

**AFRICAN DEVELOPMENT BANK
AFRICAN DEVELOPMENT FUND**



KINGDOM OF LESOTHO

**COMPLETION REPORT OF THE COUNTRY
STRATEGY PAPER FOR 2005 - 2007**

**REGIONAL DEPARTMENT
South Region A
May 2008**

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This report was prepared following a Country Economic Review mission, which visited Lesotho in September 2007. The mission team was composed of Mr. Stephen Olanrewaju (Lead Economist, ORSA), Mr. Mothobi Matila (Senior Economist, OSGE) and Mr. George Honde (Country Economist, ORSA).

ACRONYMS AND ABBREVIATIONS

ADB	:	African Development Bank
ADF	:	African Development Fund
AGOA	:	African Growth and Opportunities Act
BADEA	:	Arab Bank for Economic Development in Africa
CGP	:	Country Governance Profile
CPA	:	Country Performance Assessment
CPAR	:	Country Procurement Assessment Review
CPIA	:	Country Policy and Institutional Assessment
CPPR	:	Country Portfolio Performance Review
CR	:	Completion Report
CSP	:	Country Strategy Paper
CTB	:	Central Tender Board
DCEO	:	Directorate on Corruption and Economic Offences
DFID	:	United Kingdom's Department for International Development
DPs	:	Development Partners
EPA	:	Education for All
EU	:	European Union
GDP	:	Gross Domestic Product
GoL	:	Government of the Kingdom of Lesotho
GTZ	:	Gesellschaft für Technische Zusammenarbeit
HDI	:	Human Development Index
HIV/AIDS	:	Human Immuno Deficiency Virus/ Acquired Immuno Deficiency Syndrome
HNRRIEP	:	Highlands Natural Resources and Rural Income Enhancement Project
ICP-Africa	:	International Comparison Programme
IFMIS	:	Integrated Financial Management Information System
I-PRGS	:	Interim Poverty Reduction and Growth Strategy
KFAED	:	Kuwait Fund for Arab Economic Development
MDGs	:	Millennium Development Goals
MFA	:	Multi-Fibre Agreement
MFPD	:	Ministry of Finance and Development Planning
MOET	:	Ministry of Education and Training
MTEF	:	Medium Term Expenditure Framework
NMES	:	National Monitoring and Evaluation System
NSDS	:	National Strategy for the Development of Statistics
ODA	:	Official Development Assistance
PARs	:	Projects at Risk
PFM	:	Public Financial Management
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
SHRP	:	Support to Health Reforms Programme
UNCEFF	:	United Nations Children's Fund
UNDP	:	United Nations Development Programme
U.S.	:	United States

FISCAL YEAR OF BUDGET

1 April to 31 March

CURRENCY EQUIVALENTS

(31 May 2008)

National Currency = Maloti (M)

UA 1.0 = US\$ 1.6238

UA 1.0 = M 12.3326

US\$ 1.0 = M 7.59

WEIGHTS AND MEASURES

Metric System

EXECUTIVE SUMMARY

1. The purpose of the Country Strategy Paper Completion Report (CSPCR) is to assess the extent to which the Country Strategy Paper (CSP) for Lesotho, covering the period 2005-2007, achieved its intended results. It also draws lessons for future Bank operations in the country. The CSP expired in December 2007.
2. Recent political and socio-economic developments in Lesotho have been shaped by the country's unique geography, resource endowments, colonial history, developments in neighbouring Republic of South Africa (RSA), as well as regional and global developments. While the country's nascent democratic institutions are gradually evolving, its political stability and tolerance have been frequently tested especially in the wake of general elections. The conclusion that can be drawn from this is that strengthening the democratic institutions and culture remains a challenge for the country.
3. Lesotho's macroeconomic aggregates remained sound during the CSP period due to Government's prudent policies. Real gross domestic product (GDP) growth recovered from 2.9% in 2005 to 7.2% in 2006 and 4.9% in 2007; overall fiscal balance registered a surplus for four successive years to 2007; the current account improved significantly from a deficit in 2005 to a surplus in 2006 and 2007; and external debt remained sustainable and its indicators continued to improve. However, inflation became a challenge as, in line with trends in South Africa, it rose substantially to about 6.1% in 2006 and 7.2% in 2007 compared with 3.4% in 2005. Other challenges Lesotho continued to face relate to the country's vulnerability to exogenous shocks arising from its narrow production and export base. Further to that, despite real GDP growth being above the population growth rate, poverty was widespread with more than half of the population of Lesotho living below the poverty line. The country's high incidence of HIV/AIDS also remained one of the biggest threats to the implementation of its development agenda.
4. To support Lesotho's priorities and strategies for poverty reduction that are articulated in its poverty strategy paper, the PRS (Poverty Reduction Strategy), and contribute towards enhancing the country's competitiveness, the Boards of Directors approved the Bank Group's CSP for Lesotho on 15 March 2006. Its overarching objective was to achieve poverty reduction through the promotion of private-sector led economic growth. The CSP focused on two pillars: (i) support for infrastructure development; and (ii) enhancing human capital. The pillars, which constitute the core of the Bank Group's lending activities during the Bank's strategy, were aligned with the PRS' priorities.
5. The CSP was prepared on the basis of a results framework that focuses on measurement and monitoring outcome indicators expected from Bank support during the CSP period. However, the assessment and tracking progress of the CSP outcomes was hampered by lack of realistic and reliable baseline data, as well as timely and credible information, in Lesotho due to lack of progress by the Government in putting into operation its poverty monitoring system. This is the mechanism the Bank was mainly going to rely on for monitoring and assessing progress of its CSP outcomes.
6. Although the Bank strategy has been implemented as designed in terms of approval of its lending activities, the progress made towards achieving its targeted outcomes during the CSP period was minimal. This is essentially due to the fact that both operations approved during the period were still at their early phases of implementation.

Nonetheless, since the transport operation was being implemented as designed, it was likely that it would achieve its outcomes. By the end of December 2007, more than 70% of the civil works of the African Development Fund (ADF) financed portion of the operation had been implemented. The quality of work was satisfactory and the asphalt surfacing was expected to be completed by the end of 2008. Nevertheless, the entire road was not expected to be completed in 2008 because of procurement delays experienced by one of the co-financiers of the project. The operation in the education sector had not achieved disbursement effectiveness by the end of December 2007. However, it is a follow-on to an earlier ADF financed project, which was successfully completed in 2006 and complemented the Government's introduction of free primary education in 2000.

7. In addition to project financing, the Bank Group supported a couple of non-lending activities during the CSP period. With regard to economic and sector work, the Bank undertook the Country Governance Profile (CGP) for Lesotho, Country Gender Profile and Country Economic Review, which, among other things, assisted in improving policy dialogue with Government and provided the Bank with background documents for the formulation of its interventions and coordinating development activities with other development partners. The Bank also participated in a Country Procurement Assessment Review (CPAR) exercise in order to identify some improvements that should further be pursued by the GoL to improve the procurement system.

8. In terms of portfolio management, the Bank finalised the Country Portfolio Performance Review (CPPR) Report for Lesotho in June 2007. Its main finding was that the quality of the portfolio continued to be satisfactory with an overall performance rating of 2.0. While there was no operation that was considered to be a Problem Project in the ongoing Bank portfolio in the country, two operations were classified as Projects at Risk (PARs). The measures to address portfolio problems identified by the CPPR were monitored by the Bank in the course of project supervision missions. Consequently, by December 2007, some significant improvements were noted in project implementation relating to improvement in the disbursement ratios for the ongoing projects and the reduction in the time for newly approved projects to achieve disbursement effectiveness.

9. The CSPCR provides a number of lessons that should contribute towards improving the design and implementation of the next CSP for Lesotho. They include that the Bank should: give adequate time for the implementation and achievement of the CSP outcomes and outputs by adopting a five-year CSP and finalising it in a timely manner; closely follow up with the authorities efforts aimed at building statistical capacity in order to ensure availability of up-to-date and accurate data; intensify training for project staff in the area of loan administration as a country portfolio improvement tool; improve the staffing capacity of the Regional Office in Mozambique to enable it to effectively play its role of overseeing the implementation of Bank operations and enhancing dialogue with development partners. On its part, the Government should: finalise the I-PRGS in a timely manner; continue efforts of strengthening its National Monitoring and Evaluation System (NMES) to enable the country to produce reliable baseline data, as well as timely and credible information for monitoring and tracking outcomes of its PRS; build capacity for aid coordination; avoid delays in project start-up; and improve the coverage of basic health services and begin to reverse the HIV/AIDS prevalence rate.

10. The Boards of Directors are invited to take note of this completion report of the CSP for Lesotho covering the period 2005-2007.

I. INTRODUCTION

1.1 The main objective of this Country Strategy Paper Completion Report (CSPCR) is to take stock of the results achieved during the implementation of the Bank Group Country Strategy Paper (CSP) for Lesotho, covering the period 2005-2007 and approved by the Boards of Directors on 15 March 2006¹. It also draws lessons for future Bank operations in the country. The CSP, whose overarching objective is to achieve poverty reduction through the promotion of private-sector led economic growth, focuses on two mutually re-enforcing pillars: support for infrastructure development; and enhancing human capital.

1.2 During the consideration of the CSP, the Boards commended the Government of the Kingdom of Lesotho (GoL) for pursuing policies that have enabled the country to achieve macroeconomic stability. The Executive Directors, however, expressed some concerns about Lesotho's heavy dependence on a mono-export product, which increases the country's vulnerability to external shocks. They, therefore, underscored the need for the country to pursue structural reforms aimed at restoring external competitiveness in order to ensure private sector led-growth. The Executive Directors were also concerned that the implementation of the country's development agenda could be adversely affected by lack of a clear focal point for aid coordination, weak public financial management and inadequate capacity in public sector delivery. Since the approval of the CSP, GoL has made considerable progress in implementing reforms, which address some of the Boards' concerns. For instance, to restore external competitiveness, the Government is pursuing major policy reforms aimed at eliminating structural and institutional impediments to the growth of the private sector. Further to that, the Government has taken substantial steps towards enhancing public financial management (PFM) systems, strengthening the procurement system, decentralising functions of government to local authorities and improving the delivery of public service.

1.3 This CSPCR is based on information gathered during the mission that was undertaken between 2 and 8 September 2007. Although the CSP was prepared on the basis of a results framework, which outlines the outcomes expected from Bank support during the CSP period, the assessment of its outcomes were 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. The CSPCR is organised in six chapters, beginning with the introduction. Chapter II analyses salient economic and social development during the CSP period, while Chapter III reviews the results the CSP was intended to support and assesses its outcomes. Chapter IV examines Bank performance and Chapter V provides lessons for the next CSP. Lastly, conclusions and recommendations are presented in Chapter VI.

II. DEVELOPMENTS IN COUNTRY CONTEXT

2.1 Political Developments

Lesotho is a constitutional monarchy with the King as head of state, but its executive powers are vested in an elected Prime Minister. 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. 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

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

representation became a bone of contention. The Southern African Development Community (SADC) Organ on Politics had to be invited into the country to facilitate dialogue between the ruling and opposition parties. 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.

2.2 Economic and Social Development

2.2.1 GoL Development Agenda: The Poverty Reduction Strategy (PRS), covering the period 2004/05–2006/07, articulates priorities and strategies for poverty reduction in Lesotho through economic growth and empowerment of the poor. Its process, which involved country-wide consultations, grouped priority areas of actions within three key pillars of policy objectives: (i) employment and income generation through higher economic growth; (ii) sharing the benefits of growth through improved health and education standards and the conservation of the environment; and (iii) improving governance and public sector performance. Eight priority areas of action were identified within these pillars, namely: creation of employment opportunities; improvement of agricultural production and food security; infrastructure development; deepening of democracy and governance and enhancing safety and food security; improving access to health care and social welfare; improving access to quality education system; improving environmental management and conservation; and improving public service delivery. The PRS also identified three key cross-cutting themes, namely HIV/AIDS, gender, and youth and children. It was approved by the Government in November 2004 and endorsed by the IMF's and World Bank's Executive Boards in September 2005.

2.2.2 Although the PRS expired in March 2007, it remains the Government's principal planning document until an Interim Poverty Reduction and Growth Strategy (I-PRGS), covering the period 2008-2011, is finalised by the end of the second half of 2008. The Government has decided that there is need for a broader planning framework that would not only reflect financial and human capacity issues, but also place emphasis on growth priorities. It will be informed by the Growth Strategy Paper that is currently being finalised. In this regard, a proposal will soon be submitted to Cabinet to accept a National Development Plan to be finalised in 2010.

2.2.3 Macroeconomic Aggregates: During the CSP period, Lesotho's macroeconomic management remained prudent, which has ensured robust growth, fiscal consolidation, strong external position and a substantial improvement in debt indicators (see Table 2.1). Exports of textiles, propelled by the African Growth and Opportunities Act (AGOA) of the United States (U.S.), continued to be the main engine of growth. After averaging 3.3% per year in 2002-2004, real growth domestic growth (GDP), however, weakened to about 2.9% in 2005 due to the decline in manufacturing output, itself caused by the appreciation of the maloti, and a fall in agricultural output resulting from continued drought. There was also investor concern regarding how long Lesotho's duty free access to the U.S. market under AGOA would last and the cessation of quotas in January 2005 under the Multi-Fibre Agreement (MFA). Driven by the strong performance of the mining sector arising from the opening of two diamond mines, GDP growth recovered impressively to 7.2% in 2006. The economy was further boosted by modest recovery of the manufacturing sector, specifically the garment sector, which was influenced by the halt in the maloti appreciation at the end of 2005, the easing of investors worries about the future of AGOA following the extension of the third country fabric provision to 2012, as well as tax reforms and proactive measures taken by the Government to address the concerns of the textile industry. Real GDP growth is estimated to remain strong at 4.9% in 2007.

2.2.4 The overall fiscal balance continued to register a surplus for four successive years from 5.6% of GDP in 2003 to 7.7% in 2007 mainly due to the temporary increase in receipts from the

Southern Africa Customs Union (SACU) and improved domestic revenue collection. However, fiscal management is expected to become more challenging as SACU receipts are unlikely to be maintained at their current high levels (about 50% of total revenue) beyond 2009/10 due to tariff reductions related to trade liberalisation and the possibility of the SADC Customs Union coming into being and/or a new revenue sharing arrangement being negotiated by SACU members.

Table 2.1: Macroeconomic and Financial Indicators

	2003	2004	2005	2006	2007
				Est.	Proj.
Real GDP growth (%)	2.7	4.2	2.9	7.2	4.9
Fiscal balance (inc. grants) (% of GDP)	-0.4	5.6	4.8	13.4	7.7
Consumer price index (% change; period average)	7.2	5.0	3.4	6.1	7.2
Current account balance (inc official trans) (% of GDP)	-12.3	-5.5	-7.0	4.4	1.6
External debt (% of GDP)	58.1	46.9	45.5	43.1	42.4
Exchange rate (maloti per US\$, end of period)	7.6	6.3	6.4	6.8	
Gross official reserves (months of imports)	5.6	4.5	4.6	6.1	6.3

Source: Central Bank of Lesotho, Bureau of Statistics and ADB Statistics.

2.2.5 The current account improved significantly from a deficit of 5.5% of GDP in 2004 to a surplus of 4.4% in 2006 and 1.6% in 2007 mainly reflecting strong diamonds exports and the recovery of manufacturing exports, specifically textile and clothing. External debt remained sustainable and its indicators continued to improve from about 47% of GDP in 2004 to about 43% in 2007 as a result of the appreciation of the maloti and deliberate policy by Government to use part of SACU windfalls to retire its non-concessional debt. However, inflation has recently become a challenge as it rose from 3.4% in 2005 to about 6.0% in 2006 and 7.2% in 2007 generated by the impact of rising food and world oil prices. The increase is in line with trends in Republic of South Africa (RSA).

2.2.6 **Social Conditions:** Notwithstanding the strong economic growth in recent years, the incidence of poverty remains high. The most recent Household Budget Survey² indicated that slightly over half of the population (50.2%) still lived below the poverty line, an improvement from 62.1% registered in 1994/95. The leading cause of poverty in Lesotho is rising unemployment and underemployment resulting from a series of structural changes which began in early 1990s with the decline of mining in RSA – a traditional source of employment for many Basotho men. In 2007, Lesotho's human development index (HDI) was 0.549, ranked 138th out of 177 countries, compared to 0.497 and 149th, respectively, in 2005. Regarding progress in achieving the Millennium Development Goals (MDGs), the country has made significant effort towards eliminating gender disparity in primary and secondary education and the attainment of universal primary education, but it is still lagging behind in eradicating hunger and reducing under-five and maternal mortality rates (see Annex V). The slow progress in improving social indicators and attaining MDGs can be attributed to the high prevalence of HIV/AIDS, chronic drought, reduction in remittances from migrant mineworkers and poor coverage of basic health services. In 2006, about one in four Basotho within the age bracket of 15-49 years were HIV positive, ranking Lesotho the third highest HIV prevalence country in the world.

2.3 Governance Situation

2.3.1 The CSP drew its assessment of governance issues in Lesotho from the Country Governance Profile (CGP)³, which was finalised by the Bank Group in 2006. The CGP highlighted some shortcomings in the PFM system, public sector audit and public procurement

² According to the results of the Household Budget Survey 2002/03.

³ Lesotho – Country Governance Profile (ADB/BD/IF/2006/20-ADF/BD/IF/2006/IF).

system. It also highlighted the challenges the Government was facing in decentralising the functions of central government to local authorities. From the time the CSP was prepared, the Government has continued to make great strides towards addressing the weaknesses highlighted by the CGP, through the Public Service Improvement and Reform Programme (PSIRP). The PSIRP is a multi-donor financed programme, whose objectives are to improve the effectiveness and efficiency of public service delivery and enhance public financial management.

2.3.2 To improve the link between the PRS and the annual planning and budgeting processes, the Government introduced a three-year Medium Term Expenditure Framework (MTEF) in six pilot ministries of education, health, agriculture, employment, gender and tourism in 2005/06. Although the Government's intention was to extend the number of pilot ministries from six to ten, insufficient time to train staff in the preparation of the MTEF did not allow that for the coming financial year 2008/09. While MTEF is expected to be introduced in all line ministries starting from 2010/11, budget framework papers for the three-year period 2009/10-2011/12 will be prepared for all ministries.

2.3.3 The PFM reforms also involve putting in operation a new Integrated Financial Management Information System (IFMIS), supported by appropriate information communication technology infrastructure, to eventually replace the Government of Lesotho Financial Information System (GOLFIS). The system is expected to become operational in late 2008, going live centrally by September 2008, with further roll out to line ministries expected two months later. To enhance the legislative basis for the PFM, the Government has drafted a Public Financial Management and Accountability Act to clarify roles and responsibilities in the budget process and also explicitly recognise the medium-term nature of budgeting introduced through the MTEF. The Government plans to present the Bill to Parliament by 2009. In tandem with PFM reforms, oversight institutions, including the Public Accounts Committee and the Auditor General's office are also being reformed to enhance their performance. Programme of improvements include capacity building, modernisation, IT auditing and performance auditing.

2.3.4 The Government is also modernising its procurement system. This has led to the introduction of standard procurement documentation, decentralisation of the procurement function to line ministries, transformation of the Central Tender Board to a regulatory body and revision of procurement thresholds. A Country Procurement Assessment Review (CPAR) exercise was completed in October 2007 to review the progress made on procurement reforms⁴. The CPAR identified some improvements that should be further pursued by the Government in the areas of: legislative and regulatory framework; institutional framework and management capacity; procurement and market practices; and integrity and transparency.

2.3.5 With regard to decentralisation, Lesotho is also gradually implementing a decentralised system of functions, resources and authority from the central government to local authorities. The first elections of local government structures were held in April 2005. So far, progress has been made, particularly on the establishment of the Local Government Service Commission and capacity building activities for District and Community Councils. However, GoL continues to face a number of challenges in terms of lack of: clarification of roles and responsibilities of local governance institutions; defining the functions of the local governments and the service providers; development of a National Strategic Plan for decentralisation and implementation plans of the Ministry of Local Government and other key stakeholders to implement the strategic plan; and development of the fiscal decentralization strategy.

⁴ The mission was led by the World Bank and GOL and comprised members from ADB, DFID and Irish Aid.

2.3.6 Lastly, with regard to corruption, an amendment to the Prevention of Corruption and Economic Offences Act was adopted by Parliament in 2006 in order to improve the effectiveness of the Directorate on Corruption and Economic Offences (DCEO). It broadens the scope of the investigative powers of the DCEO by including private bodies and not limiting such powers to public bodies.

III. IMPLEMENTATION OF THE BANK GROUP STRATEGY AND THE RESULTS ACHIEVED AT END OF PERIOD

3.1 Status of Achievement of CSP Outcomes and Outputs

3.1.1 The Bank Group CSP for Lesotho is rooted in the results framework that is closely aligned with the priorities outlined in the PRS. The results expected from the strategy are measured in terms of the indicators defined in the CSP for the two pillars. The strategy was implemented as designed through the approval of its core lending activities. The outcomes and outputs expected from Bank interventions approved during the CSP period had, however, not fully been achieved by the end of December 2007 since the operations were still at their early phases of implementation.

Pillar I: Support for Infrastructure Development

3.1.2 **Outcomes:** Three outcomes were envisaged relating to an increase in the coverage of the rural road network, a reduction in vehicle operating costs and improved socio-economic welfare conditions in the country (see Table 3.1). The first outcome was selected because only a few rural roads connect the mountainous rural parts of the country, which comprise 75% of the total area of Lesotho and where about one quarter of the population lives. The second outcome was important because most of the existing roads in the mountainous rural parts of the country were in poor condition, which entailed high vehicle operating costs. The third was targeted because improved roads would help in enhancing incomes for smallholder farmers and, accordingly, their socio-economic welfare would improve. The MDG that was targeted by the proposed Bank intervention under this pillar relates to eradicating extreme poverty. This would be achieved, in the short-term, through the creation of casual labour job opportunities emanating from construction activities within the vicinity of the Bank intervention and, in the long term, through economic activities facilitated by improved rural transportation, which would enhance accessibility to markets for inputs and produces for local farmers, particularly those residing in the rural mountainous areas of the county. Since the Bank's operation under this pillar was still in progress as at the end of December 2007, it was not possible to measure how the project was contributing to the outcomes. Nonetheless, the operation is expected to likely achieve its development objectives once completed as it was being implemented as designed.

3.1.3 **Outputs:** In terms of outputs, the Bank Group, its co-financing partners and GoL were expected to upgrade 85 km of existing gravel road to a Class A bitumen road standard of a width of 7.0-meter carriageway and 1.0-meter paved shoulders on either side between Likalaneng and Thaba Tseka once all the Likalaneng-Thaba Tseka Road Project's activities were completed. The project, which was originally approved in October 2003 for an amount of UA 10.53 million, however, experienced substantial cost overruns on all Lots 1 (31 km), 2 (27 km) and 3 (27 km) being financed by the African Development Fund (ADF), Kuwait Fund for Arab Economic Development (KFAED) and Arab Bank for Economic Development in Africa (BADEA), respectively. This was mainly due to unforeseen increase in the international price of oil and currency fluctuation, which impacted severely on the cost of road construction. As a result, in December 2006, the ADF Board approved a supplementary loan for the project for the sum of

UA 6.83 million to cover the cost-overflow in respect of Lot 1. In spite of a slow start brought about by delays in the loan becoming effective, the implementation of the ADF-financed portion of the project was progressing well by the end of December 2007, with 70% of the civil works satisfactorily completed. Although the asphalt surfacing of Lots 1 and 3 were expected to be completed by the end of 2008, the entire road was not going to be completed in 2008 because civil works for Lot 2 were only expected to commence during the year. This was due to delays experienced in the procurement of the contractor. The sustainability of the project in terms of future technical and financial requirements for maintenance purposes is likely to be ensured by the establishment of a semi-autonomous Road Directorate before the end of 2008 under World Bank financed Integrated Transport project, as well as through the collection of increased fuel levies by the Road Fund from 2008 onwards.

Table 3.1: CSP Deliverables

CSP Pillar	Bank Intervention	CSP Long & Medium Term Outcomes at Design	Bank Deliverables (Outputs) from Operations at Implementation	Progress towards achievement of Bank Deliverables
I. Support for Rural Infrastructure Development	Supplementary Loan for Likalaneng-Thaba Tseka Project	1.1 Increase in the upgraded/rehabilitated roads in Lesotho by 15% by 2008. 1.2 Vehicle operating costs (VOCs) reduced by 30-40% in the year 2008. 1.3 Improved socio-economic welfare conditions in the country.	1.1 Increased length of upgraded/rehabilitated roads in Lesotho from 1216 km in 2006 by 15% in 2009. 1.2 Reduced VOCs per vehicle from US\$1.026 in 2006 to US\$ 0.522 in 2009.	1.1 Likely to be achieved. 1.2 Likely to be achieved.
II. Enhance Human Capital	Education Quality Enhancement Project (Education III)	2.1 Universal intake to primary education by 2008 (NER). 2.2 90% of Basotho children of going school age are enrolled in schools by 2008 (Primary NER). 2.3 80% of persons in disadvantaged group (out-of-school youth, herd boys in hardship area, illiterate adults) have access to non-formal education by 2008. 2.4 63% primary school completion rate. 2.5 Eliminate gender disparity in primary & secondary education by 2006.	To improve access to quality education at secondary: <ul style="list-style-type: none"> 35 classrooms, 7 admin blocks, 12 science labs, 19 staff houses, 2 girls hostels constructed, furnished & equipped. To improve access to quality education at primary: <ul style="list-style-type: none"> In-service training for 1400 special teachers and pre-service training of unqualified 1600 teachers; Orientation of 2200 teachers on appropriate teaching methodologies. 1400 teachers (at least 50% women) trained as part time HIV/AIDS counsellors. Skills employability enhancement: <ul style="list-style-type: none"> TVET curriculum reviewed and aligned with labour-market needs 8 TVET staff participate in market driven courses Teaching/learning materials in 8 TVET institutions and 100 secondary school 1 training room at Lesotho College of Ed and 2 at Lerotholi Polytechnic constructed, finished and equipped. 	Implementation of project outputs yet to commence Implementation of project outputs yet to commence Implementation of project outputs yet to commence

Pillar II: Enhancing Human Capital

3.1.4 **Outcomes:** the Bank operation under this pillar was expected to influence outcomes, which are in line with the Education for All (EFA) targets, as well as the MDGs relating to achieving universal education and addressing gender equality. The outcomes targeted by the CSP include an increase in education coverage, an improvement in the quality of education and a decrease in gender disparity in education (see Table 3.1). The operation financed by the Bank

under this pillar had not yet had any influence on the targeted outcomes by the end of December 2007 since it had not yet achieved disbursement effectiveness. The project's main objective is to contribute to quality primary and secondary education system with emphasis on disadvantaged areas and to develop vocational education.

3.1.5 Outputs: the Bank provided support to the Education Quality Enhancement Project (Education III) for an amount of UA 8.57 million (Loan: UA 1.57 million and Grant: UA 7.0 million), which was approved in April 2007 and was not expected to be completed until 2013. It was building on an existing operation. The project has three components, namely: improved access to quality education; skills and employability enhancement; and institutional support and capacity building to Ministry of Education and Training (MOET). Under the first component, the project will build seven new secondary schools, equip the classrooms and provide instructional materials. The component also puts emphasis on training of teachers and will train 1,400 special education teachers, 1,600 pre-service teachers and provide orientation to 2,200 other teachers on appropriate teaching methodologies. In addition, 1,400 teachers (of whom at least 50% are women) will be trained as part-time HIV/AIDS counsellors. In the area of primary education, primary school curriculum will be improved to build on the achievements of the Education II Project. The second component targets technical and vocational education and supports technical training at Lesotho College of Education and supply of IT equipment. The third component is intended to strengthen the MOET for more efficient service delivery and curriculum development. It will also capacitate MOET officials for effective utilisation of donor resources and contribute to the collection of statistics, using the Education Information System.

3.1.6 The new operation is a follow-on to an earlier ADF financed project, Education II Project, which was successfully completed in 2006. Following the introduction of free primary education in 2000, which resulted in increased demand for primary classrooms, the major outcome of Education II Project has been to improve access to basic education in Lesotho. In terms of physical facilities, the project has provided 308 primary classrooms at new 44 schools (15,400 new places) as well as 14 science laboratories (560 new places) and 14 technical education units (280 new places for woodwork and metal work). It has also made contribution towards improving the quality of education through the provision of in-service training in key subjects to teachers. As a consequence, through this operation, the Bank has been instrumental in: (i) improving primary net enrolment rate from 82% to 83.9% between 2000 and 2006; (ii) increasing primary education completion rate from 64.5% in 2001 to 73.7% in 2005; and (iii) decreasing the primary pupil teacher ratio from 47:1 to 41:1 between 2002 and 2006⁵.

3.2 Other Effects of the Bank Group Strategy

3.2.1 Besides lending operations approved during the CSP period, there were three other Bank Group ongoing operations in Lesotho, namely: (i) Highlands Natural Resources and Rural Income Enhancement Project (HNRRIEP); (ii) Institutional Support Project for the Ministry of Finance and Development Planning (MFDP) and the Ministry of Public Works and Transport; and (iii) Support to Health Reforms Programme (SHRP) (see Annex III). 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, they were all being implemented as designed by the end of December 2007 and expected to close in 2008. However, the log-frames for these operations did not systematically build in monitorable indicators that are specific, measurable and time-bound. It was, therefore, not easy to measure whether progress was being made toward implementing activities and achieving objectives.

⁵ Ministry of Education and Training, Draft 2006 Statistical Bulletin.

3.2.2 The CSP has had some effects on other country development outcomes not explicitly targeted in the CSP results framework. In terms of cross-cutting issues, the transport project is mainstreaming HIV/AIDS by sensitising people in the project zone of influence of the issue through awareness workshops conducted by the contractor given the country's high prevalence rate (see 2.2.6). This is the first road project in the country in which HIV and AIDS concerns have been mainstreamed. With regard to gender, attempts are being made by the project to ensure that job opportunities are gender equitable. So far, 9% of the total labour force is women.

3.2.3 In the context of the Bank's annual Country Performance Assessment (CPA) exercise, the CSP targeted a number of performance benchmarks in clusters Lesotho was considered moderately weak, including public sector management and governance, to be monitored by the Bank during the CSP period. They relate to efforts by Government to strengthen PFM systems, prepare public accounts, decentralisation, strengthening public procurement systems and the institution for fighting corruption. The progress achieved, thus far, is highlighted in section 2.3 on governance situation and summarised in Table 3.2. In terms of portfolio performance, the CSP's target was for the disbursement rates for the two operations that were considered as Projects at Risk (PARs) to reach 50% by the end of 2007 (see Table 3.2 for status).

3.3 Country Resources Issues

3.3.1 On the basis of the evaluation of the country's performance of 2005, Lesotho's maximum ADF-X resource allocation for the CSP period covering 2005-2007 was originally set at UA 16.4 million, including UA 7.3 in grants. The allocation was revised in 2006 to UA 15.4 million, including UA 7.0 million in grants, in accordance with the country performance-based allocations. At the end of the ADF-X period, the actual amount of resources allocated to Lesotho represents a 36% increase over the amount the country received during ADF-IX replenishment, partly a reflection of Lesotho's improved overall CPA vis-à-vis other ADF countries. Fifty-three percent of the revised allocation was utilised to finance a supplementary loan in the transport sector while the balance was used to support a new project in the education sector. Due to insufficient resources, the size of the latter project had to be scaled down. In turn, the GoL's contribution as a proportion of the total project costs had to be substantially increased to 19.2%.

3.3.2 The small size of ADF country allocation to Lesotho has always been raised by the Government as a major constraint to the implementation of its PRS priorities given the country's scale of financing needs and the degree of competition across a huge range of priorities. In 2006, Lesotho's net total official development assistance (ODA) was estimated at 5% of GDP and net total ODA per capita at about US\$ 36 in 2006, compared with averages for ADF-only eligible countries of 10% and US\$ 44, respectively⁶. Further to this, Lesotho has not benefited from any Bank Group-financed multinational projects, in spite of the country's inadequate basic infrastructure, mainly due to the fact that the country is completely surrounded by RSA. Inter-governmental dialogue between Lesotho and RSA on multinational projects, therefore, needs to be encouraged in order to enhance the country's potential for accessing additional resources from regional operations envelope. The loan/grant size of Bank Group ongoing interventions at an average of about UA 6.5 million during the CSP period was small compared with an average loan size of about UA 12.5 million for the Bank Group's entire ADF portfolio in 2004⁷. Given the small size of ADF resource allocation to Lesotho, the Bank's future focus needs to

⁶ ADB Statistics Department.

⁷ 2004 Annual Portfolio Performance Review (ADB/BD/WP/2006/20/Rev.1-ADF/BD/WP/2006/23/Rev.1).

emphasize selectivity based on the Bank's comparative advantage and harmonisation with interventions of other development partners.

Table 3.2: CPIA Benchmarks to Monitor Improvement in Country Performance

Weaknesses Identified	Reforms/Actions Envisaged	2007 Benchmarks	Status of Achievement at end of CSP
CPIA 2004			
Public financial management	Enhance the institutional capacity of the offices of the Accountant General and the Auditor General	<ul style="list-style-type: none"> Presented public accounts to the Auditor General within the statutory period of six months Audited financial statements are presented to Parliament within the statutory period after the closure of the financial year New Public Audit Act tabled to Parliament MTEF is being implemented in at least 10 ministries 	<ul style="list-style-type: none"> 2006/07 draft accounts to be presented to the Auditor General by 31 March 2008 As above Auditor General's Office undergoing reform (see 2.3.3) Implemented in 6 pilot ministries (see 2.3.2)
Transparency and Accountability	Improve the public procurement system and strengthen anti-corruption measures	<ul style="list-style-type: none"> Public procurement is strengthened Legal framework for fighting corruption strengthened through the passing by Parliament of amendment to the relevant Act 	<ul style="list-style-type: none"> Reforms underway (see 2.3.4) Done (see 2.3.6)
Quality of public administration	Enhance efficiency of public sector through decentralisation	<ul style="list-style-type: none"> 100% of local authorities are functional 	<ul style="list-style-type: none"> Satisfactory progress though some problems still exist (see 2.3.5)
Bank Group Portfolio			
Slow implementation of project due to delays in fulfilment of loan conditions and lack of compliance with Bank procedures	Ensure timely fulfilment of loan conditions and respect of Bank procedures	<ul style="list-style-type: none"> Loan conditions for all projects are fulfilled in less than 1 year Highlands Natural Resources & Rural Income Enhancement Project (HNRRIEP), Support for Health Reforms Programme and Likalaneng-Thaba Tseka Road Upgrading Project attain disbursement ratio of 50% 	<ul style="list-style-type: none"> Achieved (see 3.4.3) Achieved for 2 projects, expect for HNRRIEP which achieved a disbursement rate of 42% (see Annex III)

3.4 Portfolio Management Issues

3.4.1 The Country Portfolio Performance Review (CPPR) Report for Lesotho was finalised in June 2007. It concluded that the quality of the portfolio continued to be satisfactory with an overall performance rating of 2.0. While there was no operation that was considered to be a Problem Project, two operations out of four ongoing projects were classified as PARs, namely HNRRIEP and SHRP. They amounted to UA 12.64 million, representing a commitment at risk rate of 41.1%, compared with two PARs out of five projects with a commitment risk of 39.2% registered by the 2004 Annual Portfolio Performance Review. At the end of the CSP period in December 2007, both projects were still classified as PARs although they were progressing well and being implemented as designed, with disbursement rates of 42% from 30% in March 2007 for HNRRIEP and 51% from 23% for SHRP.

3.4.2 The CPPR identified a number of main generic problems impinging on project implementation. They include: project start-up difficulties essentially relating to late loan/grant agreement signature and fulfilment of conditions for entry into force and first disbursement partly due to capacity constraints; long response turnaround time between the Bank and Government; and delays in procurement activities during early phases of project implementation due to inadequate institutional arrangements and limited knowledge of Bank's procurement procedures. These problems were compounded by the fact that the Bank failed to organise a loan administration workshop seminar in Maseru since the last one was held in April 2004. Despite this, GoL submitted audit reports of acceptable standard and in a timely manner.

3.4.3 The implementation of actions recommended by the CPPR to address the issues continued to be monitored in the course of supervision missions. In 2007, active projects in the country were supervised by an average of 1.5 times. As a result, since the CPPR was finalised,

there have been some notably improvements in the performance of ongoing projects. The overall disbursement ratio for active projects (i.e. excluding the Education Quality Enhancement Project which was not yet effective) stood at 49.2% in December 2007 compared with 18.6% in March 2007. Further to that, the two projects that were approved during the CSP period were signed within six months after approval and the transport supplementary loan (approved in December 2006) started disbursing in October 2007, while the education project (approved in April 2007) achieved disbursement effectiveness by the end of December 2007. This compares with an average of 15 months it took for projects to achieve disbursement effectiveness (of which six months were for loan approval to signature and nine months for loan signature to effectiveness) at the time of the preparation of the CPPR. Both projects have also benefited from the experience their executing agencies have since acquired in project implementation.

3.5 Developments in Aid Coordination and Harmonisation

3.5.1 Bank Group ongoing interventions in Lesotho do not demonstrate evidence of a strong level of donor coordination or harmonisation in terms of project design, joint monitoring and evaluation, as well as project reviews and reporting. Although the PRS is increasingly becoming the mechanism for supporting development programmes in the country, efforts by DPs to harmonise their processes and procedures and align them to country systems have been constrained by their respective procedures and regulations. This has also been compounded by inadequate capacity for aid coordination at MFDP. The weakness in aid coordination in Lesotho may also be partly attributed to the small size of aid (see 3.3.2). This notwithstanding, the Bank has been able to engage in informal, yet active coordination with DPs involved in each sector it supports in Lesotho through, for instance, participation in donor coordination meetings when task managers are on missions and in donors' joint annual sectoral reviews.

3.5.2 To strengthen its aid coordination capacity, GoL 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, Cabinet has authorised the Minister of Finance and Development Planning to sign, on behalf of the Government, the Paris Declaration. In recognition of recent efforts by the Government to improve fiduciary systems (see section 2.3), DPs (ADB, World Bank, European Union (EU), United Kingdom's Department for International Development (DFID), Irish Aid and Gesellschaft für Technische Zusammenarbeit (German technical cooperation, GTZ) are examining the possibility of commencing budget support operation in Lesotho. The objective is not only to enhance the harmonisation of development assistance, but also to align it, as much as possible, with the country's budgetary and accountability systems. This would contribute towards strengthening Government ownership over resource allocation and improve the predictability of external resources. The Bank's participation in the proposed budget support operation will be subject to the country meeting the minimum prerequisites required by the Bank prior to adopting a budget support operation. To enhance collaboration with other DPs, the Bank also participated in a CPAR exercise for Lesotho (led by World Bank and GoL and comprising ADB, DFID and Irish Aid) in October 2007 in order to identify some improvements that should further be pursued by the GoL to improve its procurement system (see 2.3.4).

3.6 Monitoring and Evaluation of Bank Group Assistance

3.6.1 To ensure that the monitoring of the CSP outcomes does not impose heavy reporting and administrative burden on the GoL, the CSP indicated that the Bank would rely on the GoL's poverty monitoring system, which was under development, as well as other statistics that are regularly published by the GoL. The intention was to assess the impact of the Bank's strategy on

Lesotho's development agenda by tracking progress on specific PRS outcomes and intermediate progress indicators that are directly influenced by the Bank's interventions. The CSP acknowledged that this might be hampered by the country's lack of baseline data and insufficient capacity to gather timely and credible information, which could be used for monitoring and tracking outcomes of its development programmes. MOET, however, publishes annually extensive data, which are useful in tracking CSP outcomes pertaining to Bank interventions in the education sector.

3.6.2 The potential for the Bank to be able to successfully monitor and evaluate progress of the CSP outcomes has been adversely affected by slow progress by GoL to put in place the national poverty monitoring system at MOFDP. The Government has, however, been making progress in establishing the National Monitoring and Evaluation System (NMES). So far, GoL has appointed the NMES Coordinator, is streamlining the core list of national development indicators and is putting into operation a national development information database, called DevInfo, with support provided by UNDP and United Nations Children's Fund (UNICEF). The new indicators would be available before the Bank finalises its new CSP. This notwithstanding, the effectiveness of the NMES 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, the GoL is preparing a National Strategy for the Development of Statistics (NSDS), which is being supported by the African Development Bank (ADB) and is expected to be completed by the end of the first half of 2008. The ADB is also supporting improvements in national accounts and price statistics through the International Comparison Programme (ICP-Africa).

3.7 Country Dialogue Issues

To enhance policy dialogue with the Government and deepen knowledge of the country, the Bank provided non-lending services to Lesotho in the form of economic and sector work. This included the finalisation of the CGP, the Country Gender Profile and the Country Economic Review, which also provided the Bank with background documents for the formulation of its future interventions and enhancing coordination of development activities with other Development Partners (DPs). During the CSP period, the Bank Group also started participating actively in joint donor dialogue missions, involving the World Bank, EU, DFID, Irish Aid and GTZ, to engage Government on its reform programme (including issues highlighted in section 2.3), review the progress towards the commencement of general budget support (GBS) operations for Lesotho. The objective of the GBS is to align, as much as possible, with the country's budgetary and accountability systems, thereby contribute towards strengthening GoL's ownership over resource allocation, and enhance the harmonisation of alignment of DPs' development assistance to the country. Further to that, the Bank's participation in the joint donor missions on the GBS provided it with a mechanism for coherent and efficient dialogue with the Government, in collaboration with other DPs, on issues of growth and macroeconomic, governance and PFM reform programme (see section 2.3 for GoL reform details), as well as capacity development issues. Country dialogue issues on portfolio between the Bank and the Government continued to be pursued through various Bank supervision missions from Tunis and in the context of the preparation of the CPPR (see section 3.4), which agreed measures pertaining to portfolio improvement.

3.8 Consultations with Stakeholders

The Bank held consultations in the form of meetings with a cross-section of stakeholders, including Government and DPs, during the preparation of the CSPCR. The stakeholders commended the Bank for showing flexibility in the implementation of its strategy, which made it possible for it to support the country with the supplementary loan, besides the operation in the education sector, after substantial cost overruns had arisen on the ongoing transport project (see section 3.1). Stakeholders urged the Bank to ensure that the next CSP is finalised early enough at the beginning of the ADF-XI cycle in order to ensure that there are no delays in the achievement of the results expected under the next strategy. The feedback from stakeholders was also that the Bank should continue to pursue efforts aimed at streamlining its procurement and disbursement processes, as well as harmonising its assistance and deepening its level of coordination with other DPs in the country. They felt the Bank's enhanced presence in the country could help in this regard.

IV. BANK GROUP AND COUNTRY PERFORMANCE

4.1 Bank Group Performance

4.1.1 The Bank was able to implement its country assistance strategy for Lesotho as designed given that the two strategic areas of focus that were identified by the CSP process were implemented through the approval of the two operations (see section 3.1). This notwithstanding, the Bank could not accommodate other development needs that were proposed by the Government for ADF's support during the CSP period, such as irrigation and rural electrification, due to Lesotho's small size of ADF-X resource allocation. The Bank's areas of focus emphasized selectivity based on its comparative advantage as demonstrated by proven expertise from previous interventions in the country, alignment with priorities outlined in the PRS and harmonisation with other development partners' assistance. Upstream collaboration with other DPs on the Bank's strategy was facilitated by its participation in the retreat organised by the World Bank on the preparation of its Country Assistance Strategy in September 2005.

4.1.2 The CSP was for a three year cycle (2005-2007) as opposed to the usual five years as it was important to align it with the PRS, which was expected to expire in March 2007. Its short lifespan following Boards approval in March 2006, at almost half point of its period, did not, therefore, provide adequate time for the strategy's implementation. Consequently, it was not possible to measure the Bank's contribution to Government development goals since Bank operations that were approved during the period were still at the early phases of implementation.

4.1.3 The Bank undertook a number of measures to mitigate the risks associated with the implementation of the strategy as identified by the CSP. In order to improve project implementation it increased the average number of supervision missions to monitor the implementation of ongoing projects to 1.5 times per year in 2006 (with priority given to the two projects at risk) from about once in 2005. The Bank also opened the Regional Office in Mozambique during the CSP period, which also covers Lesotho. However, the office was not fully effective in playing its role of, *inter alia*, facilitating communication between the Bank and Government of Lesotho and providing guidance to implementing agencies. This was due to staff constraints limiting its activities at the initial stage to those serving Mozambique. Its role is expected to expand to other countries in the sub-region with the recent improvement in the staffing levels. In line with the recommendation of the CPPR, the Bank also organised a loan administration seminar in Maseru in December 2007 in order to familiarise project-executing agencies with its procedures for the procurement of goods and services and disbursements.

4.2 Country Performance

4.2.1 The CSP preparation mission was held in May 2005 and the strategy was approved by the Boards of Directors in March 2006. The slippage in the finalisation of the strategy was partly due to the delay by the Government in giving clearance for the dialogue mission since its timing coincided with the period of ‘quiet time’, which is reserved for MFDP’s other pressing issues. Further to that, although the CSP areas of focus that were eventually implemented were those proposed during the CSP preparation mission, it took a long time for the Bank and Government to finally agree on the specific operational details that would be supported by the Bank during the CSP period. This was because the Government was concerned about cost overruns that had arisen on the Likalaneng-Thaba Tseka Project (see 3.1.3), which required urgent funding.

4.2.2 The Bank was to rely on the Government’s poverty monitoring system that was being established in order to track progress on its CSP outcomes. However, this was hampered by delays by the Government in putting the system into operational (see paragraph 3.6.2). The delay was mainly due to the reorganisation of MFDP that was underway during the CSP period.

4.2.3 Capacity constraints in the public sector also affected the implementation of the Bank strategy and public projects and programmes, in general. The country has been losing its skilled technical and managerial human resources as a result of HIV/AIDS pandemic (see 2.2.6) and to South Africa, which itself is also experiencing capacity constraints in coping with its booming economy. To address the shortage of skills in the country, GoL is undertaking measures to improve access to quality secondary and tertiary education, partly through the ADF financed intervention (see 3.1.4 and 3.1.5). 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. Although the ADB is not part of the PSIRP, it is supporting the Government to strengthen the capacity of its officials through an institutional support project and also by mainstreaming capacity building activities in its projects. As for HIV/AIDS, GoL has developed intervention and mitigation strategies and approaches towards fighting the pandemic under the umbrella of the National Aids Commission. They include the opening of voluntary counselling and testing centres in a number of health centre, 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.

4.2.4 The country performance can also be evaluated in the context of the potential risks that were identified by the CSP as likely to impinge on its implementation. In addition to risks related to institutional capacity and the high incidence of HIV/AIDS highlighted above, they include: lack of Government’s commitment to economic adjustment and structural reforms; vulnerability to political instability; and weaknesses in the PFM system. These threats were, however, mitigated by the strides the Government made during the CSP period to: (i) strengthen public service delivery based on the decentralisation of government functions to local authorities (see 2.3.5) and improve the incentive structure for retaining civil servants within the framework of PSIRP; (ii) implement prudent policies, which have enabled the country to achieve macroeconomic stability (see section 2.2); and (iii) implement PFM reforms (see 2.3). As regards political stability, although the post-election disputes in the aftermath of February 2007 did not have any adverse effects on the implementation of the Bank strategy, strengthening the democratic institutions and culture remains a challenge to the country (see section 2.1).

V. LESSONS LEARNED FOR THE NEXT COUNTRY STRATEGY

5.1 Drawing from the analysis presented in this report, the lessons highlighted below are intended to contribute towards improving the design and implementation of the next RBCSP.

5.2 Lessons for the Bank

5.2.1 *CSP period and processing:* In order to give adequate time for the implementation and achievement of the CSP outcomes and outputs, a five year CSP, as opposed to a three year one, should be adopted and prepared in a timely manner.

5.2.2 *Building Statistical Capacity:* Since availability of up-to-date and accurate data is critical for policy decisions and monitoring of outcomes, building statistical capacity is an issue that should be closely followed up with the authorities through the ongoing assistance of the Bank's Statistics Department to Lesotho in the contest of the ICP-Africa and NSDS.

5.2.3 *Aid Coordination:* To make an impact in its selected areas of interventions, the Bank should enhance its harmonisation efforts and deepen its level of coordination with other donors, for instance through participation in the proposed budget support operation and by intervening jointly with other donors in its lending activities and analytical work. The proposed budget support operation would also provide the Bank with a joint donor mechanism for coherent and efficient dialogue with the Government on such issues as macroeconomic issues, policy reforms, governance and capacity development.

5.2.4 *Selectivity:* Given the small size of ADF resource allocation to Lesotho, the Bank should continue to put emphasis on selectivity, with selected areas of focus limited to two utmost per ADF cycle.

5.2.5 *Portfolio Performance:* Since satisfactory management and performance of the Bank portfolio helps to deliver project outcomes on a timely basis and also serves as a foundation for effective strategy implementation, the Bank will need to intensify training for project staff in Lesotho in the area of loan administration as a country portfolio improvement tool. The Bank should also strengthen the staffing capacity of the Regional Office in Mozambique to enable it to play a bigger role in overseeing the implementation of Bank operations in Lesotho, as well as enhancing dialogue with development partners in the country.

5.2.6 *HIV/AIDS:* Given the country's high HIV/AIDS prevalence rate is one of the biggest threat to the implementation of public development programmes and projects, future Bank operations in the country should continue to mainstream HIV/AIDS.

5.3 Lessons for the Government

5.3.1 *National Development Agenda:* Since the CSP will be aligned with Lesotho's national development agenda, the Government should expeditiously finalise the I-PRGS to avoid slippages in the processing of the CSP.

5.3.2 *Monitoring and evaluation of Bank assistance:* In order not to impose heavy reporting and administrative burden on the Government, the Bank will continue to rely on the Government's poverty monitoring system. GoL should, therefore, continue to pursue measures aimed at strengthening the NMES to enable the country to produce reliable baseline data as well as timely and credible information for monitoring and tracking outcomes of its PRS.

5.3.3 *Aid Coordination:* In order to promote greater donor harmonisation and alignment with country systems and increase aid effectiveness, there is need for the Government to build capacity for aid coordination.

5.3.4 *Portfolio performance*: To avoid delays in project start-up and, hence, contribute to the achievements of results, the Government should strengthen capacity of MFDP and line ministries.

5.3.5 *Multinational projects*: To enhance the country's potential for accessing additional resources from regional operations envelope, inter-governmental dialogue between Lesotho and RSA on multinational projects needs to be encouraged.

5.3.6 *HIV/AIDS*: If the country is to achieve high economic growth rate and reduce poverty, it should improve the coverage of basic health services and begin to reverse the HIV/AIDS prevalence rate.

VI. CONCLUSION AND RECOMMENDATION

6.1 Conclusion

The CSP's overarching objective is to achieve poverty reduction through the promotion of private-sector led economic growth. The CSP was prepared based on the results framework that itself built on the PRS' priorities. Its two mutually re-enforcing pillars, support for infrastructure development and enhancing human capital, were being implemented as designed through approval of two lending operations. However, the assessment of the CSP's outcomes was hampered by the late approvals of Bank interventions during the CSP period and lack of reliable baseline data, as well as timely and credible information, in Lesotho.

6.2 Recommendation

The Boards of Directors are invited to take note of this completion report of the CSP for Lesotho covering the period 2005-2007.

Lesotho: CSP Results Framework Monitoring Matrix

Longer Term Strategic Goals	Medium Term CSP Outcomes			Bank Priorities and Performance		
Lesotho Development Results (MDGs and other goals)	Sector Related Issues	Medium Term CSP Outcomes the Bank Expects to Influence	Achievement at end of CSP Period	Deliverables from Bank Operation at Implementations	Achievement at end of CSP Period	Contributing Bank Projects/Programs
Pillar I: Support for Rural Infrastructure Development						
<p>Facilitate economic development and poverty reduction (MDF Goal 1) by improving the efficiency of the national transport infrastructure particularly in the rural mountainous areas</p> <p>Ease of mobility and access to markets and social infrastructure</p> <p>Employment creation and income generation</p>	Unbalanced spread of road network	<p>Increase in the upgraded/rehabilitated roads in Lesotho by 15% by 2008</p> <p>Vehicle operating costs reduced by 30-40% in the year 2008</p> <p>Improved socio-economic welfare conditions in the country</p>	<p>Not yet</p> <p>Not yet</p> <p>Not yet</p>	<p>Provide support for the rehabilitation and upgrading of rural road network</p> <p>A completely upgraded two-lane bitumen road with 7.0m wide carriageway and 1.0m sealed shoulders on either side for a total on 85 km</p> <p>Setting up of institutions to ensure sustainable financing for road maintenance</p>	<p>Underway</p> <p>70% of civil works on ADF-financed Lot 1 completed</p> <p>The establishment of a semi-autonomous Road Directorate by GoL under World Bank financed Integrated Transport project to be completed in 2008</p>	<p><u>New project proposed by the ADF</u></p> <p>Supplementary Loan for Likalaneng-Thaba Tseka Road Upgrading Project</p> <p><u>Ongoing ADF project</u></p> <p>Likalaneng-Thaba Tseka Road Upgrading Project</p> <p><u>Other active partners</u></p> <p>BADEA KFAED World Bank</p>
Pillar II: Enhance Human Capital						

<p>Achieve universal primary education by 2007 (MDG Goal 2)</p> <p>Achieve equal access for boys & girls to education & increase female participation in development by 2015 (MDG Goal 3)</p> <p>100% GER for elementary education by 2012 and for middle schools by 2015</p> <p>100% GER for the total 8-year education cycle by 2015</p>	<p>Low coverage with the majority of children from disadvantaged social groups unable to access 10 years of basic education</p> <p>Shortage of qualified teachers</p> <p>High repetition rates</p> <p>Low quality of education due to limited qualified teachers, materials and facilities</p>	<p>Universal intake to elementary education by 2008</p> <p>90% of Basotho children of going school age are enrolled in schools by 2008 (Primary NER)</p> <p>80% of persons in disadvantaged group (out-of-school youth, herd boys in hardship area, illiterate adults) have access to non-formal education by 2008</p> <p>63% primary school completion rate</p> <p>Eliminate gender disparity in primary and secondary education by 2006</p>	<p>Making substantial progress</p> <p>84%</p> <p>NA</p> <p>79%</p> <p>Achieved</p>	<p>At primary education level:</p> <ul style="list-style-type: none"> • 1400 teachers trained in special education; • 1600 unqualified teachers upgraded; • 1400 teacher lay counsellors trained on health, HIV/AIDS interventions. <p>At secondary education level:</p> <ul style="list-style-type: none"> • 35 classrooms, 7 admin blocks, 12 science labs, 19 staff houses, 2 girls hostels constructed, furnished and equipped. <p>Non-formal education level and institutional support:</p> <ul style="list-style-type: none"> • TVET curriculum reviewed and aligned with labour-market needs • 8 TVET staff participate in market driven courses • Teaching/learning materials in 8 TVET institutions and 100 secondary school • 1 training room at Lesotho College of Ed and 2 at Lerotholi Polytechnic constructed, furnished and equipped • 	<p>Not yet</p> <p>Not yet</p> <p>Not yet</p>	<p><u>New project proposed by the ADF</u></p> <p>Education Quality Enhancement Project</p> <p><u>Ongoing ADF project</u></p> <p>Education II Project</p> <p><u>Other active partners</u></p> <p>World Bank, Irish Aid and JICA</p>
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Lesotho: Key Economic and Financial Indicators, 2003-2007

Indicators	Unit	2003	2004	2005	2006	2007
					Est.	Proj.
National Accounts						
GNI at Current Prices	Million US \$	1,131	1,415	1,842	2,055	...
GNI per Capita	US\$	580	720	930	1,030	...
GDP at Current Prices	Million US \$	1,039.3	1,318.6	1,456.6	1,527.1	1 622.5
GDP at 2000 Constant prices	Million US \$	917.0	954.1	982.2	1,052.5	1 104.1
Real GDP Growth Rate	%	2.7	4.0	2.9	7.2	4.9
Real per Capita GDP Growth Rate	%	1.8	3.2	2.2	6.5	4.2
Gross Domestic Investment	% GDP	41.2	35.9	35.1	31.1	33.5
Public Investment	% GDP	16.7	11.8	15.2	14.0	16.5
Private Investment	% GDP	24.5	24.0	19.9	17.1	17.0
Gross National Savings	% GDP	20.9	25.9	20.5	28.7	27.7
Prices and Money						
Inflation (CPI)	%	7.3	5.0	3.4	6.1	7.2
Exchange Rate (Annual Average)	local currency/US\$	7.6	6.5	6.4	6.8	...
Exchange Rate (End of Period)	local currency/US\$	6.6	5.6	6.3	7.0	...
Monetary Growth (M2)	%	6.0	3.4	9.1	6.8	...
Money and Quasi Money as % of GDP	%	29.2	27.9	28.6	27.4	...
Government Finance						
Total Revenue and Grants	% GDP	44.9	49.3	50.8	59.5	58.0
Total Expenditure and Net Lending	% GDP	45.3	43.7	45.9	46.2	50.3
Overall Deficit (-) / Surplus (+)	% GDP	-0.4	5.6	4.8	13.4	7.7
External Sector						
Exports Volume Growth (Goods)	%	31.6	39.6	-0.5	7.3	5.4
Imports Volume Growth (Goods)	%	28.0	25.1	-0.7	4.4	5.9
Terms of Trade Growth	%	-1.7	-0.8	-5.8	0.0	-1.1
Current Account Balance	Million US \$	-127.6	-72.4	-99.1	65.9	24.7
Current Account Balance	% GDP	-12.3	-5.5	-7.0	4.4	1.6
Gross Official Reserves	months of imports	5.6	4.5	4.6	6.1	6.3
Debt and Financial Flows						
Debt Service	% exports	8.0	5.8	14.7	6.1	4.9
External Debt	% GDP	66.2	53.8	45.8	41.9	43.2
Net Total Financial Flows	Million US \$	-48.4	99.6	51.1
Net Official Development Assistance	Million US \$	79.3	106.0	68.8
Net Foreign Direct Investment	Million US \$	41.9	53.2	47.2

Source: ADB Statistics Department, Central Bank of Lesotho, BOS and IMF

Lesotho: Bank Group Ongoing Operations as at 31 December 2007

Project Title	Window	Approved	Signature	Effectiveness	Completion	Approved	Cancelled	Disbursed	Net Commitment	Disbursement
		Date	Date	Date	Date	Amount	Amount	Amount		Ratio (%)
Agriculture										
Highlands Natural Resources & Rural Income Enhancement	ADF	7-Sep-00	14-Mar-01	15-Sep-01	31-Dec-07	4,490,000.00	0.00	1,859,688.73	4,490,000.00	41.42
Highlands Natural Resources & Rural Income Enhancement	TAF	7-Sep-00	14-Mar-01	15-Sep-01	31-Dec-07	750,000.00	0.00	342,010.93	750,000.00	45.60
Sub-Total: Agriculture						5,240,000.00	0.00	2,201,699.66	5,240,000.00	42.02
Multi-Sector										
Institutional Support Project for MFDP & MOPWT	TAF	24-Nov-04	16-May-05	26-May-06	30-Apr-08	790,000.00	0.00	151,580.66	790,000.00	19.19
Sub-Total: Multi-Sector						790,000.00	0.00	151,580.66	790,000.00	19.19
Social										
Support to Health Reforms Programme	ADF	9-Jan-02	17-Apr-02	24-Oct-02	31-Dec-08	6,400,000.00	0.00	3,408,841.90	6,400,000.00	53.26
Support to Health Reforms Programme	TAF	9-Jan-02	17-Apr-02	24-Oct-02	31-Dec-08	1,000,000.00	0.00	373,952.13	1,000,000.00	37.40
Education Quality Enhancement Project	ADF Loan	4-Apr-07	17-May-07		31-Dec-13	1,570,000.00	0.00	0.00	1,570,000.00	0.00
Education Quality Enhancement Project	ADF	4-Apr-07	17-May-07		31-Dec-13	7,000,000.00	0.00	0.00	7,000,000.00	0.00
Sub-Total: Social						15,970,000.00	0.00	3,782,794.03	15,970,000.00	23.69
Transport										
Likalaneng-Thaba Tseka Road Project	ADF	29-Oct-03	25-May-04	29-Mar-05	31-Dec-08	10,530,000.00	0.00	8,497,548.40	10,530,000.00	80.70
Likalaneng-Thaba Tseka Road Project (Supplementary Loan)	ADF	4-Dec-06	26-Apr-07		31-Dec-08	6,830,000.00	0.00	521,611.33	6,830,000.00	7.64
Sub-Total: Transport						17,360,000.00	0.00	9,019,159.73	17,360,000.00	51.95
Grand Total						39,360,000.00	0.00	14,359,452.92	39,360,000.00	38.50

Lesotho: Selected Indicators on Bank Group Portfolio Performance and Management

Indicators	Baseline at Beginning of CSP Period (2004)	Status at End of CSP Period
Portfolio Assessment		
Project under implementation	6	5
Average implementation period	3.4	3.8
Project at Risk (%)	39.2	41.1
Commitment at Risk (UA mn)	12.6	12.6
Commitment at Risk (%)	39.2	41.1
Disbursement Ratio (%)	19	38.5
Portfolio Management		
CPPR during the year	No	Yes
Average supervision	1.2	1.5
Average size of operations (UA mn)	5.5	6.5

Annex V

Lesotho: 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	<ul style="list-style-type: none"> Proportion of people living below the poverty line 	59 (1986/87)	56.6	29	Potentially
Target 2: Halve between 1990 and 2015 the proportion of people who suffer from hunger	<ul style="list-style-type: none"> Prevalence of underweight children under 5 years old (%) 	16.9 (1992)	19.8	8	Unlikely
	<ul style="list-style-type: none"> Proportion of undernourished people in total population (%) 	27	25	14	
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	<ul style="list-style-type: none"> Net primary enrolment ratio in primary education (%) 	76	83.1	100	Probably
	<ul style="list-style-type: none"> Primary completion rate 	59.3 (1999)	73.7	100	
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	<ul style="list-style-type: none"> Ratio of girls to boys in primary education (%) 	121	106 (2006)	100	Achieved
	<ul style="list-style-type: none"> Proportion of seats held by women in the National Assembly (%) 	5	15 (2004)	30	
Goal 4 – Reduce Child Mortality					
Target 5: Reduce by two-thirds, between 1990 and 2015, the under-five mortality rate	<ul style="list-style-type: none"> Under-five mortality rate (per 1,000 live births) 	101	132 (2006)	37	Potentially
	<ul style="list-style-type: none"> Infant mortality rate (per 1,000 survivors to age 1) 	81	102 (2006)	24	
	<ul style="list-style-type: none"> Immunisation, measles (% of children under 12 months) 	54 (1995)	85 (2006)	100	
Goal 5 – Improve Maternal Health					
Target 6: Reduce by three-quarters, between 1990 and 2015, the maternal mortality ratio	<ul style="list-style-type: none"> Maternal mortality ratio (per 100,000 live births) 	282 (1993)	762 (2004)	70	Unlikely
	<ul style="list-style-type: none"> Birth attended by skilled health staff (% of total) 	50 (1993)	60	80	
Goal 6 – Combat HIV/AIDS, Malaria and Other Diseases					
Target 7: Have halted by 2015 and begun to reverse the spread of HIV/AIDS	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> Proportion of people without access to improved water source (%) 	36 (1996)	21 (2004)	19	Potentially
	<ul style="list-style-type: none"> Proportion of people without access to improved sanitation (%) 	66	63 (2004)	33	

Source: UNDP Millennium Development Goals Report and Ministry of Education and Training.

1/ Probably, potentially, unlikely, no data