Report Number : ICRR0020570

1. Project Data

Operation ID P128573	**Operation Name** LS-First Growth and Competitiveness DPG
Country Lesotho	**Practice Area(Lead)** Macro Economics & Fiscal Management

L/C/TF Number(s) IDA-H8500	**Closing Date (Original)** 30-Jun-2014	**Total Financing (USD)** 20,000,000.00
Bank Approval Date 03-Jun-2013	**Closing Date (Actual)** 30-Jun-2014	

	IBRD/IDA (USD)	Co-financing (USD)
Original Commitment	20,000,000.00	0.00
Revised Commitment	20,000,000.00	0.00
Actual	20,537,242.00	0.00

Prepared by	Reviewed by	ICR Review Coordinator	Group
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2. Project Objectives and Policy Areas

a. Objectives

The operation's development objective is to assist the Government in implementing a reform program aimed at promoting growth, competitiveness and public sector efficiency (Program Document [PD], p. I)
This review assesses the stated objective - promoting growth, competitiveness and public sector efficiency – as two sub-objectives, as follows: (i) promoting growth and competitiveness, and (ii) promoting public sector efficiency.

b. Were the program objectives/key associated outcome targets revised during implementation of the series?

No

c. Pillars/Policy Areas

The operation supported three policy areas (PD, pp. 15-25):

(i) Improving private sector competitiveness

This policy area supported the government’s efforts to continue improving the business environment for attracting new foreign direct investment. It focused on streamlining the processes for getting a permit to start a business and obtaining a construction permit, and improving cross-border trading (1 Prior Action).

(ii) Improving the sustainability and efficiency of public spending

This policy area supported the government’s reforms through fiscal consolidation and Public Finance Management (PFM) and procurement system reforms. This policy area covered measures: to address financial control and reporting weaknesses by improving the availability and reliability of financial information, through the Integrated Financial Management Information System (IFMIS); improve the complaint mechanism, starting with the establishment of the Public Procurement Tribunal; and promote transparent and competitive public procurement (2 Prior Actions).

(iii) Improving social protection and monitoring system

This policy area supported the government's efforts to strengthen social protection and improving data and information monitoring systems through improving the targeting of social safety net programs and strengthening the statistical system. This policy area included measures to develop and adopt a national registry for the households receiving payments through transfer programs called National Information System for Social Assistance (NISSA), expand the NISSA coverage to increase harmonization among several key social protection programs, improve the quality of statistics, and establish a national ID system, which enables adequate tracking of beneficiaries of social protection programs (2 Prior Actions).

The policy areas in the Financing Agreement are broadly similar to those in the PD, except that policy area (iii) does not mention "citizen empowerment (PD, para. 50 and p. 51)." The Bank team informed IEG that there was no change in the reforms and their focus. The operation intended to support citizen empowerment through rolling out the National ID, which was a step towards improving social protection and monitoring systems. The roll out of the National ID was a trigger for Development Policy Operation (DPO) 2, which was eventually cancelled, therefore, the ICR does not discuss “citizen empowerment.”

d. Comments on Program Cost, Financing, and Dates

The DPO was approved by the Board on June 3, 2013, and became effective on July 17, 2013. The IDA loan of XDR 13.40 million (US$ 20.54 million equivalent) was fully disbursed. The credit closed on June 30, 2014, as scheduled.

This operation was planned as the first in a series of three programmatic single-tranche Development Policy Operations. The second operation was planned for Board presentation on April 2015, but the preparation was stopped on January 2015 due to an inadequate macroeconomic framework. No further operation in the series materialized.

3. Relevance of Objectives & Design

a. Relevance of Objectives

The program objective was highly relevant to the country context at appraisal and remained so. Lesotho's economy had grown at 6.8 percent in FY10-11 and 5.4 percent in FY11-12, driven by mining and public investment (PD, p.5). However, growth in the productive sectors declined and the unemployment rate remained high. Lesotho's uncompetitive business environment was a major constraint to private sector development. Poverty rates continued to be high with limited progress in social development. Despite the relatively high spending on social protection programs (9 percent of GDP), the programs were not effective at reaching the poor due to the weak targeting. With volatility in South African Custom's Union revenues and increasing government spending, strengthening of public expenditure and financial management was critical. Promoting competitiveness and public sector efficiency were key challenges to achieving more dynamic and inclusive growth.

The program objective was highly relevant to the National Strategic Development Plan (NSDP) for 2012–2017, which serves as the Poverty Reduction Strategy Paper and supports the goals of the Lesotho Vision 2020. The operation supported three strategic goals of the NSDP: (i) pursue high, shared and employment creating economic growth; (ii) improve health, combat HIV and AIDS and reduce (social) vulnerability; and (iii) promote peace and democratic governance and build effective institutions (ICR, para. 5).

The program objective was also highly relevant to the Bank's Country Assistance Strategy (CAS) for Lesotho FY10-14. The operation contributes to two of the three CAS Pillars: (i) fiscal adjustment and public-sector efficiency; and (ii) competitiveness and diversification (Country Learning Strategy Review FY10-14). The objective remains consistent with the priorities identified in the World Bank Group Country Partnership Framework for 2016-20, which supports two focus areas: (i) improving efficiency and effectiveness of the public sector, and (ii) promoting private sector job creation.

Rating
High

b. Relevance of Design

The design of policy actions in three key policy areas were supported by analytical work conducted by the Bank, IMF, and others, and Bank investment lending and technical assistance (PD, pp.13-14). Policy notes showed the importance of reducing the time to start businesses by streamlining the procedures. The Public Expenditure Review 2012 identified constraints to public sector efficiency, such as weak financial reporting and procurement systems and limited availability of budget information. The policy actions were designed to address the identified constrains. The policy actions were broadly aligned with the medium-term objectives and associated outcomes However, the absence of key reforms to link directly to fiscal consolidation is considered to be a design weakness.

The Policy Matrix shows the evolution of prior actions and triggers over the three series, starting from process oriented prior actions to implementation of reforms. However, since the series was truncated and only one materialized, the results chain was broken, and what remains are inputs/processes. There is uncertainty with respect to whether these would lead to the intended outcomes.

The macroeconomic framework was assessed as adequate at the time the operation was designed (PD, para. 26), and the potential risks for successful reforms were taken into account. To reduce the risks, the Government was committed to maintain macroeconomic stability through fiscal consolidation efforts with support from the IMF (PD, para. 106). But the design underestimated the risks to fiscal consolidation, the key element in maintaining an acceptable macroeconomic framework. The volatility in South African Custom’s Union revenues and major fiscal adjustment have been challenges to maintain macroeconomic stability (IMF Article IV, 2015). As noted in the ICR, the design overlooked actions or structural reforms that would have supported fiscal consolidation more directly.

Rating
Modest

4. Achievement of Objectives (Efficacy)

Objective 1
Objective
Promoting Growth and Competitiveness

Rationale
Lesotho faced challenges in creating a more dynamic economy by promoting investment and trade. The development of the private sector has been constrained by the lack of competitiveness in the business environment. Outcomes for this objective focus on streamlining businesses processes and procedures for starting a business and cross-border trading to improve the business environment to encourage growth and competitiveness of the private sector.

- The Government has aimed to reduce barriers for investors to access land by facilitating the use of sub-lease. The Government submitted to Parliament a sectional title bill, which allows citizens to sell or transfer a section of their property with an accompanying title for ownership (Trigger for DPO 3). However, the Government has not yet submitted to Parliament the Amendments Land Bill of 2013, which has specific clauses that give rights to subleases (Trigger for DPO2) and provides them with greater certainty and security in occupational rights. With the incomplete policy action due to the cancelation of operation, the outcome was not achieved. The number of land sub-leases per year slightly increased from 8 in 2012 to 10 in 2016, well short of the target of 64.

- The Government issued regulations and guidelines to require environmental impact assessments only for construction projects for industries that pose high environmental risk (Trigger for DPO 2). According to the Doing Business report 2016, dealing with construction permits takes 179 days. The number of days was significantly reduced from 330 days in 2012 to 179 days, which is lower than the outcome target (240 days in 2016).

- The Government submitted the Industrial License Bill 2012 to its Parliament (Prior Action), which reduces the process of getting a license by elimination of the Pioneer Industrial Board approval, and took further steps to implement the Bill and roll out One Stop Business Facilitation Center (OBFC) services in Maputsoe (Trigger for DPO 2). With these reforms, the number of days to register a firm was reduced from 40 days in 2012 to the target, 7 days in 2016, according to the Doing Business report 2016.

- The elimination of the Pioneer Industrial Board approval also reduced the number of days required to obtain manufacturing and trading licenses. It used to take 1-5 days in 2012. The team mentioned, based on a budget support meeting note, it takes 2 days to obtain an industrial license and one day to obtain a trading license in 2016 if there are no queries on the application. This surpassed the outcome target (3 days in 2016).

- The government completed the Preferred Trader Program Pilot to reduce inspection cost and enhance trader’s compliance at the end of March 2014 and reported on recommendations for implementation of the full scheme (Trigger for DPO2). The business environment of cross-border trading has improved. The number of days required for import clearance and export clearance were reduced from 4.5 and 4.7 in 2012, respectively to less than1 day in 2016, meeting the target, according to Doing Business reports 2015 and 2016 (albeit with some methodological change).

Rating

Substantial

Objective 2

Objective

Promoting Public Sector Efficiency

Rationale

With widening fiscal deficit and little progress in social outcomes despite relatively high social spending, enhancing public sector efficiency has been a key challenge. This review assesses the objective using the following dimensions of public efficiency: improving sustainability and efficiency of public spending, strengthening social protection and improving data and information monitoring systems

Improving Sustainability and Efficiency of Public Spending

The achievement of this aspect of the objective focused on publication the audit report, production of budget expenditure data, the use of a medium-term fiscal framework (MTFF), and competitive procurement. The objective was to be measured by five outcomes, as discussed below.

- The target of reducing the number of months delay in publishing the audit reports on public accounts to less than one month showed progress, but was not achieved. The government submitted the revised FY09/10 public accounts to the Office of Auditor General and the Office published the audit report on the FY08-09 public accounts as Prior Actions, however, the Government failed to publish the audit report as scheduled. The number of months delay in publishing FY13 (end of March) public accounts was 24 months and that of FY14 was 12 months. The number of months was reduced, but did not reach the target of less than one month. The Public Accounts for 2014/15 were received for auditing by the Ministry of Finance on September 1, 2015, and have not yet been published as of June, 2016.

- The government was not able to achieve the outcome to produce timely and reliable budget expenditure data from the IFMIS and reconcile quarterly reports from it, despite some progress during the second half of 2014 with the implementation of various issues related to IFMIS, including the link between the IFMIS and the Central Bank for electronic payments and data cleaning. The policy actions planned in subsequent series are incomplete. Fiscal reporting is still hampered by the lack of reliable information, because of data and reconciliation problems.

- The government has taken a step to enhance PFM through improvements in planning and budgeting using a medium-term fiscal framework (MTFF). The medium-term budget policy and MTFF, which were not used before the operation, were approved by Cabinet. Even though they were not approved by Cabinet separately, the budget ceilings which are approved by Cabinet include a budget policy statement and MTFF. The ICR assesses that the MTFF was implicitly approved by Cabinet and this indicator was met.

- The procurement reforms have been slow and incomplete and the outcome has not been fully achieved. The Government established the Public Procurement Tribunal and appointed its members as prior actions;

however the Government has not completed the action of publicizing contract awards above 100,000 maloti on the web and media (Trigger for DPO2). The number of approved waivers allowing noncompetitive bidding in July 2015 was same as the baseline in 2012 despite some decline in 2014.The number of non-approved waivers allowing non-competitive bidding increased to 56 by mid-2015, from 23, which is the baseline value in 2012 (PD, p.51) (The baseline value stated in ICR is 40 in 2012). It did not reach to 70, target of the completion year.

Strengthening Social Protection and Improving Data and Information Monitoring Systems

On strengthening social protection, the objective was to be measured by the number of households in NISSA reached through the Childs Grant Program.

• The Ministry of Social Development has improved the beneficially selection process through the adoption of the NISSA – a prior action- and its piloting through the Grants Program. By end 2015, the number of households in NISSA reached through the Child Grant's Program increased to 25,400 households, from a baseline of 6,920 in 2012, and exceeding the target of 25,000.

On improving data and information monitoring systems, the objective was to be measured by two outcomes. However, the limited progress was made due to the cancelation of the operation.

• The Government submitted the Ministry of Finance a FY2013/14 Budget Framework Paper for the Bureau of Statistics (BoS) – a prior action - to give administrative autonomy and allocated resources activities including coordinating the country's statistical activities. BoS published a definitions and concepts manual in August 2013, which harmonized concepts and definitions with international standards for the household data. This was a trigger for DPO 2 which was cancelled. According to the ICR, the BoS is no longer monitoring the use of the harmonized definitions and concepts. Hence the target outcome of 14 line ministries using the harmonized concepts or definitions by 2016 is not achieved.

• The government has taken a step to establish a national ID system, which will improve targeting of social protection programs, thus contribute to enhance efficiency in public spending. The roll out of the National ID system was a trigger for DPO 2 which was cancelled. According to the ICR, the target was partially met, with the eligible population with a national ID coverage reaching to 43 percent by April 2016.

On balance, this objective is rated on the low side of Modest. The more important dimensions of the objectives (medium term framework etc.) were not achieved.

Rating

Modest

5. Outcome

The objectives of promoting growth, competitiveness and public sector efficiency are relevant in addressing key development priorities for the country, although the operation did not address squarely the objective of fiscal consolidation. Relevance of design is rated modest due to weak prior actions especially in light of the cancellation of the two follow on programs and insufficient support to maintaining an adequate macroeconomic framework. The objective of promoting growth and competitiveness was substantially achieved with progress on streamlining business processes and procedures. However, the objective of promoting public sector efficiency achieved limited progress. Taking these factors into account, the overall outcome is rated moderately unsatisfactory.

a. Outcome Rating

Moderately Unsatisfactory

6. Rationale for Risk to Development Outcome Rating

Risk to the development outcome achieved in promoting growth and competitiveness is high, associated with three main risks: political, economic, and institutional.

Due to the collapse of the government in 2014, the stagnation in implementation of NSPD and disruptions in parliamentary procedures have delayed a number of legislative proposals and slowed business investment. The political and security situations could undermine the development outcomes of private sector reforms.

Lesotho remains highly exposed to global and regional economic trends, including the effects of reduced Southern African Customs Union revenue, other spillovers from South Africa’s slower growth, the trade slowdown with USA and South Africa, and the limited aid flows.

On the institutional side, the main risk stems from the weak capacity of Government institutions to carry out the reform program. To reduce this risk, the Bank is providing additional support, in coordination with other donors, to help move forward the Government’s reform goals.

a. Risk to Development Outcome Rating

High

7. Assessment of Bank Performance

a. Quality-at-Entry

The operation's design incorporated four main lessons from the previous Poverty Reduction Support Credit series (FY08-11), such as ownership of reforms, strong analytical underpinnings, effective donor coordination, and strong links to other Bank technical capacity and investment operation. The operation was underpinned by extensive analytical work carried out by the Bank, the government, and other partners, such as the Public Expenditure Review 2012, Public Expenditure and Financial Accountability Reports and various policy notes (PD, pp.13-14; ICR, p.8). The analytical underpinnings not only contributed to the design of this lending operation, but also helped shape the Government's reform efforts and supported the Bank's policy dialogue with the government. The Bank also worked closely with other donors (especially the EU and IMF) to prepare the joint framework. This operation was also supported and complemented by other Bank trust funds, technical assistance operations, and investment projects, which support creating an enable environment for private sector-led growth.

There were three main risks: institutional, political, and economic risks. To address the potential economic risk, the government was committed to maintain macroeconomic stability with support from IMF. However, the major shortcoming of the program design was its lack of direct support for fiscal consolidation which was a critical element for sustainability of the country's macroeconomic framework. The Bank team informed IEG that it was considered to add an indicator to assess the progress in reducing the wage bill as part of the DPO, but the decision was made not to go ahead due to the delicate political situation. Reducing the wage bill expenditure as a share of GDP, which is one of the highest in the world, was a key challenge to fiscal balance in Lesotho.

Quality-at-Entry Rating

Moderately Satisfactory

b. Quality of supervision

The Bank provided constant support for the Government to implement the reforms. According to the ICR, there were four economic monitoring missions in 2014 (to follow up on this operation and to prepare for the second operation that did not materialize). One Implementation Status and Results Report (April 2014) was prepared. The Bank maintained its dialogue with the authorities to try to keep their engagement and commitment, despite the cancellation of the follow on operation. The Country Director sent letters to follow up the operations and informed there is a possibility to continue the operation with some adjustments. However, the political situation made it difficult to maintain the momentum.

Quality of Supervision Rating

Moderately Satisfactory

Overall Bank Performance Rating

Moderately Satisfactory

8. Assessment of Borrower Performance

a. Government Performance

The main shortcoming during supervision was the complicated political situation which did not allow the government to address the macroeconomic challenges, in particular, fiscal consolidation.

While the Ministry of Finance was committed to maintaining macroeconomic stability, they could not get the support from other ministries in maintaining budget ceilings. The prior actions, indicators and even the triggers for the operations were thought to be relatively easily attainable, but the Government failed in the macroeconomic arena and in attaining several of the indicators and envisioned triggers. Nevertheless, the Government's made more progress in enhancing private sector competitiveness and improving social protection. The ICR (p. 7) indicates that there was commitment at the start of the implementation but, but it weakened due to political instability and weak capacity to implement reforms. While there was a very energetic new government that wanted to implement reforms, there were many new and inexperienced officials, especially from the private sector, that could not deliver a reform package (ICR, p.22).

Government Performance Rating

Moderately Unsatisfactory

b. Implementing Agency Performance

Implementing Agency Performance Rating

Not Rated

Overall Borrower Performance Rating

Moderately Unsatisfactory

9. M&E Design, Implementation, & Utilization

a. M&E Design

The M&E framework clearly articulated the prior actions and triggers and outcomes, with baselines and targets. It also identifies the responsible entity for monitoring the outcome. This review agrees with the ICR that the objectives could have been more clearly stated.

ICR notes that the indicators in supporting the objective related to improving the sustainability and efficiency of public sector spending were weak, while they were aligned with the objectives. In addition, there was a lack of clarity in the information sources of identifying medium term budget policy and medium term fiscal framework and measuring number of ministries using harmonized concepts and definitions. Other selected indicators were relatively easy to monitor using the indicators from Doing Business Report and the Performance Assessment Framework (PAF) of the Joint Budget Support (JBS) system, which the Government developed with support from the EU and IDA. However, the institutional arrangements and M&E framework relied on JBS system and PAF that was not eventually adjusted to be used for this operation.

b. M&E Implementation

The information was collected at supervision missions and follow-ups to monitor the selected indicators. There are some deficiencies in M&E implementation, including lack of clarity in data or evidence for measuring outcomes (MTFF) and concerning institutional responsibility for collecting and reporting data (statistical capacity reform across ministries).

c. M&E Utilization

The M&E findings on the progress of improving business environment and social protection and the information from Doing Business were utilized during supervision missions to encourage the stakeholders to advance with the implementation of the program. No information was available to assess whether M&E findings informed strategic redirection and resource allocation.
Even though the series was cancelled, the ICR indicated that the government will use the M&E findings and continue to monitor the number of population with national ID to make further progress toward the original goal, 100 percent coverage. The ICR does not explicitly mention any other utilization of the information beyond the program.

M&E Quality Rating

Modest

10. Other Issues

a. Environmental and Social Effects

The Program Document and the ICR note the importance of securing critical social spending for the poor and vulnerable groups under the medium-term macroeconomic program. There are potential negative poverty effects by fiscal consolidation.

b. Fiduciary Compliance

The PFM system and planned reforms in the PFM Action Plan provide a sufficient fiduciary basis for the operation (PD, para. 99). The PFM Reforms have been supported by the World Bank, EU, AfDB and IMF.

c. Unintended impacts (Positive or Negative)

The DPO supported one of the weakest areas in need for reform that is, procurement reform, through the establishment of the Procurement Tribunal. However, what was intended as a limited reform went beyond what was envisioned. The creation of the tribunal changed the mentality of this unit, which started simple, but they went beyond their mandate by, for example, monitoring newspaper publication of bids. This led the

AfDB to become more engaged and pave the way to their support through an investment loan (ICR, para. 52).

d. Other

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11. Ratings

Ratings	ICR	IEG	Reason for Disagreements/Comment
Outcome	Moderately Unsatisfactory	Moderately Unsatisfactory	---
Risk to Development Outcome	High	High	---
Bank Performance	Moderately Unsatisfactory	Moderately Satisfactory	The main shortcoming was the complicated political situation.
Borrower Performance	Moderately Unsatisfactory	Moderately Unsatisfactory	---
Quality of ICR		Substantial	---

Note

When insufficient information is provided by the Bank for IEG to arrive at a clear rating, IEG will downgrade the relevant ratings as warranted beginning July 1, 2006.

The "Reason for Disagreement/Comments" column could cross-reference other sections of the ICR Review, as appropriate.

12. Lessons

This review supports the following ICR lessons:

DPOs supporting fiscal consolidation should adopt targets that address structural reforms specifically aimed at cutting expenditures and mobilizing revenues.

Programmatic lending limited to no more than 2 year programs could give more flexibility to adjust the program to changing circumstances. Lesotho’s economy is fragile and very dependent on the external environment because of its dependence on Southern African Customs Union revenues and remittances. When faced with a more favorable environment, the government tends to relax fiscal conditions which leads to delays in the reform agenda.

In countries with low implementation capacity, all operations should include capacity building or should be linked to other ones that provide it. Most critical is providing capacity building in the area of fiscal policy given the central role that fiscal consolidation plays in the sustainability of the country’s macroframework.

13. Assessment Recommended?

No

14. Comments on Quality of ICR

The ICR provides a good description of key achievements and effectively highlights the major shortcomings (maintaining the macroeconomic framework) and assesses the extent of achieving outcomes. The ICR assessed some outcomes based on limited information, and made some assumptions due to the lack of information or clarity in definition (approval of MTFF and use of harmonized concepts and definitions for improving monitoring systems).

The ICR could have assessed the efficacy based on the achievements of objectives, not policy pillars. The ICR could have explained activities supported by this operation more clearly, as there were some outcomes achieved without completing the triggers due to the cancelation of operation.

a. Quality of ICR Rating
Substantial