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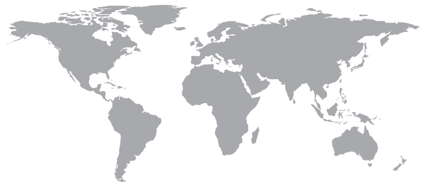

Lesotho

Development in a Challenging Environment

A Joint World Bank–African Development Bank Evaluation

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FOREWORD

This Country Assistance Evaluation was prepared in collaboration with the African Development Bank Group. Lesotho's economic and social development in the 1990s and the development challenges facing the country were assessed jointly; the roles of each institution over the decade were evaluated in parallel. The partnership led to significant capacity development, and further collaboration is already ongoing: the African Development Bank Group is currently leading a joint evaluation of the Rwanda program.

Lesotho is a poor, small, mountainous country of about two million (predominantly rural) people. The country is landlocked and completely surrounded by, and economically dependent on, South Africa. Its economy is based on limited agricultural and pastoral production and light manufacturing (textile, clothing, and leather) supplemented by large, although declining, remittances from Lesotho miners in South Africa. Recently there have also been royalties from exporting water to South Africa through the World Bank–supported Lesotho Highlands Water Project (LHWP).

A major development challenge for Lesotho is that half the population lives below the poverty line and income inequality is among the highest in the world. Other challenges are low quality of education and health services, widespread HIV/AIDS, weak institutions, and lagging

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PRÓLOGO

Esta evaluación de la asistencia al país se preparó en colaboración con el Grupo del Banco Africano de Desarrollo (BAfD). El desarrollo económico y social de Lesotho en los años noventa y los desafíos que el país encara en esa esfera se evaluaron conjuntamente; además se llevó a cabo en forma paralela una evaluación del papel desempeñado por cada una de las organizaciones durante dicho decenio. Esta cooperación permitió alcanzar un significativo aumento de la capacidad y ahora está intensificándose: el Grupo del Banco Africano de Desarrollo actualmente dirige una evaluación conjunta del programa para Rwanda.

Lesotho es un país pobre, pequeño y montañoso con unos dos millones de habitantes (que viven sobre todo en zonas rurales). Carece de litoral y está totalmente rodeado por Sudáfrica, país del que depende económicamente. La economía de Lesotho se basa en una limitada producción agrícola y ganadera y en actividades manufactureras ligeras (textiles, prendas de vestir y artículos de cuero), lo que se complementa con cuantiosas remesas de los mineros de Lesotho que trabajan en Sudáfrica, aunque su volumen está disminuyendo. Últimamente Lesotho también ha recibido regalías por concepto de la exportación de agua a Sudáfrica a través del proyecto de exportación de recursos hídricos respaldado por el Banco.

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AVANT-PROPOS

Cette Évaluation de la stratégie de l'aide au Lesotho a été préparée en collaboration avec le Groupe de la Banque africaine de développement. Le développement économique et social du Lesotho durant les années 90 ainsi que les défis que le développement pose au pays ont été évalués conjointement ; le rôle joué par chacune des institutions au cours de la décennie, quant à lui, l'a été en parallèle. Ce partenariat a permis de renforcer substantiellement les capacités, et la collaboration se poursuit : le Groupe de la Banque africaine de développement coordonne actuellement une évaluation conjointe du programme pour le Rwanda.

Le Lesotho est un petit pays pauvre et montagneux avec une population (essentiellement rurale) d'environ deux millions d'habitants. Enclavé dans l'Afrique du Sud, dont il est économiquement dépendant, il n'a pas de façade maritime. Son économie repose sur une faible production agricole et pastorale, sur la petite industrie (production de textiles et de vêtements, travail du cuir) ainsi que sur les sommes importantes qu'envoient les mineurs expatriés en Afrique du Sud, un apport qui tend toutefois à baisser. Le pays a récemment commencé à recevoir des redevances sur l'eau qu'il exporte en Afrique du Sud depuis qu'a été réalisé, avec l'aide de la Banque mondiale, le Projet hydraulique des hautes terres du Lesotho.

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private sector development. External aid to address these issues, although declining, is higher per capita than the Regional average. Despite some macroeconomic successes, political instability and weak governance continue to constrain the country's development, reducing government ownership of programs and hampering implementation.

World Bank assistance evolved from an emphasis on stabilization and growth to a focus on poverty reduction and private sector development in the latter part of the 1990s. The World Bank supported joint work with the government and the International Monetary Fund on successive Policy Framework Papers throughout the 1990s. The World Bank also supported a jointly prepared Poverty Assessment and a Strategic Economic Options Report, in which the government charted its post-apartheid economic strategy. But other planned analytical work was only partially carried out. Notably absent were periodic reviews of public expenditures. The LHWP was the most important of World Bank programs, but education, health, agriculture and rural development, and private sector development also received support.

The successful macroeconomic policies and the substantial impact of construction in the LHWP helped Lesotho achieve an average annual GDP growth of close to 4 percent during the 1990s. Although the World Bank financed less than 4 percent of the first-phase LHWP cost of $3.7 billion, it facilitated an agreement

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En relación con su desarrollo, Lesotho enfrenta el importante desafío de que la mitad de su población vive por debajo del umbral de pobreza y que la desigualdad en la distribución del ingreso se sitúa entre las más altas del mundo. Otros desafíos en esta esfera son la baja calidad de los servicios de educación y salud, la alta incidencia de VIH/SIDA, existencia de instituciones deficientes y el lento desarrollo del sector privado. La asistencia externa aportada para abordar estos problemas supera el promedio regional sobre una base per cápita, pero está disminuyendo. No obstante algunos éxitos alcanzados a nivel macroeconómico, la inestabilidad política y los problemas de gestión de los asuntos públicos siguen repercutiendo adversamente en el desarrollo del país, reduciendo la identificación del gobierno con los programas y obstaculizando su ejecución.

La asistencia del Banco Mundial ha evolucionado, pasando del énfasis en la estabilización y el crecimiento a la focalización en la reducción de la pobreza y el desarrollo del sector privado a fines del decenio de 1990. Durante todo dicho decenio el Banco Mundial participó conjuntamente con el gobierno y el Fondo Monetario Internacional (FMI) en la preparación de documentos sobre parámetros de política económica. El Banco Mundial también respaldó la preparación conjunta de una evaluación de la pobreza y de un informe estratégico sobre opciones económicas, en el que el gobierno plasmó su estrategia económica para el período poste-

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Sur le plan du développement, un des grands défis du Lesotho tient au fait que la moitié de sa population vit en dessous du seuil de la pauvreté et que c'est l'un des endroits du monde où l'inégalité des revenus est la plus marquée. Les autres problèmes du pays sont la mauvaise qualité de l'éducation et des services de santé, la prévalence du VIH/SIDA, la faiblesse des institutions et le retard dans le développement du secteur privé. Même si elle baisse, l'aide extérieure fournie pour répondre à ces problèmes est, par habitant, supérieure à la moyenne régionale. Bien que certains succès aient été enregistrés au niveau macroéconomique, l'instabilité politique et une gestion inadéquate des affaires publiques continuent de freiner le développement du pays en diminuant la mesure dans laquelle les pouvoirs publics prennent les programmes au sérieux et en gênant la réalisation de ces derniers.

L'aide de la Banque mondiale, qui plaçait initialement l'accent sur la stabilisation et la croissance de l'économie, a été réorientée vers la réduction de la pauvreté et du développement du secteur privé à la fin des années 90. La Banque mondiale a également soutenu, durant les années 90, la rédaction, avec le gouvernement et le Fonds monétaire international, plusieurs documents-cadre de politique économique. Elle a prêté son concours à la préparation conjointe d'une évaluation de la pauvreté et d'un rapport sur les options économiques stratégiques où le gouvernement décrivait la

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between South Africa and Lesotho, served as a catalyst in securing external financing, and advised on project formulation and implementation. Although the LHWP succeeded in generating sustained export revenue for Lesotho, the World Bank did not provide adequate technical support for improving rural welfare from the proceeds of water sales. And the World Bank erred by not insisting on the inclusion of the Muela power plant as an integral part of the project under the management of the central oversight authority. This would have facilitated Muela's financing and implementation, and also created an incentive for Lesotho and South Africa to save on costs. Finally, with the exception of education, other World Bank programs were ineffective.

The outcome of the World Bank assistance program is moderately unsatisfactory. The World Bank's contribution to institutional development was modest because most of the institutions established were weak and unsustainable. Sustainability is uncertain since growth has depended on aid inflows linked to the construction of the LHWP, which are likely to decline. In addition, the economy remains vulnerable to changes in the subregion. An improved environment for growth and private sector development depends also on enhanced political stability and better governance, and on deeper parastatal reform. Prospects for all of these changes are uncertain.

The African Development Bank Group's evaluation assessed AfDB

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rior al régimen de *apartheid*. Ahora bien, otras actividades analíticas planeadas sólo se llevaron a la práctica parcialmente. Destaca en particular en este sentido la ausencia de exámenes periódicos de los gastos públicos. El proyecto de exportación de recursos hídricos fue la actividad más importante del Banco Mundial en el país, pero también apoyó actividades en los sectores de educación, salud, agricultura y desarrollo rural, así como fomento del sector privado.

La aplicación exitosa de las políticas macroeconómicas y el impacto significativo de la construcción del proyecto de exportación de recursos hídricos ayudó a Lesotho a alcanzar una tasa anual media de crecimiento del PIB cercana al 4% durante el decenio de 1990. Si bien el Banco Mundial financió menos del 4% del costo de US$3.700 millones de la primera etapa del proyecto mencionado, propició la concertación de un acuerdo entre Sudáfrica y Lesotho, actuó como catalizador respecto de la obtención de financiamiento externo, y proporcionó asesoría para las fases de preparación y ejecución. A pesar de que el proyecto ha logrado generar un volumen sostenido de ingresos de exportación para Lesotho, el Banco Mundial no aportó apoyo técnico adecuado para mejorar el nivel de bienestar en las zonas rurales con el producto de las ventas de agua. Además, el Banco Mundial cometió el error de no insistir en la inclusión de la central de energía eléctrica de Muela como parte integral del proyecto bajo la administración de la auto-

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stratégie économique qu'il avait l'intention d'adopter suite à l'abandon de l'apartheid. Mais d'autres analyses prévues n'ont été que partiellement réalisées. L'absence d'examens périodiques des dépenses publiques s'est particulièrement fait sentir. Le projet hydraulique des hautes terres du Lesotho constituait le principal programme de la Banque mondiale, mais un soutien a également été accordé dans les domaines de l'éducation, de la santé, de l'agriculture et du développement rural ainsi que de l'expansion du secteur privé.

Le succès des politiques macroéconomiques et l'impact substantiel des travaux réalisés dans le cadre du projet hydraulique des hautes terres du Lesotho ont aidé ce dernier à atteindre un taux annuel moyen de croissance du PIB de près de 4 % durant les années 90. Même si la Banque mondiale a financé moins de 4 % de la phase initiale du projet (dont le coût s'élève à 3,7 milliards de dollars), elle a facilité la conclusion d'un accord entre le Lesotho et l'Afrique du Sud, servi de catalyseur pour le montage du financement externe et fourni des conseils lors de la conception et de l'exécution de ce projet. Celui-ci a effectivement assuré au Lesotho une source régulière de recettes d'exportation, mais la Banque mondiale n'a pas accordé une aide technique suffisante pour que les revenus tirés des ventes d'eau puissent servir à améliorer le sort des populations rurales. La Banque mondiale a également commis une erreur en n'insistant pas pour que la centrale de Muela soit pleinement

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assistance, including support to the transport and social sectors. The evaluation focus and methodologies differ, and thus, the evaluation ratings by each institution are not always comparable. Overall, the outcome of the AfDB assistance program was rated as "just satisfactory." Nonlending operations (policy advice and dialogue, and economic and sector work) were rated unsatisfactory. Prior economic and sector work did not guide strategies and lending. Sustainability of the outcome appears likely, as the government makes regular and adequate budget provision for maintenance of investments in the transport and social sectors. The impact on institutional development is, however, modest, as Lesotho continues to experience weaknesses in institutional performance. This is made worse by the outflow of trained manpower to South Africa.

This joint evaluation recommends that future World Bank and African Development Bank Group assistance should continue to center on reducing poverty and inequality. They should do this by focusing on the quality of education and human capital development (particularly in the poor, mountainous regions), combating HIV/AIDS, strengthening rural institutions (such as improved land tenure, research, extension, and grazing management), and enhancing the enabling environment for private sector development. Given the severe data gaps in almost all sectors, external assistance should help Lesotho improve its statistical database, most urgently in areas related to

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ridad central de supervisión. Esto habría facilitado el financiamiento y ejecución de la central de Muela y también habría constituido un incentivo para la reducción de los costos por Lesotho y Sudáfrica. Por último, con la excepción del sector de educación, los demás programas del Banco Mundial han sido ineficaces.

Los resultados del programa de asistencia del Banco Mundial son moderadamente insatisfactorios. La aportación del Banco Mundial en el ámbito del desarrollo institucional ha sido modesta porque la mayoría de las instituciones establecidas han resultado ser deficientes e insostenibles. Las perspectivas de sostenibilidad son dudosas debido a que el crecimiento ha dependido de la afluencia de asistencia vinculada con la construcción del proyecto de exportación de recursos hídricos, cuyo volumen probablemente disminuirá. Además, la economía sigue siendo vulnerable a cambios en la subregión. El mejoramiento de las condiciones para el crecimiento y el desarrollo del sector privado dependen asimismo del aumento de la estabilidad política y de una mayor eficiencia en la gestión de gobierno, así como de la implantación de reformas más profundas en el sector paraestatal. Las perspectivas para la introducción de todos estos cambios son inciertas.

La evaluación realizada por el Grupo del Banco Africano de Desarrollo abarcó la asistencia facilitada por esa institución, incluido el apoyo proporcionado a los sectores social y de transportes. Debido a las diferencias de

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intégrée au projet et placée sous la responsabilité de l'organisme de supervision centrale. Cela aurait facilité son financement et sa réalisation, en plus de donner au Lesotho et à l'Afrique du Sud des raisons de réduire les coûts. Enfin, sauf en ce qui concerne l'éducation, les autres programmes de la Banque mondiale se sont avérés inefficaces.

Les résultats du programme d'aide de la Banque mondiale sont modérément insatisfaisants. L'institution n'a que modestement contribué au développement institutionnel parce que la plupart des institutions créées sont restées faibles et n'ont pu être rendues viables. Leur viabilité est incertaine puisque la croissance économique est demeurée liée aux financements accordés pour la réalisation du projet hydraulique des hautes terres du Lesotho, qui vont probablement aller en diminuant. De plus, l'économie du pays continue d'être affectée par les changements qui surviennent dans la sous région. La création de conditions plus favorables à la croissance économique et au développement du secteur privé nécessite par ailleurs plus de stabilité politique, une amélioration de la gestion des affaires publiques et une réforme plus complète des institutions paraétatiques. Les perspectives de changement à ces égards sont incertaines.

Le Groupe de la Banque africaine de développement a évalué l'aide qu'elle a fourni, y compris en ce qui concerne le secteur des transports et le secteur social. Les méthodes utilisées pour l'évaluation et les éléments sur lesquels

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poverty reduction, and promote monitoring and evaluation systems. The World Bank's consultation with donors on development priorities could be enhanced by a stronger operational representation in Maseru, or more frequent interaction with the government and development partners from the World Bank's office in Pretoria.

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énfasis y metodología, las clasificaciones emanadas de las evaluaciones de cada organismo no siempre son comparables. En conjunto, se clasificaron como "apenas satisfactorios" los resultados del programa de asistencia del BAfD. Las operaciones no crediticias (asesoría y diálogo sobre políticas, y estudios económicos y sectoriales) se consideraron insatisfactorias. La labor económica y sectorial previa no se utilizó para orientar las estrategias y las operaciones crediticias. Parece probable que los resultados alcanzados sean sostenibles, dado que sobre una base regular el gobierno incluye en el presupuesto fondos adecuados para el mantenimiento de las inversiones en los sectores social y de transportes. Sin embargo, el impacto en el desarrollo institucional ha sido modesto, pues el desempeño de las instituciones de Lesotho sigue adoleciendo de deficiencias. El éxodo de personal calificado hacia Sudáfrica agrava esta situación.

En esta evaluación conjunta se recomienda que la asistencia futura del Banco Mundial y del Grupo del Banco Africano de Desarrollo siga centrándose en la reducción de la pobreza y la desigualdad. En este sentido deben hacer hincapié en la calidad de la educación y el desarrollo del capital humano (particularmente en las regiones montañosas pobres), la lucha contra el VIH/SIDA, el fortalecimiento institucional en el sector rural (como mejoras en la tenencia de la tierra, las investigaciones, la extensión agrícola y la gestión del pastoreo) y el mejoramiento de las condi-

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elle insiste étant différents, les appréciations des deux institutions ne sont pas toujours comparables. Dans l'ensemble, le résultat du programme d'aide de la BAfD a été jugé « juste » satisfaisant. Les services hors prêt (dialogue et conseils sur les politiques, études économiques et sectorielles) ont été jugés insatisfaisants. Les stratégies et les prêts ne se sont pas appuyés sur les études effectuées précédemment. Les résultats obtenus semblent pouvoir être maintenus durablement, puisque le gouvernement inscrit régulièrement au budget des dotations suffisantes pour préserver les investissements dans les transports et le secteur social. L'impact du développement institutionnel reste cependant modeste, puisque la performance institutionnelle du Lesotho demeure marquée par des lacunes. L'attrait que l'Afrique du Sud exerce sur la main-d'œuvre qualifiée a pour effet d'empirer la situation.

Dans le cadre de cette évaluation conjointe, il est recommandé que la Banque mondiale et le Groupe de la Banque africaine de développement continuent d'axer leur aide sur la réduction de la pauvreté et des inégalités. À cette fin, elles devraient concentrer leurs efforts sur l'amélioration de la qualité de l'éducation et sur la valorisation du capital humain (surtout dans les régions montagneuses pauvres), la lutte contre le VIH/sida, le renforcement des institutions rurales (comme l'amélioration du régime d'occupation des terres, la recherche, la vulgarisation et la gestion des pâturages) et la création de conditions plus

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ciones para el desarrollo del sector privado. En vista de las graves brechas de información que existen en casi todos los sectores, a través de la asistencia externa debe ayudarse a Lesotho a mejorar su base de datos estadísticos, con atención prioritaria a esferas relacionadas con el alivio de la pobreza, y a perfeccionar los sistemas de seguimiento y evaluación. La efectividad de las consultas que celebra el Banco Mundial con donantes acerca de las prioridades en materia de desarrollo podría incrementarse mediante el fortalecimiento de la representación operacional en Maseru o la interacción más frecuente con el gobierno y los asociados en el proceso de desarrollo a través de la oficina del Banco Mundial en Pretoria.

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favorables au développement du secteur privé. Puisque les données présentent de graves lacunes dans presque tous les secteurs, une aide extérieure devrait être fournie au Lesotho pour qu'il puisse améliorer ses données statistiques, un besoin qui est particulièrement pressant dans les domaines relatifs à la réduction de la pauvreté, et pour favoriser la mise en place de systèmes de suivi et d'évaluation. Les consultations entre la Banque mondiale et les bailleurs de fonds au sujet des priorités à fixer pour le développement pourraient être facilitées par un renforcement de la représentation opérationnelle à Maseru ou par un accroissement de la fréquence des interactions avec le gouvernement et les partenaires du développement à partir du bureau de la Banque mondiale à Pretoria.

Robert Picciotto
Director-General, Operations Evaluation

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EXECUTIVE SUMMARY

Lesotho is a small, poor country (GNP per capita, $540). Half of its two million people live below the poverty line and income inequality is among the highest in the world. Lesotho is landlocked and completely surrounded by South Africa, and thus it is economically dependent on that country. Lesotho's economy is based on limited agricultural and pastoral production and light manufacturing such as textiles, clothing, and leather. The economy is supplemented by large, but declining, remittances from Lesotho miners in South Africa and, recently, by the receipt of royalties from supplying water to South Africa through the World Bank–supported Lesotho Highlands Water Project (LHWP). Added to the formidable challenge of the difficult physical and economic environment is a fragile and unpredictable political situation.

Challenges Remain

Substantial improvements in stabilization and growth have been achieved, stimulated in part by the LHWP. GDP growth averaged 4 percent yearly during the 1990s, but dropped sharply toward the end of the decade. Progress in structural reforms and sectoral policies such as privatization, health, agriculture, and rural development has been less impressive. The country's development continues to be challenged by widespread poverty, low quality of education and health services, a very high

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RESUMEN

Lesotho es un país pequeño y pobre (con un PNB per cápita de US$540). La mitad de sus dos millones de habitantes viven por debajo del umbral de pobreza, y la desigualdad en la distribución del ingreso se sitúa entre las más altas del mundo. Lesotho carece de litoral y está completamente rodeado por Sudáfrica, país del que depende económicamente. Su economía se basa en una limitada producción agrícola y ganadera y en actividades manufactureras ligeras (por ejemplo, textiles, prendas de vestir y artículos de cuero). La economía se complementa con importantes remesas de los mineros de Lesotho que trabajan en Sudáfrica, aunque su volumen está disminuyendo. Últimamente Lesotho también ha recibido regalías por concepto del suministro de agua a Sudáfrica a través del proyecto de exportación de recursos hídricos de Lesotho respaldado por el Banco Mundial. Al enorme desafío que plantean las difíciles condiciones físicas y económicas del país se suma su frágil e impredecible situación política.

Desafíos que aún persisten

Se han alcanzado importantes mejoras en materia de estabilización y crecimiento, en parte gracias al estímulo proporcionado por el proyecto de exportación de recursos hídricos. La tasa anual de crecimiento del PIB registró un promedio del 4% durante el decenio de 1990, pero experimentó un pronunciado descenso hacia fines de dicho decenio. El progreso

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RÉSUMÉ ANALYTIQUE

Le Lesotho est un petit pays pauvre (PNB par habitant de 540 dollars). La moitié de ses deux millions d'habitants vivent en dessous du seuil de la pauvreté et les inégalités dans les revenus sont parmi les plus marquées au monde. Dépourvu de façade maritime, le Lesotho est enclavé dans l'Afrique du Sud et est donc économiquement dépendent de celle-ci. Son économie repose sur une faible production agropastorale et sur la petite industrie (production de textiles et de vêtements, travail du cuir, par exemple). Son économie bénéficie des importants envois de fonds des mineurs partis travailler en Afrique du Sud, bien que cette source de revenus soit en baisse, et, depuis quelques temps, des redevances sur l'eau qu'il exporte vers l'Afrique du Sud depuis qu'a été réalisé, avec l'aide de la Banque mondiale, le Projet hydraulique des hautes terres du Lesotho. Une situation politique fragile et imprévisible vient augmenter le formidable défi que posent des conditions économiques et physiques difficiles.

Défis subsistants

Des progrès substantiels ont été réalisés pour ce qui est de stabiliser la situation et d'accélérer la croissance, notamment grâce à la réalisation du Projet hydraulique des hautes terres du Lesotho. Le PIB s'est accru de 4 % par an en moyenne durant les années 90, mais a fortement chuté vers la fin de la décennie. Les progrès accomplis dans le cadre des

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incidence of HIV/AIDS, weak institutions, lagging private sector development, and insufficient donor coordination.

The World Bank's Approach in the 1990s

As the country stabilized, the World Bank turned to poverty reduction and private sector development in the latter part of the 1990s. The LHWP was the most important of World Bank–supported projects. World Bank commitments to Lesotho tripled—to almost $300 million—in the 1990s because of the LHWP. Annual average net disbursements were $13 million and net transfers $10 million during FY90–00, with peaks of nearly $30 million for each in FY93 following LHWP approval. Although the LHWP project succeeded in stimulating growth and generating sustained export revenue for Lesotho, its impact on poverty reduction was minimal. The Bank also supported education, health, agriculture and rural development, and private sector development. With the exception of education, other World Bank programs were ineffective. Some sound analytical work was carried out, but periodic reviews of public expenditures and/or poverty assessment updates would have been desirable.

African Development Bank Evaluation Findings

Since it began operations in Lesotho in 1974, the African Development Bank Group has committed unit of account (UA) 275 million for 27 projects, 3 lines of credit, and 6 studies. The pub-

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logrado en el ámbito de las reformas estructurales y las políticas sectoriales, como privatización, salud, agricultura y desarrollo rural, ha sido menos impresionante. El desarrollo del país sigue viéndose obstaculizado por la pobreza generalizada, la baja calidad de los servicios de educación y salud, la incidencia muy alta de VIH/SIDA, la debilidad de las instituciones, el lento desarrollo del sector privado y la insuficiente coordinación entre los donantes.

El enfoque del Banco Mundial en los años noventa

Al estabilizarse la situación en el país, el Banco Mundial centró su atención en el alivio de la pobreza y el desarrollo del sector privado a finales del decenio de 1990. El proyecto de exportación de recursos hídricos fue el más importante de los apoyados por el Banco Mundial en Lesotho. Como consecuencia de este proyecto, los compromisos del Banco Mundial con Lesotho se triplicaron en los años noventa, alcanzando un nivel de cerca de US$300 millones. El monto anual medio neto de los desembolsos ascendió a US$13 millones y las transferencias netas sumaron US$10 millones en el período de los ejercicios de 1990 a 2000; ambos rubros registraron su volumen más alto, de casi US$30 millones cada uno, en el ejercicio de 1993 a raíz de la aprobación de dicho proyecto. Aunque a través del proyecto de exportación de recursos hídricos se logró estimular el crecimiento de Lesotho y generar un volumen sostenido de ingresos de exportación para el país, su impacto en la reducción

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réformes structurelles et des politiques sectorielles, notamment dans les domaines de la privatisation, de la santé, de l'agriculture et du développement rural, sont moins impressionnants. Le développement du pays continue d'être compromis par une pauvreté généralisée, la mauvaise qualité de l'éducation et des services de santé, une très forte incidence du VIH/SIDA, la faiblesse des institutions, la lenteur du développement du secteur privé et le manque de coordination entre les bailleurs de fonds.

Approche adoptée par la Banque mondiale dans les années 90

La situation devenant plus stable au Lesotho, la Banque mondiale a réorienté son action vers la réduction de la pauvreté et le développement du secteur privé dans la dernière partie des années 90. Par suite du Projet hydraulique des hautes terres du Lesotho, le plus important des projets appuyés par l'institution, les montants engagés par la Banque mondiale au Lesotho ont triplé – pour atteindre près de 300 millions de dollars – durant les années 90. Les décaissements annuels nets moyens se sont établis à 13 millions de dollars et les transferts nets à 10 millions entre les exercices 90 et 00, et ont fait un bond pour atteindre de près de 30 millions dans les deux cas pour l'exercice 93, c'est-à-dire après l'approbation du Projet hydraulique. Même si celui-ci a stimulé la croissance et permis au Lesotho de générer des recettes d'exportation régulières, il n'a eu qu'un effet limité sur le plan de la

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lic utilities and transport sectors are the main beneficiaries, with 28 percent and 26 percent of the portfolio respectively, followed by the social sector (24 percent), agriculture (13 percent), and industry (9 percent). The evaluation dealt mainly with the transport and social sectors. Overall, the outcome of the African Development Bank Group assistance program in Lesotho was rated as "just" satisfactory. Performance in nonlending activities was unsatisfactory: policy dialogue between Lesotho and the Bank Group was inadequate, Bank Group capacity building efforts in the country were limited to the Ministries of Finance and Planning, and coordination with other donors was insufficient. The key lesson was that prior economic and sector work is crucial to the formulation of appropriate Bank Group operational strategy for a country. Sustainability of the outcome appears likely, given the demonstrated commitment of the government (through the budgetary provisions) to the intervention projects. The impact on institutional development, however, is modest, as Lesotho continues to experience weaknesses in institutional capacity.

Recommendations

The joint evaluation recommends that the strategies and activities of both banks should be centered on the following goals:

- Reduce poverty and inequality in the medium to longer term by focusing on accelerating the impact of human capital development at all levels.

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de la pobreza ha sido mínimo. El Banco también ha respaldado actividades en los sectores de educación, salud, agricultura y desarrollo rural, y desarrollo del sector privado. Con excepción de la educación, los programas del Banco Mundial no han sido eficaces. Si bien se llevaron a cabo algunos estudios analíticos provechosos, hubiera sido aconsejable realizar exámenes periódicos de los gastos públicos o actualizaciones de la evaluación de la pobreza.

Conclusiones de la evaluación del Banco Africano de Desarrollo

Desde que inició sus operaciones en Lesotho en1974, el Grupo del Banco Africano de Desarrollo ha efectuado compromisos en el país por valor de 275 millones de unidades de cuenta con destino a 27 proyectos, tres líneas de crédito y seis estudios. Los sectores de servicios públicos y de transportes han sido los principales beneficiarios, con un 28% y un 26% del total, respectivamente, seguidos por el sector social (24%), la agricultura (13%) y la industria (9%). La evaluación se centró principalmente en los sectores social y de transportes. En general, los resultados del programa de asistencia del Grupo del Banco Africano de Desarrollo en Lesotho se clasificaron como "apenas satisfactorios". Su desempeño en lo que respecta a las actividades no crediticias en el país se consideró insatisfactorio: su diálogo sobre políticas con Lesotho fue inadecuado, sus esfuerzos para ampliar la capacidad del país se limitaron a los ministerios de finanzas y planificación, y su coor-

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réduction de la pauvreté. La Banque mondiale a également apporté un soutien dans les domaines de l'éducation, de la santé, de l'agriculture et du développement rural ainsi que de l'expansion du secteur privé. Sauf pour l'éducation, les programmes de l'institution se sont avérés inefficaces. Certaines analyses intéressantes ont été effectuées, mais il aurait été souhaitable de les compléter par des examens périodiques des dépenses publiques ou des mises à jour des évaluations de la pauvreté.

Constatations de la Banque africaine de développement

Depuis qu'elle a commencé ses opérations au Lesotho, en 1974, le Groupe de la Banque africaine de développement a engagé 275 millions d'unités de compte au titre de 27 projets, de 3 lignes de crédit et de 6 études. Les secteurs des services publics et des transports en ont été les principaux bénéficiaires, à raison de 28 % et de 26 % respectivement du portefeuille, suivis par le secteur social (24 %), l'agriculture (13 %) et l'industrie (9 %). L'évaluation a principalement porté sur le secteur des transports et le secteur social. Dans l'ensemble, le résultat du programme d'aide du Groupe de la Banque africaine de développement a été jugé « juste » satisfaisant. Les résultats obtenus pour les opérations hors prêt ont été jugés insuffisants : le dialogue entre le Lesotho et le Groupe sur l'action à mener par les pouvoirs publics n'a pas été adéquat. Les efforts de renforcement des capacités déployés par cette dernière dans le pays ont été limités au ministère des Finances

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- Place HIV/AIDS programs prominently on the agenda.
- Use World Bank involvement in the LHWP and in agricultural policy formulation, along with the African Development Bank Group, to strengthen rural institutions and enhance the enabling environment for private sector development.
- Identify data weaknesses, most urgently in areas related to poverty reduction, and promote monitoring and evaluation systems.
- Enhance the World Bank's consultations with donors through a stronger operational representation in Maseru.

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dinación con otros donantes fue insuficiente. La lección clave es que los estudios económicos y sectoriales previos revisten importancia crucial para la formulación de una estrategia operacional apropiada del Grupo del Banco Africano de Desarrollo para un país. Parece probable que los resultados serán sostenibles en vista del compromiso demostrado por el gobierno (a través de las asignaciones presupuestarias) en relación con los proyectos de intervención. Sin embargo, el impacto en el desarrollo institucional ha sido modesto, pues la capacidad institucional de Lesotho sigue dando muestras de debilidad.

Recomendaciones

En la evaluación conjunta se recomienda que las estrategias y actividades de ambos Bancos se centren en los siguientes objetivos:

- Reducir la pobreza y la desigualdad a mediano y largo plazo prestando especial atención a la aceleración del impacto del desarrollo del capital humano en todos los niveles.
- Asignar un lugar prominente en la agenda a los programas de lucha contra el VIH/SIDA.
- Aprovechar la participación del Banco Mundial en el proyecto de exportación de recursos hídricos y en la formulación de la política agrícola, conjuntamente con el Grupo del Banco Africano de Desarrollo, para fortalecer las instituciones rurales y brindar condiciones más propicias para el desarrollo del sector privado.

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et du Plan, et la coordination avec les autres bailleurs de fonds n'a pas été assez poussée. Le principal enseignement à retenir est que, pour pouvoir définir une stratégie opérationnelle pour un pays, le Groupe de la Banque africaine de développement doit absolument s'appuyer sur des études économiques et sectorielles. La pérennité des résultats obtenus est probable, car le gouvernement a manifesté (par ses dotations budgétaires) sa volonté de soutenir les interventions effectuées par l'intermédiaire des projets. L'impact sur le développement institutionnel est toutefois modeste, et le Lesotho continue de souffrir de l'insuffisance de ses capacités institutionnelles.

Recommandations

Aux termes de l'évaluation conjointe, il est recommandé que les stratégies et activités des deux banques visent principalement les objectifs suivants :

- réduire la pauvreté et les inégalités, à moyen et long terme, en concentrant les efforts sur l'accroissement de l'impact de la valorisation du capital humain à tous les niveaux ;
- placer la lutte contre le VIH/SIDA parmi les toutes premières priorités ;
- s'appuyer sur la participation de la Banque mondiale au Projet hydraulique des hautes terres du Lesotho et à la formulation de la politique agricole avec le Groupe de la Banque africaine de développement pour renforcer les institutions rurales et créer des conditions plus favorables au

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- Identificar las deficiencias en materia de datos, asignando la máxima prioridad a las esferas relacionadas con el alivio de la pobreza, y perfeccionar los sistemas de seguimiento y evaluación.
- Fortalecer el proceso de consultas del Banco Mundial con los donantes mediante una representación operacional más fuerte en Maseru.

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développement du secteur privé ;

- identifier les lacunes dans les données, en priorité dans les domaines liés à la réduction de la pauvreté, et favoriser la mise en place de systèmes de suivi et d'évaluation ;
- intensifier les consultations entre la Banque mondiale et les bailleurs de fonds en accroissant le nombre de personnes participant aux opérations à Maseru.

ABBREVIATIONS AND ACRONYMS

AAA	Analytical and advisory services
ACP	African, Caribbean, and Pacific countries
AfDB	African Development Bank
AIDS	Acquired Immunodeficiency Syndrome
ADF	African Development Fund
ASDP	Agricultural Sector Adjustment Program
ASIP	Agricultural Sector Investment Program
BADEA	Arab Bank for Economic Development in Africa
BCP	Basotho Congress Party
BCG	Bacillus of calmette and guerin
BNP	Basutoland National Party
CAE	Country Assistance Evaluation
CAS	Country Assistance Strategy
CDC	Commonwealth Development Corporation
CHAL	Christian Health Association of Lesotho
CODE	Committee on Development Effectiveness
COSC	Computer science (exam)
CSP	Country Strategy Paper
CT	Country team
CWIQ	Core Welfare Indicators Questionnaire
DO	Development objective
DPT	Diptheria, pertusis, and tetanus
EA	Environmental Assessment
ED	Executive director
EPCP	Economic Prospects and Country Programming
EPI	Expanded Program on Immunization
EPP	Emergency Preparedness Plan
ESAF	Enhanced Structural Adjustment Facility
ESDP	Education Sector Development Project
ESSP	Education Sector Strategy Paper
ESW	Economic and sector work
EU	European Union
FAO	Food and Agricultural Organization of the United Nations
FIA	Financial Institution Act
GDP	Gross domestic product
GEF	Global Environmental Facility
GNP	Gross national product
HSA	Health Services Area
HSDP	Health Services Development Project
HIV	Human Immunodeficiency Virus
HNP	Health, nutrition, and population sector
IBRD	International Bank for Reconstruction and Development (World Bank)
ICR	Implementation Completion Report
IDA	International Development Association
IDI	Institutional development impact
IFC	International Finance Corporation
IMF	International Monetary Fund
IP	Implementation performance
IPA	Interim Political Authority

I-PRSP	Interim Poverty Reduction Strategy Paper
LADB	Lesotho Agricultural Development Bank
LAC	Lesotho Airlines Corporation
LCU	Labor construction unit
LEC	Lesotho Electricity Corporation
LFCD	Lesotho Fund for Community Development
LHDA	Lesotho Highlands Development Authority
LHRF	Lesotho Highlands Revenue Fund
LHWP	Lesotho Highlands Water Project
LIL	Learning and Innovative Loan
LNDC	Lesotho National Development Corporation
LSMS	Living Standards Measurement Survey
LTC	Lesotho Telecommunications Corporation
LWSC	Lesotho Water and Sewage Corporation
MOE	Ministry of Education
MOHSW	Ministry of Health and Social Welfare
MOPWT	Ministry of Public Works and Transport
NCDC	National Curriculum Development Council
NDP	National Development Plan
NEAP	National Environmental Action Plan
NGO	Nongovernmental organization
NORAD	Norwegian Agency for Development Cooperation
NTF	Nigeria Trust Fund
ODA	Official development assistance
OED	Operations Evaluation Department, World Bank
OPEC	Organization of Petroleum Exporting Countries
OPEV	Operations Evaluation Department, African Development Bank Group
PCR	Project Completion Report
PER	Public Expenditure Review
PFP	Policy Framework Paper
PHC	Primary health care
PIU	Project Implementation Unit
PRGF	Poverty Reduction and Growth Facility
PRSP	Poverty Reduction Strategy Paper
PSD	Private sector development
PSR	Project Status Report
QAG	Quality Assurance Group
RB	Roads Branch
RHSP	Rural Human Services Program
RIS	Reservoir-induced seismicity
SACU	South African Customs Union
SADC	South African Development Corporation
SAF	Structural Adjustment Facility
SDR	Special Drawing Rights
SEOR	Strategic Economic Options Report
SIDA	Swedish International Development Authority
SOE	State-owned enterprise
SSA	Sub-Saharan Africa
TAF	Technical Assistance Fund

TVET	Technical and vocational education
UA	Unit of account
UNAIDS	Joint United Nations Programme on HIV/AIDS
UNDP	United Nations Development Program
USAID	United States Agency for International Development
WASA	Lesotho Water and Sewage Authority
WHO	World Health Organization

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Lesotho's Political, Economic, and Social Development

Lesotho, which is landlocked and completely surrounded by South Africa, has had a tumultuous history (see box 1.1). Established as a British protectorate in 1868, Lesotho became an independent constitutional monarchy in 1966, with a parliamentary system of government. But Lesotho's democratic process remains fragile and is marked by conflict between two major political parties—the Basutoland National Party (BNP) and the Basotho Congress Party (BCP)—as well as by power struggles between civilian and military regimes. Since independence, there have been 4 military coups and 23 years of authoritarian rule, including 7 years of military government. Elections have been generally contested by the opposition parties and followed by civil unrest, army mutiny, and intervention by South Africa to restore order.

The 1990s saw these political upheavals escalate. After a 1993 election, a new constitution was introduced, but the one-sided result led to tension between the newly elected BCP government and the military. A short-lived palace-led coup d'état followed, resulting in substantial labor unrest in 1994 and the king's death in 1996. Another one-sided election result in May 1998 brought more conflict over the allocation of political power. The intervention of troops from South Africa and other neighboring countries to quell riots in September 1998 had major political repercussions, the impacts of which are still felt throughout Lesotho. An Interim Political Authority (IPA) was created to review Lesotho's electoral system and to prepare for new elections within 15–18 months. That period passed without any elections, and a new election date has been set for the second half of 2002, but it is possible that elections will be postponed again. The continued political uncertainty has hindered Lesotho's economic development.

The Economy

Lesotho is a poor country: its gross national product (GNP) per capita was $540[1] in 2000, comparable with the average for Sub-Saharan Africa ($500) but well below South Africa ($3,020). Eighty percent of the population of nearly two million lives in rural areas. Two-thirds of the country's area is mountains and steep valleys with a temperate subtropical climate and erratic rainfall. Its economy is based on limited agricultural and pastoral production and light manufacturing (clothing, textiles, and leather), supplemented by large, though declining, remittances from Lesotho mineworkers in South Africa and, recently, by the receipt of royalties for supplying water to South Africa. Between 1990 and 1999, the primary economic

Box 1.1 A Brief Political History of Lesotho

Strong sense of independence

The origins of Lesotho as a nation date back to the nineteenth century, when King Moshoeshoe I rallied the Basotho from the remnants of ethnic groups scattered in the region. In 1868, the king negotiated British protection as tension between Basotho and South African Boers increased, but in 1884 the British government took over direct responsibility for the protectorate.

In 1910, when South African provinces were united under the Union of South Africa, Lesotho remained under the control of the British. South Africa assumed that it would ultimately annex Lesotho, but in 1964 a constitution adopted in Lesotho provided for its independence as a constitutional monarchy, with the paramount chief serving as king, and with a parliamentary system of government. Beside the National Assembly there is a nonelective Senate, consisting mostly of principal chiefs.

Series of elections

The Basutoland National Party (BNP), headed by Chief Leabua Jonathan, narrowly won the first election in 1966 at the time of independence. Chief Jonathan became the first Prime Minister of independent Lesotho—under its king, Moshoeshoe II—and remained Prime Minister for the next 20 years.

In 1970, an opposition party—Basotho Congress Party (BCP)—won the second election, but Jonathan retained power by a coup. The constitution was suspended and the opposition banned, forcing its leaders into exile or into the mountains, where they fought a low-key guerrilla war.

Rifts between Lesotho and South Africa

Jonathan and his BNP party had initially supported cooperation with South Africa, but he adopted a more independent foreign policy in the 1970s and 1980s, criticizing his neighbor's apartheid policies and giving refuge to members of the outlawed African National Congress. Under pressure to reform, the BNP organized elections in 1985 but manipulated them—only BNP candidates stood for election. This resulted in growing opposition, intraparty strife, and disunity in the army. In 1986 the army fought within its ranks when a faction supporting Colonel Sehlabo clashed with one supporting Major General Lekhanya.

Annoyed by the BNP support of the African National Congress, South Africa mounted an economic blockade of Lesotho in early 1986. With South African help, Jonathan was soon overthrown in a military coup and replaced by Major General Lekhanya. A Military Council was established to rule the country in consultation with the king, and political activity was banned. Relations between Lesotho and South Africa subsequently improved, with each country agreeing not to permit its territory to be used to mount attacks on or subvert the other.

More moderate forces take over

In 1991, the reorganized Military Council promised a new constitution and announced that political activity could resume. A new constitution went into effect following 1993 general elections. The elections resulted in a landslide victory for the anti-apartheid BCP, led by Ntsu Mokhehle, who became Prime Minister. The party won all 65 constituencies on a first-past-the-post electoral system with 78 percent of the popular vote. However, tensions between the new government and the armed forces—where the BNP has a major influence—arose. A palace-led coup d'etat in August 1994 was reversed a month later with political intermediation by neighboring SADC states. Also, 1994 witnessed significant labor unrest, the killing of the Deputy Prime Minister, and the kidnapping by the police of four cabinet ministers. King Moshoeshoe II, who had been dethroned in 1990 and had regained the throne in 1995, died in 1996 as a result of a car accident, and was succeeded by his eldest son, Letsie III.

Political instability remains

After a prolonged period of political instability, general elections were held in May 1998, in which a newly formed party (Lesotho Congress for Democracy) within the ruling BCP won all but 1 of the 80 parliamentary seats with only 60.5 percent of the popular vote. The results were contested by the opposition parties, which alleged widespread rigging. The subsequent protests led to civil unrest and an army mutiny in September. At the request of the newly elected government, a South Africa–led SADC force was brought into Lesotho to restore order. A new Interim Political Authority (IPA) comprising 24 members, 2 from each of the 12 largest political parties, was set up to promote and create conditions conducive to a more durable peace and to hold general elections by May 2000. They were not held, and considerable uncertainty remains.

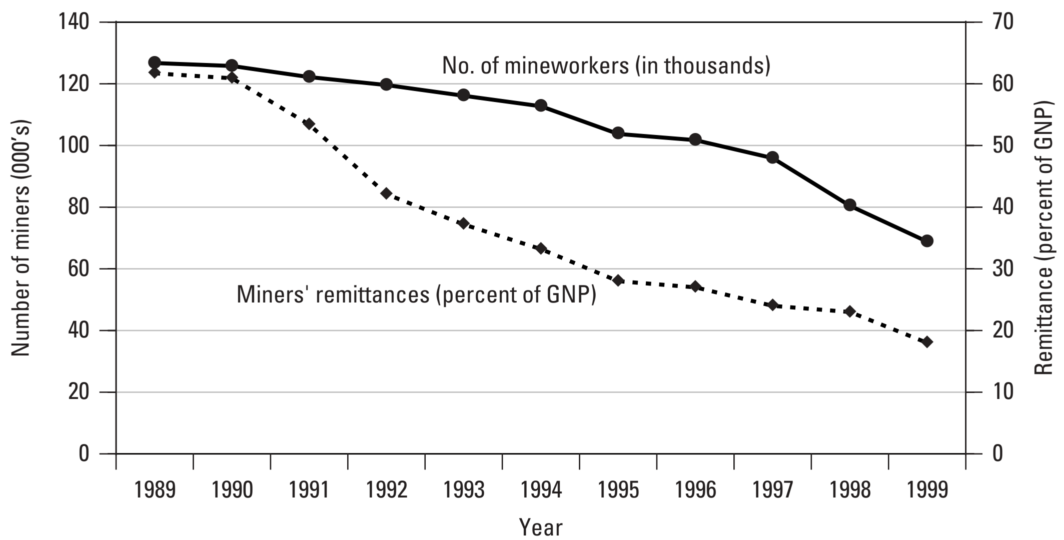
sectors (predominantly agriculture and livestock) accounted for 20 percent of gross domestic product (GDP), and secondary sectors (including manufacturing and construction) and services accounted for 38 percent and 42 percent, respectively.

The country is encircled by and economically dependent on South Africa. Ninety percent of Lesotho's imports come from South Africa and 65 percent of its exports go there. The gold mines in South Africa have been a major source of employment for Lesotho's labor force, and thus a source of remittances to the economy. The contraction of the South African gold industry, however, led to a sharp reduction in the number of Lesotho's miners in South Africa—from 127,000 in 1989–90 to 69,000 in 1998–99. Consequently, miners' remittances dropped from 62 percent of GNP in 1989–90 to 18 percent in 1998–99 (figure 1.1).

Lesotho is a member of the Southern African Customs Union (SACU); SACU pools the customs receipts collected by its members (Botswana, Lesotho, Namibia, South Africa, and Swaziland), and distributes them based on a revenue-sharing formula. Lesotho's share of SACU receipts rose from 12.6 percent of GNP in 1988–89 to 14.3 percent of GNP in 1998–99, largely because of the construction of the Lesotho Highlands Water Project (LHWP) (see Chapter 3 and box 3.2 for detailed discussion). These receipts are expected to decline as LHWP-related activities wind down. Furthermore, the Southern African Development Corporation (SADC) has agreed on a free-trade protocol for its members.[2] The SACU revenue-sharing formula will be revised and tariff levels will probably decline in line with the SADC-negotiated trade liberalization in the subregion. Meanwhile, the LHWP continues to have a substantial impact on the economy. In 1998 the project accounted for 13 percent of GNP—35 percent of value-added in construction and 28 percent of government revenue. Lesotho's currency (the loti; plural, maloti) is linked to South Africa's rand at a one-to-one rate, limiting Lesotho's monetary policy and raising the importance of a healthy fiscal policy and preserving the external balance.

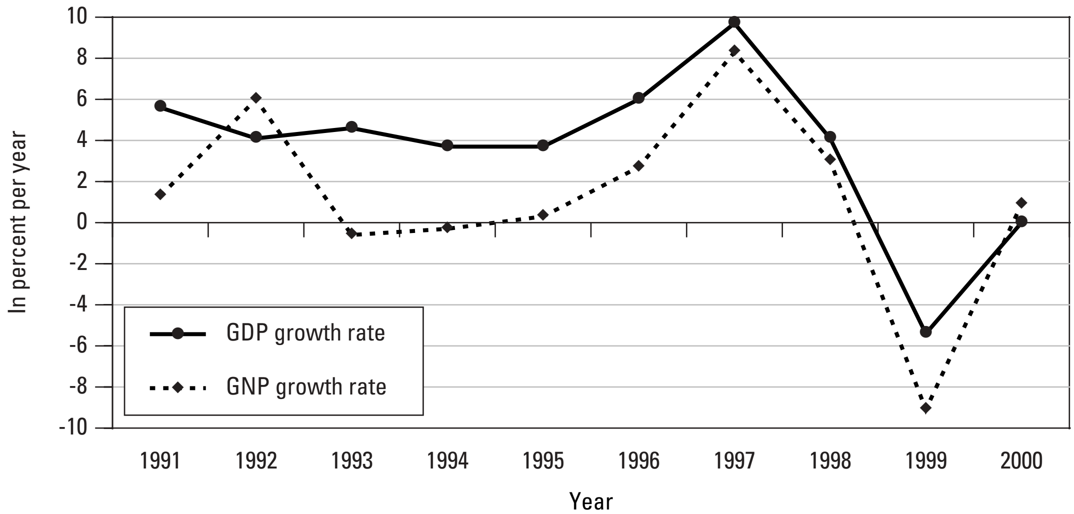
GNP grew at an annual average rate of less than 2 percent during the 1990s, but dropped sharply in 1997–98 and in 1998–99 (figure 1.2). This reversal was brought on by the sharp drop in LHWP-related investment, weak growth in agriculture and manufacturing on account of

Figure 1.1 **Number of Lesotho Miners in South Africa and Remittances, FY89–99**



Source: World Bank data.

Figure 1.2 **Gross Domestic Product and Gross National Product Growth Rate, FY91–00**



Source: World Bank data.

adverse weather conditions, and declining migrant worker remittances from South Africa. Moreover, economic activity, particularly foreign direct investment, tapered off in response to the 1998 civil unrest.[3] Lesotho's growth prospects over the medium term are expected to remain constrained as a result of (1) political instability and the uncertain outlook for foreign direct investment; (2) continuing decreases in remittances; (3) the expected drop in SACU receipts; and (4) the decline in LHWP investment.

Poverty, Inequality, Social Conditions, and Gender Bias: Low Welfare Levels

Lesotho's levels of poverty and inequality remained extremely high during 1993–99 (table 1.1). The Gini coefficient for Lesotho is one of the highest in the world, implying that in a country with widespread poverty—half the population in 1999—many of the poor suffer extreme deprivation. The national average incidence of poverty changed little in the 1990s, except that urban poverty moved slightly lower and rural poverty moved slightly higher, reflecting the substantial growth in manufacturing and services, the stagnation of crop agriculture, and the deterioration of the rangelands.[4] Poverty and inequality also have geographic, regional, occupational, and gender dimensions. Poverty is overwhelmingly rural: more than 80 percent of poor people live in rural areas and are concentrated among farmers, shepherds, and women, and in the country's mountainous regions. Unemployment, a major cause of poverty, remains extremely high—at about 40 percent, according to the 1997 Labor Force Survey. While economic growth is an important prerequisite for improving welfare, strong economic performance during 1994–97 was not accompanied by declining unemployment, poverty, or inequality.

Lesotho's social indicators are generally better than the Sub-Saharan Africa (SSA) average, but below the SADC subregion average (table 1.2 and Annex D, tables D.1 and D.2). For example, Lesotho has one of the highest literacy rates in SSA. Due to inefficiency and poor quality of the educational system, however, only a small percentage of students reach the higher levels.[5] Consequently, Lesotho's secondary school enrollment is worse than the region and subregion averages. *Human Development Report 2000* ranks Lesotho as 127 out of 174 countries based on its human development index (UNDP 2000).[6]

Table 1.1 Lesotho's Poverty and Inequality Profile, 1993–99 (percent)

	Rural		Maseru (capital)		Other urban		All	
	1993	1999	1993	1999	1993	1999	1993	1999
Incidence								
Poverty[a]	54	56	28	22	27	29	49	51
Extreme poverty[b]	29	37	14	10	11	15	26	33
Intensity (poverty gap)								
Poverty	27	30	13	22	12	27	24	30
Extreme poverty	10	14	4	11	5	14	9	14
Population share	82	80	14	15	4	5	100	100
Gini coefficient	0.55	n.a.	0.58	n.a.	n.a.	n.a.	0.57	0.60

n.a. Not available.

a. The percentage of the population spending less than half of the mean consumption level.

b. Those consuming less than 25 percent of the average.

Source: Sechaba Consultants (1994) cited in World Bank (1995); and Sechaba Consultants (2000). The data for 1999 were prepared especially for the OED mission by Sechaba Consultants (Sechaba Consultants 1999).

Despite progress in improving social indicators in recent years (table 1.2), Lesotho's social service delivery is weak. Health personnel are in short supply, health centers are not adequately equipped, and schools lack teaching materials. For instance, the population per physician exceeds 20,000, double the average for SADC. The share of total government resources devoted to the health sector steadily declined during 1995–99 by about 7 percent in real terms. Moreover, the stated commitment to primary health care is not supported by the 30–40 percent of recurrent health resources allocated to Queen Elizabeth II Hospital. Similarly, budget priorities and equity in the distribution of educational resources remain skewed, with the National

Table 1.2 Social Indicators in Lesotho and Comparator Countries

	Lesotho		Comparator groups	
Indicator	1980	1997	Subregion (SADC) 1997	Region (SSA) 1997
Life expectancy (years)	53	56	54	51
Total fertility	6	5	5	5
Infant mortality (per 1,000 births)	119	93	80	92
Net primary enrollment (% of age group)	67	69	75	—
Male	55	63	75	—
Female	80	74	75	—
Gross primary enrollment (% of age group)	104	109	106	78
Male	85	103	106	85
Female	122	114	105	71
Primary pupil-to-teacher ratio	48	48	39	34
Gross secondary enrollment (% of age group)	18	29	37	30
Adult illiteracy (% of population 15 years and older)	29	18	27	42

Source: World Bank, World Development Indicators (various issues); details in Annex D, tables D.1 and D.2.

University of Lesotho absorbing about a fifth of all recurrent expenditure on public education. In January 2000, the government started to phase in free primary education, and the first year of implementation witnessed increases in enrollments. With 80 percent of the population in rural areas characterized by mountainous terrain and remote villages, the challenge of delivering social services is daunting.

Progress in improving quality of life in Lesotho has not been evenly distributed between males and females (table 1.2). Boys receive less education than girls, and Lesotho's net primary education enrollment rate for boys is much lower than in the SADC subregion. The bias against boys and men may stem from the fact that parents still view working in South African mines (having spent their youth herding livestock) as the most promising job prospect for males; mining is an occupation requiring physical strength and endurance more than literacy and numeracy. Because of this long tradition of Lesotho men obtaining employment in South African mines, the number of de facto female-headed households is higher than in many other SSA countries. However, Lesotho's women have the legal status of perpetual minors. For example, although the Land Act of 1979 and the 1992 amendment provide tenure security to both women and men, women have limited access to economic resources and services such as rural credit.

High but Declining Aid

Lesotho's per capita Official Development Assistance (ODA) exceeded the SSA average, but was comparable with the SADC for 1990–97 (table 1.3). Total ODA was high in the early 1990s because of Lesotho's position as a frontline state during the apartheid era in South Africa, but since 1994 it has declined steadily. International Development Association (IDA) net disbursements per capita to Lesotho over this period, representing less than 10 percent of the country's total ODA flows, were low relative to the comparator countries, particularly small IDA-eligible SSA countries (Annex D, table D.3). However, Lesotho received additional net International Bank for Reconstruction and Development (IBRD) disbursements per capita (for the LHWP) averaging $10.4 per year over the 1990–97 period, indicating a high level of dependence on Bank resources. External assistance to Lesotho has been delivered in a setting of political uncertainty, which continues to weaken the effectiveness of assistance programs. Also, there are considerable differences among donors in terms of assistance strategy because of different readings of the political environment, resulting in different levels of commitment.

Table 1.3 Official Development Assistance, Annual Average, 1990–94 and 1995–97

	Lesotho		SADC		SSA	
	1990–94	1995–97	1990–94	1995–97	1990–94	1995–97
Net ODA per capita ($)	75	53	80	60	45	37
Net AfDF-ODA per capita ($)	8	4	4	1	8	1
IDA commitments per capita ($)	6	9	7	4	8	6
IDA disbursements per capita ($)	4	5	4	5	6	6

Source: OECD (various years); details in Annex D, table D.3.

Development Challenges and Constraints

Poverty Reduction: The Overarching Objective of Lesotho's Development

GDP growth for agriculture, the sector that employs most of the poor, was disappointing during the 1990s—about 1.8 percent a year, a drastic reduction from 6 percent a year during the second half of the 1980s. Population grew at an average annual rate of 2.6 percent during the 1990s, indicating negative per capita growth in agricultural output. Agricultural GDP also suffered from wide yearly fluctuations in output, such as the drop of 16 percent in GDP between 1991 and 1992 from drought.

Lesotho's agricultural performance was also below SSA's overall growth rate of 2.2 percent a year in the 1990s. Slow agricultural growth has contributed to the persistence of rural poverty (table 1.1). The sharp reduction in remittances from miners in South Africa—on which many rural households depend for their subsistence and resources for capital improvements—has also had an impact. For a population with shrinking nonfarm sources of income, lower remittances have serious consequences for food security in rural areas.

Human Capital Development: Key for Jobs

The size and unique geographic circumstances of Lesotho make it essential that human capital be well adapted, not only to the domestic labor market but also to the wider regional and international markets. Meeting the challenges of the post-apartheid era requires a shift in the labor force from largely unskilled miners and apartheid labor to skilled and semiskilled workers. Thus, maintaining the competitiveness of Lesotho workers within the regional market will require sustained attention to the quality of education and training. Among the major challenges will be reversing the trend of declining net enrollment rates for primary education; vastly improving outcomes and efficiency in primary and secondary education; adapting technical, vocational, and tertiary education to private sector demand in the regional labor market; and striking an appropriate and sustainable balance in public funding for various levels of the education system.

HIV/AIDS: A Formidable Challenge

Lesotho is facing one of the most serious health and social welfare threats of the new century: HIV/AIDS. Based only on a very small sentinel surveillance system, UNAIDS estimates an adult (ages 15–49) HIV prevalence rate of 23.6 percent for Lesotho in 1999—one of the highest rates in the world (table 2.1). Lesotho can expect to see dramatic increases in infant, child, and adult mortality rates and decreased life expectancy, and there will be severe social, economic, and financial consequences from losing people in their most productive years. Lesotho's life expectancy is estimated, based on a modest prevalence rate of 4.4 percent, to drop to 45 years by 2010; without the presence of HIV/AIDS, life expectancy would have been 66 years (U.S. Bureau of Census estimate, 1999). More recent estimates (UNAIDS 2000) put the HIV prevalence rate six times as high, reducing life expectancy even further: the difference in life expectancy, with and without AIDS, is projected to reach a

Table 2.1 **The Incidence of AIDS in Lesotho, South African Customs Union, South African Development Corporation, Sub-Saharan Africa, and Worldwide, 1999**

Area	Estimated adult prevalence (%)	No. of adults living with AIDS (aged 15–49)	No. of children living with AIDS	No. of orphans[a] (cumulative)
Lesotho	23.57	240,000	8,200	35,000
SACU	**25.13**	**1,195,000**	**28,850**	**141,250**
SADC countries	**15.90**	**1,064,545**	**38,482**	**426,636**
Angola	2.78	160,000	7,900	98,000
Botswana	35.80	290,000	10,000	66,000
Congo, Dem. Rep.	5.07	1,100,000	53,000	680,000
Malawi	15.96	800,000	40,000	390,000
Mauritius	0.08	…	…	…
Mozambique	13.22	1,200,000	52,000	310,000
Namibia	19.54	160,000	6,600	67,000
Seychelles	…	…	…	…
South Africa	19.94	4,200,000	95,000	420,000
Swaziland	25.25	130,000	3,800	12,000
Tanzania	8.09	1,300,000	59,000	1,100,000
Zambia	19.95	870,000	40,000	650,000
Zimbabwe	25.06	1,500,000	56,000	900,000
Small IDA-eligible SSA countries[b]	**4.08**	**21,333**	**860**	**7,633**
Cape Verde	…	…	…	…
Comoros	0.12	…	…	…
Djibouti	11.75	37,000	1,500	7,200
Gambia, The	1.95	13,000	520	9,600
Guinea-Bissau	2.50	14,000	560	6,100
São Tomé & Principe	…	…	…	…
SSA	**8.57**	**24,500,000**	**1,000,000**	**12,100,000**
Worldwide	**1.07**	**34,300,000**	**1,300,000**	**13,200,000**

… Negligible.

a. Orphans are defined as children under 15 who have lost their mother or both parents to HIV/AIDS since the beginning of the epidemic.

b. Small is defined in terms of population size (countries of less than 1.5 million).

Source: UNAIDS (2000).

staggering 31.4 years by 2015 (World Bank 2000a, p. 16). Preliminary estimates project that the annual loss of GDP growth due to AIDS will rise from 0.6 percent in 2001 to 2.7 percent by 2015 (World Bank 2000a, p. 23). The impact of AIDS will be greater on the poor, who are less educated about prevention and more vulnerable to rising medical costs and loss of income.

Institutional Capacity: A Major Weakness

Inefficient government bureaucracy and limited absorptive capacity for external assistance impede Lesotho's efforts to sustain broad-based growth and reduce poverty. Inadequate administrative and institutional capacity in many ministries and central government agencies appears to have seriously impeded policy formulation, coordination, and implementation for long-term development. Data management systems are weak, raising concerns about the timeliness and reliability of data about national accounts, poverty, and society.

Private Sector Development: Key for Growth

Lesotho's labor force is growing at 25,000 new entrants a year, while the employment absorptive capacity is limited to about 9,000 a year (Lesotho 2000). The employment problems are made worse by the substantial reduction of opportunities for migrant miners in South Africa. About 180,000 subsistence farmers and about 31,000 small-scale entrepreneurs dominate Lesotho's current workforce. While their production can grow, they cannot be a source of significant additional employment.[1] Any additional employment will need to come from manufacturing. In the early to mid-1990s a number of firms (generally foreign-owned, but with some government equity) manufacturing textiles and footwear for export on a labor-intensive basis rapidly increased their contribution to GDP, reaching 14 percent in 1994–95. This growth was based mainly on firms from South Africa that were avoiding apartheid-era trade sanctions on South African exports. Unfortunately, the rapid growth was not sustained at the end of apartheid. Nevertheless, the best basis for growth is the private sector; establishing the enabling environment for additional private investment remains one of Lesotho's biggest challenges.

Political Instability: A Challenge and a Constraint to Sound Governance

There is no agreement among Lesotho's political parties on appropriate security and political arrangements. Continuing political uncertainty has had a negative impact on public administration, private investment, and economic development (Chapter 1 and box 1.1). Meanwhile, the government has signed a defense pact with SADC countries, allowing them to intervene at the government's invitation, and at very short notice, should the need arise. Political stability, and therefore more stable governance, remains a key challenge.

World Bank Services and Products

This chapter evaluates each service and product the World Bank has deployed to meet Lesotho's development challenges. The services and products include policy dialogue and strategic advice, economic and sector work, and lending. The evaluation indicates a moderately unsatisfactory outcome overall. The Bank's contribution to institutional development has been modest and sustainability remains uncertain. Ongoing lending is riskier than average for the Bank's portfolio.

Policy Dialogue and Strategic Analysis

The complex political and economic transitions in Lesotho and South Africa during the 1990s (see Chapter 1) required adjustments in policy and development strategy. Moreover, with Lesotho's return to democracy in 1993, a new development strategy was needed to reflect the new government's vision. Consequently, a national task force of the major stakeholders in Lesotho's development was created to develop a medium-term (1995–00) strategy. The World Bank and other donors provided analytical, technical, and financial inputs, and the task force produced the Strategic Economic Options Report (SEOR). The report contained detailed reviews of the issues and strategies of 19 sectors and played a part in the World Bank's dialogue with the government on development priorities. For example, the 1996 Country Assistance Strategy (CAS) used the report as one of its inputs. In sum, the SEOR was comprehensive and relevant. While it did not rank the development priorities among sectors, it did recommend priority actions within specific sectors.

Policy dialogue was strengthened considerably through the preparation of a Poverty Assessment by the World Bank, the government, the Lesotho Council of NGOs, the EU, and USAID. The assessment was relevant, providing a comprehensive review of poverty in Lesotho, including a detailed analysis of the impact of growth in different sectors on poverty reduction based on a Social Accounting Matrix (table 3.1). The resultant strategy was, however, moderately unsatisfactory because its plan to foster labor-intensive growth in agriculture was unlikely to succeed. It overplayed the opportunities for poverty reduction through crop diversification, increased growth of high-value crops, and labor-intensive production of these crops. In any event, the 1990s witnessed limited diversification or production of high-value vegetables and fruits

Table 3.1 1995 Poverty Reduction Action Plan

Foster labor-intensive growth	
In agriculture: • Remove price, marketing, and processing distortions • Invest in rural infrastructure • Make land tenure more secure • Promote a reduction in herd size • Reorient agricultural research and extension	**In export-oriented light manufacturing:** • Keep minimum wages at a competitive level • Improve industrial relations • Reduce utility costs • Root export firms more firmly in the economy by selling factories
In the small business sector: • Make it easier for small entrepreneurs (especially women) to get credit and do business • Shift the emphasis away from broad entrepreneurship training in manufacturing toward training in skills needed in the export and service sectors • Develop rural and urban marketplaces **Through infrastructure investments**: • Use private contractors on public works • Invest more using labor-intensive approaches	**In tourism:** • Work much more closely with South African Travel agents • Develop a special "Lesotho package"
Invest in human resources	
In health care: • Exempt children less than five from fees • Introduce a free basic health service • Increase geographic equity • Allow local facilities to retain certain fees	**In education:** • Lower the cost to parents of primary schooling • Strengthen informal education for out-of-school youth • Improve vocational and technical education • Invest more in education in poorer regions • Create incentives for qualified teachers to teach in remote areas • Spend proportionately more on primary education than university
Strengthen the safety net	
Lower the cost of staple foods: • Remove trade, marketing, and processing restrictions • Exempt basic foods from the general sales tax • Target special programs to vulnerable groups, including an improved drought relief program	• Expand labor-intensive public works • Decentralize planning and management • Pay in cash rather than in kind
Improve institutional capacity	
• Implement a poverty reduction program financed from the Lesotho Highlands Revenue Fund • Decentralize political, fiscal, and administrative authority • Reform the civil service	• Privatize activities better performed by the private sector • Improve planning and budgeting • Merge fragmented program management units • Start doing annual household surveys

Source: World Bank data.

because of inadequate credit, poor irrigation facilities, weak technological support, and remote markets (van Holst Pellekaan 2001). In addition, successful labor-intensive development of the nonfarm sectors was unlikely, as suggested in the Poverty Assessment, because of the weak enabling environment for investment in light industry. The report stressed improved social services and human resources as a way to reduce poverty; this was right on the mark.

Apart from the Poverty Assessment, World Bank strategies during the 1990s were articulated in a number of Country Assistance Strategies and annual Policy Framework Papers (PFPs), which had been prepared jointly by the government, the Bank, and the IMF since 1988 (box 3.1). These strategies evolved from an emphasis on stabilization and growth to greater emphasis on poverty reduction and private sector development in the mid- to late 1990s. Poverty reduction was the overarching goal of the 1996 CAS, which reiterated the poverty reduction action plan spelled out in the 1995 Poverty Assessment. The 1998 CAS reaffirmed the importance of poverty reduction and recommended measures to enhance the enabling environment for private sector development. A consistent objective throughout the 1990s was to maximize the poverty-reducing impact of revenues generated by the LHWP.

Box 3.1 Lesotho—World Bank Strategies

1994 CAS: A Three-Pronged Strategy for Growth

Goals. **The 1994 strategy aimed to help the government to (1) maintain and deepen macroeconomic and structural reforms, including privatization; (2) improve capacity to implement the program; and (3) capture the benefits of the LHWP. The earlier stabilization and reform measures were supported by the IMF Structural Adjustment Facility/Enhanced Structural Adjustment Facility (SAF/ESAF) and six successive Policy Framework Papers during the periods 1988–89 and 1993–94. The CAS recognized the serious poverty situation and identified the lack of growth in the indigenous private sector (exemplified by handicrafts, textiles, and agricultural processing and marketing) as the root cause for the high poverty. It also noted the existence of the import ban on wheat and maize as a reason for high food prices that hurt the poor, but no explicit strategies for poverty reduction were proposed. The strategy saw prospects for increased employment of Basothos in the new socially inclusive South Africa on the basis that Lesotho labor was in a strong competitive position, but seemed to overlook the severe shortage of jobs in South Africa.**

Assistance program. **It included ongoing LHWP, education, and health programs and proposed privatization and private sector development projects. Progress in structural reforms could trigger preparation of another three IDA credits ($69 million). The CAS did not explicitly list upcoming economic and sector work (ESW).**

1996 CAS: A Poverty-Focused Strategy

Goals. **The 1996 CAS marked a shift in strategy toward poverty reduction. The CAS incorporated the findings of the 1995 Poverty Assessment: (1) foster labor-intensive growth; (2) invest in human resources; (3) maximize the poverty-reducing impact of the LHWP, and (4) enhance institutional capacity.**

Assistance program. **It embraced the ongoing LHWP, the education, health, and population programs, proposed a road rehabilitation and maintenance project, an agricultural sector investment program (ASIP), a poverty reduction project, an exports promotion and skills development project, and the third phase of the structural adjustment program, including the preparation of a PFP. The high lending scenario ($122 million) envisaged two additional projects and the triggers for higher lending levels, including a satisfactory macroeconomic program (as agreed in the IMF stand-by facility, accelerating progress in privatization, deregulating agricultural trade, enhancing capacity building, and activating the stalled rural development component of the LHWP. The CAS did not explicitly list upcoming ESW.**

1998 CAS: A Renewed Focus on Poverty

Goals**. Noting the shortfalls in achieving the 1996 CAS objectives, the 1998 CAS substantially reiterated the objective outlined in the 1996 CAS—poverty reduction.**

Assistance program. **The proposed FY99–00 IDA program under the base case lending scenario included four credits totaling $50 million: a Social Fund Learning and Innovative Loan (LIL), Second Education Sector Development, a health sector project, and the Maluti-Drakensberg—GEF (Global Environment Facility) project. The high case scenario envisaged two more loans in addition to the above-mentioned four projects: private sector development and water supply. The triggers for the high case scenario included addressing the inefficiencies of the public utility sector, reforming the Lesotho Highlands Revenue Fund (LHRF) into a poverty-focused fund, and implementation of the poverty reduction plan. The CAS envisaged five pieces of ESW: a public expenditure review, an education review, a health review, a poverty monitoring system support, and a regional review of labor market dynamics.**

Evaluation of the 1990s CASs. The 1994 CAS was modestly relevant to poverty reduction and the outcome was moderately satisfactory. Macroeconomic stabilization was achieved, which was highly relevant and beneficial to the poor. The Bank-supported LHWP helped Lesotho generate substantial growth. Also, the outcome of a sectorwide educational reform supported by the Bank was moderately satisfactory (table 3.2).

But the important agricultural price policy, grazing management, and poverty reduction objectives were not achieved. For example, no progress was made on removing the import controls on wheat and maize that protected Lesotho's farmers and encouraged them to grow maize in marginal land. There was no change in the exploitive management of rangelands. There was also no sign of meeting the high

Table 3.2 Relationships between 1995 Poverty Assessment, Country Assistance Strategies, Lending, and Outcomes for Major Programs

Poverty Assessment recommendations incorporated in CASs	Ongoing and proposed lending in CAS	Resulting operations[a]	Outcomes
	Foster labor-intensive growth		
Support agricultural development	Agriculture Sector Investment Program (FY00), $22m	Agricultural Policy and Capacity Building (FY98), $7m	Probably moderately satisfactory
Stimulate small business sector	Poverty Reduction Project (FY98), $20m	Community Development and Support (LIL) (FY01), $5m	Highly relevant but not timely; slow start and no progress yet
Increase export-oriented light manufacturing	Exports Promotion and Skills Development (FY99), $40m		
Expand tourism			
Infrastructure investments	Road Rehabilitation (FY96), $40m	Road Rehabilitation (FY98), $40m	Highly unsatisfactory so far
	Invest in human resources		
Improve health services	Health and Population II (FY90, ongoing), $12m	Health and Population II (FY90–98), $12m	Moderately unsatisfactory
Increase support to education	Education Sector Development (FY92, ongoing), $25m	Education Sector Development (FY92–99), $25m	Moderately satisfactory
	Strengthen the safety net		
Strengthen the safety net Lower the cost of staple foods	Poverty Reduction Project (FY98), $20m	Community Development and Support (LIL) (FY01), $5m	Highly relevant but not timely; slow start and no progress yet
Expand labor-intensive public works	Lesotho Highlands Water 1A (FY92, ongoing), $110m	Lesotho Highlands Water 1A (FY92–99), $68.9m	Unsatisfactory in terms of poverty reduction/rural development
Target special program to vulnerable groups	Lesotho Highlands Water 1B (FY98), $45m	LHWP 1B (FY98, ongoing) $45m	Probably moderately satisfactory in terms of poverty reduction/rural development
	Improve institutional capacity		
Improve institutional capacity	Poverty Reduction Project (FY98), $20m	Community Development and Support (LIL) (FY01), $5m	Highly relevant but not timely; slow start and no progress yet
		Agricultural Policy and Capacity Building (FY98), $7m	Probably moderately satisfactory

a. Excludes the recently approved Health Sector Project (FY00, $20 million) and the Second Education Sector Development Project (FY99, $15 million). Details in Annex E, table E.3.

expectations for poverty reduction through expanded employment of Basothos in South Africa foreshadowed in the 1994 CAS (box 3.1). The aim of activating "rural development components" in the context of the LHWP to reduce poverty in rural areas was also not achieved (box 3.2). The 1994 Bank-assisted privatization program made slow progress. Finally, with the exception of the privatization loan presented as part of the 1994 CAS, no new lending was approved until mid-1996 (table 3.2).

A review of the poverty reduction focus of the FY96 CASs in the Africa Region commended the Lesotho CAS as a best-practice example at the time, reflecting the linkages between the poverty assessment, strategy, and the lending program (Taddese 1996). While highly relevant to poverty reduction, it had a moderately unsatisfactory outcome (table 3.2). This CAS reflected the difficulty of implementing the proposed strategy and making progress on addressing poverty reduction in Lesotho in the absence of effective institutions and in the presence of overoptimistic World Bank aspirations. While the CAS optimistically stated that the LHWP would "focus on improving the design and implementation of the Development Fund program" and laid out a number of actions, the Fund never met its objectives. Rural development in the highlands stalled except for the health facilities provided as part of the LHWP (box 3.2).[1] The proposed Poverty Reduction Project to support the Fund did not materialize, despite being listed under the base case scenario of the 1996 CAS.

The $22 million Agricultural Sector Investment Program (ASIP) suffered from inadequate funding and was in effect replaced by the later, less ambitious Agricultural Policy and Capacity Building Project (fiscal FY98, $7 million). The Road Rehabilitation and Maintenance Project ($40 million) floundered (van Holst Pellekaan 2001): it aimed to support economic growth and poverty reduction by building roads in isolated areas and providing basic road-related services to district centers. In contrast, the Bank-supported education sector program continues to be moderately satisfactory (table 3.2). Finally, while there was no discussion of government participation in the preparation of the 1996 CAS, it does document sectoral consultations with the government, the Bank, and other donors.

The 1998 CAS, prepared on a participatory basis with many stakeholders over six months, was modestly relevant with a moderately unsatisfactory outcome because it had no discernible impact on poverty reduction. While stabilization aspects of the reform agenda, which had also involved support from the IMF, were successfully addressed, little progress was made on political and structural problems. The political matters will be pursued in more detail below, although it is now clear that the Bank had not correctly assessed the depth of political instability in the 1998 CAS. The outbreak of internal conflict in September 1998 created economic difficulties that had long-term consequences and delayed the implementation of this CAS.

The agricultural sector continued to perform below its potential and therefore had little positive impact on poverty reduction. The environmental and rangeland problems remained and there was no progress on changes in land tenure or grazing rights. The rural development component of the LHWP was still not operative. To address the problems of the nonperforming Lesotho Highlands Revenue Fund, the Community Development Support Fund (a Learning and Innovation Loan, or LIL) was proposed to support reforms financed by the Fund. However, by mid-2000, the new fund was not yet operational. Clearly, while construction progress on the LHWP was on schedule and successful, crucial rural development and poverty reduction objectives for the LHWP had stalled (box 3.2). These aspects were not fully designed at project inception, contributing to implementation delays, adverse publicity, and criticism by nongovernmental organizations (NGOs).

On the whole, World Bank assistance strategies for Lesotho in the 1990s overreached in their objectives, given weak government ownership and insufficient implementation capacity.[2] The strategies pursued too many goals, and the measures they recommended were so broad that government authorities, NGOs, and civil society found them difficult to gauge and implement. For example, the 1995 poverty reduc-

Box 3.2 The Lesotho Highlands Water Project (LHWP)

Background. **The LHWP is a four-phase binational project between Lesotho and South Africa, involving the export of water from Lesotho (through a series of dams and tunnels) to the water-scarce Gauteng Province in South Africa (which produces 60 percent of South Africa's GDP). In addition, the Muela hydropower plant was constructed to meet Lesotho's energy needs. Phase 1 is governed by a treaty and comprises two components: Phase 1A (1991–98) and Phase1B (1999–03), with costs of $2.6 billion and $1.1 billion respectively. The project is the lowest-cost alternative, by about $1 billion, and South Africa bears the full cost and associated debt of the water transfer, while the hydropower plant (15 percent of Phase 1A cost) is the responsibility of Lesotho.**

The role of the World Bank. **Studies of the LHWP concept date back to the 1950s, but the World Bank played a significant and catalytic role in the negotiations of the 1986 Water Treaty, including facilitating the drafting and signing of the treaty between the governments of Lesotho and South Africa. Although the Bank financed 4 percent of the project cost, it was a catalyst for securing external financing and advised on project formulation and implementation. The Bank's objectives were to help Lesotho (1) transfer its most abundant water resource into much-needed export revenues and alleviate water shortages in South Africa; (2) direct the benefits from the LHWP to development-oriented programs to reduce poverty; and (3) ensure that the social and environmental aspects of the project are managed.**

Substantial macroeconomic impact. **The project has had a substantial impact on the Lesotho's economy, both directly and indirectly: (1) the receipt of 484 million maloti ($73 million) in water royalties from FY96–97 to FY99–00; (2) buoyant custom revenues associated with the large imports for construction of the project; (3) increased tax revenues as a result of project activities; and (4) several ancillary developments, including the construction of roads and bridges. In 1998 the project accounted for 14 percent of GDP, 35 percent of value-added in construction, and 28 percent of government revenues. But little progress has been made on transferring benefits from the project to the poor through the Development Fund and Rural Development Program.**

Shortfalls in the Distribution of Benefits

Development Fund. **A Development Fund was established in 1992 (with part of the LHWP revenues) for financing programs targeted to the alleviation of poverty. Experience to date with the Fund is very disappointing, even though some 240 projects were approved at a cost of 215 million maloti, including roads, bridges, clinics, markets, and small dams. These projects are reported to focus on increased access to public services and appear to have created significant short-term employment, but problems**

tion action plan overextended itself by suggesting between three and seven major, but unprioritized, interventions in each of nine sectors (table 3.1). Similarly, the 1998 CAS identified 11 out of 14 areas as high development priorities. Thus the strategies were not sufficiently realistic; they did not take into account Bank and client resources and strengths, and particularly misjudged Lesotho's political instability, limited resources, and weak institutions.

The relevance of the World Bank's increasing focus on poverty reduction was undermined until late in the 1990s by inadequate attention to poverty monitoring and weak performance benchmarks. Where performance indicators existed (for example, in the social sectors), they often exhibited such weaknesses as vague wording, input orientation, no baseline data, or unrealistic targets (Goldstein 2001). There was a dearth of information required to evaluate progress toward poverty reduction, and benchmarks were not established. The 1995 Poverty Assessment, the 1996 CAS, and the 1998 CAS all proposed putting in place a system for data collection that would permit poverty monitoring. It was not until the FY00 Community Development Project that the Bank supported a formal survey mechanism. Most of the World Bank's projects in Lesotho do not have a poverty monitoring and evaluation mechanism; nor were the CASs used to raise consciousness in Lesotho regarding the need for monitoring poverty and setting targets. The 2000 Interim Poverty Reduction Strategy Paper again emphasized the need for improved data on poverty (Lesotho 2000).

World Bank strategies also underestimated the extent of political instability and did not adequately assess the effect of political upheavals

such as inadequate criteria for project approval, low-quality construction, and poor operation and maintenance have hampered the effective use of project funds. The Development Fund did not fully achieve what was intended. It was replaced by the Lesotho Fund for Community Development. The new Fund will be managed under the Bank-assisted Community Development Support Project that became effective in July 2000. Unfortunately, this project came extraordinarily late, since it is now five years since the 1996 CAS and its commitment on the use of the LHWP revenues for poverty reduction. So far, the poor have seen few benefits from the LHWP, and project progress continues to be slow.

Rural Development Program. **The program was designed to provide long-term indirect compensation to households directly affected by the LHWP, on the grounds that they should not be worse-off due to the project. An independent evaluation of the rural program was extremely critical of its limited achievements during Phase 1A. A number of components of the program (such as improved livestock production, irrigated vegetable production, and fruit tree distribution) were either seriously at risk of failure or not likely to succeed at all (Eriksen 1996). In addition, household surveys suggest that eight years after the start of Phase 1A, there has been virtually no improvement in the incomes and welfare of households in the project area (SW-B & A Consult 1999). They also show that for many welfare indicators, households in the project area are no better off than other households in the highlands. While Bank staff expressed doubts about the validity of this survey, this assessment of the impact of the project on poverty reduction is consistent with a client survey in 1997 (quoted in the 1998 CAS) in which respondents reported little impact from the Bank's lending on poverty reduction.**

Sustainability of the social component. **The long-term future of the Lesotho Highlands Development Authority (LHDA—the implementing agency) after the current construction program is completed in about 2003, and before a possible second phase starts up (at earliest, in 5–10 years), remains unresolved. The strategy for the transfer of health facilities, infrastructure, and human resources to the government or other third parties is still being developed. The Bank's Operations Evaluation Department (OED) considers that sustainability of the social component is not yet certain, as organizations (public, private, or community) with the capabilities to take over the operations and maintenance of these assets have in many cases not yet been identified. Meeting international standards for construction, operation, and maintenance of the facilities built by the LHDA may be beyond the present capabilities of Lesotho. Sustained financing of the facilities is also uncertain.**

on the implementation of the Bank's program, despite the 1993 election experience. In particular, the Bank did not appear to understand policy decisionmaking in the country and was too optimistic in assuming that democratization and stability could be accomplished soon after the May 1998 elections. For example, the 1998 CAS, presented to the Board shortly after the election, noted that the risk to the Bank's program was "minimized by progress in Lesotho's ongoing democratization process and efforts to achieve good governance." The Bank's assistance strategy did not include contingency plans in the event the democratization process fell apart, as it did. Awareness of the long-standing sources of political and social volatility in Lesotho should have indicated a far more modest strategy for the base case scenario than the four projects proposed in the 1998 CAS.

The strategy's insufficient attention to HIV/AIDS raised questions about its relevance to broad-based sector development. The implications of reduced incidence of AIDS and lower population growth for enhanced per capita income growth and poverty reduction were not addressed in the Bank's strategy, despite widely available calculations that they would be of major significance.[3] Although the World Bank drew government attention to the importance of these issues, the Bank did not help Lesotho develop the most basic integrated health information system and survey instruments necessary to monitor HIV/AIDS, leading to underestimation of prevalence and, consequently, of its impact. HIV/AIDS was not then at the center of the country dialogue, and the Bank's 1994 population sector review did not trigger a shift in Bank strategy in the last half of the 1990s toward

Box 3.3

The Lesotho Highlands Water Project: Dam Safety, Environment, and Other Bank Safeguards and Guidelines

Panels of experts contribution. **OED commends the valuable contribution made to the project by the two World Bank–financed panels of experts, one for design and construction and the other for environmental and social matters, and by the Disputes Resolution Board. All parties to the project met by the OED mission confirmed the quality of the panel contributions. In particular, the design panel's recommendations resulted in significant cost savings, while the advice of the Disputes Resolution Board helped avoid costly litigation and arbitration. The design and construction panel also analyzed the consequences of the reservoir-induced seismicity (RIS) and concluded that there was no adverse effect on the safety or operation of the project, although it recommended that monitoring be enhanced. RIS impacted the villages adjacent to the Katse Reservoir, requiring repairs to and construction of replacement houses, and created adverse publicity for the project.**

Dam safety. **Phase 1A can be considered satisfactory in meeting the World Bank's dam safety guidelines and in developing Emergency Preparedness Plans (EPP) for the dams. However, as pointed out in a 1999 World Bank implementation completion report (ICR), the project dam safety and surveillance require some further strengthening, and the EPP are still to be tested with the public at large, as ongoing awareness activities have so far concentrated on public institutions in the area, such as police and clinics.**

Environmental assessment. **A National Environmental Action Plan (NEAP) included in the original project design was generic in nature and covered the LHWP as a whole. While meeting the World Bank's environmental guidelines in effect at the time of Phase 1A project appraisal, it was not sufficiently detailed and lacked an element of public participation. As a result of the uncertainty of the original plan, coupled with the Bank's optimistic assumptions about the LHDA's capabilities to fully design and implement the plan, the majority of the Phase 1A environmental component was delayed. In addition, there was a lack of clarity in Phase 1A as to what share of the project's environmental program was attributable to the water transfer component and should therefore be funded by South Africa, and what share was of a general development nature and should be financed by Lesotho. This confusion contributed to the delay in implementing the program. However, lessons were learned and applied in preparing Phase 1B and an Environmental Assessment (EA) was synthesized from the results of 14 coordinated baseline studies of physical, chemical, ecological, and social aspects. The EA work was monitored by the Bank and an international multidisciplinary team of experts. There was also a comprehensive consultation of the highland communities.**

Involuntary resettlement. **Although households directly affected by Phase 1A of the project have been resettled (359 households as opposed to 173 at appraisal), there are two residual issues being addressed. One issue includes the definitive legal transfer of**

more actively combating HIV/AIDS. This shift occurred only at the beginning of the new decade (World Bank 2000a).

In sum, the World Bank strategies were modestly relevant to poverty reduction. They supported macroeconomic policies that had a substantial impact on inflation and growth. The programs also provided vital support for the financing and implementation of the LHWP. Support to the educational program was highly appreciated by the government. In the second half of the 1990s, the strategies focused heavily on poverty reduction, but were undermined by a poor appreciation of the political instability, which reduced ownership of the reform program. The sectoral strategies were neither sufficiently selective nor realistic,[4] and they did not pay enough attention to HIV/AIDS, poverty monitoring,[5] performance indicators, rangeland problems, rural development, and Lesotho's weak institutional capacity.

As the decade came to a close, Lesotho had seen little progress on agricultural diversification, employment creation, and rural development. The World Bank–supported education reform program, however, achieved its major objectives. Also, substantial economic growth was achieved during much of the 1990s, spurred by the LHWP as well as sound economic policy. For example, the impact of construction in the LHWP helped Lesotho realize an average GDP growth of close to 4 percent a year during the 1990s. The

resettlement houses to their beneficiaries and the associated cut-off of all future LHDA legal responsibilities. The other issue is the internal evaluation of resettlement performance using a set of risk indicators that include homelessness, landlessness, joblessness, morbidity, and mortality. The proposed evaluation of resettled families will provide a measure of project impact. For Phase 1B, the physical resettlement for the 99 families included in Stage I has been completed, but not the goal of providing gardens, or sustainable jobs, for these families to achieve food security. The resettled families rely heavily on compensation for their basic needs, making it more difficult to wean them off this entitlement and to reestablish their integration in normal village life. Stage II resettlement will affect 226 households, representing an increase of 40 percent from the initial 163 households identified in the resettlement action plan approved in 1997. The experience of Stage I has caused concern about the chances of achieving the goal of sustained food security for these households. There is a lack of understanding of the compensation policy among the affected households, due in part to the unavailability of the policy in the local language, which leads to multiple interpretations and the persistence of a number of complaints highlighted by NGOs.

Projects in international waters. **The LHWP is a binational project implemented in the Orange River Basin shared by Lesotho, South Africa, and Namibia. As a riparian of the project, Namibia was notified and indicated that it had no objection.**

Procurement and corruption. **The alleged corruption associated with some of the procurement in Phase 1A was not mentioned in the ICR for Phase 1A because (as OED was advised by the Africa Region) it was not known by the Bank at the time the ICR was written. In discussing procurement aspects for Phase 1A, the general manager of the Engineering Group of LHDA mentioned to the OED mission that the World Bank had played a key role in assisting the Tender Evaluation Team by financing "seven wise men." This assistance proved helpful in refuting corruption alleged by various countries and enhancing the credibility of the evaluation. Nevertheless, a number of consulting firms and contractors working on the project have been charged with paying bribes and their trial is underway. The World Bank Oversight Committee for Fraud and Corruption is investigating the alleged corruption, but its report has not yet been completed.**

The World Bank Inspection Panel. **The panel received two requests, in 1998 and 1999. The 1998 request alleged that the World Bank failed to consider demand management alternatives to Phase 1B. The Panel supported the Bank's and South Africa's analysis that the benefits of the project outweigh the costs of demand management required to justify the delay. The second request alleged that the reservoir inundated land over which the requesters claim to have a mining lease, but the Panel did not recommend an investigation.**

annual royalties for supply of water to South Africa through LHWP, amounting to 18 percent of government revenues and 5 percent of GNP in 1998, are substantial and sustainable. These royalties have already contributed to economic and social development expenditures, but they have so far been unsuccessful in stimulating rural development and achieving poverty reduction. It is not clear what will sustain economic growth in Lesotho once the impact of the large construction program has played out. Can the manufacturing sector contribute more than its current 10 percent of GDP? To what extent can the agricultural sector contribute to the economy, to exports, and to poverty reduction? Despite improved strategies and some investments, Lesotho is no closer to making progress on these questions. It remains unclear how the large pool of relatively unskilled, unemployed, and underemployed rural Basothos will find jobs.[6] The Bank's contribution to resolving these questions has been moderately unsatisfactory.

Economic and Sector Analysis

The Bank completed several formal and informal sector reports in the 1990s, and Lesotho was also included in several regional studies during those years (Annex E, table E.1). Three areas—agriculture, education, and the financial sector—have been covered in depth, while population, health, and nutrition received less attention.[7] The share of resources allocated to economic and sector work (ESW) for Lesotho—averaging 15 percent a year during FY91–99—was below the SSA regional average (19 percent), but above the average of small SSA countries (10 percent) (Annex E, table E.2). While the reports were generally of satisfactory quality, education sector work in particular was effective in producing a coherent framework to establish priorities and to guide lending. A summary evaluation of ESW based largely on the approach used by the Quality Assurance Group (QAG) is presented below.

Agriculture and environment. There were reviews of the agriculture sector in 1981 and 1986, as well as a comprehensive National Environmental Action Plan (NEAP) in 1989. The sector reviews were relevant and of satisfactory quality. They emphasized the potential of more intensive use of the lowlands for high-value crops and the importance of improving management of grazing resources in the highlands. The NEAP was also relevant and of moderately satisfactory quality. It laid out an ambitious but unprioritized agenda and had little impact during the 1990s. Seven years after the NEAP's release, the 1996 CAS lamented that up to then, no action had been taken on the NEAP's recommendations. In 1993 the World Bank undertook a study of environment and agricultural diversification. The work was painstakingly prepared using considerable published and unpublished data, and its quality was satisfactory. But its impact on the sector has been limited—for example (as noted earlier), diversification of crop production has been slow and largely unsuccessful, despite theoretical support for the change.

Education. An FY90 study of improving quality and efficiency in education was exceptionally effective in helping establish a coherent policy framework for education reform in the 1990s. The study was of satisfactory quality and identified a reasonable number of priorities through a recommended core action plan. It was adequately disseminated and timed to provide an input into the government's Education Sector Development Plan (included in its Fifth Development Plan, 1991/92–1995/96). Of all the sectors, analysis in education has been most incisive. It is therefore no surprise that the Bank's assistance in this sector is well received. A senior official in the Ministry of Education noted that "the World Bank educated us to be able to identify our own needs. The 1989 report was very helpful. Before, we had multiple donors, and everything was on a first-come, first-served basis."

Financial intermediation. Two financial sector reports were prepared during the 1990s. The first, in 1990, did not envisage emerging weaknesses of the financial sector and suggested only modest changes to existing policies. Toward the end of the decade the financial sector had deteriorated such that the 1998 report expressed concerns about the financial system's weak capacity to support initiatives in the commercialization of agriculture, tourism development, and export promotion. It therefore focused on the broader issues of financial intermediation, the performance of the banking system, and small- and medium-scale enterprise development. Central to the conclusions of the second report was the need to improve the supervisory functions of the Lesotho Central Bank. This report did not, however, provide a solution to the weak financial services in rural areas.

Health, nutrition, and population. After a Health, Nutrition, and Population (HNP) Sector review in 1981, no formal analytical work on the health sector and the health system in Lesotho was undertaken for nearly 20 years. In particular, there was a lack of analytic work during the first half of the decade when the National Health Sector Plan was developed. While the work done in the population sector (1994 population sector review) was of moderately satisfactory quality, it was ill-timed and too poorly disseminated to influence strategy or lending as proposed in the 1985–94 HNP and 1989–98 HNP II.

Summary. Some sound sector analysis was carried out during the late 1980s and 1990s, but there were substantial shortcomings. For example, there was no broad economic work to follow up the action plan in the 1995 Poverty Assessment.[8] Notable for their absence were periodic reviews of the allocation and uses of public expenditures. These would have been of particular importance to ensure that social expenditures were strengthened, given the substantial and sustained revenues generated by the LHWP. A Public Expenditure Review (PER) was planned for 1996–97 as the basis for reforming public expenditures proposed by the ninth Policy Framework Paper (1996), but it did not materialize. A Public Expenditure and Budget Management Review currently under preparation is highly relevant, and an analysis of labor markets (part of a regional study) is currently under preparation. Given the persistently high unemployment level, the analysis of Lesotho's labor market is relevant and important work.

Lending

Over the past three decades, World Bank commitments to Lesotho were about $448 million for 28 projects. Of this, $293 million was for 26 IDA credits and $155 million was for two IBRD loans. Ten-year commitments grew rapidly from less than $50 million in the 1970s to about $100 million by the 1980s, and then tripled to almost $300 million in the 1990s. The Bank's portfolio was changing rapidly in the 1990s because of the introduction of a major water supply project, LHWP, with commitments amounting to $110 million in FY92 and $45 million in fiscal FY98. While the share going to water supply increased to 51 percent, the share for agriculture, transport, and urban development declined. The share going to education also declined, but less than the other sectors (table 3.3). Annual average net disbursements were $13 million and net transfers $10 million during fiscal FY90–00, with peaks of nearly $30 million for each in FY93 following the approval of the LHWP (figure 3.1). The International Finance Corporation has no operations in Lesotho. The Multilateral Investment Guarantee Agency currently has an exposure in Lesotho amounting to $23.7 million.

OED Findings on Closed Projects

For projects exiting the portfolio since FY90, table 3.4 shows that 67 percent (by net commitment) of Lesotho's evaluated portfolio was found to have satisfactory outcomes, comparable with the SSA average, but significantly below the SADC subregion, small SSA countries, and Bankwide results. Sustainability of projects, however, was rated likely for only 22 percent of the net commitments evaluated, similar to the score for small SSA countries, but considerably below other comparator countries and the Bankwide average. Institutional development fared even worse; it was substantial for only 18 percent of the total lending evaluated, the lowest rating among comparators. Of particular concern is that projects approved during fiscal FY90–00 and already closed performed worse than older ones (Annex E, table E.3).

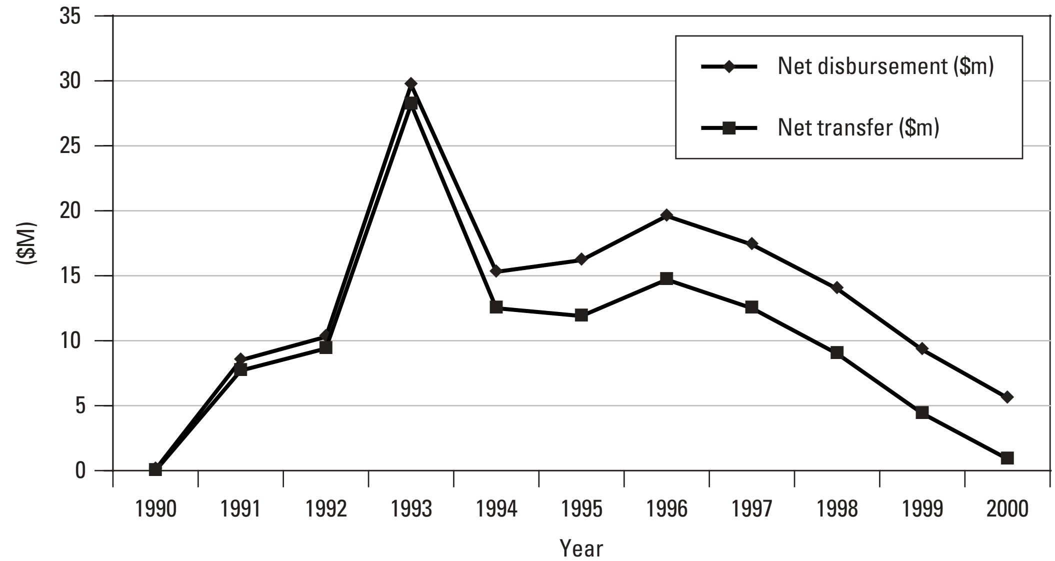
Project performance ratings by sector show significant differences (Annex E, table E.4). The LHWP, by far the largest and most significant activity in the Bank program, has been satisfactory in stimulating economic growth and generating sustained export revenue for Lesotho. The proj-

Table 3.3 Sectoral Distribution of Bank Lending, FY66–99

Sector	1966–99 $M	1966–99 Percent	1966–79 $M	1966–79 Percent	1980–89 $M	1980–89 Percent	1990–99 $M	1990–99 Percent
Agriculture	34	7.7	11.6	22.7	16.0	16.9	6.8	2.3
Education	78	17.4	11.5	22.5	20.0	21.1	46.2	15.3
Finance	6.5	1.5	2.5	5.0	4.0	4.2	0.0	0.0
Industry	21.0	4.7	0.0	0.0	0.0	0.0	21.0	7.0
Health, nutrition, and population	15.6	3.5	0.0	0.0	3.5	3.7	12.1	4.0
Public sector management	11.0	2.4	0.0	0.0	0.0	0.0	11.0	3.6
Transportation	74.6	16.7	19.5	38.1	15.2	16.0	40.0	13.3
Urban development	36.2	8.0	0.0	0.0	26.4	27.8	9.8	3.3
Water supply and sanitation	170.8	38.1	6.0	11.7	9.8	10.3	155.0	51.3

Source: World Bank.

Figure 3.1 Net Disbursements and Net Transfers



Source: World Bank Business Warehouse.

ect accounted for about 14 percent of Lesotho's GNP and about 40 percent of value-added in construction per year during 1994–98. It also generated 28 percent of government revenue in 1998, including receipt of royalties for supply of water (on the order of $45 million, or 5 percent of GNP), SACU tariff revenues from imports of materials for construction, and the increased tax revenues as a result of project activities (box 3.2). The LHWP made it possible for the government to turn a budget deficit in the late 1980s into a surplus in the 1990s and increase allocations of public expenditures to the social sectors. At the same time, there were, until very recently, serious shortcomings in progress on the distribution of benefits from the LHWP through the Development Fund and Rural Development Program. Household surveys suggest that eight years after the start of Phase 1A, there had been virtually no progress in terms of the incomes and welfare of households in the project area.[9] While Bank staff expressed doubts about the validity of these sur-

Table 3.4 OED Evaluation Findings of Recently Evaluated Projects (Exiting in the 1990s)

	Satisfactory outcome (%)		Likely sustainability (%)		Substantial ID (%)	
Country	No. of projects	Net commitment	No. of projects	Net commitment	No. of projects	Net commitment
Lesotho	60	67	30	22	20	18
Small SSA countries	64	72	24	20	29	36
SADC	58	74	33	35	29	35
SSA	56	65	29	31	24	26
IDA operations	65	75	37	45	30	33
Bankwide	68	77	47	60	33	39

Source: OED, details in Annex E, table E.3.

veys, this assessment is consistent with the perception of a client survey in 1997 showing that the Bank's clients (government, private sector, civil society, and donor community) did not see much impact from the Bank's lending program on poverty alleviation (box 3.2).

In the education sector, Lesotho's projects scored well. The two credits evaluated had a satisfactory or moderately satisfactory outcome. By contrast, the two health loans were rated moderately satisfactory and moderately unsatisfactory. At the other end of the spectrum, all completed agricultural and private sector development projects had unsatisfactory or highly unsatisfactory outcomes (Annex E, table E.4). Most projects with unsatisfactory outcomes had problems of quality at entry, complex and overambitious design given the limited local capacity, noninvolvement of beneficiaries during design, and failure to learn from previous experience.[10]

Project-level performance is an important indicator of the World Bank's contribution to economic development, but it tells only part of the story. The Bank assistance program (lending and nonlending) was based on a correct diagnosis of the country's problems and included relevant objectives such as growth and poverty reduction. The outcomes, however, were moderately unsatisfactory[11] because the program included poorly designed and complex projects, overestimated Lesotho's implementation capacity, overlooked the need to obtain agreement on important project conditions before Board presentation, paid inadequate attention to HIV/AIDS and poverty monitoring, and ignored political conditions that affected ownership of the program. More important, the Bank provided inadequate support for the implementation of the Development Fund, which was designed to distribute benefits from the LHWP to Lesotho's poor. While the substantial growth achieved during the 1990s is a prerequisite for improving welfare, no reduction in poverty or inequality has been measured during the decade, despite the strong growth performance.

In applying its safeguard policies, the World Bank took all measures required to meet the provisions of the dam safety guidelines (box 3.3). However, the reservoir-induced seismicity impacted villages adjacent to the Katse Reservoir, requiring replacement of some houses and creating adverse publicity. The Bank also prepared an environment assessment that complied with its safeguard policy, but there were delays in implementation. Although a detailed resettlement plan was implemented, many issues remained unresolved. Finally, Namibia, which shares the Orange River Basin with Lesotho and South Africa, was notified and indicated no objections to the LHWP. OED suggests that Bank performance on safeguard issues should be reviewed after the completion of Phase 1B of the LHWP.

Efficiency of World Bank Assistance

The cost of operations in Lesotho ranks among the Bank's most expensive for fiscal FY91–99 (Annex E, table E.2). Lesotho's average program cost of $81 per $1,000 of net commitment for satisfactory and nonrisky projects is much higher than that of SSA ($39), SADC ($31), and Bankwide averages ($16). Among 107 countries, Lesotho ranks as the 93rd-highest cost, and among 50 countries with similar project size (of $20–$40 million), Lesotho ranks as the 35th-highest cost. The Bank program in Lesotho was expensive partly because of the large commitment cancellations, amounting to 25 percent—more than double the Bankwide average of 10 percent for fiscal FY90–99 (Annex E, table E.4).

World Bank Portfolio Performance: Quality Assurance Group Assessments

Quality Assurance Group (QAG) assessments of portfolio performance show that, as of April 2000, Lesotho's active portfolio has 50 percent of projects (3 of 6) and 71 percent of commitments at risk. The risk percentage is much higher than SADC (18 percent), SSA (22 percent), and the World Bank average (19 percent) (Annex E, table E.3). Of the three risky projects, two were rated as actual problems (Road Rehabilitation and Maintenance and Agricultural Policy and Capacity Building) and one as a potential problem (LHWP Phase 1B). These ratios are sensitive to the time period examined (Annex E, table E.3). Delays in effectiveness and slow disbursements are among the reasons QAG cites for rating these projects as risky.

4

The Development Effectiveness of World Bank Assistance

This chapter evaluates World Bank assistance in macroeconomics, rural development and poverty reduction, human capital development, and private sector development in terms of its contribution to Lesotho's development outcomes. The evaluation indicates that the development effectiveness of Bank assistance was moderately unsatisfactory.

Macroeconomic Outcomes

Early achievements but subsequent disappointments. Macroeconomic outcomes were particularly impressive from FY90–91 to FY96–97 (Annex D, table D.5). Real GDP growth averaged 5.3 percent a year; inflation was moderate; the fiscal balance strengthened; and foreign reserves accumulated to the equivalent of about seven months of imports by 1996–97. The macroeconomic dialogue, through the joint IMF/Bank/government Poverty Framework Paper (PFP) and the IMF stand-by facilities (the SAF and ESAF), helped the government establish a sound framework for stabilization and adjustment.[1] The economy performed strongly following the construction of the LHWP, which peaked during 1994–97; the establishment of export-oriented manufacturing output such as clothing, electronics, and light manufacturing; excellent mid-1994 harvests; and a favorable external environment for trade. The macroeconomic performance was more favorable than projected in successive adjustment programs and PFPs for Lesotho.

This impressive macroeconomic performance reversed toward the end of the decade, however. Economic activity began to slow down in 1997–98 and real GDP declined by an estimated 4 percent in 1998–99. The 1998–99 budget deficit more than doubled from the previous year to 4.2 percent of GNP, driven primarily by a large increase (7.5 percent) in current expenditures. Inflation increased in the last quarter of 1998 in response to the dislocation in the supply of essential commodities that followed the September 1998 civil unrest. The balance of payments position weakened drastically in 1998–99, with the surplus falling from $127 million in 1997–98 to $33 million in 1998–99.[2] As indicated earlier, many factors contributed to this reversal. Because of these factors, macroeconomic performance was much lower than projected. For example, the ninth PFP, for the program period 1996–97 to 1998–99, projected a 10.3 percent annual growth in GDP, a fiscal surplus averaging 0.9 percent of GNP, and official reserves reaching $577 million by 1998–99.

The counterfactual. Could Lesotho have done better without the macroeconomic policies and the LHWP? Despite the difficulties toward the end of the 1990s, Lesotho's macroeconomic outcomes during the decade were better than those of all SSA countries, the SADC subregion, and small SSA countries (Annex D, table D.5). During these ten years, Lesotho grew at an average of 3.8 percent per year, with real per capita GDP growth averaging 1.1 percent; both figures were better than the comparator countries. Lesotho's inflation averaged less than 10 percent during the decade, out-performing SSA, SADC, and small SSA countries. This would not have been achieved without sound macroeconomic policy and the LHWP construction program.

The series of structural adjustment programs, which the government has entered into with the IMF and the World Bank since 1988, laid the foundation for economic stability and growth. Under these programs, the fiscal balance turned from a deficit of 10 percent of GNP in 1987–88 to a surplus of 2.1 percent, on average, from 1992–93 to 1997–98. Inflation was halved, from 18 percent in 1988 to an average of 9 percent during the 1990s. The strong growth performance, stimulated by the LHWP construction, may not have taken place without the Bank support in formulating, financing (including leveraging significant international finance), implementing, and supervising the project.

The LHWP also generated substantial and sustainable water royalties, but, so far, they have not been used effectively for targeting poverty because of inadequate preparation and weak institutional arrangements. These failures were recognized and the Bank started to address them in a more effective way toward the end of the decade. Poverty may have increased without the LHWP, but the strong growth performance during the 1990s spurred by the LHWP has so far not been accompanied by declining poverty.

While the LHWP construction program provided a major (one-time) boost to overall economic growth, its impact on the economy will obviously not be sustained once the pace of construction starts to decline. The current construction program for Phase 1B of the LHWP is expected to be completed in about 2003, and a possible second phase is not expected to start up for another 5 to 10 years at the earliest. The end of the apartheid regime in South Africa was accompanied by a reduction in official development assistance and donor and foreign investor presence in Lesotho. Furthermore, the continuing political uncertainty, decreased miners' remittances, and the projected drop in SACU revenues may adversely affect future growth. An improved environment for growth and private sector development depends on enhanced political stability, better governance, and deeper parastatal reform of the state sector. Prospects for all of these improvements are uncertain.

Rural Development and Poverty Reduction

Disappointing agricultural growth. While aggregate GDP grew rapidly during the 1990s in Lesotho, GDP from primary sectors grew more slowly, at about 1.8 percent per year, which was substantially less than in the second half of the 1980s (6 percent yearly). In the 1990s GDP from crops grew at about 3.6 percent per year, but livestock declined by 1.9 percent yearly; hence, the substantial reduction in the average. Per capita agricultural growth declined in rural areas by about 1 percent per year, a disappointing result given that 80 percent of households depend on agriculture. While this performance prevented any reduction in the incidence of poverty in Lesotho, it was not significantly different from the agricultural growth in both Swaziland and South Africa in the 1990s.[3] The difference is that Basothos are far more dependent on agriculture than Swazis or South Africans.

Poverty and inequality remained extremely high. Consistent with the trends in agriculture, poverty in Lesotho remains at high levels in all rural areas and is particularly high in the mountainous regions. The incidence and depth of poverty are as high as any region in Sub-Saharan Africa (see World Bank 2000c, p. 90, for comparisons) and a series of studies indicate rising inequality in Lesotho. In 1967–69 the lowest 60 percent of households earned only 38 percent of all income, while the top 20 percent earned 40 percent. By 1972–73 the situation had deteriorated: the bottom 50 percent earned only about 15 percent of all income (van Holst Pellekaan 2001). Later surveys show that the Gini coefficient doubled between 1967–69 and 1993 to about 0.57 and has remained high since then (table 1.1).[4]

Poverty also high in neighboring regions of South Africa. High rates of poverty, while of considerable concern for Lesotho, are in part a function of the harsh environment that faces much of rural Lesotho. Similar rates of poverty exist in neighboring regions of South Africa. Recent poverty mapping for South Africa shows that two of the three provinces that surround Lesotho (the Free State and the Eastern Cape) are, on average, the poorest provinces in South Africa, with poverty rates of 48 and 47 percent respectively (World Bank 2000d). Therefore, while the average Basotho is much poorer than the average South African, the extent of poverty in Lesotho is comparable with the average South African living in the same subregion. While this is not an encouraging picture of poverty for the subregion, it might be reassuring when seeking to explain the high rates of poverty in Lesotho. It is also sobering in terms of the difficulties in reducing poverty among Basothos in the mountainous regions.

The counterfactual. Excluding the LHWP, the World Bank provided net credits for rural development (including agriculture, education, and roads) totaling $217 million for projects that closed or were approved in the 1990s. Would Lesotho's economic and social development have been worse if the World Bank had not provided its assistance through strategic analysis and advice, as well as investment support in rural development? This evaluation concludes that, while the Bank's contribution to rural development was unsatisfactory, it had a positive impact in some areas (Annex G, "Poverty Reduction and Rural Development").

World Bank support of supply-led agricultural development projects in the 1970s and 1980s aimed mainly at improving land management and controlling erosion to improve agricultural productivity.[5] These projects were not successful because incentives and supporting institutions for increased crop and livestock production did not exist. The change in approach toward a demand-led development program in agriculture (the Agricultural Policy Capacity Building Project) in the late 1990s, now supported by the Bank along with other donors, has not yet shown results. However, the project supports changes in the right direction for rural development in Lesotho. These changes would not have taken place without the enthusiastic support of the World Bank at the design stage, following the widely held conclusion that supply-led investments assisted by the World Bank had failed.

Economic and policy analysis of the agricultural sector and poverty in Lesotho would probably not have been done without the World Bank. The evaluation of the prospects for diversification and the poverty assessment were particularly important contributions to development planning in Lesotho. But the promotion of diversifying into horticultural crops as a strategy for poverty reduction proved infeasible given the limited available technology and extension services—that is, training, unreliable water resources for even the simplest irrigation schemes, weak financial services, and distant and unreliable markets in South Africa.

The Development Fund created to use revenues from the LHWP to support rural development and poverty reduction in Lesotho has had serious shortcomings since its inception. Its failure was recognized by the World Bank and addressed in Phase 1B of the LHWP. After a number of failed attempts to make marginal changes in the original concept, the World Bank and the government agreed in FY00 on the Community Development Support Project. Although it is a small pilot, the project focuses on providing assistance to rural communities and the participation of those communities. This change in project orientation would not have taken place without the Bank: the orientation follows models for social funds the Bank has introduced elsewhere in SSA.

Human Capital Development

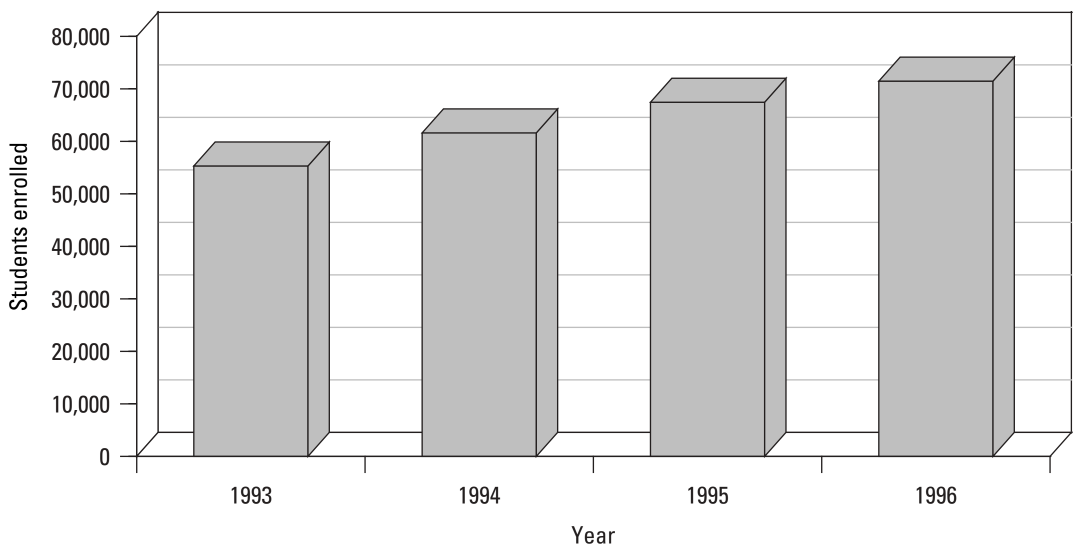
Excluding IBRD loans for the LHWP, human capital development drew the largest IDA support, amounting to 40 percent of all IDA lending to Lesotho during the 1990s. Most of this went to education, a pattern repeated from previous decades. In addition to lending, the World Bank provided analytical and advisory services, particularly in education.

The counterfactual—education. Could the highly influential analytical support for policy formulation and sector planning, which laid the foundation for Lesotho to prepare its Education Sector Development Plan and Action Program, and which guided all partners' efforts for much of the 1990s, have been provided by institutions other than the World Bank? Probably not. The World Bank built on this work with effective sectorwide interventions to increase capacity through construction and furnishing of classrooms and university laboratories and increased numbers of teachers. Enrollment rates increased substantially at the secondary level (see figure 4.1). Central and district-level efforts at institutional development were impressive, particularly in a highly unstable political environment. The World Bank was effective in strengthening the Ministry of Education's (MOE) institutional capacity and supporting district-level enhancements in primary and secondary education. The Directorate of Planning was strengthened and there was concerted attention to incentives that allowed the education sector to recruit and retain staff.

The Bank also supported the construction and staffing of ten District Resource Centers, bringing services closer to the community and providing a much-valued support network to the many inexperienced teachers in rural areas. The Bank was credited for bringing about broad consensus of the state, churches, and communities on education policy through the 1995 Education Act. In sum, the adoption of the Act, establishment of a Teacher Service Division, implementation of decentralization, and Bank investment in buildings and curriculum have modernized schools, increased the government's influence in the education sector, and laid the basis for further sector development.

Whereas enrollments at the university level doubled during the 1990s, the management efficiency and cost containment objectives in this high-cost subsector were not achieved.[6] Rising

Figure 4.1 Trends in Secondary School Enrollment



Source: South African Development Bank.

spending for higher education minimized opportunities to balance sector budgets efficiently and equitably, given that the government began implementation of free primary education in January 2000. However, the ongoing FY00 Education Sector Development Project (ESPD) II supports special efforts to enhance school participation through grater emphasis on affordable access and equity.[7] On balance, the Bank's effectiveness in the education program was moderately satisfactory (Annex G, "World Bank Support for Human Capital Development in the 1990s").

The counterfactual—health, nutrition, and population. The World Bank did not provide much relevant assistance in the health sector during the 1990s. Would it have been more effective if the Bank had not intervened? The Bank's contribution, in terms of effectively expanding health services and impacting positively on health status, was unsatisfactory (Annex G, "World Bank Support for Human Capital Development in the 1990s"). No analytic work was done for nearly two decades in health and nutrition, although a high-quality Population Sector review was completed in 1994. It was too late to affect the design for Bank lending (for HNP during 1985–94 and HNP II during 1989–98), and it was inadequately disseminated to catalyze the necessary shift in strategic objectives as the HIV/AIDS epidemic emerged. The link between analytic work and lending was weak. The Bank was also ineffective in the critical areas of sector management, including resource allocation and developing basic health information systems. Only recently did the Bank implement a new adaptable program credit, supporting a sector-wide approach for HNP in FY00.

Private Sector Development

The private sector is the third-largest recipient of IDA's loans (excluding IBRD loans for the LHWP), drawing about 22 percent of total IDA lending to Lesotho during the 1990s. Recipients included the Industrial and Agro-Industry Project ($21 million) and the Privatization and Private Sector Development Project ($11 million). No analytical work preceded either of the two lending operations. Could World Bank interventions have contributed more to the emergence of an efficient private sector?

The lack of analytical work was particularly evident in the attempt to develop the indigenous private sector in the context of the Agro-Industry Project. It ultimately failed because of an inadequate assessment of the prospects and constraints in the sector. Similarly, the failure to create linkages between the manufacturing export firms and local entrepreneurs, as a way of developing the indigenous sector, was partly explained by the lack of a feasibility study. The equity fund, established to assist investment by local entrepreneurs, also failed for lack of Bank technical support.

The Industrial and Agro-Industry Project was very complex, providing, among other things, a line of credit for private sector investment. OED rated the outcome as unsatisfactory. The project attracted foreign investors, but required government subsidies. The project was not successful in encouraging indigenous investment, or in diversifying agricultural investments into activities of higher value added, or in establishing linkages to the LHWP. Only a few investment policy reforms were implemented to encourage private sector investment, including replacing the costly tax holiday with a general 15 percent corporate tax.

Apart from political uncertainties, many constraints remained, such as a land policy that discourages investors (by the absence of legal titles), a legal system that is incapable of protecting investors, and inadequate financial intermediation. These are the areas where a dialogue on policy should have been more forceful. Because Lesotho's indigenous private sector is still at the microenterprise level (employing no more than one or two workers) and operates mainly in rural areas, the focus of this project was misplaced. It should have looked more at microenterprise development, policy support, and private sector participation in infrastructure, rather than development of subsidy-dependent banking activities, which would be expected to support mature enterprises.

The Privatization and Private Sector Development Project also has been problematic. The privatization process evolved more slowly than

Table 4.1 Private Sector Development, 1995–01

Privatized enterprises	Gross privatization proceeds ($ million)
1. Plant and Vehicle Pool Services	11.30
2. PVPS Plant Building	0.03
3. Minet Kingsway	0.22
4. Avis	0.05
5. Lesotho Airways Cooperation	2.40
6. Lesotho Flour Mills	10.70
7. Marakabei	0.02
8. Orange River Lodge	0.02
9. Lesotho Telecom Corporation	17.00
10. Vodacom Lesotho	0.69
Total proceeds	**42.82**

Source: Ministry of Finance of the government of Lesotho.

expected. Only 10 of 32 state-owned enterprises have been privatized for a project that called for privatization of at least 4 enterprises each year during 1995–2001 (table 4.1 provides a list of privatized enterprises and privatization proceeds in $ million). This outcome is explained mainly by: (1) Lesotho's weak private sector; (2) delays brought on by multiple consultations both in cabinet and parliament about each stage of the privatization process; and (3) the difficulty for Basotho entrepreneurs of accessing capital because of the lack of collateral. The project underestimated the extent of vested interests against privatization. Overall, the World Bank's contribution to private sector development (PSD) during the 1990s was unsatisfactory, although it improved toward the end of the decade as the Bank started to address sectoral constraints more effectively, including the inefficiencies of the utility sector under the new Public Utility Sector Reform Project (Annex G, "Evaluating Bank Assistance to Lesotho for Private Sector Development").

The counterfactual. The Bank would probably have contributed more to the emergence of an efficient private sector had its assistance been preceded or accompanied by the array of interlocking legislative, regulatory, institutional, and financial measures critical to the creation of a more congenial environment for private sector investment. Sector development would also have benefited from improved water supply and electrical services. For example, would continued Bank engagement in domestic water supply, rather than the neglect of the mid- to late 1990s, have been a more prudent policy to improve services to urban areas and the manufacturing sector (Le Moigne 2001, p. 6)? The Bank misjudged the interest of other donors in filling the void created by the Bank's disengagement from domestic water supplies in favor of the LHWP. As it turned out, the 1998 CAS proposed a renewed focus on public utilities, and in 1999 the Bank, in collaboration with other donors, renewed its interests in domestic water supplies in Lesotho (Annex G, "Water Sector Strategy Review").

The Bank could also have insisted on keeping the Muela hydropower component of the LHWP as part of the total project, rather than as a separate project outside the management of the central oversight authority. Consequently, the Bank might have avoided the procurement problems that arose and the subsequent high cost of private financing of the power plant, as well as the cost of the diversion tunnel made necessary by the delay. The higher electricity rates (compared with the cost of supplies from South Africa) have had a severe impact on manufacturers.

Those close to the implementation of the LHWP claim that, since electricity generation was not part of the water project, South Africa was not prepared to include the Muela power plant under the central management authority. Nevertheless, it does appear that the Bank should have used its influence to insist on including Muela in LHWP management. This would have facilitated Muela's financing and implementation, and also created an incentive for all parties to save on costs—with Lesotho contributing a percentage corresponding to the cost of the power plant (see box 4.1).

Box 4.1 The Muela Hydropower Plant

The Muela hydropower plant was constructed during 1998 and operated by the Lesotho Highlands Development Authority (LHDA) to achieve energy self-sufficiency. The cost of the plant, which is fully met by Lesotho, was estimated at 925 million maloti ($140 million equivalent as of January 1999), of which 57 percent was in the form of commercial loans, 38 percent in grants, and the remaining 5 percent in concessionary loans. Prior to the commissioning of the plant, Lesotho imported all of its electricity from South Africa's state-owned primary power supply company (ESKOM).

The rate of return for the hydropower component at appraisal (1991) was 6 percent. The analysis was based on the assumption of a long-term 0.5 percent a year tariff increase from ESKOM. Since electricity generation was not part of the transfer of water, South Africa declined to finance this component, but the African Development Bank (AfDB) and the Commonwealth Development Corporation (CDC) expressed interest in offering concessional loans, amounting to $50 million and $36 million respectively. Unfortunately, the 30 percent drop in the real price of electricity from ESKOM (due mainly to overcapacity) has made the power component relatively more expensive than foreseen at appraisal. In addition, disagreement between the LHDA and the AfDB over the award of the main construction contract led to the decision by the AfDB to withdraw from financing this component. The estimated low rate of return of the power component led the CDC to pull out of financing for this component.

These decisions and the time required to secure financing from other sources were the main reasons for the 18-month delay in completing this part of the project. The delay, in turn, was the main reason for the significant increase in cost of this component, especially as it necessitated accelerated construction of the bypass to ensure timely water delivery to South Africa in accordance with the treaty. Moreover, the need for the LHDA to arrange alternative financing on shorter terms and at higher interest rates (17.8 percent) than those offered by the AfDB and CDC created severe cash-flow problems in servicing the debts and in paying contractors. An IMF internal communication of June 30, 1999, indicated that, in addition to servicing debt obligations amounting to 38 million maloti in 1999–00, the LHDA was expected to pay 104 million maloti to various contractors for cost overruns sustained when construction of the Muela plant was suspended in September 1998. The IMF added that the LHDA defaulted on its loan of 120 million maloti from the Lesotho Bank. In addition, the Lesotho Electricity Corporation, which purchased the generated power, also suffered from a poor financial situation and, until the government intervened this year, was unable to pay the LHDA for its bulk electricity purchases. At completion the estimated rate of return for the power component was only 3 percent. Also, as pointed out in the ICR, the LHDA's electricity charges are considerably above the rates of ESKOM and are unsustainable.

The financial restructuring of the hydropower component debt began to be implemented following discussions with the World Bank and IMF in December 1999. The government had to pay some 430 million maloti to refinance and pay off debts in FY00 and will have to make further payments in the years to come. There are indications that the recent membership of Lesotho in the Southern Africa Power Pool and the effect of the new Public Utility Sector Reform Project may eventually improve the financial situation of this component. This remains to be seen, and OED should review Muela hydropower in its audit of the completed Phase 1.

In retrospect, World Bank assistance to Lesotho in the procurement and financing of this component of the project (particularly after the AfDB withdrew its proposed financing) was, at best, too late to avoid severe financial difficulties for the country. However, the May 2000 supervision mission considered that, since the Bank does not supervise contracts it does not finance, it was not in a position to avoid the procurement problems and their financial consequences for the power component. The OED mission considers that, in view of the loan covenants dealing with the financial targets of the power component and its overall influence on Phase 1A, the Bank should have assisted the government in dealing with the financial consequences of the delay in awarding the construction contract. The Bank, however, eventually helped the government in the financial restructuring of the power component.

With hindsight, the OED mission agrees with the comments made by both Lesotho and South African members of the JPTC (a binational body created to safeguard the interests of Lesotho and South Africa) that it would have been preferable to include the power component as an integral part of the project. This would have enabled the JPTC to control the procurement procedure for the power component and facilitated the financing of this component. It would also have avoided difficult and lengthy discussions within the JPTC as to whether an expense belongs to the water transfer (and thus to be paid by South Africa) or to the power component alone (to be paid by Lesotho). Also, it would have facilitated governance of the project. Would

(continued on following page)

Box 4.1 The Muela Hydropower Plant (continued)

the difficulties with Muela plant have been avoided if the Bank had insisted that this component should have been part of the LHWP? It will be recalled that the problem with Muela was a disagreement between the AfDB and the government on procurement for the main construction contract. Obviously, it is not possible to be sure whether the disagreement would have arisen if all procurement arrangements had been handled under one set of guidelines, with recourse for settlement of disputes to one supervisory body. However, at least the same standard would have been applied, and this may have avoided the quite serious economic implications of the procurement problems at Muela.

African Development Bank Group Assistance to Lesotho

This chapter reviews the African Development Bank Group assistance to Lesotho. It covers the evaluation of the strategy that governed both Bank Group nonlending assistance (policy dialogue and advice, economic and sector work, aid coordination, and resource mobilization) and lending assistance. The tentative conclusion that can be drawn from the evaluation is that, overall, Bank Group assistance can be described as moderately satisfactory, with nonlending assistance being rated as unsatisfactory. The assistance is also sustainable over the long term as a result of its impact on institutional development, as well as overall government commitment to the process of development.

Bank Group Strategy in Lesotho

The 1988 Strategy

Although the Bank Group started operations in Lesotho in 1974, it was not until 1988 that it developed a strategy toward the country. In the aggregate, Bank Group strategy toward Lesotho was no different from its overall mandate of promoting economic and social development of other countries in the region. In the pursuit of this objective in Lesotho, however, the Bank Group had to make strategic choices. As spelled out in the 1988 "Economic Prospects and Country Programming" (EPCP), Bank Group strategy in the medium term "will continue to be the provision of basic socioeconomic infrastructure, especially the road network and rural airfields, potable water and health." It was added that "the continuing inaccessibility of most of the Eastern Highlands districts means that the development of a reliable road and rural airfields will remain high on the agenda. Due to the nature of the terrain, the program will necessarily be expensive. Continued ADF participation in this sector will therefore remain on the high side." It was also argued that considerable attention would be given to improving rural incomes through supporting medium-scale agricultural and agro-industrial projects. The EPCP also recognized the existing manpower constraints in Lesotho. Hence it proposed the provision of institutional support to various ministries, in particular to the Transport Ministry and the Ministry of Finance and Economic Planning.

With respect to the social sector, the 1988 EPCP noted that as a result of its mild climate, Lesotho is largely free from major tropical diseases. But with only 2,204 hospital and clinic beds (or 1.45 beds per 1,000 inhabitants), the country is below half of the World Health Organization's (WHO) recommended ratio for Africa. As a result, the WHO recommended a Bank Group strategy of strengthening intermediate health units that provide the necessary backup services to the primary units. Although subsequent Country Strategy Papers (CSPs) were silent on the basic thrust of Bank Group strategy in the health sector, the recommendations of the 1988 EPCP continued to guide Bank Group intervention.

While Lesotho has one of the highest literacy rates in Sub-Saharan Africa, the inefficiency of the educational system does not permit more than a small percentage of students to reach higher levels (see table 1.2). The country's economic development is thus constrained by the dearth of well-trained personnel. Bank Group strategy, beginning with the 1988 EPCP, aimed to address the lack of human resources for national development, the high proportion of unqualified teachers, and the limited and unequal access to educational opportunities. The priority areas identified included basic education, manpower development (vocational, technical, and teacher training), and strengthening institutional management of educational development.

The 1996 and 1998 Strategies

The next attempt to articulate a Bank Group strategy for Lesotho was in the 1996 CSP, the successor document to the 1988 EPCP. In the CSP, the Bank Group recognized the need to address constraints to the economy, such as the shortage of skilled manpower, unemployment, inadequate infrastructure, and increasing poverty. From these constraints, the Bank Group choose to concentrate its intervention on agriculture and public utilities during 1996–98. The 1999 CSP, covering the period 1999–01, is perhaps the most comprehensive attempt to situate Bank Group intervention in the context of a well-defined strategy. Inspired by the global concern for poverty reduction and the African Development Bank Group's vision, the CSP articulated a strategy aimed at contributing to government's agenda for poverty reduction through projects and programs for sustainable growth, job creation, and human resource development. It then proposed a series of incentives to encourage private sector development, with agriculture receiving the bulk of Bank Group lending (65 percent), followed by the social sector (35 percent). The 1999 CSP strategy also recognized that private sector development is an essential component of poverty reduction.

Relevance of the Strategy

When set against the prevailing economic and political situation of the time, Bank Group strategy as formulated in 1988 was relevant. Completely enclosed by South Africa, whose political ideology of apartheid was evoking worldwide sanctions, Lesotho certainly faced a hostile development environment. Lesotho's underdeveloped road network warranted making detours through South Africa even to domestic destinations. Such detours became expensive, both politically and economically, in view of sanctions against South Africa.

The development of an efficient road network thus became a matter of national survival: it would reduce Lesotho's dependence on South Africa, link the mountainous and urban areas of the country, and facilitate the movement of goods and people. Bank Group strategy, which coincided with that of the government, was thus relevant in light of the prevailing circumstances. For instance, the development of air transport was predicated on the fact that as a mountainous country, it would take considerable time and resources to link the country by a road network. Although the outcome of this strategy might have turned out to be unsatisfactory, it was also a relevant strategy to pursue at the time.

The 1996 CSP was formulated against the background of the collapse of apartheid and growing poverty in Lesotho. However, with the collapse of apartheid, the use of South Africa's road network became less cumbersome, and Lesotho had made considerable progress in linking the country with a credible road network.

Thus the shift in strategy from the development of infrastructure toward programs and projects (for example, in agriculture, health, and education) that could contribute to poverty reduction was indeed a relevant strategy to pursue. The 1999 CSP continued the emphasis on poverty reduction, and its objectives remain relevant, given the depth and severity of poverty in Lesotho (see table 1.1) and the Bank Group's renewed commitment to the eradication of poverty in all countries of the region.

Bank Group strategy in the social sector was similarly relevant: most interventions were aimed at simply providing health care facilities, a direct response to the observed shortage of such facilities. In the education subsector, the shortage of skilled manpower was constraining national economic management. Thus any strategy aimed at filling this gap would be relevant to both the needs of Lesotho and the Bank Group's education strategy as spelled out in the 1986 Education Sector Strategy Paper (ESSP). The strategy was also relevant to the national goals of improving teacher quality and building capacity for curriculum development. It provided support to strengthen public and private sector collaboration for education and included an education study as a component of ESDP I.

Although the Bank Group's strategy toward Lesotho, particularly in the transport and social sectors, can be described as relevant, it appears to have been undermined by three key factors. One was the inadequate attention paid to governance issues in the country (see box 1.1). This reflected the absence of a forum for policy dialogue. The second factor was the slow response to HIV/AIDS-related issues in Bank Group lending to the health sector. The Bank Group was more concerned with the provision of physical health facilities than measures to monitor and prevent the spread of HIV/AIDS at a time when the epidemic was ravaging the country. Finally, Bank Group strategy paid little attention to poverty issues. It was not until the 1996 CSP that poverty issues became central to Bank Group intervention in Lesotho, and even then there was no explicit poverty-reduction program or any attempt to understand the depth and dynamics of Lesotho's poverty.

Nonlending Assistance

Institutional Support

While Bank Group lending operations started in Lesotho in 1974, it took some time for it to appreciate that investing in nonlending activities could enhance the effectiveness of its lending programs. Thus there was little at first in the way of economic and sector work, policy dialogue, and advice. But the Bank Group did provide (albeit in a rather incoherent manner) some institutional support to certain ministries, such as Transport, Finance, and Economic Planning. Institutional support to the transport sector aimed to strengthen and sustain government's capability in the sector. Specifically, it attempted to improve planning and management of investment and expenditure, improve the administration and management of civil aviation, and develop a maintenance program.

Other Bank Group support components included training and management studies. The support was relevant to the problem at hand as it assisted the government in developing an independent road network and enhanced government capacity for the management of the transport sector. An example of relevant assistance is the feeder roads study, aimed at preparing detailed engineering designs, including tender documents, for Likalaneng-Thaba Tseka Road, and carrying out the feasibility study, including preliminary designs, of two rural roads (Roma-Ramabanta, Semonlong-Sekare Roads). As this project is ongoing, it is difficult to assess its achievements, but it is relevant in the sense that it would provide a sound basis for making a decision one way or the other on the feasibility of proceeding with the construction of the roads.

Institutional support to the vital ministries of Finance and Economic Planning has been aimed at strengthening their analytical and administrative capabilities. Lesotho has a dearth of human and institutional capacity for policy formulation and implementation, and the Bank Group response has focused on human resource development through training and on institutional development. The latter is to be achieved through the provision of essential materials such as personal computers. Although the assistance is still under implementation, it can be said tentatively that it is achieving its objectives. Members of both ministries have been trained and are now equipped with personal computers. However, Bank Group assistance faces a major new challenge. As a result of the combined effects of low domestic wages, the collapse of apartheid, and porous borders with South Africa, many of the trained personnel are now finding more attractive employment opportunities in South Africa. The sustainability of institutional support is therefore uncertain.

Economic and Sector Work, Policy Advice, and Dialogue

Except for the mandatory preparation of the EPCP and the CSP, the Bank Group has not carried out any economic and sector work in Lesotho. While the Bank Group has invested heavily in the transport and social sectors, it did so with limited knowledge of these and other sectors. The Bank Group was not at all involved in the authoritative and strategic study on the economic and social development of Lesotho—*Lesotho's Strategic Economic Options* (SIDA 1996). As indicated earlier, this study, which benefited from the analytical, technical, and financial support of the World Bank and the Swedish International Development Agency (SIDA), laid the basis for a post-apartheid development strategy. It has proved useful in the formulation of the World Bank's assistance strategy for Lesotho and in the formulation of the country's own development agenda. Without involvement in this influential study, the Bank Group found itself increasingly tied to the policy framework and long-term development agenda as set by the World Bank and the country.

The Bank Group's major economic documents (the EPCP and the CSP) have rarely been used as instruments of advice and policy dialogue, partly because they are not rooted in serious economic analysis. Indeed they have served mainly as instruments for programming Bank Group interventions in Lesotho. Lesotho has never benefited from a policy-based lending program from the Bank Group. In spite of these shortcomings, mention must be made of the Bank Group's work on economic integration in southern Africa. The documentation made a persuasive case that all countries in southern Africa have much to gain from various forms of regional cooperation and from launching a determined effort to integrate the regional market. As a small country, Lesotho has much to gain (and much to fear) from the economic integration of the southern African economies. To date, however, it is not obvious how the Bank Group has used the findings of the study to affect its interventions in Lesotho (particularly regarding air transport). Mention should also be made of the Bank Group's work (financed by the government of Japan) on long-term finance in southern Africa and SADC countries. Again, it remains unclear how much this work has influenced Bank Group operations in Lesotho.

In recent years the Bank Group has taken some hesitant steps to enhance policy dialogue and advice. It took the unsuccessful initiative to encourage the government to accept the Supplementary Financing Mechanism (SFM) for the repayment of interest on AfDB loans. But the government did not show sufficient interest in the initiative, as it does not consider its debt burden serious enough for the purpose. The Bank Group is currently engaged in dialogue with the government on private sector development. A public utilities reform project, which would facilitate the reform of telecommunications, water, and electricity and their eventual privatization, is being planned for Board discussions before the end of 2000. While these new initiatives appear to be in the right direction, it is too early to judge them for relevance and impact. However, the overall Bank Group contribution to policy dialogue and advice to date can only be judged unsatisfactory.

Aid Coordination and Resource Mobilization

The United Nations Development Program (UNDP) has been at the forefront of convening Roundtable Conferences on Lesotho, with the Bank Group actively participating in them. At these meetings, the government of Lesotho presents its long-term plan for sustainable development and identifies the requisite resources to implement the plan. Available information shows that the coordination of development assistance has been effective. In 1992, for example, this coordination played a key role in counteracting the severe impact of the drought then ravaging Lesotho and the rest of southern Africa. In 1997, aid coordination also played a major role in enlisting donor support for the government's poverty alleviation efforts. This resulted in donor pledges of about $336 million for five years to finance a new and targeted approach to poverty reduction through improvements in primary health and education services and employment creation for the poor.

The Bank Group has also been active in cofinancing development activities. To date, it has cofinanced four projects in Lesotho with bilateral and multilateral development partners. It cofinanced a water project with the Organization of Petroleum Exporting Countries (OPEC) Fund and the Norwegian Agency for Development Co-Operation (NORAD); road projects with IDA, the Arab Bank for Economic Development in Africa (BADEA), the OPEC Fund, and the Kuwait Fund; and a health project with the OPEC Fund. Cofinancing arrangements are being planned for the Agricultural Sector Adjustment Program (ASDP), which was presented to and approved by the Board in March 1999. The ASDP represents the Bank Group's financing of the first phase of the Lesotho ASDP—a long-term development program spanning about 10 years. The first phase of the Lesotho ASDP is being financed through the Agricultural Policy and Capacity Building Project by various donors, including the Bank Group, the World Bank, and the European Union, among others.

Conclusion

While the Bank Group has stepped up its efforts to make its nonlending assistance to Lesotho more effective in recent years, the performance to date is rated as unsatisfactory. The Bank Group program of technical assistance remains fragmented and incoherent, and largely unsupportive of its lending programs. The Bank Group's role in policy dialogue and advice is weak, and it has not made any contribution to economic and sector work. It has, however, coordinated well with other donors, particularly the World Bank, presumably because as a small player in aid delivery, the Bank Group had to coordinate well with a bigger provider of aid to Lesotho. In the future, the Bank Group should strengthen its nonlending assistance, since components of this assistance are preconditions for the success of its lending operations.

Lending Assistance

Since it started operations in Lesotho in 1974, the Bank Group has approved loans totaling unit of account (UA) 274.81 million, comprising UA 88.66 million of AfDB resources, UA 170.72 of African Development Fund (ADF) resources, and UA 15.43 million of Nigeria Trust Fund (NTF) resources. These resources were used to finance 27 projects, 3 lines of credit, and 6 studies. Following the cancellation of a number of loans (UA 50.96 million) in the wake of the portfolio restructuring exercise of 1994, Bank Group net commitments now stand at UA 223.85 million. Twenty-three operations have been completed. In terms of sectoral distribution, the public utilities and transport sectors are the main beneficiaries, with 28 percent and 26 percent of the portfolio respectively. They are followed by the social sector, with 24 percent; agriculture, with 13 percent; and industry, with 9 percent. As of December 1999, UA 175.82 million have been disbursed, representing a disbursement rate of 78.5 percent (table 5.1). A breakdown of the projects is contained in Annex E, table E.5.

Table 5.2 shows Operations Evaluation (OPEV) ratings of 14 completed projects in Lesotho.[1] The table shows that in terms of implementation performance (IP), 10 projects (or 85.7 percent of completed projects) were rated either unsatisfactory or highly unsatisfactory, whereas 2 projects (or 14.3 percent) were rated as satisfactory. Poor project implementation performance has always been the experience of the Bank Group in Lesotho. In 1994, a portfolio review report of Lesotho recommended the cancellation of several loans as a result of poor implementation. The 1998 country portfolio performance review concluded that delays in loan effectiveness and project start-up, noncompliance with Bank Group procedures, and weak institutional capacity are largely responsible for Lesotho's poor record on the IP criterion. On the

Table 5.1 Sectoral Breakdown of Bank Group–Approved Loans and Grants, as of December 31, 1999 (net commitments in UA million)

Sector	No. of approved operations	AfDB	ADF/TAF	NTF	Total	%
Agriculture	8	—	27.16	2.13	29.29	13.1
Industry	4			12.50	20.76	9.3
Transport	10	—	57.07	—	57.07	25.5
Public utilities	7	35.40	26.27	—	61.67	27.5
Social	7	—	54.29	—	54.29	24.3
Multisector	1	—	0.77	—	0.77	0.3
Total	37	43.66	165.56	14.63	223.85	100.0
% of total approvals		24	70	6	100	

— Not available.

Note: TAF: Technical Assistance Fund.

Source: AfDB (2001).

development objective (DO) criterion, the table shows that 10 of the rated projects (71.4 percent) had satisfactory ratings, whereas only 4 (28 percent) had unsatisfactory or highly unsatisfactory ratings.

In terms of aggregate performance, the Bank Group portfolio in Lesotho appears satisfactory. According to the annual portfolio performance review, the portfolio has also been improving over time. For example, in 1998 and 1999 the

Table 5.2 Operations Evaluation Ratings of Completed Projects in Lesotho

Project name	Sector	IP assessment	DO assessment
Health Service Development	Health	HUS	S
Butha-Butha-Roma-Somokong Road Construction	Road transport/highways	HUS	S
Joel-Drift-Khamana Road Construction	Road transport/highways	HUS	S
Maseru Water Supply	Water supply	HUS	US
Parc d'engraissement du Betail	Agriculture	HUS	US
Phuthiatsana Integrated Rural Development (ADF)	Rural development	HUS	US
Telecommunications I Project	Telecommunications	US	US
Line of Credit to Lesotho Bank	Agriculture	S	S
Rural Health Services	Health	HUS	S
Rural Health Services II	Health	HUS	S
Rural Credit and Banking Facilities	Agriculture	US	S
Road Maintenance	Railways/transport	S	S
Four Centres Water Supply and Maseru II Water Supply Projects	Water supply	US	S
Khamane–Oxbow Road Project	Road transport/highways	US	S

Note: S: satisfactory; US: unsatisfactory; HUS: highly unsatisfactory.

Source: African Development Bank data.

review found that there were no problematic projects on the IP and DO criteria. However, it found that three projects (3 percent of the portfolio) met the project-at-risk criterion. This amounts to commitments of UA 10.37 million (or 19 percent of total commitments) at risk. The age profile of the portfolio also appears reasonable by Bank Group standards: the average age was 6.25 years between 1995 and January 2000. In January 2000, it was 5.6 years. All these are indicative of an ever-improving portfolio, which may be due to institutional strengthening, particularly in the transport sector.

Sector Analysis

The Transport Sector

Efficacy

Bank Group assistance to the transport sector comprises 13 operations as listed in Annex table E.7. The net commitment in the sector is UA 78.52 million, representing 30 percent of total commitments to Lesotho. The portfolio comprises nine infrastructure construction projects and one institutional support project. The infrastructural facilities funded by the Bank Group were road sections of the western (A2 and A1) and northern (A1) perimeter main road, and sections of penetrating main roads (A3 and A5), as well as the new international airport of Maseru. Of the three studies in the transport sector portfolio, the first resulted in the construction of three new sections of the northern perimeter main road. The second study on feeder roads did not result in any construction activity. A Feeder Roads Project was planned in March 1994 but has not been appraised by the Bank Group to this date. The third (ongoing) study concerns two important penetrating roads that provide access to the central mountain areas.

With the exception of the new international airport, the transport sector projects achieved their major goals of providing low-cost access to remote areas of the country and connecting the major population and economic centers. Access has been provided to all districts and important population and production centers. As a result, it is no longer necessary to transit through the roads of South Africa when traveling from Maseru to the remote areas of the country. Traffic growth rates after construction exceeded appraisal expectations with the exceptions of the mountain roads from Khamane to Oxbow and from Oxbow to Mokhotlong. In 1994, the length of primary, secondary, and tertiary road networks was estimated to be 5,323 kilometers. As of the time of this evaluation, the total length was estimated at 6,216 kilometers, excluding urban roads.

In the air transport subsector, the construction and furnishing of a new international airport were satisfactorily carried out. Comprehensive training and technical assistance were provided to the new international airport and the Department of Civil Aviation. A feasibility study and detailed design of domestic airports (1990–91) and a management study of Lesotho Airlines Corporation (LAC) were also carried out.

Efficiency

The implementation of Bank Group projects in the transport sector is noted for long delays. Delays in completion of road projects varied from 7 to 62 months and had a tendency to increase over time. Loan deadlines were also often extended. Time overruns varied from 29 to 113 percent, while cost overruns varied from 13 to 53 percent (Annex E, table E.6). Cost overruns sometimes resulted from extensions in the scope of projects, and very often from technical shortcomings.

Road projects resulted in lower vehicle operating costs and were generally followed by high traffic growth rates. The new sealed roads are providing low-cost access to rural areas for persons and goods, particularly agricultural inputs and outputs, and are contributing to rural development.

With the exception of two projects, the road subsector projects were efficient, with economic internal rates of return higher than 12 percent at completion and at post-evaluation. The exceptions were the mountain roads from Khamane to Oxbow and from Oxbow to Mokhotlong. For the first road, a 22 kilometer section climbing from the foothills (1,750 meters) to the high plateau (> 3,000 meters), an attempt was made to decrease construction costs and improve the efficiency of the project by adopting a substandard cross-section and cutting steep slopes. This resulted in serious environmental and safety hazards and an internal rate of return of about 6 percent at completion and post-evaluation.

At the time of its construction, the Maseru International Airport was relevant to the development needs of the country. It served the purpose of reducing the isolation of Lesotho during the apartheid era by providing a means of transportation independent of South Africa. However, with the collapse of apartheid and the progress made in road construction, air traffic was reduced considerably. Although the airport can be useful in winter when road transportation becomes difficult, there is no doubt that in relation to the cost of construction, maintenance, and trained personnel, the project has become inefficient over time. The Department of Civil Aviation is currently marketing the airport for cargo transport, following cargo congestion in regional international airports. It is still hoped that the airport could be used for shipment to Europe of fresh vegetables and fruits from Lesotho, as well as fish and seafood from South Africa.

Institutional Development

In broad terms, Bank Group activities in the transport sector have supported institutional development in Lesotho. All the projects, without exception, resulted in significant enhancement of institutional capability. Transport sector projects also contributed to the development of the private sector by providing jobs to the national road construction industry, which now comprises more than 50 active contractors providing both labor and equipment. The former Labor Construction Unit (LCU) of the Ministry of Public Works and Transport has carried out a program for training of labor-based contractors on unsealed road maintenance, while the Roads Branch (RB) has promoted training of truck haulage subcontractors in mechanical road construction. The institutional support to the Ministry of Transport has strengthened the capacity of the government to manage the sector, while many of the studies have assisted in the formulation of road projects.

The successful implementation of the 10 projects in the transport sector by the borrower and its implementing agencies is indicative of institutional strengthening. The training components of some of the projects have actually enhanced human resource development, while valuable experience has been accumulated in road construction by both public servants and private sector operators. In the 1970s and 1980s, many road departments were managed by expatriate technical staff. The training components of some of the projects have obviated the need for such expatriates.

The use of direct labor for road construction and maintenance within the Roads Branch and the LCU has not adversely affected the development of private contractors in Lesotho, and has indeed been an advantage in their training. Labor-intensive contractors carried out 181 routine, periodic maintenance, and upgrading contracts for the LCU between 1997 and 2000, or an average of 60 contracts a year.

Sustainability of the Achievements

Available data from the Roads Branch and from the Department of Rural Roads shows that, since construction, all sealed roads have been regularly maintained. Some sections have also been strengthened by the LHDA to carry the heavy traffic required by its dam construction activities. Road projects have therefore been satisfactorily sustained. Some road sections—sections of A1, A2, A3, and A5 that were rehabilitated in 1985, 1987, and 1988—are reaching the end of their 15-year structural design life. However, no sign of structural fatigue is apparent in these sections. A detailed study for strengthening and upgrading of the Butha Buthe to Oxbow section of A1 was commissioned to a consultant, and works are programmed under the Road Rehabilitation and Maintenance Project. But in two projects (the Khamane to Oxbow and Oxbow to Mokhotlong roads), winter maintenance was ignored. As a result, the Roads Branch has no capacity for winter maintenance, and access between Khamane, Oxbow, and Mokhotlong is not all-weather as expected.

The sustainability of the road subsector is further assured by the appropriate allocation of resources by the government for maintenance. The evidence shows consistent allocation (of about 20 percent of total road expenditure) for this purpose. While budget allocations were sufficient for routine and periodic maintenance of sealed roads, they did not permit proper maintenance of the whole network. A backlog of maintenance was accumulated in the unsealed road network, but more money was allocated in recent years to reabsorb the backlog and bring the unsealed road network to good condition.

The country also has the relevant institutions for ensuring sustainability. The Ministry of Public Works and Transport (MOPWT) now has overall responsibility for the transport sector. The rural road network and main urban roads are managed by two different departments of the MOPWT: the Roads Branch is responsible for the sealed road network and for unsealed roads with high volumes of traffic, and the Department of Rural Roads has responsibility for all low-volume unsealed roads. Both departments operate a pavement management information system.

Based on government commitment, social and financial support, and management effectiveness, it can be said that future prospects for road maintenance and project sustainability are bright in Lesotho. This statement is reinforced by the observation that Lesotho has been able to address most critical issues of the road transport sector, such as the backlog of road maintenance, appropriate management and sustained financial resources for the road network, institutional reform and road user involvement, enforcement of axle load limits, a road safety action plan, well-adapted guidelines, and standard specifications for road and bridge construction.

Finally, the government of Lesotho has also achieved remarkable results in training and promoting both labor-intensive and plant-oriented contractors. The national road contracting industry already comprises more than 50 units dealing with rehabilitation and maintenance of unsealed roads, as well as rehabilitation and construction of bitumen sealed roads. The Department of Rural Roads is currently managing labor-intensive contracts and the low-volume, unsealed road network. The Roads Branch is managing machine-intensive contracts and the high-volume road network. The Roads Branch also has three regional units for routine and periodic maintenance. Additional contractor and supervisor training programs and pilot projects are being discussed with donors.

The limited achievement in the air transport sector, however, is not sustainable. This is due partly to the decline in passenger traffic over time, and partly to the increasing importance of road transport. As the country was connected by roads, air transport became relatively more expensive. In the years ahead, however, the airfield could also (in addition to its use to transport fresh vegetables and fruits from Lesotho to Europe and fish and seafood from South Africa) provide service to the South African towns near the Lesotho border.

Performance of the Bank Group

Bank Group assistance focused on the development of the main road network, with six projects and a total length of 368.9 kilometers of newly constructed and rehabilitated trunk roads. With the exception of the new international airport, which only achieved its physical objective, transport projects generally achieved their objectives. But Bank Group interventions experienced significant technical shortcomings. Such shortcomings (lack of consideration of waterlogged soils and frost conditions, for example) repeatedly caused difficulties in two roads (Joel's Drift to Khamane and Khamane to Oxbow Roads) and three successive projects (Joel's Drift to Khamane, Khamane to Oxbow, and Oxbow to Mokhotlong Roads). The implementation of road construction in several projects witnessed unnecessary design reviews, redesigns, and design changes. Inappropriate specification and contract clauses, departure from well-established standards and codes of practice, poor investigations and unforeseen site conditions, mistakes in lime stabilization of natural materials, and pavement design problems also caused cost and time overruns.

The less-than-satisfactory performance of the Bank Group is also evident in other stages of the project cycle. Out of a total of 10 projects, only

6 were subjected to self-evaluation in the form of project completion reports (PCR). Two important projects, the new international airport and the institutional support project, were not subjected to self-evaluation. Only road construction projects (six projects) were self-evaluated and, among these, four have been subject to post-evaluation by the Operations Evaluation Department. In the area of donor coordination, however, the Bank Group performed very well as it coordinated its activities with the World Bank (through cofinancing operations).

Overall, Bank Group performance can be rated as just satisfactory. While the Bank Group delivered the resources for financing the construction of the roads, it did not carry out any sector study in order to inform itself of the situation on the ground. In several cases, the road designs were considered inadequate. But the Bank Group did well in the areas of aid coordination, cofinancing, and institutional development.

Performance of the Borrower

The figures in Annex E, table E.6, on time and cost overruns indicate poor concern of the borrower for time effectiveness. The borrower generally complied with reporting requirements, except for annual audited reports. Procurement was generally satisfactory. The borrower and its implementing agencies are in the process of improving their performance and have gained experience in the course of implementing successive projects. In spite of poor manpower resources and lack of experience, they were always committed to successful implementation of projects.

The borrower created suitable conditions for project sustainability and regularly maintained the roads. Institutional reform in the road sector is progressing with the Roads Board, the establishment of the Roads Fund, and the establishment of a central road authority. The performance of the borrower, which continues to improve, can be rated as satisfactory.

The Social Sector

Since commencement of Bank Group assistance in 1974, a total of eight operations, (six in health and two in education) have been approved for support in the social sector. In addition, the Bank Group has provided support for the conduct of a health study. By the beginning of 1998, operations in the social sector amounted to UA 55.73 million, representing 23.49 percent of Bank Group total commitment to Lesotho (Annex E, table E.8).

Health Subsector

Bank Group assistance has provided support for the strengthening of immunization services and renovation and upgrading of district hospitals. The goal was to provide better referral services for rural clinics and health centers, and to offer technical support to public health and other health promotion activities in the Health Service Areas (HSA) where the district hospitals are located. A total of six projects have been supported in the health sector. A secondary health care study was implemented as a component of the first Rural Health Service Project in 1976, and a health study is ongoing.

Efficacy

A major constraint in assessing the efficacy of Bank Group strategy in the health subsector is the absence of time-bound, measurable goals and indicators for evaluation and impact assessment in the appraisal reports. Evaluation is also constrained by the absence of baseline data against which the impact of interventions can be assessed, thus making it difficult to assess the contribution of the projects to the attainment of the overall sector goal to provide more and improved health services on a sustainable basis. Furthermore, there was no prior sector work that could have served as a good basis for Bank Group intervention. Such a study also could have, for example, identified private operatives such as the Christian Health Association of Lesotho (CHAL) and recommended strategies for strengthening existing collaboration between public and private providers of health care.

Nonetheless, the assessment of efficacy relies principally on discrete measures obtained from published and unpublished government reports, information from other donors, and from an analysis of social indicators in population data sheets published annually by the Ministry of

Economic Planning and Development. These data sheets provide national—and in some cases, district—estimates of access to health care and demographic characteristics, but are of limited value in the assessment of the health status of the target population. Data on utilization were obtained from routinely collected information on consultations, referrals, and reattendance from the Statistics Unit of the Ministry of Health and Social Welfare from 1992 to 1998. These data are also of limited value as they are incomplete and inaccurate.

These limitations notwithstanding, Bank Group interventions achieved their stated objectives. Under Rural Human Services Program (RHSP) I, 31 health centers were renovated and 10 new ones were constructed. The renovated and new health centers comprised 22 percent of the total national coverage of 187 health centers in 1995. RHSP I also constructed and renovated staff houses, waiting mothers' lodges, and food stores. However, these health centers did not provide for staff accommodation; consequently, the mothers' lodges have been converted to staff accommodation.

RHSP II–IV has completed the construction, equipping, and furnishing of eight district hospitals in Leribe, Mohale's Hoek, Butha Buthe, Mafeteng, Quthing, Mokhotlong, Berea, and Qacha's Neck. This comprises 90 percent of government-owned district hospitals in Lesotho, but excludes hospitals owned by nongovernmental partners in the health system, particularly those managed by CHAL, raising questions of equity in access and quality of health care. The exclusion of CHAL hospitals was premised on a need to prioritize investments in health and the absence of guarantees for loans disbursed to support assistance to CHAL hospitals. An analysis of trends on hospital utilization suggests a higher mean number of annual consultations, referrals, and reattendance in districts where the Bank Group has provided support for facility renovation and strengthening.

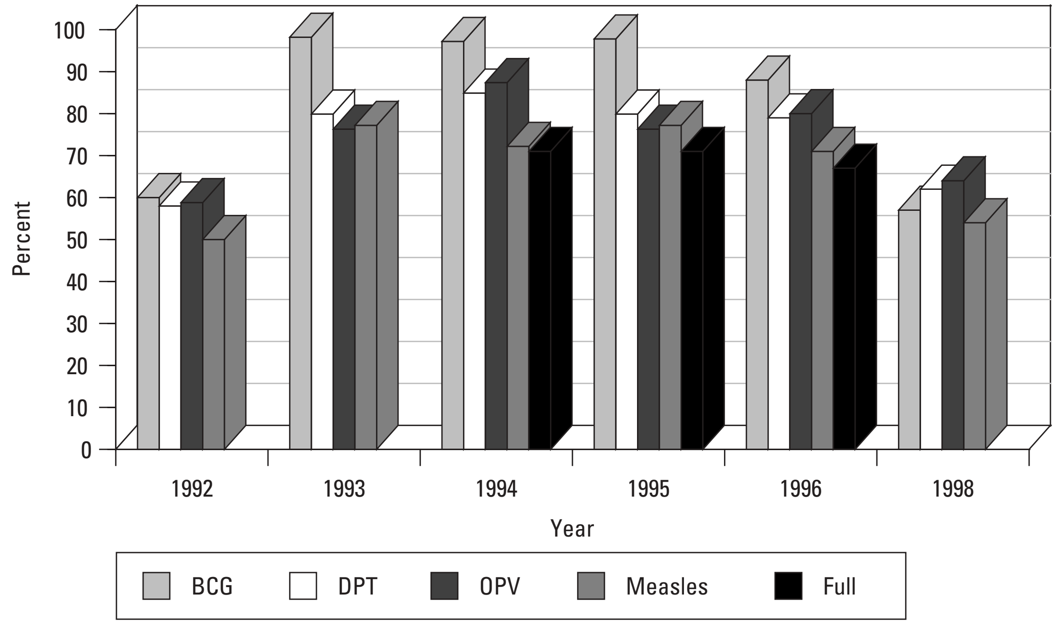
Bank Group–assisted projects have contributed significantly to the number of health centers and the rehabilitation of district hospitals in Lesotho. A total of eight district hospitals were renovated, equipped, and furnished. Thirty-one health centers were also renovated, while 10 new ones were constructed. These have also been furnished and equipped. A very commendable feature is the extensive use of solar power in all ADF facilities.

Improvements have also been reported in the health of the Basotho. It is reported, for example, that between 1988 and 1998, life expectancy increased from 51 to 53.7 years, and infant mortality declined from 113 to 89.7 per 1,000 live births, partly as a result of these interventions. The first intervention in health aimed to strengthen immunization services. It is reported that the number of children under one year of age who had received the third dose of diphtheria, pertusis, and tetanus (DPT) increased by 43.59 percent—from 24,744 in 1981 to 35,531 in 1985. During the same period, there was an increase of 19.15 percent and 67.15 percent in the numbers vaccinated against tuberculosis and measles, respectively. The percentage of children immunized rose from 31 percent for the third dose of DPT in 1976 to 68 percent in 1985, nearly a twofold increase (figure 5.1). The reported increase in numbers immunized against measles was more pronounced, rising from zero percent in 1976 to 67 percent in 1985. It was reported that for 1984, approximately 91 percent of the actual beneficiaries of the program had been reached through fixed and outreach immunization services provided by Bank Group assistance, and coverage extended to all parts of the country. However, mountainous areas remain underserved.

Efficiency

Virtually all the projects experienced significant slippage in time to completion, but there were no cost overruns. In health projects where cost data were available, there was a mean cost underrun of UA 0.33 million. The number of doctors per capita increased from 1 in 13,905 in 1992 to 1 in 16,548 in 1998, and the number of dentists per capita increased from 1 in 104,712 in 1992 to 1 in 113,998 in 1998. The corresponding figures for nurses were 1 in 2,761 in 1992 to 1 in 2,340 in 1998. The number of consultations increased from 29,269 in 1991 to 40,842 in 1998. There was no discernable trend in referrals dur-

Figure 5.1 **Trends in Expanded Program on Immunization Vaccine Coverage**



Source: African Development Bank data.

ing this period, as they fluctuated between 247 in 1994 and 460 in 1960. Reattendance increased from 3,388 in 1992 to 5,860 in 1998. These aggregate results notwithstanding, there is evidence that the mountainous areas remain underserved. The health sector of Lesotho, like the rest of the economy, is suffering the paradoxically adverse effects of the collapse of apartheid. Following the collapse, labor has been migrating to South Africa in response to better remuneration and better living conditions. Thus the health sector is currently facing severe problems of brain drain from Lesotho to South Africa. This has significantly reduced the availability of all cadres of skilled human resources for the sector.

There is evidence of poor utilization of installed facilities. The district hospitals are being consulted for primary-level care. This represents a misuse of clinics, the district-level facilities that were designed for such care and as the first step in the medical care continuum. There was no provision for staff accommodation under RSHP I; hence mothers' lodges have been converted to staff accommodation.

Capacity building was a major objective under RHSP I–IV. Accordingly, field officers were trained to implement EPI (Expanded Program on Immunization) at the local level, but were later deployed to district hospitals. This created a vacuum in the implementation of EPI at the community level. Doctors, dentists, nurses, and nurse clinicians were also identified for in-country, regional, and overseas training. However, training and capacity building components of all projects were underutilized, and of those trained, it is estimated that only about 25 percent are retained. Besides the low numbers of suitably trained staff to manage these facilities, the staff deployment policy of the government has limited the numbers of staff posted to these centers. In addition, staff are not kept at one location long enough to involve local communities in the management of the facilities. It is also observed that staff are often not trained in the use of the sophisticated equipment provided. Lack of training is exacerbated by the high post-training attrition of health workers from public sector service in Lesotho. Health centers were not clearly delineated by health service or district area, and local responsibility for their management remains unclear. There is also an emerging threat to security in the urban clinics: in the absence of staff to manage the clinics, local bandits raid them for equipment.

Institutional Development

Bank Group assistance has aided the establishment of an effective Project Implementation Unit (PIU) in the Ministry of Health and Social Welfare (MOHSW). The capacity of the MOHSW to implement and manage civil works and procurement has been significantly enhanced by the intervention. The PIU has also been strengthened to manage Bank Group procurement, disbursements, and reporting procedures. It is important to mainstream this PIU into broad activities in the MOHSW for wider institutional development impact.

Institutional and operational linkages between the health centers project and the four RHSP projects are not clearly articulated. Health centers established to provide services at the local level are poorly linked to the district hospitals. This linkage is required for the development of an efficient referral system and for sustained capacity/technical resource building for health systems development based on the primary health care (PHC) approach. Poor linkages have limited project contribution to the establishment of a decentralized system for health care delivery in Lesotho.

The MOHSW was unable to identify candidates for training, and the few that were trained were lost to more attractive positions in South Africa. The absence of a health management information system, which would include an inventory of human resources, limits the ability of the health system to quantify attrition. However, officials of the MOHSW estimate that attrition may be as high as 75 percent of trained health workers. This level of loss of trained staff has limited the impact of Bank Group assistance on human resource development and availability, and consequently on institutional strengthening for service delivery and health management.

Sustainability of Achievements

While per capita government expenditure in Lesotho has increased from 507 maloti in 1992 to 1,203 maloti in 1998, there is a decrease in percentage of total expenditure in health from 38.0 percent in 1992/93 to 25.6 percent in 1998/99. This represents a decline of 32.6 percent in health in relation to total expenditure. Capital expenditure as a percentage of total expenditure on the social sector dropped sharply, from 48.1 percent in 1992/93 to 12.5 percent in 1998/99, a decline of 74.0 percent. Current expenditure increased from 9.2 percent of total current expenditure of the government in 1989/90 to 9.7 to 12.6 percent in 1994/95. It then declined gradually to 9.5 percent of total current expenditure of government in 1997/98 (Annex D, table D.5).

Over the years, government budgetary commitment to health, relative to other sectors, has dropped significantly, with a greater drop in capital investments. This decrease in capital investments raises doubts about the ability of the government to maintain investments in infrastructure and equipment in the health sector. The drop in current expenditure also highlights the government's inability to sustain maintenance and operations in health in the absence of continued donor investment and improvements in distributive allocations.

The government has traditionally charged user fees for the use of health facilities. These fees have increased from 2.0 maloti in 1970 to a current high of 5.0 maloti for up to one week of outpatient consultation. A similar increase is reported in the cost of inpatient charges in the period being evaluated. The increase in user charges from 2 maloti to 5 maloti may actually be counterproductive to Lesotho's major policy objective of increasing access to health services, especially for deprived rural and other vulnerable groups. The effect of the increase is to exclude those who cannot afford to pay, to lure needy users to cheaper, substandard, and unreliable sources of health care. The objective of the increase is to enable the government to meet recurrent costs, but the 5-maloti charge is not even enough to meet operations and maintenance costs. This cost recovery strategy is therefore doomed to fail because it deprives the needy of basic health services, and in the medium and long term, it may translate into lower productivity rates. The current strategy may be much more expensive than maintaining the former user charge of 2 maloti and adopting an alternative strategy of collaborating with the private sector. However, the alternative strategy of tapping Lesotho's potential capacity for private health care provision could lure away beneficiaries (who can afford to pay) from public health services to private facilities.

The previous gains in EPI vaccine coverage are also rapidly declining, as the personnel trained to manage and implement EPI at the community and health-center levels have been deployed to manage district hospitals. Current figures from the Lesotho population data sheets report full immunization coverage of 67 percent in 1996. This represents a decline of 26 percent from the level reported in 1985. Reported coverage for bacillus of calmette and guerin (BCG), a tuberculosis inoculation, in 1998 was 57.0 percent. This is very disturbing in the face of a resurgent epidemic of tuberculosis infection, a new consequence of the HIV/AIDS epidemic and rising levels of poverty.

Institutional capacity for the maintenance of these structures is also largely unavailable in these rural settings, and is becoming even scarcer with dwindling donor support for the social sector in Lesotho. The MOHSW was unable to provide a human resource development plan, or accurate numbers of trained personnel lost on account of deployment from the primary facility of identification or to migration outside Lesotho. It is estimated that about 75 percent of the trained staff have been lost. The availability of a human resource development plan for the MOHSW could not be ascertained at the time of this evaluation.

The PIU established to manage RHSP projects is centrally located, with offices and staff only in Maseru. This has limited the ability of district-level staff to contribute to project design and implementation. The PIU is also largely staffed by military officers with qualifications in civil works and engineering, but limited exposure to health management and systems design. The overall effect has been that projects have been implemented as mainly engineering concerns, with minimal attention paid to health systems development, management, and planning. Infrastructure and equipment were of acceptable standards and quality.

Poor provider attitude and staff motivation are real threats to sustainable health care delivery in the constructed facilities. It was observed during the visit to the Berea district hospital that consumer attempts to access health care services were attended by long waits, often without information on procedures or any reason for the wait. This becomes more alarming given the presence of adequate supplies, equipment, and facilities for effective and efficient patient care. Consequently, it is reported that end-users increasingly patronize traditional and unorthodox health care providers for more expeditious and user-friendly services, or resort to the use of local herbal remedies.

The sustainability of the PHC approach to health systems development depends largely on community initiatives and partnerships at all stages, from design to evaluation. There has been insignificant community participation in the design of infrastructure and the location of facilities. The management of the facilities provided by Bank Group investments rests solely with the public sector. This remains a major obstacle to sustainability of the public sector projects in health.

Performance of the Borrower

The borrower is the government of Lesotho, while the Ministry of Health and Social Welfare (MOHSW) is the executing agency of all projects in the health sector. The initial design of the HSDP (Health Services Development Project) was ambitious, as it did not recognize the inability of both institutional and manpower capacity to manage and implement the project. Consequently the HSDP had to be redesigned to exclude the construction of a maternity wing for the Queen Elizabeth II (QE II) hospital in Maseru and construction works in the nurse hostel and school of nursing. The implementation of HSDP was plagued by prolonged delays, with an overall implementation delay of about 45 months. The borrower was also unable to fulfill loan conditions, and in some cases had to make significant changes to project design after its approval, such as the exclusion of civil works in QE II and the nurse's hostel. Design issues were eventually resolved by reduction in the scope and magnitude of proposed activities.

The implementation of all training and capacity building components of the projects was unsatisfactory. Approved budgets were not disbursed for this category of assistance, as the government was unable to identify suitable candidates for training in the indicated cadres. This failure to utilize approved amounts for capacity building has recurred in all projects in health. The health deployment policy of the government has meant that the manpower trained for the established centers have not been retained in the centers. This has had a negative impact on service quality and the effective utilization of equipment and infrastructure.

The institutional capacity to identify, manage, and implement projects is weak, as evidenced by the low availability of skilled human resources. This situation is made more difficult by the absence of information for health management. The only information system available is a disease reporting and notification system, which is itself incomplete and inaccurate. The absence of a robust health management information system has been a major constraint in assessment of project contribution to the overall sector goals of improving the health status and quality of life of the Basotho.

There was significant slippage in completion of all projects in the health subsector, with a mean slippage of 28 months. However, technical assistance and supervisory missions from the Bank Group significantly improved institutional capacity to comply with Bank Group reporting and procurement procedures. Current projects are thus implemented with minimal delays. All borrower reports (quarterly, financial, and project completion) have been submitted on time and the government has honored all legal covenants of the project and is not in arrears to the Bank Group.

Performance of the Bank Group

Bank Group performance was generally unsatisfactory. Clear targets and strategies were not defined in log matrices of appraisal reports. Log-frame matrices, which came into existence in 1996, were prepared for the more recent projects, RHSP III–IV, but there were significant divergences between activities in the log frame and planned output. As a result, appraisal reports did not clearly define measurable indicators of impact and success, or set time-bound targets or country-sensitive strategies to foster local ownership or community participation, which is the bedrock of the PHC approach. It is thus difficult to assess progress toward attainment of goals stated in the Bank Group's sector strategy papers or the efficacy of its intervention in health.

Although the sector strategy papers indicated health improvement as the overall goal of Bank Group intervention, projects in health were implemented as mere engineering or finance projects. Little or no attention was paid to the local participation required by the PHC approach or to the development of indicators or strategies to measure overall impact on health status. Appraisal reports focused on the design of structural components of the intervention and the amount of equipment to be procured. In their self-evaluation, project completion reports also focused on achievements in these areas. All documents paid very limited attention to health status, equity, improved access, and community participation, all of which are components of the sector goals of improvement in health.

Several assumptions were made in the projection of the potential contribution of these projects to the overall sector goals of improving the status of target populations and promoting equity in access. One presumption was that an increase in numbers of facilities alone would be sufficient to increase access of rural populations to health care services. Consequently, project designs did not give adequate consideration to the epidemiological pattern of disease and were not placed in the context of an overall health plan.

The Bank Group did not ensure the availability of appropriately trained manpower as a component of project appraisals, more so when there was a huge investment in infrastructure. This remains the major limiting factor in efficient utilization of investments in health in Lesotho.

There exists a unique partnership between the government and CHAL in the management of health centers and district hospitals, with CHAL managing about 40 percent of health facilities and providing 50 percent of coverage in Lesotho. Intervention in RHSP I supported only eight CHAL-operated clinics, and none of the CHAL HSAs were included in all other RHSP projects. This unfortunate failure to harness the uniqueness of private-public partnership for health, and the comparative advantage of CHAL institutions in community engagement and outreach programs, has resulted in inequities in delivery and access to quality medical care. Bank Group assistance has strengthened only the public sector hospitals, with an almost total neglect of CHAL hospitals and centers that provide 50 percent of the coverage for health care delivery, particularly to the rural poor. There was no consumer consultation in the location and design of district hospitals and health centers. Thus improvement in infrastructure, equipment, and facilities was not accompanied by a sense of local ownership of the facilities. The exclusion of CHAL hospitals from project assistance also meant that there remained inequities in the distribution of facilities and services, and thus in access to quality health care.

Education Subsector

Bank Group intervention in the education sector in Lesotho commenced in 1990. At the time of evaluation, two projects had been supported, with a total investment of UA 14.72 million (Annex E, table E.8). The Education Project I focused principally on secondary education and was national in scope, while the Education Project II provides support for both secondary and primary education in the three districts of Thaba-Tseka, Qacha Nek, and Quthing. Both projects were designed and approved in the period covered by the ESSP of 1986, with the goal of improving education in science and technical subjects and strengthening capacity of the Central Inspectorate for monitoring, supervision, and curriculum development.

Efficacy

As in the health sector, evaluation is limited by failure to define targets or select indicators for evaluation and to obtain baseline information in the completed Education Project I. The evaluation of the efficacy of the strategy is also limited by lack of information. While the borrower has prepared a PCR, the Bank Group is yet to finalize its own PCR. In the case of Education II, the only available information is contained in the borrower's progress report. The achievements in this report refer to Education I; for Education II, the report assesses the progress of implementation.

The achievements are assessed for the period 1992–98, for which some educational indicators were available from the annual population data sheets published by the Department of Planning and Economic Development. During this period, there was a 13.97 percent increase in the number of secondary schools (179 to 204) and a 5.09 percent increase in the number of primary schools. Primary school student enrollment also increased from 51,908 in 1992 to 71,475 in 1998—37.7 percent. Enrollment in secondary schools increased from 55,342 in 1993 to 71,475 in 1996. There were also improvements in teacher to student ratios in both secondary and primary schools.

The 1998 impact assessment report of the MOE evaluated the educational system between 1990 and 1996. The report observed that the number of students passing junior certificate examinations increased from 59.2 percent in 1990 to 71.9 percent in 1996. There was also an increase in the numbers who passed the computer science (COSC) examinations, from 27.8 percent in 1990 to 34.2 percent in 1996. Gender participation in education is unique. The statistics reveal positive female participation in education, with 54 percent female enrollment. There is a real threat that with this trend, males may be marginalized in educational achievement in the long term. The observation that males of primary school age are often herding cattle and those of secondary school and higher ages have emigrated to South Africa for less professional but higher-paying occupations in the mines may be indicative of this potential for males to be marginalized.

Bank Group intervention in education has provided 18 science units, each composed of a laboratory, preparation room, and classroom. It has also supported the construction of 18 practical subjects units, each of which comprise a storeroom, workshop, and drawing room. This represents a contribution of 64.29 percent and 100 percent respectively of the total national increase in the number of science laboratories and practical subjects workshops between 1990 and 1998. A total of 31 schools have been beneficiaries of this intervention. All constructed buildings have been furnished, equipped, and are currently fully functional. In addition, sets of reference library books for science laboratories and practical workshops have been purchased and supplied to all sites. Thirty-six staff houses have been constructed and furnished.

The percentage of qualified teachers has also increased from a level of 72.5 percent in 1990 to 81.6 percent in 1996. Correspondingly, the number of expatriate teachers dropped from 21.9 percent to 17.0 percent, and the percentage of expatriate science teachers from 41.8 percent to 25.4 percent during the same period.

The Central Inspectorate for Education and the National Curriculum Development Council (NCDC) have been strengthened for supervision by the purchase of project vehicles and spare parts. In-country and overseas training have been completely utilized and have covered curriculum development and school inspection. The quality and quantity of teachers in the science subjects have also been significantly improved by various in-country courses and short-term training courses in overseas institutions.

The capacity building component of the project was completely utilized and a zero percent attrition rate reported for both in-country and overseas training. Projects have effectively integrated quantitative and qualitative development in education, but are limited by the unavailability of indicators and a management information system. This information and technology is needed to monitor progress toward the achievement of the overall sector goal of improved quality and access to both formal and nonformal education, and the provision of human resources required for national development.

Efficiency

There is insufficient data to estimate cost efficiency in projects in education, as project completion reports are yet to be prepared. There was a huge slippage in both loan effectiveness and completion in Education I. The estimated slippage in completion date is 96 months. It is not possible to assess cost efficiency, as no PCR was available at the time of this evaluation.

There has been a decrease in the proportion of unqualified teachers. This has been achieved through in-country and overseas training. Both long and short-term courses have been offered and the attrition rate has dropped. A teaching session was in progress in one the project schools visited and a high level of teacher and student motivation was observed.

It should be noted that Education II became effective in December 1999, about five months before the evaluation. The progress report submitted by the borrower reflects principally preparatory activities, as intervention is yet to commence.

Institutional Development

There has been a significant improvement in infrastructure in all intervention schools with the construction of science and practical subject workshops. Although not all schools had the benefit of having both a science laboratory and a practical subject workshop, the distribution of the 31 beneficiary secondary schools was national. It is also noted that the numbers of both secondary and primary schools have increased, with consequent increase in access to education as evidenced by enrollment ratios (table 1.2 and Annex D, tables D.1, D.2).

The Central Inspectorate has also been strengthened for supervisory functions by both training and support of the purchase of a vehicle to improve support logistics. This has made a meaningful contribution to an increase in the number of supervisory visits to schools. Staff quality has improved and the institutional capacity for curriculum development strengthened.

In-country and overseas training have resulted in an increase in the number of qualified teachers. Attrition is low, and has decreased from 13.0 percent in 1990 to 8.8 percent in 1996.

Sustainability of Achievements

The percentage of government recurrent expenditure in education in relation to total expenditure rose from 18.1 percent in 1989–90, to 22.1 percent in the 1992–93, to 45.1 percent in 1995–96. Thereafter, it declined progressively to a level of 27.9 percent in 1998–99 (Annex D, table D.6). The percentage of government capital expenditure in education in relation to total expenditure also declined from 16.1 percent in 1992–93 to 12.5 percent in 1995–96, and to an all-time low of 9.9 percent in 1997–98.

Between 1992 and 1996, government expenditure for each primary school pupil increased from 86 to 385 maloti, an increase of 37 percent in real terms, and for secondary education from 432 to 1,331 maloti, an increase of 188 percent. Furthermore, the impact assessment report of 1998 observed that the total cost of education, inclusive of indirect costs such as travel, uniforms, and school meals, has increased sharply, an increase that is observed to be beyond the sustainable capacity of many Basotho families.

Spending on secondary education as a percentage of total expenditure of the Ministry of Education declined from 31 percent in 1990 to 26 percent in 1996. Spending on technical and vocational education, however, increased from 2.7 to 5.6 percent, and for university education from 19 to 27 percent over the same period. In spite of these achievements, in 1998 there still existed the problem of a high pupil-to-teacher ratio of 59:1 and inadequate teaching materials. In addition, of the school-aged population, only 57,000 (21.5 percent) were enrolled in school at the end of 1998. The introduction of free primary education in January 2000 has worsened the already high pupil-to-teacher ratio, necessitating the recruitment of unqualified teachers to meet the demand for primary education.

Traditionally, missionaries and the churches have managed schools in Lesotho, while government participation has provided grants to support the payment of teachers' salaries and the purchase of teaching aids. The government's 1992 Education Sector Development Policy was developed in response to the complexity of managing the educational system, and attempted to form a more coherent policy and management structure for the schools that allowed participation by parents and the local community. This has fostered a sense of local ownership of the educational system, a factor that is important to its sustainability. This is also relevant to the Bank Group's policy and support for the adoption of participatory approaches to education development that involve beneficiary groups and stakeholders not merely in project implementation, but also in the design and choice of interventions in the sector.

Performance of the Borrower

Implementation delays were common occurrences among projects in the Bank Group portfolio in Lesotho. In the case of the Education I Project, there was a completion delay of 96 months. This was principally due to a delay in compliance with the legal covenants and conditions of the project. At the time of the evaluation, all project activities had been completed, but a PCR has yet to be written. This delay is principally due to the failure of the executing agency to familiarize its managers with Bank Group financial management, reporting, and procurement procedures. It also took over three years to establish an effective PIU and to identify a project manager to oversee implementation. These lapses, however, have been addressed, and it is anticipated that the implementation of Education II will proceed with minimal delays. It should be noted that there have been significant improvements in preparation for this second project and there is increased confidence in borrower capacity to manage and implement it. The borrower experienced difficulties in compliance with the legal covenants of the project, another factor responsible for the prolonged period between the date of approval and the effective date of the loan. These limitations have been rectified in the ongoing Education II Project. However, based on the difficulties described above, borrower performance should be judged as unsatisfactory.

Performance of the Bank Group

Although projects were identified in the context of the country's development priorities and Bank Group sector strategy in education, there was inadequate assessment of the capacity of the government and its executing agency in the education sector—the Ministry of Education—to implement and manage the Education I project at the time of its identification and appraisal. Consequently, there was a prolonged slippage of 96 months in completion of the project, and even at the time of the evaluation, no PCR was available for review. There was inadequate supervision during the first few years of implementation of the Education I Project. This is partly responsible for the slippage in effective and completion dates of the project.

The Education I Project was designed during the ESSP of 1986 and the appraisal did not clearly specify indicators of outcome and impact assessment, thus making it difficult to quantify the contribution of the project to improving educational quality. This limitation has been addressed in the design of the Education II Project, which has approximately developed log frames. On balance, it can be said that Bank Group performance was barely satisfactory.

Crosscutting Issues

Until recently, the crosscutting issues of environment and gender did not figure prominently in Bank Group lending and policy. Hence, the older projects in its portfolio, including all those in Lesotho, did not show explicit concern for these issues. One of the findings of the present evaluation is that Lesotho scores low on both issues.

As pointed out earlier, the poverty situation in Lesotho has a gender bias: more women are poor than men. Although the Land Acts of 1979 and 1992 tried to accord equal tenure security to both sexes, it is still true that women have limited access to economic resources such as credit. The government is aware of this bias against women and has taken steps to address the situation. It has set up a Ministry of Youth and Environment to develop programs and projects for ameliorating the gender bias. In the area of education, however, women appear to be doing better. The national adult illiteracy rate is 29 percent: but it is 7.5 percent for females and 28.5 percent for males.

Environmental issues were similarly not taken into account in Bank Group lending to Lesotho. This evaluation found that design shortcomings resulted in serious environmental hazards on the Khamane-Oxbow road. There was also no provision for winter maintenance on some roads. On other roads, serious environmental hazards were created by inappropriate design of cut slopes. The establishment of the Ministry of Youth and Environment is indicative of the willingness of the government to correct current environmental problems and safeguard against future problems in all its development projects. Recent interventions, however, indicate that the Bank Group is now more serious about environmental issues. For example, the recently approved Lesotho Highlands Natural Resources and Income Enhancement Project has some 40 percent of its budget allocated to natural resource management and conservation of the highlands of Lesotho.

The Counterfactual

The economy of Lesotho grew at annual average rate of 1.3 percent during the past decade. The growth rate has fluctuated sharply, and even declined in the late 1990s. The bulk of Bank Group lending has not been allocated to directly productive activities, but rather to social (overhead) capital. To the extent that this has facilitated growth, the Bank Group contribution can be said to be indirect. But could the recorded achievements have taken place in the absence of Bank Group intervention? The answer is probably no. The Bank Group obviously filled a resource gap in Lesotho. While it cannot be credited with the entire outcome, it can lay claim to whatever has happened in Lesotho—success or failure. The responsibility for economic outcomes in Lesotho is therefore to be shared by all donors and the government of Lesotho.

6

Overall Assessment of African Development Bank Group Assistance

The Bank Group has intervened on a systematic basis in Lesotho since 1974. Its net commitment currently stands at UA 223.85 million. In terms of sectoral distribution, the public utility and transport sectors are the main beneficiaries, with 28 percent and 26 percent of the portfolio respectively. They are followed by the social sector (24 percent), agriculture (13 percent), and industry (9 percent). The bulk of interventions were not in directly productive activities, but rather in social capital—transport, public utilities, health, and education. The interventions may not have led to direct impact on GDP growth rates, but insofar as they eased constraints in the affected sectors, they must have facilitated economic growth.

Although not explicitly stated, Bank Group intervention in Lesotho appears to have been informed by the country's history and geography. Geographically, Lesotho is a small, landlocked, mountainous country that is completely surrounded by South Africa. As a result, Lesotho suffered from apartheid-induced sanctions on South Africa. Thus, government policy was aimed at reducing the country's vulnerability to developments in South Africa, including its dependence on the country's road network. Bank Group strategy, as spelled out in the 1988 EPCP, coincided with that of the government. In that EPCP, the Bank Group decided to pursue a strategy of assistance that placed emphasis on the development of infrastructure, mostly road networks. With the collapse of apartheid, Bank Group strategy appeared to have shifted emphasis to the promotion of growth and poverty reduction.

The Bank Group had no strategy for its limited interventions in nonlending activities. There was also no prior economic and sector work to facilitate lending activities. While the more recent CSPs have been used as instruments of policy dialogue (for example, in the context of the Agriculture Sector Reform Program and the Public Utilities Sector Reform Program), this cannot be said of the earlier EPCPs. Indeed there was practically no policy dialogue prior to 1996. There was, in addition, nothing coherent about the limited institutional support programs and technical assistance programs that the Bank Group provided to Lesotho. The programs were also not geared to be supportive of Bank Group lending activities.

Sectorally, Bank Group lending to the transport sector coincided with government development imperatives of the time. The 1988 EPCP merely mentioned the inaccessibility of most of the eastern highlands as the prime motivation for Bank Group intervention in the transport sector. There was no explicit reference to the transport constraints posed by location of Lesotho inside South Africa. In spite of this shortcoming, the strategy achieved its objective. In the road sector, it achieved the objective of linking the major urban centers with the rural areas. It also achieved the objective of reducing the country's dependence on South Africa's road network. Bank Group intervention has also strengthened the capacity of the various government departments connected with the sector. Similarly, implementation agencies have been strengthened through training. The Department of Rural Roads has a direct labor force unit that is equipped and trained for labor-intensive rehabilitation and the construction of new unsealed roads.

The transport sector projects also contributed to the development of the private sector by providing jobs to the national road construction industry, which now comprises more than 50 active contractors. Their labor-intensive operations have resulted in significant employment generation. They also carried out about 181 routine maintenance and upgrading contracts for the Labor Construction Unit (LCU), between 1997 and 2000—an average of 60 contracts per year. The LCU has also embarked on an extensive program of training for labor-based contractors on unsealed road maintenance. Similarly, the Roads Branch has promoted the training of truck haulage subcontractors in mechanical road construction.

Bank Group assistance in the social sector came early in the history of the Bank Group–Lesotho relationship. There was no Lesotho-specific strategy in the sector other than the broad Bank Group sector policies approved in 1986 for health and education. Bank Group interventions in the two sectors, which were guided by the sector policies, were relevant to the situation prevailing in Lesotho at the time. Bank Group assistance in the health sector has contributed to an increase in the number of health facilities and has led to construction of 10 health centers, the renovation of 31 more, and the upgrading of 8 district hospitals.

Although the projects have increased equipment and the number of facilities, they have contributed only marginally to the overall sector goals of improving the health status of the population of Lesotho. Good buildings do not make for better health. While the availability of the infrastructure promoted consumer confidence, poor service and provider attitude soon eroded it. The projects were also presumptuous of institutional and human resource capacity for health systems management and development. The civil works focus of the projects also meant that little attention was paid to the development of a decentralized information management system or to building institutional resources for health systems monitoring, evaluation, and planning.

Bank Group assistance in education has significantly contributed to increased infrastructure for education and improvement in the quality of education in science and practical subjects. The Bank Group has also supported increases in the number of qualified teachers and in strengthening institutional capacity to manage education and curriculum development. Trained capacity has been retained and the numbers of Basotho children enrolling in and completing education have increased. The focus of the interventions has covered infrastructure and operations, with a significant amount of investment in human resources and institutional strengthening. However, appraisal documents have not documented the intended useful life of physical structures and vehicles provided for logistical support. They have also not included strategies for sustainable maintenance of increases in current expenditure, particularly teachers' emoluments, infrastructure, or private sector participation in education. In addition, there is no strategy for the development of a management information system to monitor and evaluate the effect of various interventions on teacher quality, access to education, and quality of education.

In conclusion, it can be said that Bank Group assistance to Lesotho has certainly filled a resource gap in the country. But the delivery of that assistance was not carried out in the context of a clearly defined strategy. Perhaps this is understandable, given that the use of a predefined strategy to guide aid allocation is a recent phenomenon in the Bank Group. Nevertheless, Bank Group assistance to the country can be judged as barely satisfactory. Lending assistance performed relatively better than nonlending assistance. Bank Group assistance in the latter area is indeed poor. As is very well known, effective aid is not just about the provision of finance: it should also include the provision of ideas. The Bank Group has provided finance through its various interventions, but it has failed to provide ideas that can continue to generate and sustain economic growth.

7

Attribution of Performance of Development Partners

This chapter examines the contribution the World Bank and its development partners to Bank assistance programs, as well as the impact of exogenous factors. Such attribution is obviously difficult to measure, because it requires disentangling the World Bank's contribution from that of the government and the Bank's aid partners.

World Bank Performance

During the 1990s the reforms of the Lesotho economy supported by the World Bank and the IMF achieved growth of nearly 4 percent a year. The Bank also provided strong leadership for the review of implementation of Phase 1A of the LHWP and managed the appraisal of Phase 1B. These reviews were competently carried out and won praise from the government and all partners in the project. The opinion is that Phases 1A and 1B of the LHWP would never have come to fruition without Bank leadership and guidance during difficult negotiations among financiers and the government over 13 years. However, Bank support did not strengthen the government's ability to utilize the royalties for supply of water through the LHWP to stimulate rural development. It was not until the 1998 appraisal of Phase 1B of the project, when the failures in rural development became a prominent issue, that action was taken in this direction.

Another successful series of activities was in education. The World Bank's support in education was based on relevant and timely analytic work and was consistent with government and CAS objectives. The moderately satisfactory 1991–99 Education Sector Development Project (ESPD) led to a strong relationship with the client, allowing for effective problem-solving despite considerable political turmoil.

The World Bank was associated with some project failures in agriculture, roads, health, and the private sector because it had not adequately investigated the sectoral issues and the government's weak ownership of projects and programs. Agriculture projects were unduly complex, which meant that start-up was slow. In addition, the Bank did not apply a lesson from the past: many conditions of project effectiveness are sure to cause difficulties if not dealt with at or before negotiations. As a result, quality at entry for agricultural projects was poor. Consequently, supervision became difficult and there were long delays in achieving effectiveness.[1] In the road sector the situation was more serious. Failed institutional development resulted in an unsatisfactory implementation of the ongoing road project.

The World Bank failed to do any formal analysis of health and nutrition issues, leaving it unprepared to support two complex HNP projects from 1990 to 1994. The Bank also severely underestimated the institutional capacity needed for satisfactory implementation of these projects. This oversight was compounded by lengthy gaps in formal supervision, as well as slow Bank action to resolve implementation problems.

In private sector development, the Bank did not exercise sufficient prudence in the design of projects. The projects were complex—involving multiple objectives and implementing agencies and numerous conditions of effectiveness—and experienced delays in effectiveness ranging from 9 to 19 months (Annex E, table E.4). Quality at entry was therefore poor. The Bank also did not take measures to improve the poor performance of the Agro-Industry Project line of credit, despite warning signals concerning financial performance of the host institution, the Lesotho Bank. Similarly, although the performance of the project's equity fund was dependent upon ongoing technical assistance, the Bank did not provide it. Officials of the Chamber of Commerce and Industry reported to the OED mission that the equity fund did not help entrepreneurs because they could not meet the conditions put in place by the Lesotho National Development Corporation, the implementing agency. Thus, a large part of the fund was undisbursed and returned to the Bank. Concerning the Privatization and PSD Project, officials indicated to the mission that the Bank's support was weak. The officials suggest that Bank support available at the beginning of the project in terms of workshops and seminars should have continued during the implementation to clarify the rationale for privatization.

Borrower Performance

The government was a constructive partner in IMF and World Bank efforts to improve macroeconomic policy during the 1990s, although much of the success was due to the impact of the LHWP construction. The high growth rates of GDP during most of the 1990s speak for themselves, but reductions in mine workers' jobs in South Africa since the early 1990s led to a low growth in GNP, except for the peak in 1997, which was again due to LHWP construction.

There was, however, limited enthusiasm on the part of the borrower for the World Bank's projects for agriculture and rural development. It is difficult to assess the reasons for the government's views, but there were, for example, bitter differences on the need for parastatal reform in agriculture, on the justification for changes in agricultural price policy, on the urgency to amend laws on land tenure, and on regulations for grazing rights. Some of these differences have been resolved, but many remain.

Implementation of the rural development program in the LHWP was originally to be integrated into ongoing national programs and managed by a combination of government agencies, NGOs, and local and regional contractors. This approach was clearly an attempt to give all institutions using public resources some access to the large increase in government revenues, but this disparate management was also the reason the program did not work. Despite government commitments to efficiently manage the Development Fund and the subsequent conversion of the Fund into the Lesotho Highlands Revenue Fund (LHRF), Fund management was inadequate, with insufficient internal controls to account for expenditures and weak technical appraisal and supervision of projects.[2] In 1999 the LHRF was superceded by the Lesotho Fund for Community Development (LFCD), which will be supported by the FY00 Community Development Support Project. It will still take some years for the new LFCD to be activated in a substantial way, since it was only recently that key staff for this Fund were appointed in Lesotho.

The borrower provided considerable leadership in education, and used analytical work by the World Bank to develop a comprehensive education sector reform program. Consultation with stakeholders on education policy was substantial, while consultation with, and coordination of, external partners has been reasonably effective through the Directorate of Planning under the umbrella of ESDP I and II. Counterpart funding and program implementation were frequently delayed, but ultimately satisfactory, while compliance with covenants was achieved.

In the health sector the lack of capacity and political will to generate basic data systems contributed to the lack of meaningful analytic work and a sector strategy. This led inevitably to the poor quality at entry of lending operations. Accountable departments took insufficient responsibility for implementation, shifting the burden to a separate Project Management Unit. The Ministry of Health also fell short in reaching agreements with nongovernmental partners essential to achieving sector and project goals. Finally, compliance with legal covenants, which were admittedly excessive and imprecise, was not achieved.

The government's inadequate analysis and the absence of a strategy had a detrimental impact on attempts to make progress on private sector development. As a result, except for financial and legal covenants, project preparation and implementation of World Bank assistance projects faced many difficulties and the outcomes were disappointing. Nevertheless, over the last year the government has recognized the importance of making progress in private sector development and has strengthened the management of this effort in the context of the ongoing project. This appears to be bringing better results.

Aid Partner Performance Issues

The strength of partnership among donors varies according to the sector. It has been strong in LHWP and education, moderately strong in health, and improving in rural development following the introduction of the FY98 Agricultural Policy Capacity Building Project, jointly financed by a number of donors and now effectively coordinated by the Food and Agricultural Organization of the United Nations (FAO). Although the Bank financed less than 4 percent of the estimated $3.7 billion cost of the first phase of the LHWP, it was a catalyst for aid and private capital inflows.

Donors played an important role throughout the 1990s in shaping the education sector development program and in mobilizing coordinated international and government support.[3] However, donors indicated that consultation was still inadequate, particularly with respect to the recently adopted 1999–11 education sector program supported (in its first phase) by ESDP II. Donors providing parallel funding claimed that they were not invited to participate in such key preparation events as log-frame sessions to identify key project performance issues. In the HNP sector the ratio of other donors' support to IDA was lower than in education. Aid coordination in the design phase was satisfactory, resulting in complementary inputs in many areas (such as rural clinics, the National Health Training College, and the National Tuberculosis Program). But aid coordination was difficult in the implementation and evaluation phases (which tracked disbursements from other donors) because of donors' diverse reporting standards.[4] Finally, partners appreciated the World Bank consultative process with donors while preparing the Health Sector Reform Program (2000–09).

While donors collaborate in the major sectors, there is almost no leadership.[5] The Country Assistance Evaluation (CAE) mission found strong support among donors for the World Bank to provide such leadership. Lesotho's limited absorptive capacity for external assistance also means that it could benefit from harmonization of donor polices and procedures and from more effective aid coordination.

At present the World Bank has only a liaison office in Maseru staffed by one support staff. The country director has been based in South Africa since 2000. This is not adequate to provide the Bank support and leadership expected by the client and donors. A stronger operational representation in Maseru or more frequent interaction with the government and development partners from the World Bank's office in Pretoria is recommended. Such representation could help develop a closer partnership with the government, enhance coordination with donors and NGOs, and improve portfolio performance.

Exogenous Factors

The end of apartheid in South Africa presented Lesotho with extraordinary opportunities for greater economic integration and employment. In the short run, however, it caused a sharp drop in foreign investment in Lesotho, reduced remittance flows from South Africa, created a brain drain of skilled professionals, shifted donor resources toward South Africa, reduced fiscal revenues from SACU, and lowered regional growth opportunities. Another factor that has already had a considerable impact and promises to cause further difficulties is the regional HIV/AIDS pandemic. Already high adult prevalence rates in Lesotho (currently one in four adults is infected) will certainly rise because of increased interregional movement of people in southern Africa. The policy changes needed to adapt to both the opportunities and the challenges presented by the new South Africa have occurred slowly, and are still incomplete.

In addition to subregional developments, Lesotho, one of the most vulnerable small countries in the world because of its limited resources, is facing a changing global economic environment.[6] For instance, the trade preferences once afforded to small states were eroded following the agreement on post-Lomé arrangements recently concluded between the European Union (EU) and the 71 African, Caribbean, and Pacific (ACP) countries. The ACP countries will have to gradually give up the principle of nonreciprocal trade preferences. More important, the phasing out by 2004 of the Multifibre Arrangement will remove incentives to invest in ACP countries. Under the current agreement, Lesotho's textile exports to the United States and Canada are not subject to quota restrictions. As a result, almost all of the growth in Lesotho's exports to the United States—which increased by 73 percent between 1994 and 1998, though starting from a very small base—came from the textile sector, mainly garments. Textiles constituted more than 80 percent of Lesotho's total merchandise exports in this period.

Conclusions and Recommendations

Poverty, Human Capital Development, HIV/AIDS, and Institutional Strengthening

These are major challenges for Lesotho in the foreseeable future. Half the population remains below the poverty line. The Gini coefficient of 60 percent is one of the highest in the world. Unemployment is about 40 percent. Highland rangeland resources continue to deteriorate. The adult HIV/AIDS prevalence rate is estimated at 24 percent. Poverty and inequality have regional, occupational, gender, and income dimensions: more than 80 percent of the poor live in rural areas, particularly the mountainous regions, and are concentrated among small farmers, shepherds, and women. This evaluation recommends that donor assistance should focus on the following goals:

- Reduce poverty and inequality in the medium to longer term by focusing on the quality of education and human capital development at all levels, particularly in the poor mountainous regions, to increase employment prospects for Basothos within Lesotho and South Africa.
- Increase the focus of donor assistance programs on HIV/AIDS by featuring it prominently in donor assistance strategy, such as in support to institutions capable of monitoring and coping with HIV/AIDS.
- Use World Bank involvement in the LHWP and agricultural policy formulation, along with the AfDB, to enhance the policy and regulatory institutions for rangeland management in Lesotho (including land tenure, research, extension, rural finance, and grazing management) to foster the sustainable production of livestock in the highlands and an enhanced enabling environment for private sector development.

Monitoring and Evaluation

A critical need across almost all sectors is to establish better monitoring and evaluation systems. This is a problem with roots in the lack of data collection and analysis. The timeliness and reliability of national accounts, fiscal, trade, monetary, and social data have been of particular concern. Without reliable data, neither the government nor donors can monitor and assess development progress or identify more successful strategies. The evaluation recommends that:

- Donors, including the World Bank and AfDB, should help Lesotho improve its sta-

tistical database, most urgently in areas related to poverty reduction (for example, household surveys and health and nutrition information systems) and promote monitoring and evaluation systems within key line ministries.
- Monitoring and evaluation should be accompanied by an economic and sector work program that includes poverty assessment updates and public expenditure reviews.

Donor Coordination

There are considerable differences in views among donors about development assistance to Lesotho that can usually be resolved through collaboration and leadership. While there is collaboration among donors, this evaluation found that the leadership vacuum is real, and there would be strong support for the World Bank to provide that leadership. The World Bank's consultation with donors on development priorities was viewed as insufficient but improving, and hampered by lack of local representation. The evaluation recommends:

- The World Bank should establish a stronger operational representation in Maseru, or more frequent interaction with the government and development partners from the Bank's office in Pretoria. This would enhance coordination among donors and improve portfolio performance.

Political Stability

External assistance to Lesotho has been delivered in a setting of political uncertainty with limited government ownership, which has hampered project implementation. At the same time, donors, who differ in their readings of the political environment, differ in their perspectives on the risks associated with the implementation of their programs. The evaluation suggests:

- The donor community should improve its understanding of the political economy of policy change in Lesotho, and hence enhance its assessment of government ownership of assistance programs and the risks associated with those programs.

ENDNOTES

Chapter 1

1. All dollar amounts represent U.S. dollars unless otherwise noted.

2. SADC members are: Angola, Botswana, the Democratic Republic of the Congo, Lesotho, Malawi, Mauritius, Mozambique, Namibia, the Seychelles, South Africa, Swaziland, Tanzania, Zambia, and Zimbabwe.

3. A UNDP/World Bank mission estimated the total cost of reconstructing damaged properties at 160 million maloti, or $34 million (World Bank 1998b).

4. The 2000 *Interim Poverty Reduction Strategy Paper* (I-PRSP) (Lesotho 2000) indicated a slight improvement in the national incidence of poverty in 1999 compared with 1993 (68 percent as opposed to 71 percent). Country Assistance Evaluation (CAE) and I-PRSP estimates differ because the CAE estimates are on a per capita basis, the I-PRSP estimates on a household basis.

5. Less than 4 percent of children entering primary school successfully complete secondary school, and only 10 percent of students entering secondary school successfully complete that level (Goldstein 2001, p. 3).

6. The Human Development Index is a composite index that measures a country's achievements in terms of life expectancy, educational attainment, and adjusted real income.

Chapter 2

1. According to the 1997 Labor Force Survey, about 13 percent (46,100 persons) of Lesotho's working population are employed in government or in parastatals. The rest of the workforce (about 87 percent, or 307,000 persons) is occupied in the informal sector. Of those working in the informal sector, 10 percent are working on their own, 26 percent are paid employees, 3 percent are unpaid employees, and the remaining 61 percent are subsistence farmers (which suggests about 180,000 subsistence farms).

Chapter 3

1. The Lesotho Highlands Revenue Fund (LHRF) was established as an extrabudgetary fund in 1992 and inflows began in the mid-1990s (initially import duties; later, water royalties). With inflows averaging around $45 million per year in the second half of the decade, the LHRF had the potential to support targeted poverty reduction efforts and strengthen basic social services. While the LHRF did support local employment-generation schemes, and transferred about a third of its revenue to the government's general revenue account, use of the funds became highly politicized and lacking in transparency. A project appraisal for Phase 1B of the project noted that the selection of the initial projects was not transparent, technical designs were weak (and hence some dams and roads have been washed away), and weaknesses have been detected in financial control and monitoring.

2. Regional staff argues that whether the Bank was overly ambitious or not in its judgment of government commitment and implementation capacity depends on the appropriateness of using current standards and priorities to judge past actions.

3. For instance, it had been estimated that in countries with adult prevalence of 10 percent or more, HIV/AIDS will erase 17 years of potential gains in life expectancy (UNAIDS 2000 and World Bank 2000b).

4. Regional staff argues that selectivity has not been possible because the challenges facing Lesotho are numerous and require resources disproportionate to the size of the economy.

5. The country team for Lesotho is working with the government in developing a Poverty Reduction Strategy Paper by focusing on strengthening monitoring and evaluation.

6. The search for work will need to range well beyond South Africa, even though it is an obvious place to look. Economic growth in South Africa has been low and rates of unemployment are high (reported at about 37 percent in 1997 by Gelb and Tidrick 2000). Furthermore, the informal sector in the South Africa, which would be the most logical sector for the employment of Basothos, is small by African standards.

7. A recent World Bank study indicates that ESW has significant positive impact on the quality of World Bank loans, due to better designed and implemented projects (Deininger, Squire, and Basu 1998). Furthermore, OED's evaluation of Bank's lending to Lesotho by sector

shows that sectors with effective ESW, such as education, scored well.

8. A country economic memorandum and Public Expenditure Review were prepared for Lesotho by the World Bank in 1987 and 1988, respectively. No such economic reports were prepared in the 1990s. The 1995 Poverty Assessment proposed putting in place a system of data collection that would permit poverty monitoring.

9. See SW-B & A Consult (1999) and Eriksen (1996).

10. For example, rural development projects had unsatisfactory outcomes over a long period starting well before the 1990s. There has been a sequence of failed projects followed by attempted solutions in follow-up projects that so far have not yet shown positive results. Specifically, the unsatisfactory Thaba Bostiu Area Development Project (1973–79) was followed by the unsatisfactory Basic Agricultural Services Project (1978–85). Both projects were intended to support increased agricultural production, but both fell far short of their targets because the necessary technology had not yet been developed, and the policy environment was not propitious. They were followed by the unsatisfactory Land Management and Conservation Project (1988–97), which set back progress on important issues such as land policy. This was followed by the contemporary 1998 Agricultural Policy and Capacity Building Project, which tackles land policy again. Two years after Board approval, this project, apart from meeting conditions of effectiveness one year after Board approval, has only recently met a number of important milestones on process issues. It has made virtually no progress on substantive matters such as improving marketing, pricing policy, and land management. Its closing date will therefore inevitably be delayed. The most recent Community Development Support Project became effective in July 2000 but is already behind schedule.

11. Aggregate country portfolio performance can differ from the performance of a country program as evaluated in a CAE. Nevertheless, project portfolio performance tends to be positively but weakly associated with OED's overall rating of the Bank's country program (World Bank 2001).

Chapter 4

1. The government embarked on a series of structural adjustment programs supported by the International Monetary Fund (IMF) SAF for 1988–89 to 1990–91 of SDR (Special Drawing Rights) 3.0, 4.5, and 3.0 million, respectively, and ESAF for 1991–92 to 1995–96 of SDR 4.5, 6.0, 7.6, 8.4, and 7.2 million, respectively. The IMF and the World Bank emphasized key structural reforms, including privatization, parastatal reform, and deregulation of agricultural markets.

2. The government has responded to these negative developments by taking several measures. During January–September 2000, the government implemented an IMF Staff-Monitored Program and, in December 2000, reached understandings with the IMF and the World Bank on a program that would be supported by a three-year arrangement under the Poverty Reduction and Growth Facility (PRGF). In March 2001, the IMF approved a PRGF loan amounting to 24.5 SDR ($32 million).

3. The annual growth rates for Swaziland and South Africa in the 1990s were 0.6 percent and –0.6 percent respectively. For the second half of the 1980s their growth rates were 5.8 and 2.4 percent respectively.

4. In 1998, the United Nations Development Program (UNDP) found that 45 percent of all income flows to the richest 10 percent of the population, compared with less than 1 percent for the poorest 10 percent, translating into a Gini coefficient of 0.57 (UNDP 1999).

5. "Supply-led" refers to a development strategy focused on generating a supply of goods and services without necessarily taking account of demand. "Demand-led" refers to a strategy focused on responding to a known or projected demand for goods and services.

6. Under the recent fiscal 2000 ESDP II, the World Bank hopes to reverse the negative trend in recurrent resource allocation through public expenditure review and establishment of a medium-term expenditure framework.

7. Until the end of the decade, World Bank objectives were oriented toward expanding physical access to, and quality of, formal education, rather than enhancing participation through nonformal or more flexible forms of

schooling and eliminating financial barriers to participation by the poor. These omissions became obvious by the end of the decade, leading to a revision of World Bank objectives to include—in addition to a continued focus on improving the quality of basic education—a renewed emphasis on affordable access and equity, nonformal education, and early childhood development to achieve universal primary education by 2011.

Chapter 5

1. As not all completed projects are subject to OPEV evaluation, there could be a discrepancy between table 3.3 and Annex table E.6. These evaluations were carried out before the current use of the multilateral development bank–recommended evaluation criteria (that is, relevance, efficacy, efficiency, institutional development, and sustainability).

Chapter 7

1. Overall, the quality of supervision was moderately satisfactory, but Bank staff turnover was sometimes rapid. For instance, for the Agricultural Policy and Capacity Building Project, the task manager has been the same since appraisal; also, for the rural development component of the LHWP, the task manager has been the same since the appraisal of Phase 1B. However, in the case of the Road Rehabilitation and Maintenance Project, there have been three task managers since Board approval in May 1996 and very little evidence of improvement in project performance. The problem of changing task managers also applies to the Community Development and Support Project approved in fiscal 2000.

2. World Bank (1999).

3. Within ESDP I (1991–99) and ESDP II (1999–03), IDA funding has been more than matched by parallel funding from external partners (EC and USAID for ESDP I; U.K., AfDB, Germany, and Ireland for ESDP II). The IDA commitment has also helped to mobilize government resources, which amount to nearly 30 percent of total program costs under ESDP I.

4. A new Project Accounting Unit will be established within the Ministry of Health to allow for standardized and synthesized reporting of all partners' contributions.

5. The UNDP is responsible for donor coordination in Lesotho and organizes the country's periodic roundtable conferences. The last roundtable was held in Geneva in 1997, during which it was agreed that there would be no roundtable conferences until the government reformulated its poverty program (then anticipated to happen in two years). However, no roundtable conference has been held since 1997 because of the political instability following the 1998 elections.

6. The Commonwealth/World Bank vulnerability index, which ranks countries according to measurable components of exposure (such as lack of diversification, extent of export dependence, and impact of natural disasters) and resilience to external shocks, lists Lesotho among the most vulnerable countries (World Bank, 2000e, table 6, p. 22).

Annex G

1. A person who is a national of Lesotho is referred to as a Basotho. The national language is Sesotho.

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