	4,490,000.00	51.62	Ongoing
	Highlands Natural Resources & Rural Income Enhancement	TAF	07-Sep-00	14-Mar-01	15-Sep-01	750,000.00	0.00	342,010.93	750,000.00	45.60	Ongoing
Sub-Total: Agriculture						**32,400,040.00**	**12,490,590.60**	**16,247,924.42**	**19,909,449.40**	**87.04**	
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	7,371.42	6,492,628.58	6,492,628.58	100.00	Completed
3	Institutional Support Project for MOFDP & MOPWT	TAF	24-Nov-04	16-May-05	26-May-06	790,000.00	0.00	320,410.71	790,000.00	40.56	Ongoing
Sub-Total: Multi-Sector						**8,063,684.00**	**9,616.47**	**7,584,478.24**	**8,054,067.53**	**94.17**	
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	3,426,248.63	6,400,000.00	53.54	Ongoing
	Support to Health Reforms Programme	TAF	09-Jan-02	17-Apr-02	24-Oct-02	1,000,000.00	0.00	373,952.13	1,000,000.00	37.40	Ongoing
10	Education Quality Enhancement (Education III)	ADF	04-Apr-07	17-May-07		1,570,000.00	0.00	0.00	1,570,000.00	0.00	Ongoing
	Education Quality Enhancement (Education III)	ADF Grant	04-Apr-07	17-May-07		7,000,000.00	0.00	0.00	7,000,000.00	0.00	Ongoing
Sub-Total: Social						**70,614,047.00**	**2,045,468.61**	**55,097,599.81**	**68,568,578.39**	**80.35**	
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

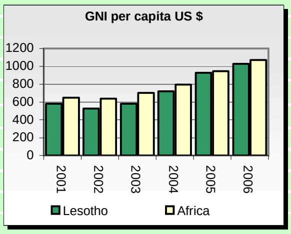
	Maseru International Airport Phase I (Supplementary)	ADB	14-Dec-84	03-Jan-85	12-Mar-85	12,040,000.00	3,812,188.89	8,227,811.11	8,227,811.11	100.00	Completed
8	Khamane-Oxbow Road Project	ADF	18-Jun-86	16-Jul-86	26-Jun-87	6,424,338.00	824,472.30	5,599,865.70	5,599,865.70	100.00	Completed
9	Oxbow-Mokhotlong 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	8,625,483.81	10,530,000.00	81.91	Ongoing
	Likalaneng-Thaba Tseka Road Project (Supplementary)	ADF	06-Dec-06			6,830,000.00	0.00	1,438,672.58	6,830,000.00	21.06	Ongoing
Sub-Total: Transport						**99,981,460.00**	**9,179,480.78**	**83,506,135.61**	**90,801,979.22**	**91.97**	
GRAND TOTAL						**294,002,635.00**	**52,461,116.00**	**217,717,361.29**	**241,534,147.58**	**90.14**	
ADB						**63,660,000.00**	**25,089,325.24**	**38,570,674.76**	**38,570,674.76**	**100.00**	
ADF						**195,163,904.00**	**18,194,074.99**	**161,656,668.95**	**176,969,829.01**	**91.35**	
TAF						**20,548,731.00**	**2,060,919.81**	**9,984,184.96**	**18,487,811.19**	**54.00**	
NTF						**14,630,000.00**	**7,124,167.38**	**7,505,832.62**	**7,505,832.62**	**100.00**	

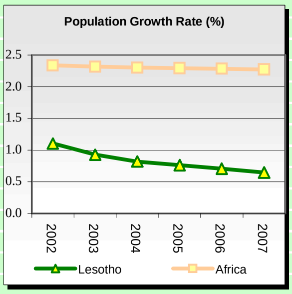
Annex II (B) - Performance Indicators per Sector (as at 31 June 2008)

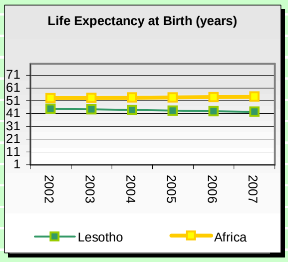
Identification		Implementation and Impact												Harmonisation and Alignment			
	Projects	Financial Information			Risk			Rating						Project Design			
		Amount Approved (UA Million)	Disbursement (UA Million)	Disbursement Rate (%)	Projects at Risk	Amount	Age (Yrs)	Compliance with Cond.	Procurement	Financial Performance	Activities & Outputs	Impact on Develop	Overall Assessment	Average Size	Relying on Gov PFM & Proc	PIU	Co-financed Projects
1	**AGRICULTURE**	**5.2**	**2.7**	**50.8**		**5.2**	**7.8**	**1.3**	**2.0**	**2.3**	**1.5**	**2.0**	**1.8**	**5.2**		**1**	**0**
	HNRRIEP	5.2	2.7	50.8	PPP	5.2	7.8	1.3	2.0	2.3	1.5	2.0	1.8	5.2	0	Yes	No
1	**MULTISECTOR**	**0.8**	**0.3**	**40.5**		**0.8**	**3.7**	**1.3**	**1.0**	**2.0**	**1.3**	**2.0**	**1.5**	**5.2**		**0**	**0**
	ISP to MOFDP & MPWT	0.8	0.3	40.5	PPP	0.8	3.7	1.3	1.0	2.0	1.3	2.0	1.5	0.8	0	No	No
2	**SOCIAL**	**16.0**	**3.8**	**23.8**			**3.8**	**2.8**	**2.0**	**2.7**	**1.5**	**3.0**	**2.4**	**8.0**		**1**	**50%**
	Education III	8.6	0.0	0.0			1.3	3.0		3.0	1.0	3.0	2.5		0	No	No
	SHRP	7.4	3.8	51.4			6.3	2.5	2.0	2.4	2.0	3.0	2.4		0	Yes	Yes
1	**TRANSPORT**	**17.4**	**10.1**	**58.0**			**2.7**	**2.5**	**2.5**	**2.5**	**1.3**	**2.0**	**2.2**	**8.7**		**0**	**100%**
	Likalaneng-Thaba Rd	10.5	8.6	82.0			4.8	2.5	2.5	2.5	1.3	2.0	2.2		0	No	Yes
	Likalaneng-Thaba Rd (Supp)	6.8	1.4	21.1			0.6										
5	**Overall Assessment**	**39.4**	**16.9**	**42.8**	**2.0**	**12.1**	**4.5**	**2.1**	**1.9**	**2.4**	**1.4**	**2.4**	**2.1**	**6.8**	**0**	**2**	**37.50%**

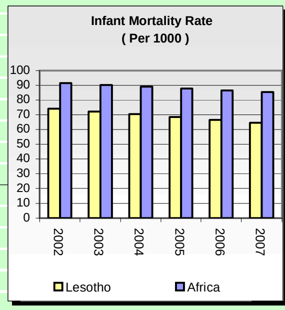
Annex III (A) – Comparative Socio Economic Indicators

	Year	Lesotho	Africa	Develo-ping Countries	Develo-ped Countries
Basic Indicators					
Area ('000 Km²)		30	30 307	80 976	54 658
Total Population (millions)	2007	2.0	963.7	5 448.2	1 223.0
Urban Population (% of Total)	2007	24.7	39.8	43.5	74.2
Population Density (per Km²)	2007	66.1	31.8	65.7	23.0
GNI per Capita (US $)	2006	1 030	1 071	2 000	36 487
Labor Force Participation - Total (%)	2005	40.2	42.3	45.6	54.6
Labor Force Participation - Female (%)	2005	42.4	41.1	39.7	44.9
Gender -Related Development Index Value	2005	0.541	0.486	0.694	0.911
Human Develop. Index (Rank among 174 countries)	2005	138	n.a.	n.a.	n.a.
Human Poverty Index (HPI-1 Value) (%)	2003	47.6	39.5	...	...
Demographic Indicators					
Population Growth Rate - Total (%)	2007	0.6	2.3	1.4	0.3
Population Growth Rate - Urban (%)	2007	0.8	3.5	2.6	0.5
Population < 15 years (%)	2007	39.9	41.0	30.2	16.7
Population >= 65 years (%)	2007	4.7	3.5	5.6	16.4
Dependency Ratio (%)	2007	80.5	80.1	56.0	47.7
Sex Ratio (per 100 female)	2007	89.1	99.3	103.2	94.3
Female Population 15-49 years (% of total population)	2007	25.7	24.2	24.5	31.4
Life Expectancy at Birth - Total (years)	2007	42.6	54.2	65.4	76.5
Life Expectancy at Birth - Female (years)	2007	42.3	55.3	67.2	80.2
Crude Birth Rate (per 1,000)	2007	29.0	36.1	22.4	11.1
Crude Death Rate (per 1,000)	2007	19.2	13.2	8.3	10.4
Infant Mortality Rate (per 1,000)	2007	64.6	85.3	57.3	7.4
Child Mortality Rate (per 1,000)	2007	98.2	130.2	80.8	8.9
Total Fertility Rate (per woman)	2007	3.4	4.7	2.8	1.6
Maternal Mortality Rate (per 100,000)	2004	762.0	723.6	450	8
Women Using Contraception (%)	2004	37.3	29.8	61.0	75.0
Health & Nutrition Indicators					
Physicians (per 100,000 people)	2003	4.6	39.6	78.0	287.0
Nurses (per 100,000 people)	2005	0.0	120.4	98.0	782.0
Births attended by Trained Health Personnel (%)	2004	55.4	50.4	59.0	99.0
Access to Safe Water (% of Population)	2004	79.0	62.3	80.0	100.0
Access to Health Services (% of Population)*	2004	80.0	61.7	80.0	100.0
Access to Sanitation (% of Population)	2004	37.0	45.8	50.0	100.0
Percent. of Adults (aged 15-49) Living with HIV/AIDS	2005	23.2	4.7	1.3	0.3
Incidence of Tuberculosis (per 100,000)	2005	695.8	300.7	275.0	18.0
Child Immunization Against Tuberculosis (%)	2006	96.0	83.7	85.0	93.0
Child Immunization Against Measles (%)	2006	85.0	75.4	78.0	93.2
Underweight Children (% of children under 5 years)	2004	19.8	28.6	27.0	0.1
Daily Calorie Supply per Capita	2004	2 495	2 436	2 675	3 285
Public Expenditure on Health (as % of GDP)	2004	5.5	2.4	1.8	6.3
Education Indicators					
Gross Enrolment Ratio (%)					
Primary School - Total	2005	114.1	96.4	91.0	102.3
Primary School - Female	2005	114.0	92.1	105.0	102.0
Secondary School - Total	2005	37.0	44.5	88.0	99.5
Secondary School - Female	2005	42.0	41.8	45.8	100.8
Primary School Female Teaching Staff (% of Total)	2005	78.2	47.5	51.0	82.0
Adult Illiteracy Rate - Total (%)	2007	13.5	33.3	26.6	1.2
Adult Illiteracy Rate - Male (%)	2007	22.9	25.6	19.0	0.8
Adult Illiteracy Rate - Female (%)	2007	4.4	40.8	34.2	1.6
Percentage of GDP Spent on Education	2006	8.1	4.7	3.9	5.9
Environmental Indicators					
Land Use (Arable Land as % of Total Land Area)	2005-07	10.7	6.0	9.9	11.6
Annual Rate of Deforestation (%)	2000-07	...	0.7	0.4	-0.2
Annual Rate of Reforestation (%)	2000-07	16.0	10.9	...	...
Per Capita CO2 Emissions (metric tons)	2005-07	...	1.0	1.9	12.3









Sources : ADB Statistics Department Databases; World Bank: World Development Indicators; UNAIDS; UNSD; WHO, UNICEF, WRI, UNDP; Country Reports

last update : April 2008

*Note : n.a. : Not Applicable ; … : Data Not Available; * : latest data available within 1995-2000*

Annex III (B) – Key Economic and Financial Indicators, 2003-2010

Indicator	2003	2004	2005	2006 Est.	2007 Proj.	2008 Proj.	2009 Proj.	2010 Proj.
(Annual percentage change, unless otherwise specified)								
National income and prices								
Real GDP	2.7	4.2	2.9	7.2	4.9	5.2	5.4	5.5
Real GNP	3.3	3.3	1.1	10.8	2.3	2.7	4.4	3.7
GDP (in millions of maloti)	7862	8522	9065	10120	11273	12723	14341	15891
GNP (in millions of maloti)	9793	10523	10997	12690	13789	15184	16958	18459
Consumer price index (percent change, period average)	5.9	4.8	3.5	6.1	7.2	7.4	6	5
Export sector 2/								
Exports, f.o.b.	32.5	40.3	-1.4	7.5	6.1	10	6.7	6.7
Imports, f.o.b.	31.2	26.8	4.4	4.6	7.9	8.4	4.6	6.5
Net labour income	9.1	7.4	-4.2	21.6				
Exchange rate (maloti per U.S. dollar, average)	7.56	6.33	6.37	6.78				
Money and credit								
Net foreign assets (net) 4/	-19.8	21.3	34.1					
Net domestic assets 4/	25.5	-17.3	-2.5	-13.1				
Credit to the government 4/	7.2	-23.7	-8.3	35.1				
Credit to the rest of the economy 5/	1.2	2.3	13.3	-31.9				
Broad money	6.0	3.3	9.1	35.4				
Interest rate 6/	9.8	7.9	7.0	6.8				
(In percent of GDP, unless otherwise specified)								
Investment and saving								
Investment	33.2	31.4	28.0	24.3	26.2	28.9	28.9	28.4
Gross national savings (including remittances)	20.9	25.9	21.1	28.7	27.7	29.7	30.5	29.1
Government budget								
Revenue	42.6	48.2	48.2	61.4	54.9	53.6	51.6	49.8
Total grants	2.2	2.8	1.8	0.9	1.5	5.5	5.2	4.9
Total expenditure and net lending	44.0	43.7	46.0	46.1	51.2	52.4	50.0	47.9
Overall balance (excluding grants)	-1.4	4.4	2.2	15.3	3.6	1.1	1.6	1.9
Overall balance (including grants)	0.8	7.2	4.0	16.1	5.2	6.6	6.8	6.8
Government debt 7/	72.6	55.8	54.5	51.3	49.4	45.6	43.0	42.0
Domestic debt	14.50	8.90	9.00	8.20	7	5.9	5	4.6
External debt 7/	58.10	46.90	45.50	43.10	42.4	39.7	38	37.4
External debt-service ratio 8/	9.80	7.60	10.90	6.40	5.2	3.7	3.2	3
Current account balance								
Including official transfers	-12.3	-5.5	-7.0	4.4	1.6	0.8	1.5	0.7
Gross official reserves (end of period)								
Millions of U.S. dollars	501.6	503.3	546.5	737.6	829.2	970.1	1021.9	1063.5
(in months of imports of goods and services)	5.6	4.5	4.6	6.1	6.3	6.8	6.9	6.8

Source: BOS, Central Bank of Lesotho and MFDP

Annex III (B) – Central Government Financial Operations, 2003/04-2010/2011

Indicator	2003/04	2004/05	2005/06	2006/07 Est.	2007/08 Proj.	2008/09 Proj.	2009/10 Proj.	2010/2011 Proj.
Revenue	3416.7	4169.9	4495.8	6386.8	6384.0	7032.0	7593.9	8125.3
Tax revenue	2887.5	3693.0	4005.9	5787.1	5808.1	6382.3	6864.9	7317.8
Customs revenue (SACU)	1421.6	2012.4	2306.0	3945.0	3836.3	4157.7	4369	4553.1
Of which: Non-duty receipts	1483.5	1915.0	2171.7		3055.2	3226.9	3403.8	3517.9
Noncustoms tax revenue	1465.9	1680.6	1699.9	1842.1	1971.8	2224.6	2495.9	2764.7
Taxes on Income & Profits	852.5	901.8	924.6	973.1	1033.5	1166	1308.2	1449.1
Sales tax / VAT	519.3	659.8	655.7	714.6	804.5	907.6	1018.3	1128
Oil Levy 2/	80.6	88.3	82.5	65.6	83.9	94.7	106.2	117.6
Other Taxes	13.5	30.7	37.1	88.8	49.9	56.3	63.2	70
Nontax revenue	529.2	476.9	489.9	599.7	575.9	649.7	729	807.5
Grants from abroad	177.8	238.4	171.4	92.4	180	720.2	770.5	797.9
Total expenditure & net lending	3532.2	3787.2	4291.4	4799.3	5963.1	6881.6	7363.3	7808.0
Current expenditure	2906.8	3147.8	3604.0	4075.5	4836.6	5253.3	5673.1	6048.2
Wages and salaries	1123.2	1178.6	1282.1	1433.2	1689.6	1858.2	2033.4	2217.9
Interest payments	216.4	157.0	225.1	96.7	116.6	105.3	98.4	93.0
External	90.5	91.9	179.3	55.3	54.3	52.3	53.4	54.7
Domestic	125.9	65.1	45.8	41.4	62.3	53	45	38.3
Other expenditure	1567.2	1812.2	2096.8	2545.6	3030.4	3289.8	3541.3	3737.3
Goods & services	935.9	991.0	1119.2	1436.3	1558.3	1735.9	1890.3	2047.5
Transfers & subsidies	631.3	821.2	977.6	1109.3	1472.1	1553.9	1651.0	1689.8
Capital expenditure & net lending	625.4	639.4	687.4	723.8	1126.5	1628.3	1690.2	1759.8
Overall balance before grants	-115.5	382.7	204.4	1587.5	420.9	150.4	230.6	317.3
Overall balance after grants	62.3	621.1	375.8	1679.9	600.9	870.6	1001.1	1115.2
Total Financing	-62.4	-621.2	-375.8	-1679.8	-600.9	-870.6	-1001.2	-1115.3
Foreign, Net	-25.7	-38.3	-276.6	-266.1	-298.3	53.9	58.6	72.8
Domestic financing	-36.7	-582.9	-99.2	-1413.7	-302.6	-924.5	-1059.8	-1188.1
Bank	-129.6	-605.2	-102.1	-1248.0	-302.6	-924.5	-1059.8	-1188.1
Nonbank	92.9	22.3	2.9	-165.7	0	0	0	0
(In percent of GDP, unless otherwise indicated)								
Revenue	42.6	48.2	48.2	61.4	54.9	53.6	51.6	49.8
Customs revenue	17.7	23.2	24.7	37.9	33.0	31.7	29.7	27.9
Noncustoms tax revenue	18.3	19.4	18.2	17.7	16.9	16.9	16.9	16.9
Nontax revenue	6.6	5.5	5.3	5.8	4.9	4.9	4.9	4.9
Grants from abroad	2.2	2.8	1.8	0.9	1.5	5.5	5.2	4.9
Total expenditure & net lending	44.0	43.7	46.0	46.1	51.2	52.4	50.0	47.9
Current expenditure	36.2	36.4	38.6	39.2	41.6	40.0	38.5	37.1
Wages and salaries	14.0	13.6	13.7	13.8	14.5	14.2	13.8	13.6
Interest payments	2.7	1.8	2.4	0.9	1.0	0.8	0.7	0.6
Goods & services	11.7	11.4	12.0	13.8	13.4	13.2	12.8	12.6
Transfers & subsidies	7.9	9.5	10.5	10.7	12.7	11.8	11.2	10.4
Capital expenditure & net lending	7.8	7.4	7.4	7.0	9.7	12.4	11.5	10.8
Grants from abroad	2.2	2.8	1.8	0.9	1.5	5.5	5.2	4.9
Overall balance before grants	-1.4	4.4	2.2	15.3	3.6	1.1	1.6	1.9
Overall balance after grants	0.8	7.2	4.0	16.1	5.2	6.6	6.8	6.8
Foreign financing, Net	-0.3	-0.4	-3.0	-2.6	-2.6	0.4	0.4	0.4
Domestic financing	-0.5	-6.7	-1.1	-13.6	-2.6	-7.0	-7.2	-7.3
Memorandum item:								
GDP at market prices (in mn Maloti)	8027.0	8658.0	9329.0	10408.0	11636	13128	14729	16314

Sources: Central Bank of Lesotho and IMF

Annex IV - Progress Towards Attaining the Millennium Development Goals

MDG Goal/Target	Indicator	Year/Value			Potential for Attaining Goal/Target 1/
		1990	2005	2015 Target	
Goal 1 – Eradicate Extreme Poverty and Hunger					
Target 1: Halve between 1990 and 2015 the proportion of people living on less than 1 US dollar a day	• Proportion of people living below the poverty line	59 (1986/87)	56.6	29	Unlikely
Target 2: Halve between 1990 and 2015 the proportion of people who suffer from hunger	• Prevalence of underweight children under 5 years old (%) • Proportion of undernourished people in total population (%)	16.9 (1992) 27	19.8 25	8 14	Unlikely
Goal 2 – Achieve Universal Primary Education					
Target 3: Ensure that by 2015 all boys and girls will be able to complete a full course of primary school	• Net primary enrolment ratio in primary education (%) • Primary completion rate	76 59.3 (1999)	83.1 73.7	100 100	Probably
Goal 3 – Promote Gender Equality and Empower Women					
Target 4: Eliminate gender disparity in primary and secondary education, preferably by 2005, and in levels of education not later than 2015	• Ratio of girls to boys in primary education (%) • Proportion of seats held by women in the National Assembly (%)	121 5	106 (2006) 15 (2004)	100 30	Achieved
Goal 4 – Reduce Child Mortality					
Target 5: Reduce by two-thirds, between 1990 and 2015, the under-five mortality rate	• Under-five mortality rate (per 1,000 live births) • Infant mortality rate (per 1,000 survivors to age 1) • Immunisation, measles (% of children under 12 months)	101 81 54 (1995)	132 (2006) 102 (2006) 85 (2006)	37 24 100	Potentially
Goal 5 – Improve Maternal Health					
Target 6: Reduce by three-quarters, between 1990 and 2015, the maternal mortality ratio	• Maternal mortality ratio (per 100,000 live births) • Birth attended by skilled health staff (% of total)	282 (1993) 50 (1993)	762 (2004) 60	70 80	Unlikely
Goal 6 – Combat HIV/AIDS, Malaria and Other Diseases					
Target 7: Have halted by 2015 and begun to reverse the spread of HIV/AIDS	• Adult (15-49) HIV prevalence (%)	4	23.2	17	Potentially
Target 8: Have halted by 2015 and begun to reverse the incidence of tuberculosis and other diseases	• Death associated with sputum positive TB (%)	10	10	6	Potentially
Goal 7 – Ensure Environmental Sustainability					
Target 9: Integrate the principles of sustainable development into country policies and programmes and reverse the loss of environmental resources	• Arable land (%)	13	10	n/a	Potentially
Target 10: Halve, by 2015, the proportion of people without sustainable access to same drinking water and sanitation	• Proportion of people without access to improved water source (%) • Proportion of people without access to improved sanitation (%)	36 (1996) 66	21 (2004) 63 (2004)	19 33	Potentially

Source: UNDP Millennium Development Goals Report and Ministry of Education and Training.
1/ Probably, potentially, unlikely, no data

Annex VI - List of documents/sources used for the preparation of the CSP

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Annex VII

Map of the Kingdom of Lesotho

This map has been drawn by African Development Bank Group exclusively for the use of the readers of the report to which it is attached. The names used and borders shown do not imply on the part of the Bank and its members any judgment concerning the legal status of a territory not any approval or acceptation of these borders.