



**WORLD BANK'S NEW COUNTRY ASSISTANCE STRATEGY FOR LESOTHO**

***The World Bank's Board of Directors endorsed a new Country Assistance Strategy (CAS) for Lesotho on the 1<sup>st</sup> July 2010.....***

**Background**

The *Country Assistance Strategy (CAS)* is a document that the World Bank prepares, outlining the level and type of assistance that the World Bank Group will provide to a country. The CAS sets out a selective program of Bank Group support linked to the country's development strategy and based on the Bank Group's comparative advantage in the context of donor activities. CAS was introduced in 1990 for countries borrowing from the World Bank's International Development Association (IDA), In 1994, it was extended to those borrowing from the International Bank for Reconstruction and Development (IBRD).

The process of developing a CAS involves thorough assessment of the economic and social development challenges facing a country, with particular emphasis on the incidence, trends and causes of poverty. Other factors that are taken into consideration are the World Bank's portfolio in the country, the country's credit worthiness, state of institutional development, implementation capacity and governance. The specific priorities identified in the country's development strategies are used to identify the relevant areas for assistance but only in so far as such priority areas match the thematic activities identified for financing by the Bank's trust funds. Otherwise the CAS is developed to fully reflect trust fund-financed activities. The diagnosis assists in determining the relevant type of assistance for a particular

country, which can take the form of financial, advisory, and/or technical support.

The endorsed new CAS for Lesotho outlines the World Bank Group support to Lesotho for fiscal years 2010-14. It is aligned to the Government of Lesotho's strategy for economic growth and development as specified in the "Vision 2020" and its Interim National Development Framework. It is designed to support efforts by Lesotho to sustain economic growth that is threatened by the global economic crisis. It will also support Government's efforts to undertake fiscal adjustment and strengthen public finance management. Equitable access to quality basic services will also be addressed.

This paper provides a brief review of the previous CAS with a view to assessing its performance. This is followed by an overview of the 2010-14 CAS and conclusion. This paper has benefited immensely from the CAS for Lesotho, May 17, 2010.

**Review of the Previous CAS**

Lesotho engaged in a CAS with the World Bank Group covering the period 2006 to 2009. In the years leading to the 2006-09 CAS, the economy of Lesotho was performing well, supported mainly by the textiles and manufacturing sector. Nevertheless, there were threats to this positive state of affairs presented by the phasing out of textiles quotas

under the Agreement on Textiles and Clothing (ATC) and the decline in migrant mineworkers' remittances, to mention a few. There were also other challenges that warranted authorities' attention, mainly in the form of HIV/AIDS pandemic, high poverty levels and uneven human development. These challenges laid the basis for the design of the strategic objectives of the 2006-09 CAS, which were to:

- a. Fight the HIV/AIDS pandemic;
- b. Establish sustainable pro-poor growth and job creation;
- c. Improve human development outcomes; and
- d. Strengthen decentralization, service delivery, and monitoring and evaluation.

These were also aligned with the following three main pillars of the Poverty Reduction Strategy Paper (PRSP):

- a. Employment and income generation through higher economic growth;
- b. Sharing the benefits of growth, health, education, and the environment; and
- c. Improving governance and public service delivery.

In addition, the PRSP identified HIV/AIDS, gender, and children and youth as cross cutting issues.

It is important to understand how successful the 2006-09 CAS was in terms of achieving the targeted results. Some milestones have been covered by the 2006-09 CAS but there are areas in which a lot still remains to be done.

Concerning HIV/AIDS, the assistance program focused on increasing capacity and effectiveness of the Government of Lesotho, the private sector and Non-governmental Organizations (NGOs) in managing national and local HIV/AIDS programs. It thus contributed to the increase in the pace of implementation of the HIV/AIDS Strategic Plan. Consequently, at the end of the program, the number of Voluntary Counseling and

Testing (VCT) centers increased, with 50.0 per cent of them fully equipped and the antiretroviral (ARV) program was established. Nevertheless, challenges of prevention and mitigation still remain. Only 40.0 per cent of eligible patients had been covered with advance testing and ARV treatment by the end of 2009.

With regard to strengthening pro-poor growth and job creation, the program undertook to improve the business environment by reducing constraints and associated costs to private sector development. It also focused on enhancing domestic and foreign investment and improving access to services and infrastructure to rural households, local communities and rural enterprises.

It is in this regard that the number of days taken to register a business was reduced from 92 in 2005 to 40 in November 2009. In addition, to increase transparency of allocation of licenses, especially for tourism, the Ministry of Tourism had adopted a Concessions Manual, which sets out transparent procedures for concessioning tourism sites. Despite these attempts, Lesotho is ranked very low on "ease of doing business" at 130 out of 183 countries, according to the *2010 Doing Business Database*.

Through the Water Sector improvement Project (WSIP1), the World Bank assisted in improving domestic water supply in Maseru and supported the Water and Sewage Authority (WASA) to improve management practices. This resulted in a reduction in the number of customers with less than 18 hour water supply from 94 000 in 2005 to 2 700 in 2009, a reduction in the percentage of biological samples that fail tests, reduced unaccounted for water and higher collection of water bills. While the quality of services has improved, water service coverage has remained at around 80.0 per cent of the population for the last five years. Nonetheless, this challenge is already being addressed through the Metolong Dam and Water Supply Program (MDWSP), which includes

construction of the Metolong Dam, a water treatment plant, and downstream conveyance to Maseru and a few surrounding towns.

The 2006-09 CAS also engaged in improving transport sector institutions and connecting isolated mountainous areas to services and market opportunities through the Integrated Transport Project (ITP). It is reported that the project is on target to deliver the results set by the 2006-09 CAS, but definite results are yet to be realized. Contracts have been awarded and work has commenced to reduce the travel time to markets and social services.

To improve human development outcomes, the focus was more on improving health systems management and efficiency and on increasing access and performance in primary and secondary education.

With regard to the health objective, the specific targets included reducing the average waiting period at health facilities and increasing the TB cure rate. Consequently, the average waiting period at health facilities has been reduced to 3 hours and 20 minutes from 4.5 hours. The TB cure rate had increased by 66.5 per cent at the end of 2009 from 52.0 per cent at the start of the CAS program.

The World Bank has been supporting Lesotho's education efforts since 1975. The major achievement in this regard is the Free Primary Education (FPE) through which access to basic education in Lesotho has increased quite significantly. Nevertheless, a number of challenges still remain. Repetition is very high, a significant portion of schools infrastructure does not adhere to basic standards and a sizeable number of the teaching staff does not possess appropriate qualifications. The quality of primary education needs to be improved to complement the gains in access. Work also needs to be done to improve access to secondary education. It needs to be improved to adequately absorb the increased number of primary school graduates.

On the fourth strategic objective of improving services delivery through government reform, the CAS focused more on improving capacity for management of public resources. Milestones covered in this regard include the adoption of the Medium Term Expenditure Framework, which is a budget formulation process that aims at allocating resources to strategic priorities within set fiscal targets. Individual ministries, as a result of World Bank support, now prepare Budget Framework Papers, which set out their visions, objectives, proposed revisions to their programs, and proposed changes to their pattern of resource use. Another milestone is with regard to decentralization, whereby the Local Government Service Act of 2008 was introduced as the first law that clarifies the roles and responsibilities of local officials and central government officials working at the local levels.

### **The Current 2010-2014 CAS**

The current 2010-14 CAS outlines the framework for World Bank Group support to Lesotho for the 2010 to 2014 fiscal years. It is aligned to Lesotho's long term development objectives as outlined in the Interim National Development Framework (INDF) that was developed in 2009. These are to:

1. Accelerate shared and sustainable economic growth, ensure employment creation, and protect the vulnerable;
2. Address the HIV/AIDS pandemic;
3. Foster good governance to improve public sector delivery; and
4. Improve the quality of life by promoting human development.

The World Bank has made some financial commitments under this strategy. US\$55 million has already been committed for the 2009/2010 fiscal year. It is also projected that US\$110 million will be disbursed during the 2011-2014 period, under the International Development Association's next replenishment cycle (IDA 16).

The 2010-14 CAS was prepared against the background of daunting macroeconomic and fiscal difficulties for Lesotho, fuelled mainly

by the global financial crisis and the resultant world economic downturn. On the macroeconomic front, the financial crisis had severe effects on the sectors that have been the key drivers of Lesotho's economic growth, textiles and clothing manufacturing; and the diamond mining. The textiles and clothing manufacturing sector was negatively affected by the decline in consumer demand in the US, which resulted in deterioration of order volumes, and hence exports earnings. This had trickle down effects on other sectors including the utilities and retail sectors. Production in the diamond sector also dwindled on account of the decline in diamond prices that emanated from the generally low global demand.

On the fiscal side, SACU revenue, which has historically been contributing around 50.0 per cent of total government revenue, declined considerably. This resulted mainly from the decline in imports by member states, especially South Africa as the main contributor to the SACU revenue pool. These challenges pose a threat to Lesotho's advancement towards attainment of the Millennium Development Goals (MDGs).

The 2010-14 CAS is intended to assist the Government of Lesotho in dealing with the shortfall in SACU revenue and improving social development indicators. It is in this regard that the 2010-14 CAS has identified the following three areas of engagement, which are also in line with the country's Interim National Development Framework:

#### ***Fiscal adjustment and public sector efficiency.***

The World Bank Group's support in this area will involve assisting government to develop options to address the decline in SACU revenue. In addition, the CAS financing under the Poverty Reduction Support Credit (PRSC), which will be supporting policy reforms, will provide additional financing and help minimize the gap created by the decline in SACU revenue. The CAS will also assist Government to prioritize public investments and reprogram capital expenditures while, at

the same time, strengthening capacity to address under expenditure of the capital budget. Focus will also be geared towards strengthening public financial management by introducing policy-based budgeting, improving financial reporting and external auditing to improve efficiency of budgetary expenditures.

#### ***Human development and service delivery.***

This entails efforts to improve health and education in Lesotho. On health, Government institutions that are responsible for responding to the HIV/AIDS pandemic will be assisted to access international funds, use those funds effectively and be able to measure their impact. The CAS will also continue to support Government's efforts to increase access to hospital services and improve their quality to comply better with health service standards and reduce post-operation infections. The Bank Group will continue with implementation of phase 2 of the Water Sector Improvement Project in an endeavor to increase access to portable water.

With regard to education, support will focus on improving the quality of primary education by increasing the proportion of classrooms that meet the basic standards of adequacy and upgrading teachers' qualifications through the multi-donor Catalytic Fund Grant for the Education for All Fast Track Initiative (FTI) that is being managed by the World Bank. The CAS will also put emphasis on reforming post-basic education to improve development of appropriate and relevant skills for growth in the labor market.

#### ***Enhanced competitiveness and diversification***

With this strategy, the CAS will focus on improving the business environment, trade facilitation and export diversification. This will entail strengthening the legal framework for private sector development, streamlining the regulatory environment and implementing the related reforms, all of which will improve Lesotho's "ease of Doing Business" ranking.

The Bank will also provide financing through the Trade Facilitation Facility to support transformation of the customs infrastructures at the Maseru Bridge and Maputsoe into one stop borders, which will provide a single point of contact to traders for customs clearance and other trade related services offered by both the Lesotho Revenue Authority (LRA) and the South African Revenue Service (SARS).

Through the International Fund for Agricultural Development, the World Bank will boost crop diversification. This will be achieved through efforts aimed at attracting private investments and enhancing productivity and marketability of agricultural products and encouraging sustainable land management.

## Conclusion

The CAS 2010-14 has come at an opportune time for Lesotho, especially given the dwindling SACU revenue and the eminent

## 2. *World Bank Global Monitoring Report (GMR) 2010: Assessing the state of MDGs after the crisis: The case of Lesotho*

### Background

The Global Monitoring report (GMR) 2010 is the seventh in a series of reports assessing progress towards achievement of the Millennium Development Goals (MDGs) and related outcomes. This year's report assesses performance of the world in overcoming poverty and fostering human development since the onset of the global financial crisis. During the period preceding the burst of the housing bubble, in the United States in 2007, and the consequent paralysis of the global financial system, there was a significant progress towards achievement of the MDGs.

Even in Africa, there was strong reduction in poverty rates emanating from, among others, macroeconomic policies, rapidly expanding international trade and strong remittances flows. Nonetheless, the 2008 financial crisis and 2009 global economic recession have seriously undermined the efforts towards

threats to economic growth emanating from the global economic downturn. The major objectives and interventions of this program are appropriate to Lesotho's economic and developmental circumstances and are in line with the country's development strategies.

World Bank assistance has the potential to make visible improvement in the lives of Basotho as demonstrated by the results of the 2006-09 CAS. Nevertheless, realization of 100.0 per cent of the targeted results is usually hampered by such factors as limited implementation capacity and weak institutions. Experiences of other countries with CASs also demonstrate that failure to achieve set targets under CASs may result from external shocks, weak fiscal management and low commitment by government to implement reforms. These factors can undermine achievement of CAS objectives and hence should be taken cognizance of.

achievement of the MDGs. The MDGs represent human needs and basic rights that every individual around the world should enjoy.

### MILLENNIUM DEVELOPMENT GOALS

GOAL 1: ERADICATE EXTREME POVERTY AND HUNGER  
GOAL 2: ACHIEVE UNIVERSAL PRIMARY EDUCATION  
GOAL 3: PROMOTE GENDER EQUALITY AND EMPOWER WOMEN  
GOAL 4: REDUCE CHILD MORTALITY  
GOAL 5: IMPROVE MATERNAL HEALTH  
GOAL 6: COMBAT HIV/AIDS, MALARIA, AND OTHER DISEASES  
GOAL 7: ENSURE ENVIRONMENTAL SUSTAINABILITY  
GOAL 8: DEVELOP A GLOBAL PARTNERSHIP FOR DEVELOPMENT

This article is an attempt to highlight the gains on MDGs before the onset of the crisis. It also indicates how the crisis has affected the MDGs and highlights the status of the MDGS in Lesotho in the aftermath of the crisis.

### *Overview of gains before the crisis*

The world has seen a period of progress towards the MDGs since 1990 until 2007. Extreme poverty fell rapidly around the world. The number of people living in extreme poverty had been falling since 1990, with notable reduction occurring in East Asia, where the incidence of poverty fell from 55.0 per cent in 1990 to 17.0 per cent in 2005. Sub-Saharan Africa stagnated in the yearly 1990s but began to reduce extreme poverty in mid-1990s. The proportion of Africans living on less than \$1.25 a day declined from 58.0 per cent in 1990 to 51.0 per cent in 2005. The reduction in poverty rates in the SSA region resulted from strong and sound macroeconomic policy fundamentals, high commodity prices in some countries and large remittance flows into the region.

The gains were also realised in the area of universal primary education. Many countries around the globe are close to realising the second goal of achieving universal primary education. Over 90.0 per cent, of primary-school-age children are attending schools in over 60 developing countries according to the Global Monitoring Report (GMR) 2010. The number of children out of school also declined from 115 million in 2002 to 72 million in 2007. The primary school completion rate reached 86.0 per cent in developing countries in 2007. Net enrolment rates also rose in many countries.

There has also been substantial progress towards gender equality and women empowerment. Gender disparity in primary and secondary education has been reduced. Under primary education, ratio of girls to boy's gross enrolment increased from 0.89 in 1991 to 0.97 in 2008 for the world, 0.87 to 0.96 for developing countries and 0.84 to 0.91 for Sub-Saharan Africa during the same period. In secondary education, the world, developing regions and Sub-Saharan Africa registered 0.96, 0.95 and 0.79 in 2008

compared to 0.84, 0.76 and 0.77 in 1991, respectively.

The share of women in wage employment also increased in the non-agricultural sectors. It rose from 35.2 per cent in 1990 to 39.2 per cent in 2008. For Sub-Saharan Africa, it increased to 32.4 per cent in 2008 from 23.5 per cent in 1990. The proportion of seats held by women in national parliament for the world rose from 2.8 per cent in 1990 to 15.6 per cent in 2005 (from 7.2 per cent to 14.2 per cent during the same time interval for Sub-Saharan Africa).

The child mortality rates also improved during the 15 years from 1990. Infant mortality rate declined from 62 infants per 1000 child births before reaching age 1 in 1990 to 45 infants in 2008. The Sub-Saharan Africa registered an improvement during the same period. The deaths of children before reaching the age of 1 per 1000 live births declined from 108 deaths to 86 in the period 1990 to 2008 in the region. Proportion of children immunised against measles increased from 73.0 per cent to 83.0 per cent for the world while it rose by 72.0 per cent in 2008 from 57.0 per cent in 1990 for Sub-Saharan Africa.

According to the GMR 2010, maternal mortality ratio has significantly dropped worldwide. Findings from 181 countries show that aggregate maternal deaths fell by over 35.0 per cent from about 526,300 in 1980 to 342,900 in 2008. Nevertheless, the opposite was observed in Southern Africa, where maternal mortality ratio increased from 171 in 1990 to 381 in 2008.

Progress towards the sixth MDG has also been commendable. The new HIV infection rate declined by 30.0 per cent from an estimated peak of 3.5 million in 1996 to 2.7 million in 2008 globally. Tuberculosis cases also improved. The incidence declined at a rate of 5.0 per cent per year over 2006-2008 in Peru.

Environmental sustainability has also improved. The proportion of people living

without access to improved sanitation and clean drinking water has improved by 8.0 percentage points between 1990 and 2006. The proportion of people with access to improved sources of drinking water increased by 100 basis points during the same period.

### *The impact of the global financial crisis on MDGs*

The 2008 global financial crisis and the consequent 2009 global economic recession has substantially increased the challenges of meeting the MDGs targets. The crisis sparked abrupt declines in exports, commodity prices, trade and investment, remittance flows, and global and regional growth rates.

The impact of the crisis on eradication of extreme poverty and hunger and the multiplier effect on other MDGs cannot be overlooked. Poverty and economic growth are positively correlated and poverty is also related to other areas of concern in MDGs. Due to the contraction of global output from a positive growth of 3.0 per cent in 2008 to an estimated decline of 0.6 per cent in 2009, it is expected that an additional 50 million people will be left in extreme poverty in 2009 and some extra 64 million people by the end of 2010. These stark figures are mostly to be seen in Sub-Saharan Africa, and Eastern and South-Eastern Asia.

Moreover, the other substantially affected goal is the reduction in child mortality. It is estimated that infant mortality rates have spiked. As employment declined due to global economic slump, more household budgets were curtailed, death tolls increased and the roots of poverty deepened across most developing countries. According to the UN reports, it is estimated that there will be an increase of between 200,000 and 400,000 in infant mortality and that child malnutrition which is already rising will compound the problem of child death rates.

The crisis has also led to rising schools closures as governments try to reduce services

and rationalise budgets in order to respond to the challenges on their revenues resulting from the financial crisis. This means that achieving universal primary education by 2015 remains a challenge. Health outcomes also deteriorated sharply. HIV/AIDS treatment became less efficient in lower income countries during the economic downturn. The economic slowdown and the global spike in food prices in 2008 is estimated to have contributed to the incidence of undernourishment to rise by around 63 million people, while the crisis itself may have led to an extra 41.3 million undernourished people in 2009, thus deepening hunger and poverty.

### *Assessment of Lesotho on MDGs*

Lesotho did not escape the negative impact of the global financial and economic crisis. The resultant slowdown in manufacturing and mining activity, workers' lay-offs, the decline in government revenue as well as the contraction in economic growth are likely to have taken Lesotho backwards on achievement of MDGs. Nonetheless, the dearth of information on many human development indicators in Lesotho hinders thorough analysis of the impact.

Based on the hypothesis that substantial and sustained economic growth is necessary for poverty reduction, the government of Lesotho has taken steps to help the economy to grow by, amongst other things, attracting foreign direct investment (FDI), especially to the labour intensive textile and clothing manufacturing sector. Nevertheless, the crisis appears to have reversed this positive development and the country is off-track on achieving this goal given the current pace of economic development. Economic growth in Lesotho contracted from 4.4 per cent in 2008 to just 0.9 per cent in 2009 mainly due to the impact of the crisis. The manufacturing sector laid off workers in response to the decline in global demand. In addition, mining companies in South Africa retrenched a sizeable number of Basotho migrant mineworkers.

Eradication of hunger has also achieved little from 2000 to the present mainly due to low agricultural output and yields, erratic rainfalls, periodic droughts and HIV/AIDS epidemic, inter alia, thereby increasing the levels of food insecurity and deepening the roots of poverty and exacerbated malnutrition and child mortality rates. Nonetheless, the GoL has put in place policies such as Food Security Policy and Action Plan, and has provided free meals two times a day to almost 66000 pupils in 400 primary schools.

Lesotho also achieved considerable progress in striving to eradicate extreme poverty and hunger through the reduction of unemployment rate from 28.7 per cent in 2003 to 23.0 per cent in the wake of the financial crisis. However this achievement was still not enough for Lesotho to realise the first MDG. To make matters worse, the global economic crisis resulted in a decline in employment particularly in the textiles and clothing sector.

Significant progress has been made towards education in Lesotho, especially with regard to primary education. The government of Lesotho introduced Free Primary Education (FPE) in 2000 which incorporates a school feeding component. FPE policy offers equal access to primary education for boys and girls and also aims at reducing gender disparities in primary education. In 2006, the net enrolment rate to primary education was 83.9% from 60.0 per cent in 1999. In 2005, adult literacy rate was 82%, which is among the highest in Africa. Lesotho is likely to attain this MDG though the decline in Government revenue presents some challenges.

Before the crisis, HIV/AIDS prevalence rate marginally declined from 23.9 per cent in 2000 to 23.6 per cent in 2008, with the number of new infections remaining constant in 2007 and 2008. However, several interventions by the Government, led to a significant reduction in HIV/AIDS related deaths. These interventions include the extensive expansion of Voluntary Counselling and Testing Centres' (VCTs), a massive roll-

out of antiretroviral therapy program and prevention of mother to child transmission. These achievements face great challenges as the Government struggles to maintain sustainable levels of fiscal deficit and also because Donors are pledging less support as a result of the crisis.

The GoL has also provided several interventions in the areas of child mortality. Over the last four years, the GoL has implemented the Expanded Programme of Immunisation (EPI), the Integrated Management of Childhood Illness (IMCI) strategy and the Infant and Young Child Nutrition (IYCN) programme. The IMCI is the critical tool in an intervention against infant and child mortality.

### *Conclusion*

The global financial crisis that triggered the recent global economic recession has seriously impacted on many human development indicators. Nonetheless, many governments and other authorities around the globe have embarked on several macroeconomic, social and political policies to jointly confront these challenges. Efforts towards sustaining the current global economic recovery are a welcome development..

Lesotho could not be left behind in the quest to achieve the MDGs. The national response towards HIV/AIDS has been commendable. The Government of Lesotho is also not silent on poverty issues. With 56.6 per cent of Basotho people living below poverty line and around 25.0 percent of the population affected by food insecurity, the GoL has scaled up efforts to enhance food security nation wide.