

NOVEMBER 2022



LESOTHO

POLICY NOTES

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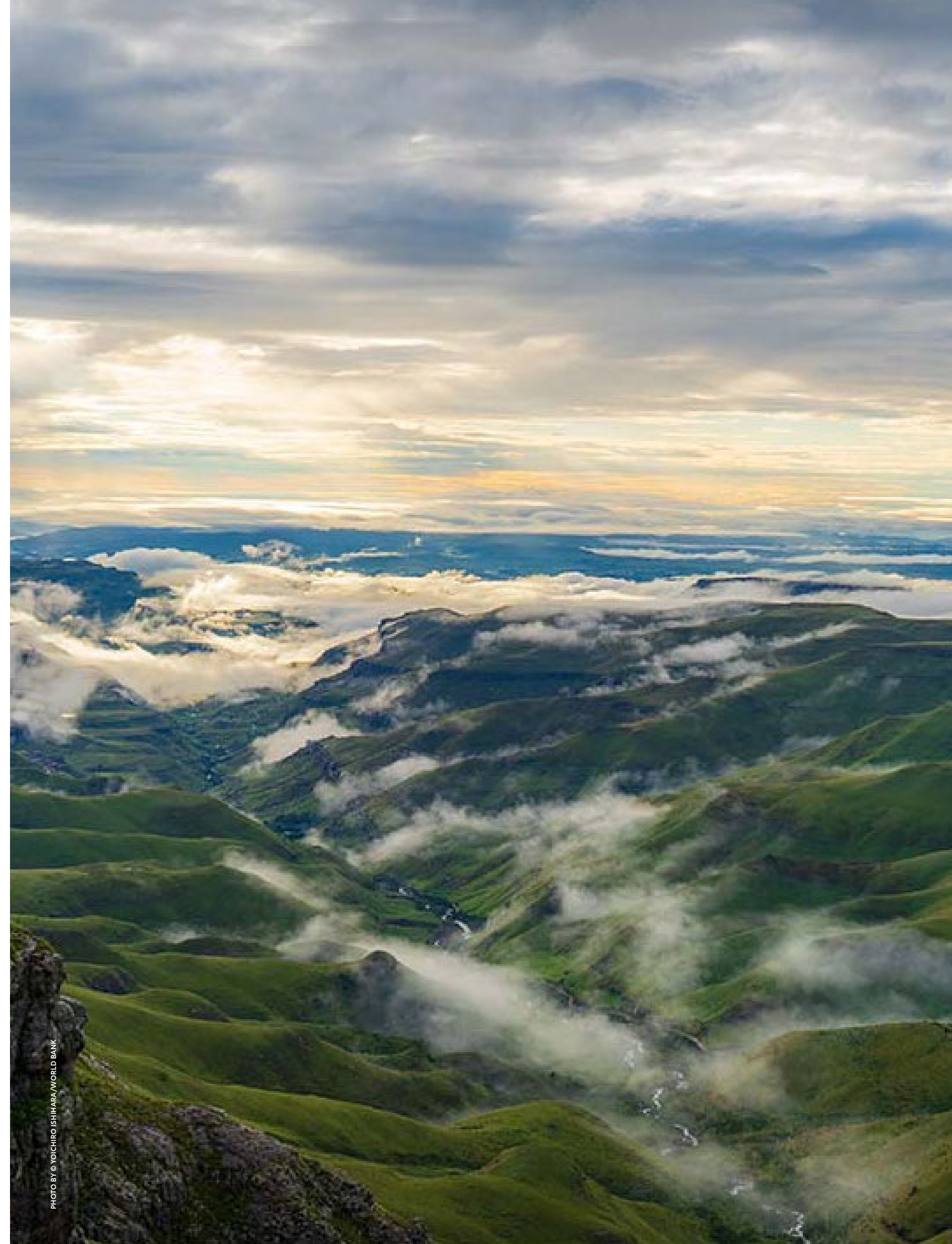


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PREFACE

The preparation of the Policy Notes was led by Yoichiro Ishihara (Resident Representative for Lesotho, AEMLS) and Mafupu Mokoena (Operations Officer, AEMLS) under the guidance of Marie Françoise Marie-Nelly (Country Director, AECS1) and Asmeen Khan (Operations Manager, AECS1). World Bank Group experts contributed to each Policy Note as described in the table below.

These Policy Notes seek to distill key findings from a broad range of World Bank Group engagements in Lesotho, including policy dialogue, analytical work, strategic documents, project lending and trust funded activities. They build on discussions with government counterparts, development partners, non-governmental organizations, representatives of the private sector, and other stakeholders. These Policy Notes are selective in their coverage, and include synopses on each topic, highlighting key issues and challenges, and concluding with actionable policy recommendations. They cover a broad range of policy issues but are not intended to be comprehensive or exhaustive. This effort seeks to make these findings readily available to the new government of Lesotho and support them in achieving their development aspirations. The Policy Notes start with the overview of the World Bank program and are structured under four broad thematic groupings in line with the next Country Partnership Framework (CPF) under preparation.

All Policy Notes follow the same structure. They include three parts: key issues and challenges, policy measures and World Bank engagement, including key lending operations, technical assistance and analytical works.

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WORLD BANK'S PARTNERSHIP WITH LESOTHO

Key Issues and Challenges

Country Partnership Framework (CPF). The World Bank Group (WBG)'s partnership with Lesotho is fully aligned with the country's development vision articulated in the second National Strategic Development (NSDP II) and key findings of its 2021 Mid-Term Review. The WBG has been preparing for the new CPF for FY2023-27 based on (a) [Lesotho Systematic Country Diagnostic \(SCD\) Update](#); (b) the Completion and Learning Review (CLR) of the previous CPF for FY2016-20; and (c) [the Lesotho CPF Concept Note and results of stakeholder consultations](#). The draft CPF has been jointly formulated together with the government counterpart team led by the Principal Secretary of the Ministry of Development Planning (MoDP) and the Budget Controller of the Ministry of Finance (MoF).

The overall objective of the proposed CPF FY2023-27 is to support Lesotho in building a sustainable and resilient economy in a post-COVID environment by promoting a private sector driven, export-oriented economy for job creation supported by an enabling, efficient and effective public sector. The CPF consists of three high-level outcomes (HLOs) (increased employment in the private sector, improved human capital outcomes and improved climate resilience with seven objectives under the HLOs. There are two foundational themes (governance and government capacity, and macroeconomic and fiscal sustainability) and three approaches (gender, digitalization, and lagging-region approach) that cut across the CPF. The CPF is scheduled to be finalized with the new government by early 2023.

International Development Association (IDA). The IDA is the part of the World Bank that helps 74 of the world's poorest countries, including Lesotho, to reduce poverty by providing loans (called "credits") and grants for programs that boost economic growth, reduce inequalities, and improve people's living conditions. As of October 2022, the IDA applies [blend terms](#) for its credits to Lesotho (3.3 percent interest rate, 30-year maturity period with 5-year grace period). The IDA has a three-year replenishment cycle with the IDA20 replenishment covering the period from July 2023 to

June 2025. The preliminary allocation for Lesotho is about SDR92.6 million (\$120 million). During IDA19, the Sustainable Development Financing Policy (SDFP) was introduced to support debt sustainability and transparency. Under the SDFP, 10 percent of Lesotho's allocation in the second and third years is subject to the implementation of debt sustainability and transparency measures. In FY2023, the World Bank and the government agreed on three PPAs¹.

World Bank-financed projects. As of October 2022, there are 12 projects under implementation (table 1) of which nine are national projects, two regional projects and one trust-funded project; with a total commitment value of \$376 million, equivalent to 25 percent of GDP.

The implementation of World Bank-financed projects has been slow. In FY2022 (July 2021-June 2022), the disbursement ratio was only 14.4 percent, below the target of 20 percent. Therefore, about \$260 million or 69 percent of the total commitment has not been disbursed. In order to improve the performance of the World Bank-financed portfolio, the World Bank conducted a review of the portfolio in July 2020 which led to several recommendations. Overall, implementation has been weak. For example, implementation support teams (IST) were established by both the World Bank and the government, but it has been difficult to convene joint meetings.

Policy Measures

In order to bring new momentum to the partnership with the new administration, the following actions are being proposed:

Short Term

Kickstart the discussion on the CPF. In order to operationalize WBG support to Lesotho, kickstart strategic discussion between the new government and WBG to ensure that priorities are aligned and finalize/adjust the CPF, accordingly. The finalization of the CPF would allow the government and WBG to discuss more specific issues (e.g., project formulation).

Agree on a lending pipeline of projects under IDA20. As part of CPF discussion, it is important to agree on a pipeline of new projects under IDA20. A project formulation may take 2-3 years.

Re-operationalize government IST. It is important for government senior management (ministers and Principal Secretaries) to exercise leadership to re-operationalize government IST. It would be important to agree on the modalities/principles of implementation of World Bank-financed projects: role of ministries versus implementation units, transparency in procurement and regular monitoring and evaluation of projects through site visits.

¹ PPA1 (To ensure transparency of public payments, Lesotho, through its (a) Ministry of Finance, has issued a Circular to all its Chief Accounting Officers, which mandates the use of Electronic Funds Transfer (EFT) through the Integrated Financial Management Information System (IFMIS) for purposes of making all government's payments; (b) the Accountant-General has issued guidelines mandating compliance with EFT implementation to all Finance Directorates); PPA2 (To improve revenue collection, Lesotho, through its Ministry of Finance, has issued a treasury circular, which mandates the introduction of cashless payments for non-tax revenues) and PPA3 (To improve the allocative efficiency of the budget, Lesotho, through its Ministry of Finance, has prepared guidelines for a revised Medium-Term Expenditure Framework (MTEF), which lays the foundation for MTEF implementation from the FY24/25 budget).

Medium Term

Re-start biannual high-level strategic dialogues. A strategic discussion between World Bank's country director and the Ministers of Finance and Development Planning discontinued due to lack of government follow ups of agreed actions. It is critical to restart the high-level strategic dialogues.

Monitor implementation progress of the CPF. The next CPF will introduce the CPF M&E dashboard to monitor progress of CPF implementation. The government and the World Bank to organize a stocktaking meeting on an annual basis.

Table 1. List of World Bank-Financed Projects (Active)

	Project Name	IDA Amount (\$ mln)	Undisbursed Amount (\$ mln) 1/	Effect. Date	Closing Date
1	Education Quality for Equality (LEQEP, P156001)	25	0.3	Jul 2016	Dec 2022
2	COVID-19 Emergency Preparedness and Response (P173939)	29.5	11.8	May 2020	Jun 2024
3	Lesotho Nutrition and Health System Strengthening Project (P170278)	22.0	16.1	Aug 2021	Jun 2026
4	Lesotho Lowlands Water Development Project (LLWDP, P160672)	78	66.8	Aug 2019	Mar 2025
5	Smallholder Agriculture Development Project II (SADP2, P165228)	50	33.8	Aug 2019	May 2026
6	Renewable Energy and Energy Access Project (LREEAP, P166936)	40	34.6	Jul 2020	Jan 2027
7	Transport Infrastructure and Connectivity Project (TICP, P155229)	18.3	5.3	Dec 2017	Dec 2023
8	Lesotho Competitiveness and Financial Inclusion Project (P175783)	45	45	Sep 2022	Jul 2028
9	Pathways to Sustainable Livelihoods Project (P177814)	26.5	26.5	Aug 2022	Jun 2027
Total National IDA		307.8	240.2		
10	TB and Health System Strengthening Project (TB, P155658 , P173228)	36	9.5	Dec 2016 Nov 2020	Dec 2021
11	Agriculture Productivity Program Southern Africa (APPSA, P164486)	25	10.6	Apr 2019	Jan 2025
Total Regional IDA		61	20.1		
12	(TF) Lesotho Basic Education Strengthening Project (P175065)	7.1	5.6	Feb 2022	

1/ As of September 2022.

RESUMING AND ACCELERATING POVERTY REDUCTION AND SHARED PROSPERITY²

Issues and Challenges

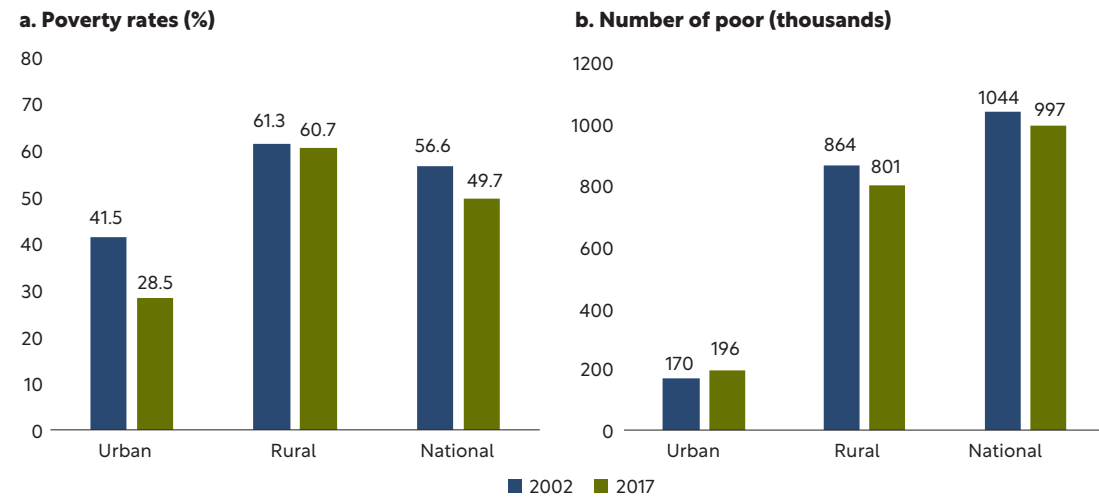
Lesotho witnessed poverty reduction prior to the COVID-19 pandemic and the subsequent shocks, but the pace was slow, and poverty remained widespread. Between 2002 and 2017, the poverty rate fell from 56.6 percent to 49.7 percent, based on the national poverty line and the latest available data.³ In absolute terms, 47,000 individuals escaped from poverty during the period. If poverty reduction is evaluated using the international poverty line of \$2.15 per person per day (in 2017 PPP), a sharper decline is observed with poverty falling from 66.3 percent to 32.4 percent over the same period. Nevertheless, the poverty rate rises to over half of the population (54.7 percent) when the lower middle-income-country threshold of \$3.65/day (2017 PPP) is applied and therefore, the country's poverty rate is not commensurate with its status as a lower-middle-income country.⁴

² This policy note is based on several recent assessments and diagnostics by the World Bank: Lesotho Poverty Assessment: Progress and challenges in reducing poverty (2019); Lesotho Policy Note: Accelerating Poverty Reduction and Shared Prosperity (2020); (3) Lesotho Systematic Country Diagnostic Update (2021); (4) Mapping subnational poverty in Lesotho in 2017/2018: Methodology and Key findings (2021); (5) Inequality in Southern Africa: An assessment of the Southern African Customs Union (2022); and (6) Lesotho Macro Poverty Outlook (2022).

³ The latest household survey available to officially measure and track the evolution of poverty dates back to 2017/18. The national poverty line corresponds to LSL 648.88 (2017 prices) per adult equivalent per month.

⁴ Poverty data are now expressed in 2017 PPP, versus 2011 PPP in previous editions. As price levels across the world evolve, global poverty lines have to be periodically updated since price changes usually increase the value of the lines in nominal terms. The new global poverty lines of \$2.15, \$3.65, and \$6.85 reflect the typical national poverty lines of low-income, lower-middle-income, and upper-middle-income countries in 2017 prices. In addition to reflecting updates in nominal terms, upper-middle-income countries raised the standards by which they determine people to be poor from 2011 to 2017. Hence, the increase in the upper line is larger, and the population that does not meet the new standard is higher in most countries than it was with 2011 PPPs. See pipworldbank.org.

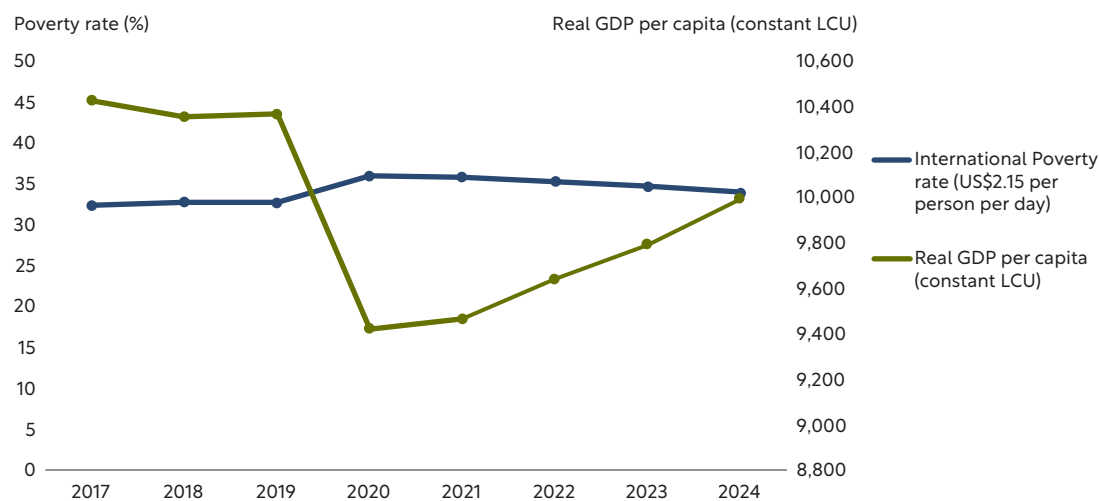
Figure 1. Poverty has declined but it remains widespread, above all in rural areas



Source: World Bank calculations based on 2002/03 Household Budget Survey (HBS) and 2017/18 Continuous Multipurpose Survey and Household Budget Survey (CMS/HBS).

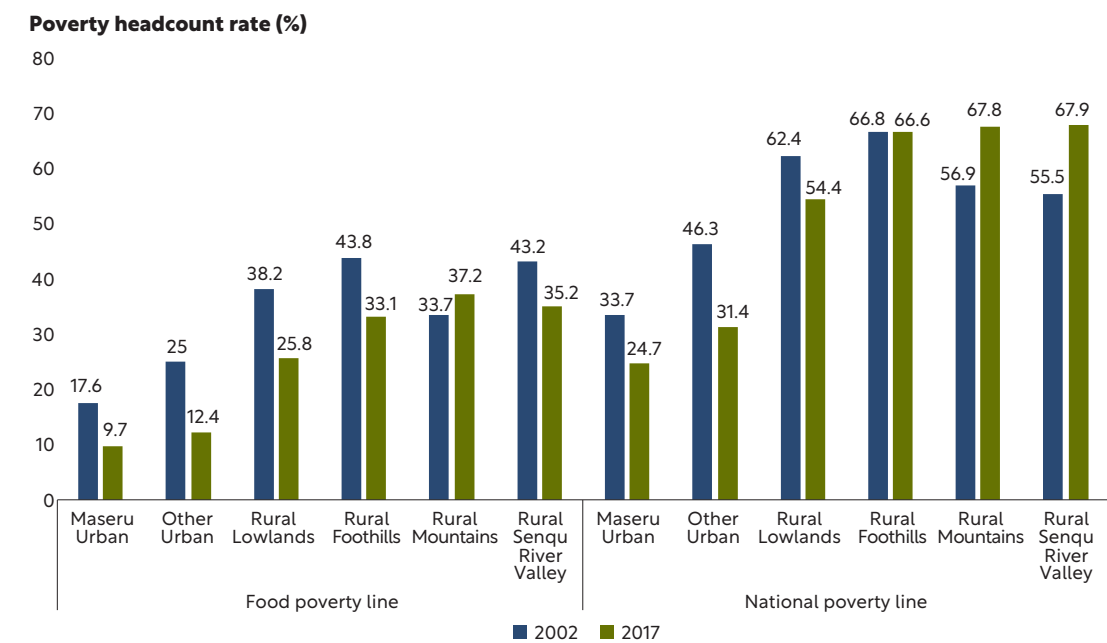
The COVID-19 pandemic hit while the country was already facing a development challenge; this together with other recent major shocks, such as price inflation and recurrent climate anomalies, have reversed the downward trend in poverty reduction. Prior to the COVID-19 pandemic, real GDP contracted by an average of 0.7 percent annually between 2017 and 2019. This was followed by a sharp contraction of 8.4 percent in 2020 brought about by the pandemic and the downturn continued into most of 2021. More recently, household budgets have been further squeezed by increasing prices, particularly from food and energy items. In July 2022, inflation reached 9.8 percent compared to 6 percent in 2021. Moreover, recovery of remittances from migrant workers has been slow and climatic shocks undermine agricultural performance and present additional challenges to poverty alleviation and food security. High rainfall variability, with frequent droughts, has often resulted in crop failures, deterioration of rangelands and pastures, and increased food prices of staple grains. Recent projections suggest that poverty, based on \$2.15 per person per day in 2017 PPP, remains high at 35.8 percent in 2021, well above the pre-COVID level of 32.4 percent in 2017.

Figure 2. Poverty increased in recent years reversing gains in poverty reduction



Past episodes of poverty reduction reveal large geographic disparities, with most of the gains accruing to urban areas. Poverty reduction was almost exclusively concentrated in urban areas, where the rate dropped from 41.5 percent to 28.5 percent. By contrast, poverty stagnated in rural areas, hovering around 61 percent using the national poverty line. Similarly, non-monetary dimensions of welfare show disparities between rural and urban areas, with access to services being lower in rural areas. The higher rate of poverty reduction in urban areas is explained by improvements in education, increased access to public services and increases in incomes from well-paying jobs largely in the services sector. In contrast, rural and mountainous regions continue to have limited access to basic infrastructure and services, fewer economic opportunities, and higher vulnerability to the negative effects of weather shocks on agriculture and rural livelihoods and hence tend to be the poorest.

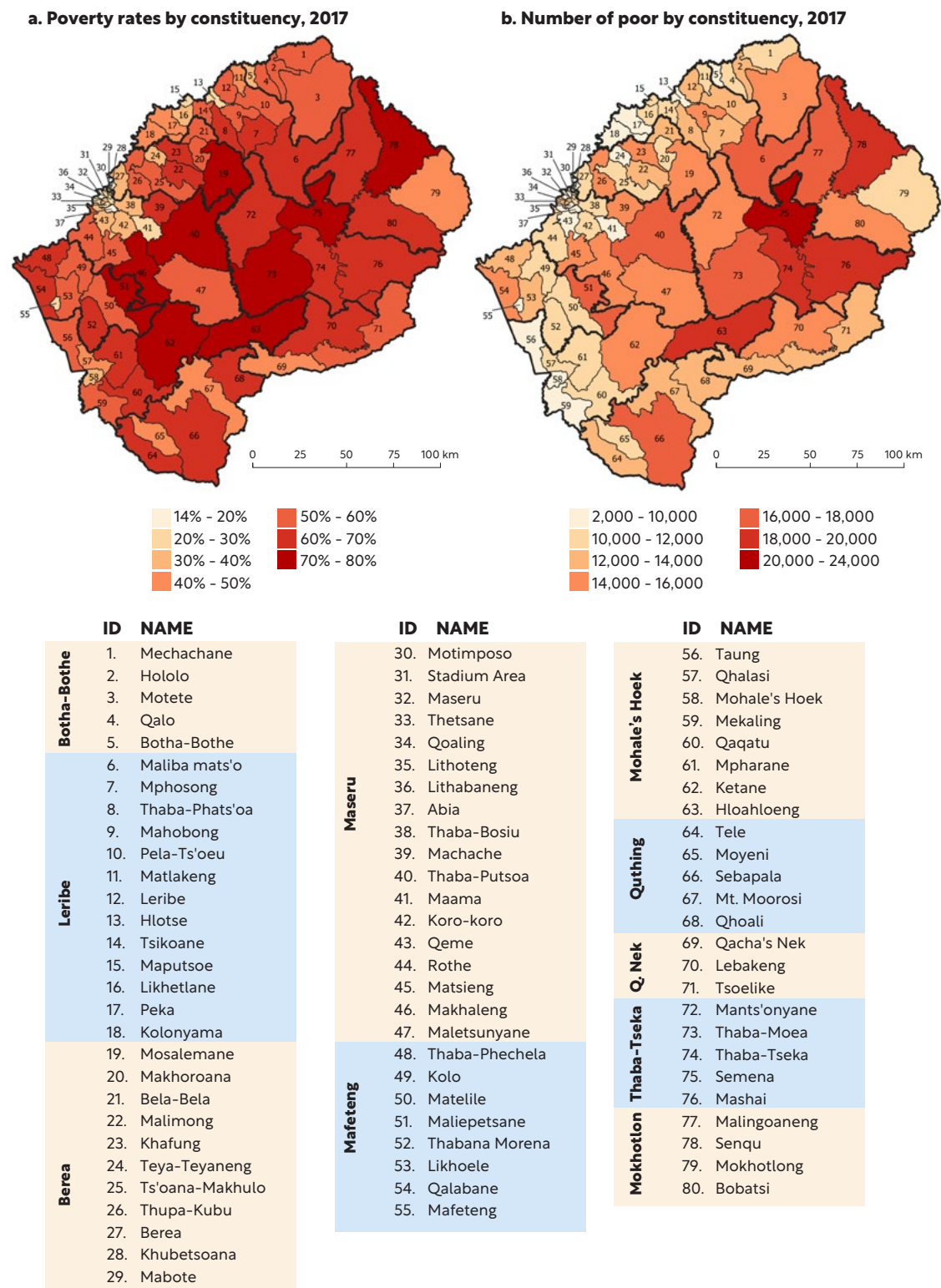
Figure 3. There is a marked urban-rural divide in the incidence of poverty



Source: World Bank calculations based on 2002/03 HBS and 2017/18 CMS/HBS

Further disaggregated analysis by region reveals a starker picture of spatial disparities, with progress in poverty reduction being also uneven across regions. Between 2002 and 2017, poverty declined in four out of the six administrative regions. The two regions that recorded an increase in poverty levels – Rural Mountains and Rural Senqu River Valley – are both in rural areas in the interior and the north respectively. At the district level, Thaba-Tseka district exhibits the highest poverty rate and within it, the constituency of Semena is particularly lagging as it has the highest concentration of the poor. By contrast, poverty rates are considerably lower in western Lesotho. Additionally, areas closer to the border with South Africa tend to exhibit lower poverty rates. This could be capturing, among other factors, accessibility to economic opportunities and better developed markets in South Africa.

Figure 4. Poverty rates are higher in rural and mountainous areas



Source: World Bank calculations based on Population and Housing Census (PHC) 2016 and 2017/2018 CMS/HBS

The spatial distribution of poverty is strongly correlated with human capital, access to services and natural-disaster risks. Areas with high poverty rates also tend to be more deprived in non-monetary terms. In particular, poverty rates generally decline with higher education levels. In 2017, the poverty rate among individuals in a household in which the head had no formal education was about seven times the poverty rate among individuals whose household head had completed tertiary education. Education can therefore play an important role in facilitating a path out of poverty, but its potential as a socioeconomic equalizer remains unrealized since despite improvements, outcomes in education and health remain well below Lesotho's level of development. Lesotho also suffers from the triple burden of malnutrition (i.e., undernutrition, overnutrition and micronutrient deficiency), adversely affecting child development. Additionally, the poor are disproportionately affected by both natural risks (such as floods and droughts) and market risks in the form of food price hikes. Poor constituencies in the East are the most affected by price increases while poor constituencies to the West of the country are the most affected by droughts and floods. Improving access to basic services and economic opportunities of the poor, along with reducing the impact of economic and natural risks they face, is key to reducing poverty.

Turning to inequality, Lesotho has become more equal, but it remains one of the most unequal countries in the world and recent events have likely exacerbated the problem. Between 2002 and 2017, household consumption grew fastest among the bottom poorest segment of the population.⁵ The faster consumption growth experienced by the poorest was largely due to an increase in wage incomes among them. Consequently, inequality, as measured by the Gini index, fell by more than 7 points from 51.9 to 44.6.⁶ The expansion of social protection programs also played an important role in the decline in inequality. The Gini coefficient would be 3.8 percentage points higher in the absence of social transfers. Notwithstanding this improvement, Lesotho remains among the 20 percent most unequal countries in the world. Moreover, as the consecutive shocks that occurred in recent years impacted the incomes of the poor relatively more, inequality is also expected to have worsened.

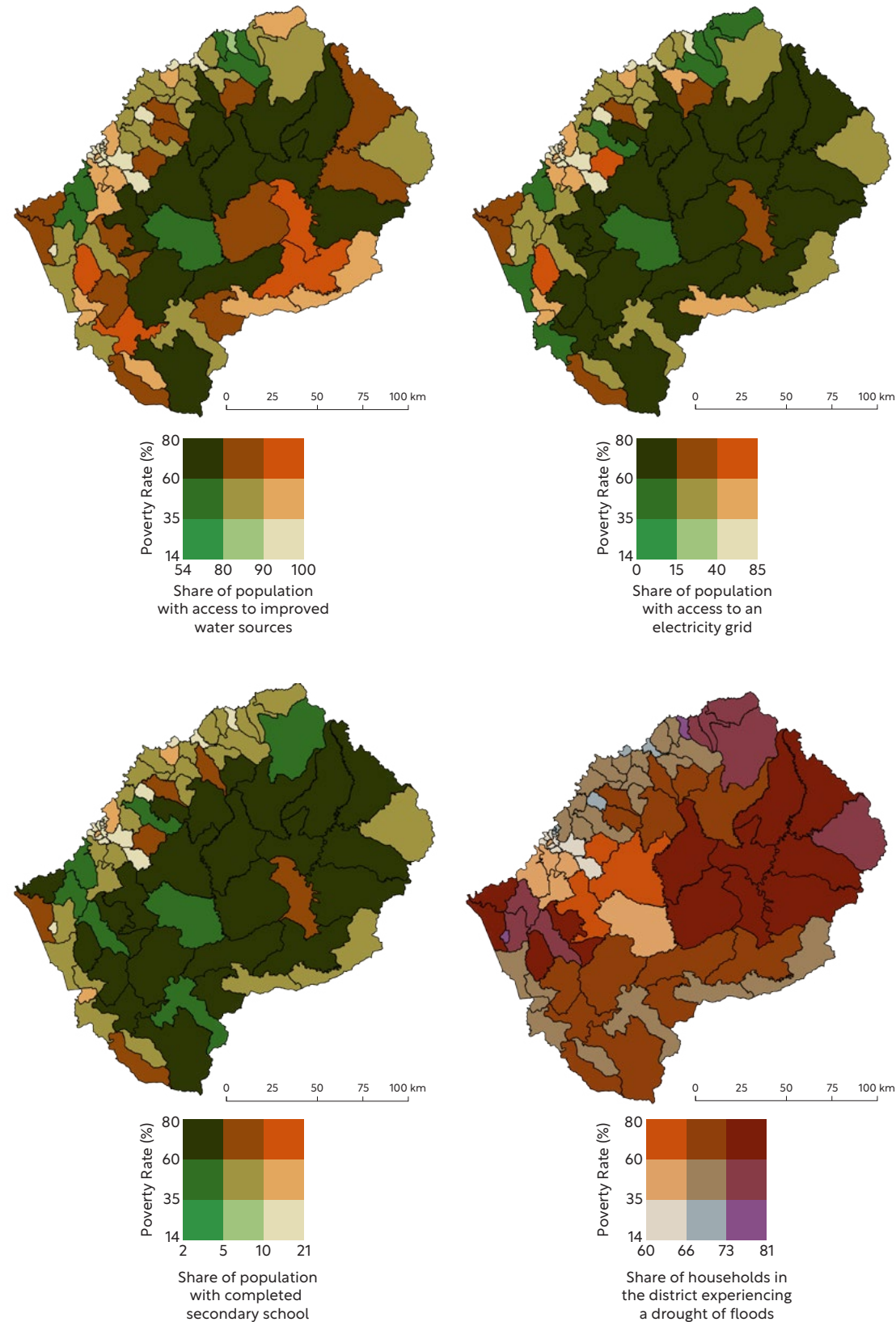
Inequality is determined by high inequality of opportunities. Factors such as gender, place of birth, parents' education, health and environmental shocks explained almost half (46 percent) of the level of inequality in 2017. Low intergenerational mobility and the large gaps between rural and urban areas further exacerbate inequality. Many gainful economic activities are concentrated primarily in urban areas. The rest of the country is fairly underdeveloped, and its labor force depends primarily on subsistence agriculture.

Poverty reduction has been limited by dominance of sectors with limited trickle-down effects. Only a relatively small share of real GDP growth per capita was passed through to consumption and thus growth can only explain a quarter of the decline in poverty. As a result, poverty has persisted despite modest growth rates. Growth may have failed to reduce poverty significantly because it accrued to sectors with limited trickle-down effects. The sectors on which the poor are heavily engaged, such as agriculture and textiles, experienced a stagnation or decline in their shares of GDP.

⁵ Mean household consumption per adult equivalent is the indicator used to measure welfare in Lesotho. A simple way to determine whether growth is inclusive is to examine the change in consumption for different segments of the population. The percentage change in consumption between 2002 and 2017 (converted to annual terms) for the bottom 40 percent of the population was 2.2 percent, much faster than the mean annual growth of 0.3 percent. Consumption growth between 2002 and 2017 was therefore inclusive for the very poorest segments of the population and this led to a decline in inequality.

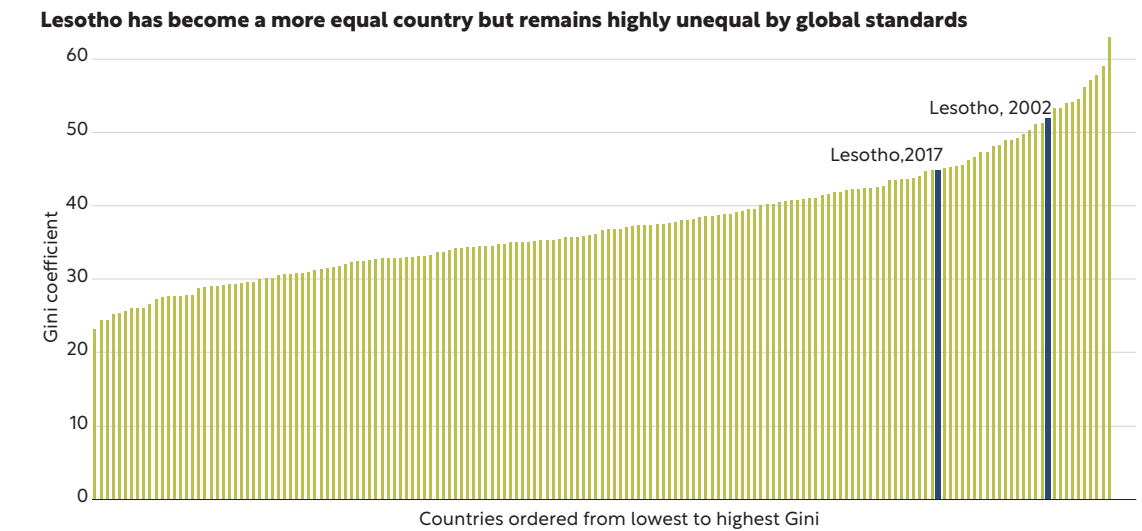
⁶ The Gini index captures the extent to which the distribution of income differs from perfect equality. It ranges from 0 to 100 with 0 representing perfect equality and 1 representing perfect inequality.

Figure 5. Poverty is strongly correlated with access to basic services, education and risks



Source: World Bank calculations based on PHC 2016 and 2017/2018 CMS/HBS

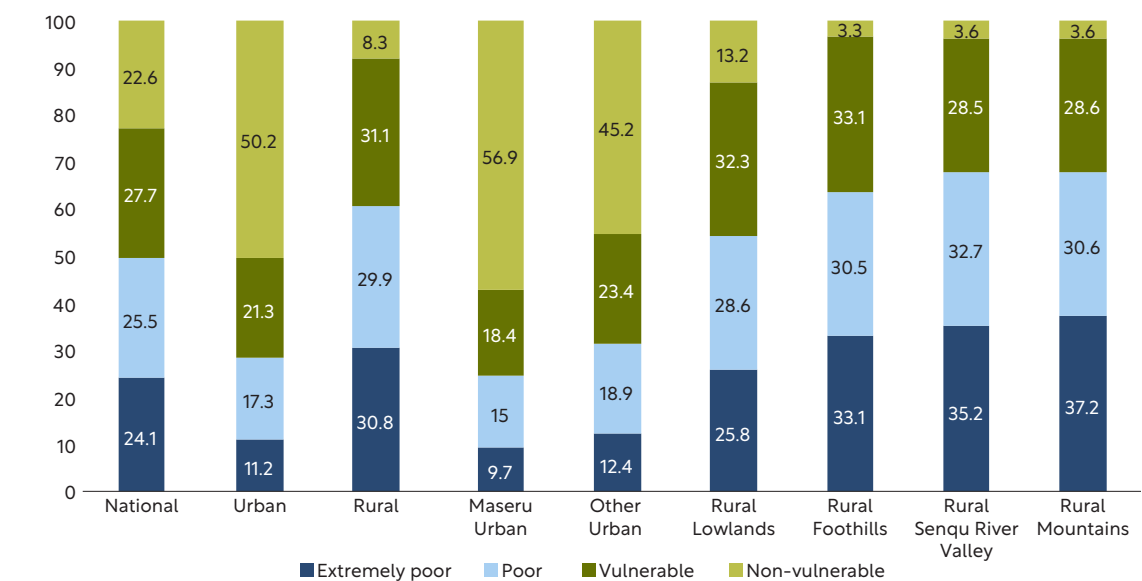
Figure 6. Lesotho has become a more equal country but remains highly unequal by global standards



Source: Calculations based on the 2017/18 CMS/HBS, the 2002/03 HBS and PovcalNet.

A quarter of the population is highly vulnerable to falling into poverty. In 2017, an estimated 27.7 percent of the population was vulnerable to falling into poverty. Given the poverty rate of 49.7 percent, this implies that in total, more than 75 percent of the population were either poor or vulnerable to becoming poor. In rural areas the situation is more dire, rising to over 90 percent. Still, even in urban areas such as Maseru Urban and Other Urban that experienced faster poverty reduction, the characteristics of most non-poor households (such as level of human capital, asset ownership and type of jobs) resemble those of the poor, suggesting high levels of economic insecurity and high chances of falling back into poverty. The high levels of poverty vulnerability, above all in the rural population, stem largely from engagement in subsistence agriculture, which is characterized by low productivity and high exposure to frequent climatic shocks.

Figure 7. More than half of the non-poor are vulnerable to falling into poverty and the risk is higher in rural areas

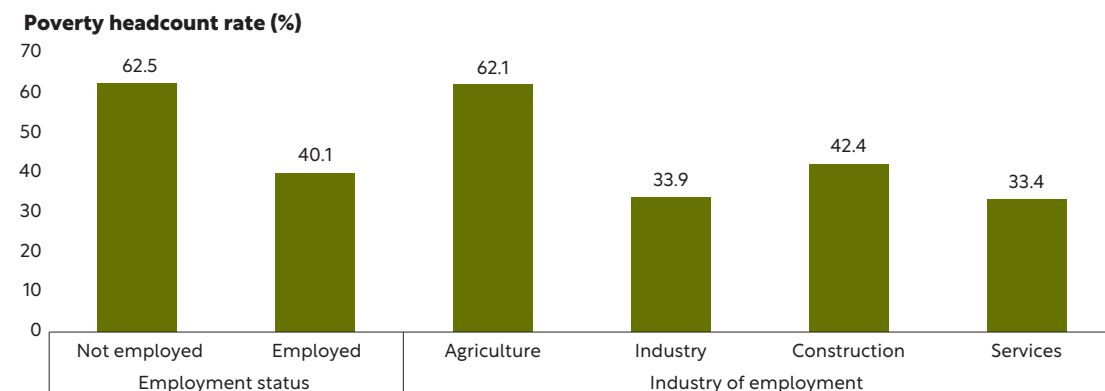


Source: World Bank Calculations based on the 2017/18 CMS/HBS.

Limited formal mechanisms to cope with shocks and declining remittances also drive the high vulnerability. While the social protection system helps to reduce poverty and inequality, its ability to help households mitigate the impact of shocks is limited. Coverage of social insurance comprising contributory pensions and Workmen's Compensation Fund is low (estimated at only 1.7 percent of the population in 2017) and mostly benefits the richer segments of the population who are more likely to be formal workers. There is also a scope to improve targeting to ensure better coverage of the poor in education. Tertiary education bursary schemes mostly benefit the non-poor since very few of the poor children advance to tertiary education. Faced with limited availability of risk management and protection instruments to cope with shocks, households often rely on costly and harmful strategies such as reducing food consumption and expenditures on other basic items, withdrawing children from school or depleting productive assets. Although remittances benefit the poorest population the most and have traditionally served as a buffer when shocks occur, transfers from Basotho working in South African mines have been falling, affecting the poor more heavily, particularly those in rural areas. Rural poverty would have been nearly 10 percentage points lower had remittances not declined since 2002.

An underperforming agriculture sector hinders the structural transformation of the economy and, ultimately, growth and poverty reduction. Although skilled non-agricultural jobs provide an escape out of poverty, most of the population lives in rural areas and depends directly or indirectly on subsistence agriculture as a means of livelihood. The sector is particularly important for the poor: in 2017, around 78 percent of those in the poorest quintile participated in agricultural activities, compared to 58 percent of the wealthiest quintile. Additionally, poverty was highest among households whose head engaged in agriculture. Agricultural productivity is low in part due to underinvestment in infrastructure (including irrigation), low uptake of new technologies and inputs, poor-quality extension and advisory services, and limited access to credit and input and output markets. Environmental challenges such as land and natural resource degradation, erosion, low soil fertility and climatic shocks exacerbate the situation, leaving the sector vulnerable to risks. Low productivity and low earnings in subsistence agriculture have a strong association with poverty, contributing to the large gap between urban and rural areas. Further, low agricultural productivity and poverty are closely linked with food insecurity and malnutrition, with about one-third of all children under age 5 stunted. Adoption of Climate Smart Agriculture practices could increase agricultural productivity.

Figure 8. Households whose heads are primarily engaged in agriculture are more likely to be poor



Source: World Bank Calculations based on the 2017/18 CMS/HBS.

Weak job creation and prospects limit income generating opportunities for households to escape poverty. Nearly a quarter of those economically active in 2019 were unemployed, rising to nearly 40 percent when the expanded definition of unemployment (considering discouraged job seekers) is considered. Unemployment rates are much larger among the youth, driven by skills mismatches and low wages while women are less likely to participate in the labor force, have a higher probability of being unemployed, and tend to earn less than men. Although the public sector dominates the economy, it does not employ many of the poor and it is unlikely to expand enough to absorb future cohorts of working age people. Mining, which is one of the fastest sectors of the economy is capital-intensive with little impact on employment. Overall, inefficient allocation of labor inhibits growth as labor is concentrated in the economy's least productive sectors. In particular, the low productivity in subsistence agriculture in which majority of the rural poor are engaged means that agricultural work does not currently guarantee a path out of poverty. By contrast, skilled non-agricultural jobs provided the main sources of income to lift urban households out of poverty.

Policy Measures

Accelerating poverty reduction and ensuring it benefits in lagging regions calls for:

- Closing gaps in basic service delivery and infrastructure while raising the efficiency and effectiveness of public expenditures and prioritizing investment in places that exhibit high and entrenched monetary and non-monetary poverty.
- Addressing structural constraints to firm and job creation to boost economic diversification, employment generation and income growth.
- Strengthening skills and employability of the youth, while ensuring a gender nuanced approach. If employed in productive jobs, this large workforce will enable the country to reap the benefits of the demographic dividend.
- Boosting agricultural productivity through climate smart agriculture practices.
- Building resilience of households, firms, and workers against economic and environmental shocks.

World Bank Group Engagement

- [Systematic Country Diagnostics \(SCD\) Update](#) (2021)
- *Technical Assistance and Analytics.* Ongoing diagnostic of different aspects of poverty and inequality in Lesotho



HIGH-LEVEL OUTCOME 1

INCREASED EMPLOYMENT IN THE PRIVATE SECTOR



PRIVATE SECTOR-LED AND INCLUSIVE JOB CREATION

Key Issues and Challenges

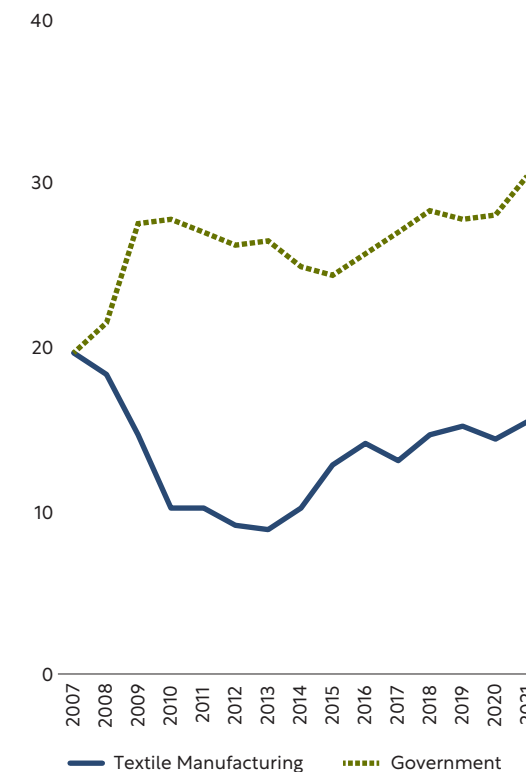
Private sector-led job creation, especially for youth, is a top priority. Unemployment, inactivity, and poverty mark young Basotho deeply. The unemployment rate is estimated at 22.5 percent overall and 29.1 percent among youth aged 15 to 24.⁷ Lack of productive employment results in high vulnerability to poverty, with approximately half of Basotho youth living below the poverty line.⁸

The employment challenge is more severe among Basotho living in rural areas, those with low levels of education, and young women. As of 2018, 63 percent of young Basotho were living in rural areas, and 72 percent of them had not completed secondary education.⁹ Only 21 percent of employed youth in rural areas is in wage employment, versus 54 percent among urban youth. Labor outcomes among youth are also positively correlated with educational attainment. Youth with incomplete primary education earn a fraction (26 percent) of the income earned by those with at least completed secondary education. The COVID-19 crisis further exacerbated the challenges faced by Basotho youth including their perception of reality, aspirations for their future, and social skills and confidence. Finally, although women in Lesotho tend to have better education outcomes, this is not translated to the labor market, with unemployment being significantly higher among women than men.

The public sector has a disproportionate role in the economy, crowding out private participation and resulting in a weak and largely informal private sector. The government has been the main driver of economic activity, with public spending accounting for 60 percent

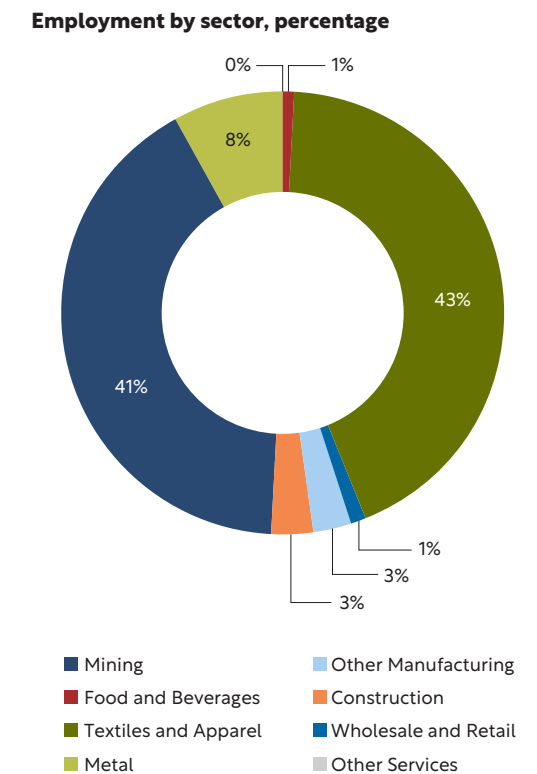
⁷ 22.5 percent unemployment (strict definition) or 38.3 percent (expanded definition) in 2019. World Bank Group. 2021. Lesotho Systematic Country Diagnostic Update: Bridging Implementation Gaps to Accelerate Development. <https://openknowledge.worldbank.org/handle/10986/36910>.
⁸ World Bank (2019). Lesotho Poverty Assessment.
⁹ Lesotho Household Budget Survey (2018).

Figure 9. Value Added by Industry (% of GDP), 2007–2021



Source: World Bank calculation using Lesotho Bureau of Statistics data.

Figure 10. Employment is concentrated in mining and textiles and apparel

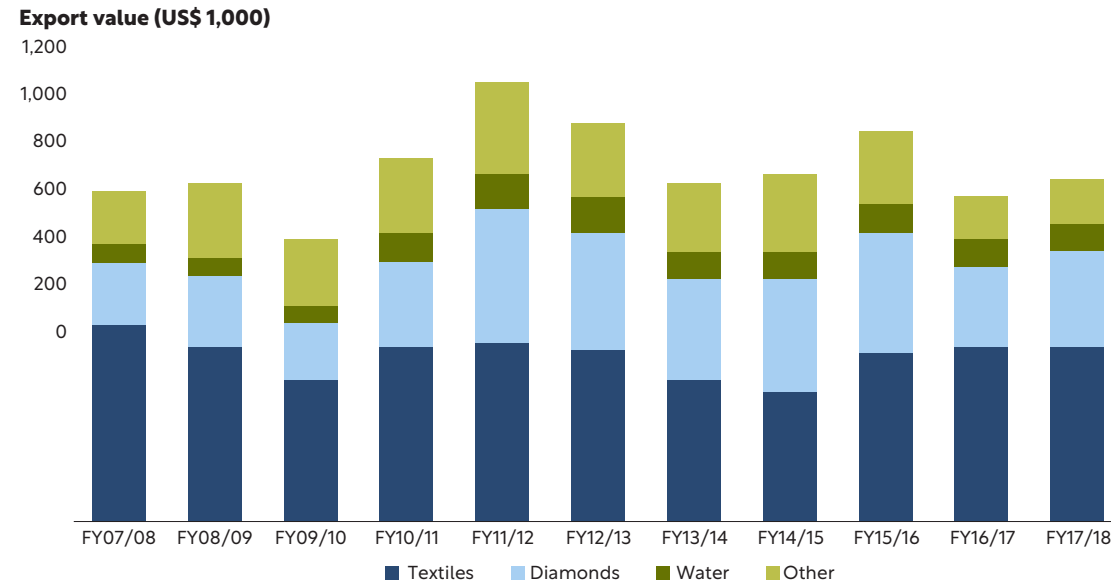


Source: World Bank (2018)

of GDP and with public sector investment levels averaging around 29 percent of GDP since 2010. The public sector contribution to GDP now far exceeds that of the textile and apparel industry, which is the largest private sector industry in Lesotho (figure 9). Lesotho's public sector wage bill (as a percentage of GDP) is one of the highest in the world and public sector workers earn an average monthly salary that is approximately seven times higher than the minimum wage of a skilled worker in the textile sector.

The private sector is largely concentrated in two sectors - mining and textile/apparel manufacturing and economic diversification has proven challenging due to structural constraints. These two sectors, which account for 84 percent of all formal sector employment (figure 10) and over two-thirds of all exports, (figure 11) are facing serious challenges. Textile and apparel exports have been declining due to competitiveness and labor market challenges and Kenya has overtaken Lesotho as the leading apparel exporter to the United States under the African Growth and Opportunity Act (AGOA). Total employment in the export manufacturing sector dropped from a peak of 43,500 in February 2020 to a low of 31,000 in April 2020 primarily because of the COVID-19 pandemic, before rebounding to 39,000 in September 2020 and another decline to 37,000 as of June 2022. Job losses in the sector have had an especially adverse impact on women who comprise 80 percent of the workforce but occupy lower-skilled jobs compared to men. Growth and job creation prospects from the mining sector (primarily diamond exports) are limited.

Micro, Small and Medium Enterprises (MSMEs) have been particularly hard hit by climate related and other compounding shocks, with no resilience-building mechanisms. MSMEs were severely impacted by declining sales, closures, reduction in employment as well as supply chain and financial shocks while the suite of financial support programs from the government, for

Figure 11. Exports remain highly concentrated in textiles and diamonds

example the COVID-19 MSME Relief Fund, fell below expectations in terms of impact given their ad-hoc and unbudgeted nature. This experience, and the fact that the government does not have a comprehensive disaster risk financing strategy, demonstrates that MSMEs are highly vulnerable to future climatic shocks.

The business and investment climate remains weak despite recent reforms. Lesotho's ranking in the Global Competitiveness Index dropped from 123 to 131 out of 141 countries from 2014 to 2019, and the Logistics Performance Index ranking also dropped from 133 to 139 during the same period. Recent reforms include new legislation for business registration and licensing and secured lending as well as starting adoption of digital systems and procedures in trade facilitation, land administration, and construction permits, all supported under the World Bank financed Second Private Sector Competitiveness and Economic Diversification Project (PSCED2). Nevertheless, further support is needed for effective implementation of these reforms. Political instability, tax rates, practices of the informal sector and access to finance are amongst the major constraints faced by firms. Amendment to the business licensing regulations to improve clarity around foreign investment and ownership is pending.

Strengthening participation in regional and global value chains (GVCs) is key to enhance export potential. Large firms, particularly in textiles, are losing competitiveness and laying off workers. The future growth of the industry is hampered by declining competitiveness especially in the U.S. market, infrastructure constraints including ready availability of factory shells, inefficient cross-border logistics and inadequate skills which have also hindered the development of local supplier networks. Horticulture is a nascent sector that has a natural comparative advantage for Lesotho due to its requisite natural resources and earlier harvest season than South Africa. There are immediate opportunities to support new and emerging smallholder farmers to participate in the horticulture value chain.

Lesotho's growth could be fueled by increasing the competitiveness of the small and medium enterprise (SME) sector and scaling domestic startups. A more dynamic SME sector can shift the balance of economic output and job creation to the private sector. SMEs can participate further in GVCs as highlighted in the National Trade Strategy (2021-25), with opportunities especially



in the horticulture and export manufacturing value chains. Digital businesses, including digital startups and SMEs that want to incorporate digital technologies, are hampered by poor digital infrastructure outside of urban areas. Only 8 percent of businesses currently use mobile money for business to business (B2B) payments. To create jobs and attract investments, targeted efforts are needed to strengthen SME production capabilities, improve access to reliable infrastructure, strengthen business and trade facilitation for export promotion, and improve the overall regulatory framework to create a competitive business environment. Addressing the low productivity of the large informal sector (more than 80 percent of household businesses in Lesotho are not registered) is critical.

Policy Measures

Short Term

- **Consolidate business environment reforms through additional investments in government to business (G2B) systems.** Past investments in G2B systems and services proved critical during COVID, allowing people to continue to use business services without the need for in-person interaction. Additional investments are needed to deliver seamless

and integrated business services through strengthening inter-agency coordination and high-level oversight, increasing the technical capacity for implementation, and broadening and streamlining the services provided by the OBFC as well as establishing a national payment gateway.

- **Invest in skills and technology development for the business sector.** Exporting businesses, particularly in the textile and apparel sector, are losing competitiveness without new investments in skills and technology, putting critical jobs at risk. Improved digital connectivity, combined with improvements in digital skills and literacy, can fuel the growth of MSMEs.

Medium to Long Term

- **Reform the Investment Climate.** Reforms are needed to attract investment into high-potential economic sectors. Lesotho does not have an Investment Promotion Bill or a designated Investment Promotion Agency (IPA) although an investment policy is being developed.
- **Deepen access to finance for MSMEs.** Digital transformation can widen access to financial services, with a focus on enabling access to appropriate and low-cost savings, payments, credit and insurance products. This is important for MSME growth and resilience.
- **Strengthen risk financing for MSMEs.** The government can strengthen the resilience of MSMEs to climatic shocks through strengthening existing risk financing instruments as well as adding additional instruments. Primary focus needs to be on the contingency fund maintained by the Ministry of Finance (MOF). The government should prioritize passing regulations governing this contingency fund to strengthen the transparency and efficacy of funds deployed. Furthermore, the government can focus on the purchase of sovereign insurance, a component under the Competitiveness and Financial Inclusion Project, which would provide rapid liquidity payments in the event of severe shocks. Finally, over the medium term, the government could explore contingent credit instruments. In parallel, the government can focus on drafting and adopting a National Disaster Risk Finance Policy, with financial and technical assistance from the Competitiveness and Financial Inclusion Project.
- **Nurture an entrepreneurship ecosystem for high-growth startups and innovative SMEs.** Concerted action from key public and private sector actors is required to address the critical gaps, including in terms of gender equality, in the entrepreneurship ecosystem in five intersecting areas: (i) strengthening the policy and regulatory environment and institutional capacity and coordination, (ii) expanding access to early stage finance, (iii) building an entrepreneurial culture, developing skills, and a talent pipeline, (iv) helping entrepreneurs access new market opportunities, and (v) enhancing the capacity and quality of business support services.
- **Support the competitiveness of existing export sectors and emerging sectors with growth potential.** The export manufacturing sector, especially textile and apparel, has potential to attract new investments and create jobs. Commercial horticulture projects can be scaled and replicated through a targeted horticulture business incubation program. Accelerating digital reforms and enhancing digital skills can unlock new business opportunities, enable business owners to reach new markets, and help MSMEs offer digital products.

World Bank Group Engagement

Lending

Name	Approval Date	Closing Date	Size	Project Objective
Competitiveness and Financial Inclusion (CAFI) Project	June 2022	July 2028	\$52.5 million	The objective is to increase access to business support services and financial products targeted at MSMEs and entrepreneurs, especially women and youth.

Technical Assistance and Analytics

Name	Completion Date	Short Description
Unlocking the Potential of Lesotho's Private Sector: A Focus on Apparel, Horticulture, and ICT	November 2018	This report fills the knowledge gaps on the characteristics of the private sector, identifies how to increase competitiveness in the apparel and horticulture industries, and how to use information and communications technology (ICT) to increase productivity and reduce the costs of regulatory compliance for the private sector.
Unlocking the Potential of Basotho Youth (ASA)	June 2021	This report assesses the employment and job creation potential and needs of Basotho youth and makes short and medium term recommendations to facilitate job creation for youth.
Lesotho: Improving Logistics and Trade Facilitation for Export Competitiveness (Unpublished)	May 2022	A logistics diagnostic that seeks to answer three primary questions: (i) to what extent does basic economics explain the observed poor logistics performance? Does Lesotho benefit from the scale economies that are available in the neighboring economy which has deeper markets? (ii) Given that South Africa has a much higher trade facilitation and logistics performance than Lesotho, why is Lesotho's performance in logistics lower than that of South Africa. Is this due to costs of crossing the border? and (iii) should Lesotho prioritize reform at the broader regional than bilateral level?
New Markets Diagnostic for Lesotho's Textile and Apparel Sector (Unpublished)	May 2022	The diagnostic undertook a situational analysis of the textile and apparel sector, identified major market growth opportunities, identified buyers and investors trends during the global sourcing new scenario and the COVID-19 pandemic market disruptions.
SACU Regional Trade Facilitation Technical Assistance (TA) Project	November 2022	The objective is to facilitate trade in the SACU region, with a priority focus on Lesotho, Eswatini, and South Africa. Builds upon prior WBG support for trade institutions and facilitation in the SACU region to leverage reform momentum and support the delivery of regional reforms.
Southern Africa Jobs and Economic Transformation (Jobs Platform) Advisory Services and Analytics (ASA)	May 2023	This is a regional programmatic ASA that is providing support for a Startup Network and data platform, incubation and acceleration programs, and a youth aspiration survey. It serves to connect Lesotho's entrepreneurs to the regional SACU entrepreneurship ecosystem.

FINANCIAL SECTOR

Key Issues and Challenges

To ensure ongoing progress in implementing financial sector reforms, cross-agency coordination is needed. Lesotho has advanced financial sector reforms to deepen financial inclusion of its population, whilst safeguarding its financial system. The Financial Sector Development Strategy (FSDS) for 2013-19 contributed to develop the financial sector. Although there are several ongoing strategies (i.e., National Financial Inclusion Strategy, National Financial Education Strategy, Digital Economy Strategy), the absence of an overarching strategy renders inter-governmental coordination challenging. Following the finalization of the World Bank Financial Sector Assessment Program (FSAP) and the International Monetary Fund (IMF) Financial Sector Stability Review (FSSR) in 2022 and 2021, there is an opportunity to leverage these assessments to develop the next FSDS to prioritize and guide reforms.

There are several constraints to deepen financial inclusion. Whilst financial inclusion has improved significantly in recent years (e.g., the growth of mobile money which has increased access to transaction accounts), access to formal savings and credit remains relatively unchanged due to a lack of tailored financial services that suit the needs of market segments and individuals. Finscope 2021 estimates that 87 percent of the adult population have access to formal financial services, up from 60 percent in 2011 due to the increase in formal non-bank providers (up from 22 percent to 48 percent). The limited financial service provision by the formal sector has left the informal sector as the main provider for many. To deepen financial inclusion, access to the formal financial system needs to be opened for the majority. Improvements in the digitized National ID (NID) system have already contributed towards streamlining customer due diligence (CDD) procedures. However, regulatory requirements remain onerous, and further CDD simplification is needed particularly for low-risk accounts. In addition, regulatory amendments related to the harmonization of requirements for bank and mobile money agents would also foster greater access to the financial system.

The national payment infrastructure provides a solid basis for further development of the financial sector, but interoperability remains a challenge. Despite a growing mobile money sector, it is not possible to transfer money between different financial institutions or financial products. Mobile money services are widely used, accounting for the bulk of retail digital payments



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transactions and users. However, the lack of interoperability between wallets of different providers has constrained its growth. This issue is not limited to innovative payment channels, but also to traditional channels – such as debit cards, credit cards, point of sales devices, automated teller machines and internet-based transactions – due to the absence of a functional national payment switch (NPS). There is thus a need to establish a domestic national switch to provide an efficient, manageable, and cost-effective solution to address interoperability of payment services between commercial banks, mobile network operators (MNOs) and mobile payment providers. The Central Bank of Lesotho (CBL) is developing a national payment switch to be implemented in 2022. However, more work is required, not only in the conceptual and design phase but in effecting the national switch to ensure realization of benefits.

Access to credit for MSMEs remains a priority. Several demand and supply issues limit access to finance for MSMEs. Demand side issues include lack of financial capabilities, cash dependence, and informality. Supply side issues stem from the structure of the financial sector and undeveloped financial infrastructure. There is a small number of banks, predominantly South African, servicing the market. The banks focus on lending to households, mainly civil servants. Most of the Micro Finance Institutions (MFIs) focus on the same lucrative segment. Business lending is not a priority for commercial banks, and financial products are limited. Gaps in credit infrastructure make it more challenging for lenders to analyze creditworthiness of borrowers and deal with insolvency.

Underdeveloped financial credit infrastructure poses significant challenges for lenders. A modern credit reporting system needs to be further enhanced to boost access to finance, especially to SMEs. The 2011 Credit Reporting Act and subsidiary 2013 Regulations provide the regulatory framework for credit information sharing. Lesotho's credit bureau covers about 19 percent of the adult population, which is low compared to regional peers. All the banks, insurance companies and many non-bank financial institutions submit data to and make enquiries from the credit bureau on the status of performance of financial obligations. The scope of the credit reporting system needs to be broadened and operations of the credit bureau deepened to enable the system to play its pivotal role in increasing access to finance to MSMEs in Lesotho and ensuring financial stability. The coverage of the credit bureau should be expanded both for individuals and businesses and there is a need to amend legislation to allow the credit bureau access to alternative sources of data. The 2020 Secured Interest in Movable Property Act provides a framework to allow movable assets to be used as collateral for loans. The collateral registry launched in 2021 requires continued effort to sensitize borrowers and lenders. Developing enabling frameworks and associated practices that will allow movable assets to be used as collateral for loans would diversify lending portfolios and deepen the financial system.

The CBL has broad responsibilities in supervising the financial sector and could benefit from bolstering resources to enhance supervisory capacity. In addition to bank supervision, the CBL provides oversight for insurance, pensions, securities, capital markets, microfinance institutions, the credit bureau, and the secured transaction registry. In line with the proposed Recovery and Resolution Policy, the CBL will also be the Resolution Authority of all financial institutions. The CBL needs to build capacity and capability in their oversight area across different sectors; thereby allowing supervisory short comings pertaining to non-banks to be addressed. For instance, there is scope to review regulatory frameworks in the insurance and pensions sectors respectively to provide an enabling environment for growth of these sectors.

Policy Measures

Short Term

- Develop the new Financial Sector Development Strategy covering issues of financial sector oversight, access and depth. A well-designed Monitoring and Evaluation framework is crucial for setting clear, timebound targets and monitoring progress towards these over time
- Introduce simplified CDD for low-risk accounts
- Harmonize requirements of banks and payment agents
- Enhance supervision resources across financial services sectors

Medium to Long Term

- Amend the Credit Reporting Act to allow the credit bureau to access alternative data sources and data processing of corporate entities
- Improve regulatory environment and invest in system integration to foster payments interoperability

World Bank Group Engagement

Lending

Project Name	Approval Date	Closing Date	Size	Project Objective
Competitiveness and Financial Inclusion (CAFI) Project	June 26, 2022	July 31, 2028	\$52.5 million (o/w \$45 mln IDA)	The objective is to increase access to business support services and financial products targeted at MSMEs and entrepreneurs, especially women and youth. The project seeks to achieve this by enhancing financial inclusion and resilience of MSMEs and scaling support for entrepreneurship.

Technical Assistance and Analytics

Name	(Planned) Completion Date	Short description
Lesotho FSAP Development Module (P176430)	June 30, 2022	Diagnose vulnerabilities and analyze development priorities in the financial sector. Support a coordinated dialogue with national authorities in the area of the financial sector. Areas covered in the FSAP update were agreed during the pre-FSAP scoping mission or videoconference. These include access to finance, financial inclusion, pensions and capital markets, and insurance. In addition, the team produced background notes on the banking sector and AML/CFT which were used for the preparation of the FSA.
G2PX Lesotho (P172044)	June 30, 2023	The development objective of the Grant Financed Activities is to support digitization of government payments, in particular social protection payout. The Bank's team (SPJ, FCI, GOV) has been engaged with different actors both downstream and upstream, including the Ministry of Social Development, Ministry of Finance, Ministry of Communication, Treasury, Accountant General's office, the Central Bank of Lesotho and payment providers to build consensus around the overall payments architecture and create a conducive regulatory environment.
Lesotho Financial Sector Development Strategy	June 30, 2023	An ASA is currently envisaged to support the development of the next financial sector development strategy for Lesotho. This activity is still in the pipeline.



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HIGH-LEVEL OUTCOME 2

**IMPROVED
HUMAN CAPITAL
OUTCOMES
THROUGH
STRENGTHENED
AND BETTER
INTEGRATED
SERVICE
DELIVERY**

HEALTH AND NUTRITION

Key Issues and Challenges

Despite Lesotho's lower-middle income status, the Human Capital Index (HCI)¹⁰ is low, on par with Sub-Saharan (SSA) and lower-middle income countries (LMIC). The 2020 HCI score of 0.4 indicates that a child born today in Lesotho will only be 40 percent as productive when s/he grows up as s/he could be if s/he were to attain good health and complete available education by the age of 18. Low coverage of nutrition services and poor water, sanitation and hygiene services adversely affect human capital outcomes particularly stunting. Poverty is a key factor affecting access to health services and high dropout rate. Furthermore, those in rural areas, especially in the mountainous regions, are marginalized. Moreover, the COVID-19 pandemic has further affected these challenges particularly in marginally and poor communities, as they have limited access to services.

Lesotho performs lower in child and maternal health compared to SSA and LMIC averages. While the under-five mortality rate has marginally decreased over the last two decades, it is still double the average of LMICs (89.5 per 1,000 live births in Lesotho vs 44.9 per 1,000 live births in LMIC in 2020). Also, the neonatal and infant mortality rates (44.3 and 69.9 per 1,000 live births in 2020) have remained stagnant and higher compared with SSA and LMIC average. The maternal mortality ratio stands at 544 per 100,000 live births. There is limited access to reproductive health services for adolescent girls contributing to high adolescent fertility (93 per 1,000 women in 2018) and high teenage pregnancy rates of 17.8 percent.

Lesotho suffers from the triple burden of malnutrition (undernutrition, overnutrition, and micronutrient deficiency) that adversely affects its human capital. About 34.5 percent of children under five years are stunted and 2 percent are wasted, primarily due to poor breastfeeding practices and quality of complementary foods (low dietary diversity) especially among infants. The prevalence of overweight/obesity is high among women and children: about 6.6 percent of

¹⁰ The Human Capital Index measures which countries are best in mobilizing the economic and professional potential of its citizens. The index measures how much capital each country loses through lack of education and health. The Human Capital Index ranges between 0 and 1 with 1 meaning maximum potential is reached.



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children under five years are overweight or obese, with prevalence being higher in urban areas compared with rural areas (8.6 percent versus 6.6 percent) and among children living in the richest (8.0 percent) compared to the poorest households (6.3 percent)¹¹. The prevalence of micronutrient deficiency is also high among women and children.

On communicable diseases, Lesotho has one of the highest HIV prevalence rates (20.9 percent of population ages 15-49 in 2020). The incidence of HIV per 1,000 uninfected population ages 15-49 remains high at 8.9. The incidence of tuberculosis is 650 per 100,000 people. These high figures indicate the need to intensify public health interventions at community level. The advent of COVID-19 has exacerbated the already weak delivery of essential health services and public health interventions especially primary childhood immunization against preventable diseases such as measles, rubella, polio, and TB.

Lesotho has a growing burden of noncommunicable diseases (NCDs), with a growing ranking of NCDs among the top causes of death. This increased burden is in par with high tobacco intake. Lesotho is among the highest tobacco users in Africa with a daily adult smoking prevalence of 20 percent.

Health system issues and poor primary health care has resulted in limited improvements in health outcomes. System-wide problems in the health sector, such as low utilization of health facilities, sub-optimal quality of services, and limited drug availability along with weak human resource, procurement, and financial management practices, lack of reliable information for

¹¹ as per WHO standards, these rates should not exceed 5 percent.

decision making and low patient awareness have all contributed to the poor health outcomes. Furthermore, the country depends significantly on the Queen Mamahato Memorial Hospital (QMMH) hospital for tertiary level care, but its integration with the rest of the health system has proved to be challenging.

Inefficient health spending and unequal resource distribution have led to disparities in access to preventive and primary care services and increased the burden of few regional and one tertiary hospital such as QMMH. The government spends 13 percent of its total expenditure on health, but the performance of the health system is weak and increased resource allocation has not improved health outcomes. While the Ministry of Health recognizes the importance of primary health care, there is no systematic community-based approach to deliver preventive health and nutrition services or a strong referral system that links communities to health facilities. The COVID-19 pandemic has demonstrated the need for increased financing for primary health care and community health interventions to increase access for vulnerable population. But due to the weakness of its health system along with poor risk communication, surveillance and laboratories testing capacities, and complex case management (provision of intensive care), the WHO categorizes Lesotho as high risk and high vulnerability setting to food insecurity and other health epidemics.

Primary health care is a part of the mainstream of service delivery, but the high load of self-referrals to tertiary level hospital indicates a critical gap in its implementation. An overall policy review of primary health care is needed and should include strengthening the role and actions of Village Health Workers (VHWs) working within health and outside with stakeholders involved in health and nutrition activities.

Improving quality and strengthening service delivery at hospital, district and primary care levels requires resources, accountability for the resources and outcomes. The World Bank-financed Health Sector Performance Enhancement Project (HSEP) showed both quantity and quality of services could be improved through increased availability of resources at the facility level. The ongoing World Bank-financed Lesotho Nutrition and Health System Strengthening Project (LNHSSP) focuses on quantity and quality service delivery and support for strengthening the capacity for funds accountability and utilization at facility level.

Public Private Partnerships: The government outsources a large share of health services to non-governmental suppliers. Government has taken over operations at the QMMH from a previous PPP and is considering moving to another PPP. However, it is important to ensure that the challenges encountered during the operationalization of the previous PPP be addressed to avoid any repeat of the same issues. Some of the challenges associated with PPP remain outdated contract frameworks and inadequacies in contract management.

Digital Health Support: Existing efforts to digitalize the facility-based Health Management Information System (HMIS), should be scaled up to include community-based health and nutrition information in order to close a critical gap.

Lesotho is highly vulnerable to pandemics. The World Health Organization (WHO) categorizes Lesotho as a high risk and high vulnerability setting to pandemics. With a score of 4/5 in the area “Public health and security authorities (e.g., law enforcement, border control, customs) are linked during a suspect or confirmed biological event” in the most recent WHO’s Joint External Evaluation assessment, Lesotho fares relatively high in cross border surveillance. However, other areas like risk communication, surveillance and laboratories testing capacities, and complex case management (provision of intensive care) are low.

Policy Measures

Well-targeted investments in health system strengthening can contribute to efficient health and nutrition service provision and improvement in health and nutritional status of the population in general and children in particular. This can contribute to breaking the intergenerational cycle of malnutrition and poor health outcomes thereby improving Lesotho’s human capital. Strengthening of PHC as part of reimagining of the health system can contribute to greatly reducing the use of high intensity tertiary level services.

Short Term

Health contribution to improved nutritional outcomes

- Revise the PHC service design to be as close as possible to people through strengthening the VHWs program to scale up community-based health and nutrition services provision
- Implement counseling and health service delivery program in formal and non-formal education centers and using community peer educators to address adolescent health and nutrition service gap.

Improve health outcomes

- Review PPP frameworks to strengthen contract management accountability to service delivery.
- Strengthen government-led development partner coordination to align with government priorities.
- Improve the laboratory system to cater for clinical and emergency settings. The current pandemic IHR rating needs revisiting through a new Joint External Evaluation.
- Improve the mainstreaming of primary health care as part of core of reimagining of service delivery by strengthening the delivery of critical core services at the community level.

Medium to Long Term

Health contribution to improved nutritional outcomes

- Extend the Health Management Information System to cover community-based health and nutrition information.
- Invest in Social and Behavior Change Communication¹² and advocate for extra levies on soft drinks and tobacco to reduce the triple nutrition burden.
- Streamline critical care management across all levels and strengthen clinical care management.
- Review health financing as a means of strengthening service delivery and improving quality of services.

¹² It's an intervention that increases communication in health information and hopes to influence behavior change from bad habits to good habits in health practices.

Improve health outcomes

- Review the Ministry of Health's establishment list to prioritize filling required establishment need.
- Build, strengthen and sustain a Healthcare Quality Improvement program, especially at primary care facilities and district hospitals.
- Strengthen Ministry of Health capacity and evaluate the need to establishing a dedicated institution responsible for pandemic preparedness activities as response cuts across health to agriculture, boarder control, veterinary, tourism.

World Bank Group Engagement

Lending

Project Name	Approval Date	Closing Date	Size	Project Objective
Health Sector Performance Enhancement Project	Apr 11, 2013	Jun 30, 2019	\$16 mln	(i) increase utilization and improve the quality of primary health services in selected districts in Lesotho with a particular focus on maternal and child health, TB and HIV; and (ii) improve contract management of select PPPs Project Closed
Southern Africa Tuberculosis and Health System Support Project ; plus, Additional Financing (AF) for the SATBHSS	Dec 30, 2016 Jun 2020	Dec 30, 2023	\$15 mln plus \$21 mln AF Total \$ 27 mln	(i) improve coverage and quality of TB control and occupational lung disease services in targeted geographic areas of the participating countries; (ii) strengthen regional capacity to manage the burden of TB and occupational diseases; and (iii) strengthen country-level and cross-border preparedness and response to disease outbreaks
COVID-19 Emergency Preparedness and Response Project	May 9, 2020	Jun 30, 2024	\$7.5 mln plus 22.0 mln AF and \$3.5 mln HEPR TF Total \$33	Prevent, detect and respond to the threat posed by COVID-19 to the Kingdom of Lesotho
Nutrition and Health System Strengthening Project	Aug 2021	Aug 2026	\$22.0 mln, TF PON \$4.4 mln, Total \$26.40 mln	Increase utilization and quality of key nutrition and health services and improve selected nutrition behaviors known to reduce stunting

Technical Assistance and Analytics

Name	Planned/ Completion Date	Short Description
Lesotho Public Health Sector Expenditure Review	2017	The report describes and analyzes expenditure patterns in Lesotho's public health sector using multiple data sources. Focusing on the Ministry of Health and Social Welfare's (MoH) expenditure, the report identifies opportunities to improve the efficiency, equity, and effectiveness of financial resource use.
Digital Health under the COVID-19 Emergency Preparedness and Response Project	ongoing	<ul style="list-style-type: none"> • Digital Health framework for Lesotho (Completed) • Strengthening Digital surveillance using COVID-19 Surveillance (In Progress)
Future of Medical Work	Completed in March 2022	The study assesses the extent to which health workforces are prepared to harness the evolving trends as opportunities for the future. The study draws from interviews with policy makers, academia, and representatives of diverse sector stakeholders, review of existing literature and data. It covers key areas like health education policy and financing, workforce management and planning, and working with the private sector and other countries, including around migration. https://documents.worldbank.org/en/publication/documents-reports/documentdetail/099751403282216270/idu0967a88ed02ce104fe5099b90517c0a811e35
Human Capital Note	Completed in 2021	To provide knowledge base on the situation on Human Capital Index (HCI) and propose actions that could be implemented across HD relevant sectors to improve the HCI by improving efficacy of existing programs and ensuring that programs are well integrated for a maximum effect. https://documents.worldbank.org/en/publication/documents-reports/documentdetail/099408504262213829/idu01f37908f071d504fa30a4c603625f8a61976

EDUCATION

Key Issues and Challenges

Lesotho's human capital index at 0.40 has remained low for its income group, meaning that a child born today is likely to be only 40 percent as economically productive in their life than they would have been. The average child in the country completes less than 9 years of the 12 years of school offered. In addition, with the sharp increase in school dropout rates, the impact of reduced schooling is likely to be underestimated. While 90 percent of girls reaches the final year of primary school, only 66 percent of boys do the same. Secondary school dropout fares worse, where only 37 percent and 28 percent of girls and boys complete the last year of schooling.

Poverty, rurality, and gender drive deep disparities within the education system. The impact of poverty is particularly acute at the secondary level, where schooling is not free, and the dropout rate is the highest. Among children who have dropped out of school, over 41 percent cited the high cost of schooling as a motivating factor for their dropout¹³. The other reasons for the high dropout rate include the quality of education and social vulnerabilities young people face. The safety and quality of school infrastructure also remains a challenge. The link between poverty and poor educational outcomes is also evident, where there is a strong negative correlation between district level poverty rates, rurality, and school enrollment rates. Thaba Tseka and Mokhotlong, two districts with some of the highest poverty rates, have the lowest school enrollment rates with very high gender imbalances where girls are enrolled at nearly double the rate that boys are in secondary school. Also, for every 1 rural boy from the poorest quintile completing secondary school, there are 6 urban girls from the richest quintile completing secondary school¹⁴. This is further compounded by the widespread child labor incident in favor of young boys, that further deters boys from school.

Loss of teaching and learning time has likely been exacerbated by the protracted teacher strikes of 2018/2019 and the onset of the COVID-19 pandemic. Lesotho's learning performance was already among the lowest in the region. Children have low levels of learning that begin from the foundational years. For example, from the 2018 Multiple Indicator Cluster Survey (MICS), by

¹³ the 2018 CMS/HBS survey
¹⁴ Lesotho Education Analysis of 2020



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age nine the share of boys that have acquired foundational reading skills is 27 percentage points lower than that of girls for Sesotho and 8 percentage points lower for English language. At the secondary school level, low learning outcomes persist for both boys and girls in key subjects such as Mathematics and Science, though are marginally better in English and Sesotho languages. The dearth of reliable data on learning outcomes, apart from the exit level Junior Secondary Examinations and the Ordinary Level Examinations, makes it challenging to estimate the extent of learning losses in the country as schools were effectively closed for more than two years. Additionally, households' financial stability has been made more precarious due to the economic impact of the pandemic, making secondary school unaffordable for many households.

The Government has committed to addressing the impact of poverty on education through the Child Grant Program (CGP) and the Orphaned and Vulnerable Children's Bursary (OVC-B) program as well as inclusion of schools' clubs, mentors, and development of student leadership skills. However, the OVC-B program has not achieved the intended coverage of children from the poorest households to improve their educational outcomes, and there are some concerns including: (i) gaps in targeting with only 28 percent of OVC-B beneficiaries coming from the bottom two quintiles of consumption, (ii) limited impact of the CGP on school enrollment due to the very small amount of the unconditional transfer; and (iii) ad-hoc fees charged by schools beyond what is covered by the OVC-B posing an additional barrier for many students.

Low quality within the education sector have also contributed to poor performance. At the Early Childhood Care and Development (ECCD) level, there are significant access and quality gaps as only 0.3 percent of the education budget goes to the ECCD sub-sector and only 31 percent of

children have access to pre-school education. Low levels of technical and subject matter knowledge remain challenges to improving quality service provision. Additionally, temporary teachers, who tend to be underqualified, account for 10 percent and 15 percent of teachers in primary and secondary schools. However, this share has been dropping over the years showing the MoET's effort to improve teacher qualifications including use of innovative ICTs programs that make high quality teacher education programs available remotely. Though the pupil/student-teacher ratios are reasonable, there are significant gaps in the deployment of teachers with weak a correlation between the number of learners and the teachers.

TVET and higher education are faced with a myriad of challenges including¹⁵:

- **Inequity in the provision of technical skills.** Access to TVET and higher education is very low and skewed towards the relatively wealthy largely because access to secondary education is low, particularly for those from rural areas and poor households with poor foundational skills and basic education. The increase in TVET enrolments from 127 trainees per 100,000 inhabitants in 2016 to 189 trainees per 100,000 inhabitants in 2018 is due to the increase in the number of TVET institutions from 20 to 26 over the same period. TVET education is also expensive with an allocation of only 1 percent of the Ministry of Education and Training's (MoET) budget.
- **The bursary scheme is neither effective nor sustainable** due to fragmented government and organizational structures, lack of autonomous and transparent selection of recipients, absence of effective repayment mechanisms, lack of transparency and knowledge about the program, lack of accountability and audit systems, insufficient labor market analysis, and the lack of an integrated data system.

Supply-driven and lacks economic relevance. TVET/higher education is largely supply-driven, thus, not aligned with labor market needs. Also, there is poor governance and lack of funding in TVET and higher education. Furthermore, poor quality teachers with no industry experience and low use of technology in program-offering which affects development and offering of industry relevant programs.

An unrealized opportunity is leveraging digital technologies for education. The COVID-19 pandemic has highlighted the digital divide that exists between rich and poor households. Access to the internet is low with only about 27 percent of the population connected to the internet. There have been small-scale pilots from which the MoET is learning and that could support the building of a system where all students have access to digital devices with learning content, whether schools are open or closed. Even without internet connectivity, providing access to learning materials digitally helps students learn even during school closures. Partnerships with the private sector and other ministries such as the Ministry of Communication, Science and Technology is key in expanding infrastructure and services needed to support this vision.

¹⁵ Ministry of Labour and Employment (Lesotho) and International Organization of Migration (July 2022) "Lesotho Labour Migration Skills Gap Assessment, Draft Report; World Bank (2021) "A Survey of Young Basotho's Aspirations and Challenges." Draft Report

Policy Measures

Short Term

- Prioritize resources on the Accelerated Teaching and Learning approach under the MoET's Continuity of Learning Strategy to reverse learning losses.
- Develop a coordinated system-wide joint learner tracking and monitoring system for at-risk secondary school learners in collaboration with the Ministry of Social Development (MoSD) to ensure learners stay in school.
- Undertake, jointly with MoSD, a review of the OVC-B program rollout to address coverage and targeting issues.
- Make use of the digital Open EMIS solution that can digitize the data capturing, management, and quality assurance process of data collection, enabling the prompt publication of education statistics.
- Improve school readiness by imparting strong foundational skills for all in early childhood and basic education, especially among children and youth from poor backgrounds by developing bridge and remedial programs targeted at disadvantaged youths who are close to entering tertiary education.

Medium to Long Term

- Gradually increase funding for ECCD that considers materials provisioning, pre-service and in-service training for teachers and caregivers, assessment to ensure children are developmentally on track, infrastructure, and facilities etc.
- Improve the national assessment system to include regular standardized testing of learners in foundational years.
- Develop a coordinated Continuous Teacher Development Framework and oversight body whereby quality teacher training and management is broadened, and professional development recognized.
- Develop an Information, Communication and Technologies (ICTs) Framework for education to guide the integration of digital education service delivery.
- Provide needs-based bursary schemes and review the current loan bursary scheme.
- Develop informal apprenticeship and labor programs for on-the-job-training and out-of-school youths from disadvantaged backgrounds (poor and rural households).
- Provide incentives to set up and strengthen industry-university linkages (e.g., strategic research/innovation grants to fund industry-university collaborative knowledge production and market-testing). TVET and higher education institutions have to partner with the private sector in program development and provision of training.
- Develop a public funding model for TVET and higher education institutions that links funding to performance or performance-enhancing reforms (e.g., financial reporting, developing demand-driven programs, introduction of latest technology into program-offering).

World Bank Group Engagement

Lending

Project Name	Approval Date	Closing Date	Amount	Project Objective
Lesotho Basic Education Improvement Project (P160090, GPE financed)	Feb 28, 2017	Feb 28, 2022	\$2.1 million	To improve basic education service delivery and student retention in targeted areas
Lesotho Education Quality for Equality Project (P156001)	May 26, 2016	Dec 31, 2022	\$25 million	
Basic Education Strengthening Project (P175065, GPE Financed)	Feb 28, 2022	Feb 28, 2025	\$7.1 million	To improve student retention and teaching quality in junior secondary schools in targeted community councils of Lesotho and support the roll out of a new curriculum to strengthen ECCD service delivery.

Technical Assistance and Analytics

Name	(Planned) Completion Date	Short description
Update of the Education Sector Strategic Plan - TF0B0207	May 31, 2021	The ESSP was finalized and adopted by the MoET.
Gender disparities in Human Capital Development - Planned	May 31, 2023	The HC Development focused on gender paper is in progress – it will summarize the research papers and provide recommendations after the workshop with Government.
Skills Policy Note - Planned	December 31, 2023	In the education policy note, the team highlighted the challenges facing TVET in Lesotho, and thought it could write a policy, detailing the challenges and proposing possible policy interventions that the government could pursue. Since we currently do not have a budget for Skills development (TVET engagement); the idea was to find a small budget from CMU for the exercise. Given that there is no budget, we suggest dropping this task now.

SOCIAL PROTECTION AND JOBS

Key Issues and Challenges

What are the issues?

Economic growth has been slow, and it has had limited impact on job creation. During the last decade, job growth was only one percent per year, less than half of the annual growth rate of the working age population. Opportunities for wage employment are limited, primarily in the public sector in urban areas, while most of the workforce is engaged in self-employment in agriculture. There is a prevalence of low-productivity jobs in the informal sector and notably high levels of inactivity among youth, constituting a huge untapped potential for economic growth. Youth living in rural areas display low levels of education which limits their opportunities of being productively employed. To date, many of the resources invested by the Government and non-government stakeholders to address this have focused on increasing the employability of the most-educated youth as opposed to the poorest.

Lesotho has a partially developed social protection system but coverage of the poor and vulnerable is low. Lesotho has social assistance programs that target the most poor and vulnerable groups and make regular transfers to them. However, the two more expensive programs, old age pensions and school feeding, are universal. Tertiary Bursaries target those in tertiary education, who generally belong to the richest segments of the population. By contrast, coverage of social assistance programs targeted to the poor does not extend beyond 20 percent of the target population, which is low by international comparisons. Adequacy of transfers to the poorest households is also well below what is globally known to support households to transition away from poverty. Moreover, after recent shocks, the majority of households feel they received no help. Climate- and weather-related shocks are frequent and global impacts are affecting the population, most recently evidenced by the economic and social impacts of the COVID-19 pandemic in 2020-21 and the rapidly increasing food prices in 2022.

What are the causes?

Social protection program spending has reduced poverty and inequality, but cost-effectiveness is low. Social protection program spending reduces the poverty rate by 3.4 percentage points at the upper poverty line and by 6.5 percentage points at the food poverty line and reduces inequality by 4.1 percentage points. Compared to the high spending on social protection (6.4 percent of GDP) which is among the highest in the world, the effectiveness of these programs on reducing poverty and boosting development outcomes is very low.

Lack of sustained growth, climate shocks and the COVID-19 pandemic have exacerbated poverty and vulnerability trends. The deterioration of the macroeconomic position in recent years, coupled with adverse climatic shocks, has led to a contraction in household consumption, which has shrunk in real terms since its peak in 2013. This results in one million Basotho living today at a level of consumption insufficient to withstand shocks, and half a million living at an extreme level of vulnerability, with widespread and chronic food insecurity. Ultimately, this undermines poverty reduction and human capital accumulation efforts.

Are there opportunities?

To improve cost-effectiveness and efficiency of the social protection system and increase household resilience and livelihood opportunities, the following can be explored:

Improving delivery systems through use of digital technology. Lesotho has the core building blocks for delivering social assistance transfers especially an identification and targeting system build on a national social registry (National Information System for Social Assistance, NISSA). However, NISSA data are outdated and underused with limited government resources allocated to properly administer and make use of the data. Moreover, payments of social transfers are largely analogue and cash-based with room for human error in effectuating payments and reconciliation. Moving to digital payments is an important objective for the Ministry of Social Development's core transfer programs and should be expedited. Finally, information systems are not properly managed and some features which should be used to manage security and eliminate loopholes are not functional. Interoperability with the national ID database is also not yet established.

Complementing cash transfers with productive economic inclusion programs. Lesotho's population is young. While poverty and inactivity/unemployment rates are higher among younger cohorts, recent progress in education, health and social protection disclose opportunities to harness a demographic dividend. Building complementary programming around social assistance has shown strong and sustained impacts in other countries. For example, impact evaluations conducted by Innovations for Poverty Action showed that after 24-36 months, most participants met their program's graduation criteria with regards to nutrition, assets, and social capital, with strong gains for to participants income and consumption, food security, assets, savings, and health. Complementary productive economic inclusion and livelihood investments have shown promise also in the context of Lesotho in heightening productive impacts of rural child grants and public works. Such programs can be introduced, tested and scaled up learning from experience of other counties.

Faster and more effective responses to shocks and crises. Large shocks and crises such as drought or the COVID-19 pandemic come at a high cost, both in terms of fiscal resources, as well as the significant negative effects that they have on poverty and food insecurity. There was a 5 percentage-point increase in the poverty rate during the 2015-2016 El Nino drought effectively



erased the gains made over the same period by social protection investments. The estimated cost of the response was 80 percent of the annual social assistance budget absent that shock. Currently, international food price hikes threaten to increase food insecurity for both rural and urban households. Lesotho's safety net system has some ability to respond to large shocks and crises, but this can be significantly improved through systems strengthening, contingency planning and the repositioning of finance to be able to disburse emergency cash transfers in a faster and more effective way.

Policy Measures

Short Term.

- Shift social assistance payments from cash to digital payment (mobile money or banks).
- Conduct a functional review of the Old Age Pensions (OAP) program to identify the processes and systems that could be strengthened to increase its efficiency and effectiveness.
- Strengthen the NISSA to include quality and up-to-date data that is accessible to government and partner programs, improving coordination and harmonization.
- Utilize the financing that is available in the Pathways to Sustainable Livelihoods Project to provide emergency cash transfer top-ups to CGP beneficiaries affected by the current food insecurity situation.

- Harmonize benefit levels between social assistance programs to increase the poverty-reducing impact of poverty-targeted programs
- Introduce productive inclusion programs to support vulnerable households and youth to engage in income generation activities and diversify their livelihoods through a pilot approach

Medium to Long Term.

- Further develop productive economic inclusion programs based on the results of the pilot program and make sure it is tailored around the needs of those most in need (youth, women, school drop-outs etc.)
- Develop youth employment strategies and programs, learning from existing evidence, and catering especially for the needs of long-term unemployed, inactive, discouraged and vulnerable youth, both in rural and urban areas.
- Continue to develop the shock-responsiveness of the social protection system to be able to reach both existing beneficiaries and non-beneficiaries affected by crises in a fast and transparent way.
- Unify the MIS systems used by social assistance programs and link them to national IDs.
- Improve means testing for Tertiary Bursaries to reduce cost and increase equity.
- Strengthen the complementarity between social assistance programs and other sectoral investments so that they better support human capital accumulation through education, health and nutrition.

World Bank Group Engagement

Lending

Project Name	Approval Date	Closing Date	Size	Project Objective
Pathways to Sustainable Livelihoods Project, PSLP (P177814)	June 23, 2022	June 30, 2027	\$26.5m	The objective of the Project is to improve the efficiency and equity of selected social assistance programs and to strengthen the livelihoods of poor and vulnerable households
Social Assistance Project, SAP (P151442)	June 3, 2016	June 30, 2021 (CLOSED)	\$40m	The objective of the Project is to support the GoL in improving the efficiency, equity and shock responsive function of selected Social Assistance programs and, in the event of an Eligible Crisis or Emergency, to provide immediate and effective response to said Eligible Crisis or Emergency

Technical Assistance and Analytics

Name	(Planned) Completion Date	Short description
Digitizing Social Assistance Payments – Technical Assistance (part of P172175, G2Px)	December 31, 2023	Provides analysis and technical assistance to design, implement, and evaluate a set of Government pilots to provide digital payments for the main social assistance programs. Also supports the government with strategic planning and action planning for broader payment system reform including a payment gateway for efficient social assistance digital payment. Supports the PSLP objective to convert 60 percent of beneficiaries of CGP, PA and OAP programs to receive their payments digitally.
Lesotho – Review of Social Protection Programs and Systems (part of P172175)	June 30, 2021 (COMPLETED)	Reviews the programs, systems and policies of the social assistance and labor market systems in Lesotho, assesses spending efficiency, targeting and coverage, and benefit incidence, provides recommendations at program and policy levels for improving the effectiveness and shock responsiveness of the social assistance and labor market systems in Lesotho.



PHOTO BY YOICHIRO ISHIHARA, WORLD BANK

HIGH-LEVEL OUTCOME 3

IMPROVED CLIMATE RESILIENCE



TRANSPORT

Key Issues and Challenges

The road network is poor overall and does not meet the country's needs. Only 26 percent of the total road network of 6,906 km is paved. The majority of the unpaved road network remains poor due to inadequate maintenance, driven by limited recurrent expenditures and limited capacity of local contractors. There are significant maintenance backlogs, 42 percent of paved roads and 85 percent of gravel roads are either poor or very poor.

The density and distribution of the road network compares poorly to other countries in the region. The unevenly distributed road network hinders development, especially in isolated highland areas with high agricultural potential. Despite considerable investments in the past 10 year to expand the urban and rural road networks and to rehabilitate existing roads for improved access, the network is mostly concentrated in the lowlands and foothills, which constitute 25 percent of the country's total area. Arterial roads connect all districts in Lesotho to nine border crossing points with South Africa, but relatively fewer rural roads connect villages and towns in highland districts of Thaba Tseka, Mokhotlong, Qacha's Nek, and Quthing that constitute the remaining 75 percent of Lesotho's area. These areas have high agricultural potential in animal and crop farming and production of wool and mohair.

Limited road access is a major challenge to poverty reduction. Almost 70 percent of the population live in rural areas, 61 percent of whom are poor¹⁶. Only 18 percent of rural population live within 2 km of an all-season road and 1.3 million rural residents do not have good access to road. The situation is worse in some areas with 5 percent and 7 percent of the rural population in Mokhotlong and Thaba-Tseka districts having good access. Floods and landslides during rainy season significantly limit access to basic services such as schools and health centers. Poor access to road relates to poor student retention. The dropout rates at the primary level are high at 68 percent in Mokhotlong and 47 percent in Thaba-Tseka districts. High transport cost, more than a third of health-related costs, also limits access to healthcare for the poorest quintile. The poor



PHOTO BY © 2020 MARCIN SZYMCAK/SHUTTERSTOCK

road access to the district capitals of Mokhotlong and Thaba-Tseka constrains the access of rural farmers to urban markets to sell their agriculture products.

Urban transport development lags the fast-growing mobility demand. The lack of functional and hierarchical urban road system leads to vehicles, 4+1 taxis, buses, and pedestrians competing for the use of limited rights-of-way, further aggravating the congested and unsafe roads and reducing the economic efficiency of transport. Informal private transport services meet the essential mobility needs of most people. However, the quality is poor and the regulatory framework is weak. Unsafe and inefficient existing services have disproportionately negative impacts on the poor and women. The share of public transport in the total trips declined in Maseru from 74 percent in 2005 to 50 percent in 2015¹⁷. 4+1 taxis have increased from 6 to 25 percent. Rapid population increase and urban development is leading to low density settlements (1,650 per square km) and is likely to make sustainable urban transport investment more expensive. At the same time, lack of financing and institutional capacity further hampers the development of urban transport.

Road safety is a major issue. Lesotho's fatality rate (28.9 per 100,000 people) is higher than the Sub-Saharan average of 26.6. This has significant economic and welfare impact. A recent report by the World Bank¹⁸ focusing on 5 countries, indicated 7 to 22 percent increase in GDP per capita over a 24-year period could be achieved by halving road traffic injuries in that period.

Lack of funding for maintenance, rehabilitation and expansion of the network and provision of better urban transport services is a constraint. According to 2020 data from the Lesotho Road Maintenance Management System, funding levels required for preventive maintenance, rehabilitation and upgrading is approximately LSL 6,918 million, about \$384 million. After or following the removal of the maintenance backlog the funding requirements would be approximately LSL 827 million per annum, about \$46 million. The maintenance backlog is estimated at \$ 338 million. Financing of road maintenance is through the Road Fund. Upgrading and developing new roads are financed under the capital budget and development partner funds. The rugged highland areas covering three-quarters of Lesotho's land area continue to challenge the expansion of road infrastructure, as well as the maintenance of the existing network, due to cost and technical challenges. The cost of road maintenance is amplified by poor construction quality due to lack of capacity and inadequate industry regulations. Standards of road construction are often lowered to meet the economic rate of return without consideration for long-term consequences in climate resilience and maintenance costs.

Inadequate coordination and regulatory framework of infrastructure planning. The Road Directorate and the Ministry of Local Government and Chieftainship have the primary responsibility of urban, rural and national network. However, these agencies work independently without coordination, resulting in less-optimal planning and resource management.

The government has limited capacity to respond to extreme weather shocks, resulting in impeded access to socioeconomic services to a large segment of the rural population. Flooding and other weather events have led to maintenance backlogs and put a large portion of the network in poor, and at times inaccessible conditions. Road infrastructure and livelihood restoration post annual flooding episodes are costly and hurting the rural poor. A 2022 report by the Lesotho Disaster Management Authority estimated flood related damages to road and infrastructure at around \$30 million. The World Bank, through the ongoing Transport Infrastructure and Connectivity project (TICP), released \$4million to respond to road infrastructure damages. The Ministry of Public Works and relevant road authorities are not equipped with the appropriate institutional systems to deal recurring climate shocks and mitigate future impacts. The current design manual for roads and bridges does not properly account for climate impacts, nor does it consider the unique terrain of the country's catchments. Consequently, the road network has not been constructed to process and channel increased stormwater. This results in severe flooding, damage to road structures, soil erosion and overall land degradation. Therefore, improvement in the ability to prepare for and manage shocks – including through financial and fiscal tools and investment in climate-smart infrastructure is important.

¹⁸ World Bank. 2017. The High Toll of Traffic Injuries : Unacceptable and Preventable. World Bank, Washington, DC. © World Bank. <https://openknowledge.worldbank.org/handle/10986/29129> License: CC BY 3.0 IGO

Unmaterialized Opportunities

Transport infrastructure investment will create significant youth employment, directly on capital projects and indirectly through access to job opportunities in the supply chain other productive sectors. Rehabilitation and expansion of the network through climate resilient methods will also result in improved and reliable access to key productive sectors, in addition to better human capital outcomes (access to schools and health centers).

Improving road access would open up economic opportunities such as for the tourism sector. With its rich natural scenery and unique topography, offering mountain hiking and skiing, hot springs and waterfalls, and caves with ancient rock art, Lesotho has the potential to become a highly sought tourism destination. However, the roads that lead to these areas are a major challenge hindering flow of traffic and year-round access to the sites.

Unoptimized Air transport potential. Moshoeshoe International Airport remains the sole international air travel gateway for Lesotho. While demand for use of the airport is growing, such as interests for cargo services by south African farmers and international airlines such as Emirates and Qatar, limited runway length is a key issue. Extension of the runway and rehabilitation of other airside infrastructure, and improvement and enhancement of crucial air navigation systems are necessary to bring the airport to international level compliance and attract more air traffic. Lesotho can also benefit from increased tourist traffic through enhancement of domestic air transport market.

Policy Measures

Short Term

- **Use public works and Community Driven Development programs to create local jobs and ensure roads are in good shape to provide necessary mobility services.** Given the poor condition of the road network, community-based routine road maintenance is likely to bring the network in better conditions in addition to creating significant employment opportunities for the rural poor. TICP is supporting a community-based road maintenance program, the Roads Directorate and the Roads Fund can build on this program to roll out a nationwide program to enhance community ownership and employment in infrastructure maintenance.
- **Support emergency rehabilitation and maintenance activities to facilitate mobility and movement of essential supplies.** The World Bank is already supporting the government on emergency response. Given annual recurrence of flood related infrastructure damages, proper planning by roads agencies and government allocation of annual emergency funds are crucial to; institutionalize emergency response capacity, restore damaged infrastructure and maintain transport connectivity.
- **Formulate climate vulnerability assessment framework for climate risks and vulnerability assessment of the road infrastructure.** To ensure the road network is resilient to recurrent climate shocks, in particular flooding, it is important that relevant sections of the existing road design manual are updated.

- **Undertake necessary investment to bring Moshoeshoe International airport** to minimum required standards of international air safety in accordance with the International Civil Aviation Organization (ICAO) standards and recommended practices including improvement in airside infrastructure, navigation and firefighting services. The following are immediate urgent investment; Runway, apron and taxiway repairs/resurfacing, perimeter fence repairs, replacing runway lighting system, Air traffic control, rescue and firefighting services.
- For public transport; creation of stakeholder platform consisting of transit service providers, users and the government is essential to discuss reform and policy options to support public transport development. Also, investment in public transport infrastructure that includes urban road network expansion that supports public transport, walking and cycling.

Medium to Long Term

- Formulate climate resilience policies for road infrastructure development.
- Improve institutional coordination for road network development through establishment of a coordination committee between the Roads Directorate (RD), under the Ministry of Public Works, the Road Fund and The Ministry of Local Government and Chieftainship (MLG)). RD and MLG are responsible for construction, upgrading, rehabilitation and maintenance of the national network, with RD responsible for primary, secondary, tertiary roads.
- Develop infrastructure asset management policy and formulate construction industry development policy.
- Improved institutional management of public transport systems through streamlining of public transport management. A dedicated unit can be set up to coordinate public transport matters across the relevant stakeholders. This will enable a more efficient and responsive public transport system.
- Upgrade road safety policies especially speeding and drink drive and develop axle load control policy.
- Harmonize land allocation policies to protect road reserves.
- Develop road infrastructure master plan and financing policy and strategy
- Develop efficient cross border policies to streamline travel and logistics.
- Formulate Urban transport and land use management policies
- Formulate air transport polices that will result in improvement of regulatory environment, in addition to a comprehensive engineering and technical assessment of Moshoeshoe International Airport.

World Bank Group Engagement

Lending

Project Name	Approval Date	Closing Date	Size (\$ million)	Project Objective
Transport Infrastructure and Connectivity Project (TICP)	Nov 20, 2017	Dec 31, 2023	18.3	Objectives are to (a) improve access to social services and markets in targeted rural areas of Lesotho; (b) strengthen road safety management capacity.

Technical Assistance and Analytics

Name	Completion Date	Short description
Review of Road safety in Southern Africa	June 2022	The objective of the analytical work was to assist governments in South Africa, Lesotho, Namibia, Botswana and Eswatini to identify an inventory of institutional, policy, regulatory and legislative reform opportunities to improve road safety performance, with strong emphasis on human capital preservation.
Digital Innovation to Support Public Transport in Maseru	June 2022	The project applied digital technology to collect and analyze data on informal transit usage and operations to provide diagnostics and evidence of the unique mobility needs and operational efficiencies in Maseru.
Protection and Management of Ecosystem Services for Inclusive and Climate Resilient Future of Lesotho	Dec 2022 (Planned)	Project deliverables include Development of Climate and Environment Vulnerability Assessment Tool for Road Infrastructure.

NATURAL RESOURCE AND WATER MANAGEMENT

Key Issues and Challenges

Lesotho is a small, mountainous and land-locked country endowed with rich natural resources (primarily water), land and ecosystem services. Its location provides unique opportunities such as access to markets (regionally and globally) and favorable trade membership (SACU, SADC, the Continental Free Trade Area and the African Growth and Opportunity Act). The water sector alone contributes about 5 percent to the national budget mainly from revenues from the Lesotho Highlands Water Project (LHWP) and hydropower. Its rich natural resources and strategic location could further contribute to economic growth, e.g., increasing agricultural productivity and exports to the regional/global markets; enhancing nature-based tourism and potentially developing water-intensive manufacturing sectors (textile and clothing and food and beverage). Key challenges on water management and services include unclear rules for water allocation, lack of proper incorporation of climate and non-climatic risk in the planning process, as well as issues of water rights allocation, including existing and future competition for water resources across economic sectors and domestic users (rural, urban, network, off network). Basin level issues are about management of the overall watershed for different water -and often competing- users, water preservation, conjunctive use of surface and groundwater, creating of storage , as well as the current soil degradation.

However, poor integrated management of natural resources contributes to their exploitation and degradation. In addition to poor integrated management, economic activities in agriculture, mining, other industries also contribute to issues of water quantity and quality. Pollution from mining and agriculture impact water quality. Furthermore, water management is done for the purpose of providing the associated water services .

Land degradation affects water availability and the ability of the highland wetlands that act as 'sponges' to regulate water quantity and quality downstream. Sheet erosion and gully formation results in losing approximately 4,500 tons of fertile topsoil every hour during the rainy



season¹⁹, and to the storage of 36 percent less water than their potential.²⁰ High rates of soil erosion resulting from unmanaged surface water runoff, land encroachment, overgrazing and excessive dependence on biomass, is high by Sub-Saharan African standards. Many water points are non-functional and/or water intermittent, which negatively affect human capital and disease prevention.

Water for domestic use faces important challenges in the urban and rural contexts. From the policy perspective, the country lacks a rural water management legislation and a reliable monitoring system that allows investments to be sustained. Only 5 percent of population has access to basic hygiene (with water and soap). Fewer than half the population has access to sanitation. Young children are particularly vulnerable, with long-term consequences for human capital development. Diarrhea accounts for 25 percent of under five deaths (two-third attributed to unsafe WASH) and increases incidence of malnutrition and stunting. While non-revenue water is reported at 27.1 percent, there is limited data on impacts of COVID-19 (on non-revenue water and collection efficiency) and WASH service delivery standards (quality, reliability, quantity). In the urban setting, the national water utility WASCO has been a mix record of performance, with including large levels of Non-Revenue Water, and important access deficits, particularly on sanitation and important arrears with the energy provider. The service regulator, the Lesotho Water and Energy Authority, has a limited mandate to urban service provision and does not cover rural water or urban sanitation services. Rural to urban migration and the associated changes in lifestyle has also increase water demands for domestic uses.

¹⁹ EU Delegation, 2016. Joint Press Release to address land erosion through Integrated Catchment Management in Lesotho.

²⁰ Marneweck, Gary, and P. Grundling 1999. Wetlands of the Upper Catchment Areas of Bokong, Malibamatso and Matsoku Rivers in the Leribe, Mokhotlong and Butha-Butha Districts of Lesotho. Report for Lesotho Highlands Development Authority. Maseru, Lesotho: LHDA.

Climate change exacerbates these challenges. Lesotho is experiencing changes in precipitation patterns and an increase in average temperatures. These, changes plus increases in the intensity and frequency of extreme events such as floods and drought, are contributing to a deterioration of agricultural productivity. Additionally, Floods affect many economic sectors as well (industries, obviously populations, transport systems, among others). Droughts are especially concerning because 70 percent of the population engages in subsistence farming. As of May 2022, 23 percent of the population is food insecure and this number is likely to increase in the face of inflation and successive crop failures due to current El-Nino-induced drought.²¹, recently exacerbated by the energy crisis and scarcity of fertilizers that also significantly affecting agriculture. Agricultural and domestic uses are only a portion of all water uses but are illustrative of the increasing pressure on water resources. Total unmet water demands are expected to reach 40 percent by 2050, with demands from industry projected at almost 60 percent.²²

Understanding water resources and services vulnerability, would better prepare the country to cope with climatic and non-climatic shocks. Improved understanding of the seasonal availability of water could unleash the economic potential of water for agriculture, solve water bottlenecks to expanding textile industries in Maputo and Hlotse, and preserve ecosystems. However, seasonality is only a part of the equation. But climate will bring longer term issues of availability, increase evaporation from higher temperatures which can result in decrease availability also in terms of water quality, more frequent or more intense floods, intensity in type of droughts, etc. Externally, a clear understanding of the country's water volumes (including Present and future, allocations across sectors and their demands) would better position Lesotho to design, negotiate, and operationalize international transboundary water transfers with Southern African neighbors.

Policy Measures

Short Term

- Establish a legal and institutional framework for Integrated Catchment Management (ICM) of the country's catchments, as well as its associated regulatory aspects that will need to address issues of water tenure, allocations across sectors, enforcement mechanisms. Currently, ICM is supported by a unit within the Ministry of Water that is financed through project-based funding from the EU. This is not sustainable. It is critical that the country adopt a legal framework, codified in law, for the sustainable management of its catchments, and that it has a clear and permanent institutional home within government. Funding and financing strategy will also be key if the legal framework is to be implemented. The best legal framework is one that can be implemented.
- Consider support of the expansion of LEWA mandate and jurisdiction to include rural water as well as urban sanitation
- Develop Catchment Management Plans that adopt an ecosystem services approach. This requires putting into practice tools to measure, monitor and value ecosystem services such that policy makers can use this data for decision making. For example, this could include

²¹ Lesotho | World Food Programme (wfp.org)

²² Lesotho Water Security and Climate Change Assessment Report.

assessment and valuation of water quality and quantity. Beyond ecosystem services, the plan should contain many other issues of management, the services that water provides, sanitation aspects, allocation across economic sectors, institutional arrangements, the prioritization of investments.

- Capitalize on the creation of the Lesotho Bulk Water Authority to reflect and establish at least clear policies and mandates for distribution of rural water, including pricing and cost-recovery mechanisms, incentives for professionalization of rural water service providers, mechanisms with other programs for job creation at the rural level and sustainable monitoring and evaluation systems. Ideally, the authority could be expected to be responsible for understanding the water balances by basin, the allocations across different economic sectors, potential future competitions for the resource and the services, potential impacts of climate and non-climatic risks, transboundary issues, prioritizing investments per basin, etc.
- Review the Water and Sanitation Services draft bill and complete the Sanitation Strategy, incorporating the lessons learned from the implementation of the Lesotho Lowlands Water Development Project and the international experiences exposure facilitated by external partners.
- Partner with developing and academic institutions to monitor water investments and service provision, and as instrument for planning and decision making.

Medium to Long Term

- Expand the mandate of LEWA to cover urban sanitation as well as Water Provision in Small towns to create the necessary accountability mechanisms for provision of those services;
- Focus on measures and investments that boost physical, ecological and financial resilience to shocks, especially climate and non-climatic shocks. The following could help mitigate the impacts of climate change: strengthening (i) the national hydro-meteorological system, (ii) village level data collection, (iii) disaster risk monitoring procedures; (iv) weather forecasting systems; (v) funding and implementing ICM plans; and (vi) strengthening systems for flood and drought management including water system model per basin.
- Following the consolidation of the Water and Sanitation Bill and Sanitation Strategy, consider piloting urban sanitation initiatives in towns such as Mafeteng and Mohale's Hoek, as well as in Botha-Bothe aligning the interest and support of international donors.

World Bank Group Engagement

Lending

Project Name	Approval Date	Closing Date	Size	Project Objective
Lesotho Lowlands Water Development Project Phase II (P160672)	May 17, 2019	March 31, 2025	\$78 m	The project is part of the broader Lesotho Lowlands Water Supply Scheme (LLWSS) and focuses on water supply infrastructure investments to address water security challenges in Maputsoe, Hlotse, and surrounding settlements (~2,500 people). In addition to household consumption, the project will expand industrial access to water in Maputsoe, helping strengthen the export textile industry. It will also build capacity of the Water and Sewerage Company and support development of a medium-term sanitation program.

Technical Assistance and Analytics.

Name	Completion Date	Short description
Protection and Management of Ecosystem Services for Inclusive and Climate Resilient Future of Lesotho (P172476)	Planned in December 2022	Analytical and capacity building support to strengthen Government of Lesotho's ReNOKA agenda, which is its commitment to integrated catchment management (ICM). Specifically, support is provided to strengthen three areas of action: ICM governance; ICM data management and tools; and climate resilience and ICM in road infrastructure.

AGRICULTURE

Key Issues and Challenges

Agriculture plays a significant role in the economy and the sector is one of four priority areas in the second National Strategic Development Plan due to its potential to reduce rural poverty, improve incomes, generate employment and increase food security. Over 70 percent of the population lives in rural areas and derives most of its livelihood from agriculture. The sector is the largest private employer, accounting for about 41 percent of total employment, although primarily on an informal basis. Women make up the lion's share of the labor force. In addition, agriculture also has a crucial social dimension: agricultural activity is pervasive as a safety net for much of the population.

Horticulture and livestock subsectors offer unique opportunities for economic growth and diversification. Regional demand for fruits and vegetables is increasing as urban populations grow, incomes rise, and the popularity of healthy diets increases. With increased productivity and commercialization in the subsectors, there is good potential for: (i) improving nutrition; (ii) decreasing food imports; (iii) boosting exports especially to South Africa; (iv) generating employment in rural areas given the labor-intensive nature particularly of horticulture; (v) creating economic opportunities for women especially in value-added processing activities (e.g., jams, juices, pickles and cheese); and (vi) providing opportunities for young farmers.

However, there are some challenges. The share of agriculture in Gross Domestic Product (GDP) declined significantly from 24 percent in 1981 to 7.3 percent in 1990 and 5.0 percent in 2019 due to several diverse and inter-related challenges. Most rural population is engaged in subsistence farming: rainfed, undiversified farming (primarily cereal production) and livestock grazing. Crop yields are among the lowest in the SADC region and the livestock subsector is underdeveloped with lack of organized feed/fodder production and high disease and mortality rates. Low productivity is due to small farm size, lack of seasonal irrigation, weak advisory services and limited access to credit and financing capital. Low levels of production and marketable surplus have made the country highly reliant on food imports, especially from South Africa, to meet domestic consumption needs.



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In recent years, climate change has particularly exacerbated productivity and commercialization challenges and reinforced the need for mainstreaming climate resilience in agriculture. High intra-seasonal and inter-annual rainfall variability, with frequent droughts, result in frequently recurring crop failures, deterioration of rangelands and pastures, and increased food prices of staple grains. These challenges have significant implications for household and national food security. The 2015-16 drought brought 534,000 people at food insecurity. The recent drought of 2018-19 left nearly a quarter of population (508,000 people) food insecure and required urgent humanitarian action. These included 69,000 people in emergency (IPC Phase 4) and 280,000 people in crisis (Phase 3) conditions between May and September 2019.

Unfavorable farm structures with average land holding of less than 1.0 ha per family play a key to productivity challenges. However, increasing farm sizes is constrained by poor land registration management and cumbersome procedures for obtaining land titles. Farmers often use outdated farm technologies and farm management practices with limited technical expertise, and make suboptimal use of inputs. The small holdings are also an impediment to mechanization thus limiting productivity and marketable quantities which constrains the development of links to markets. Consequently, value chains also remain weak and rudimentary, with a low associated level of commercialization. The small farm size along with cumbersome land registration prevents

the use of land as a collateral asset and results in limited access to credit and investment capital to small producers and processors.

Rural infrastructure is also insufficiently developed with access to electricity limited by the difficulty to reach small, scattered settlements, and a lack of feeder roads connecting uplands with larger communication routes, as a result transport of produce from farm to market is troublesome and expensive for farmer. Irregular weather patterns amplified by climate change combined with a lack of an adequate irrigation and institutional setup to maintain it leave the main agricultural areas vulnerable to yearly water availability. The rural advisory system has insufficiently reached into remote areas and lacks technical capacity to support the more commercially oriented intensive producers in the plains.

Market-oriented farmers and agribusinesses are fragmented due to their small size resulting in a lack of a reliable supply and quality of raw materials for processors. The lack of real time market information, organization, and the lack of market-oriented skills (marketing channels for locally grown products are haphazard, hard to access, and only can handle small quantities. Many farmers are dependent on farm gate sales to traders). There are significant post-harvest losses due to low or non-existent post-harvest technologies and a lack of appropriate storage facilities.

Policy Measures

Immediate

- Implement the flood Response Plan to improve food production, availability and nutrition for mitigating the negative impacts on food security due to the pandemic.

Short Term

- Direct public expenditures to productive areas in the agriculture sector to address challenges and achieve set development objectives for the sector.
- Adopt productivity measures, including climate smart technologies, such as improved varieties of seeds, conservation agriculture, drip irrigation, agroforestry and soil fertility management measures.
- Support investments in irrigation for rehabilitation of existing and development of suitable new irrigation areas and support for ongoing water management reforms to improve resilience to drought in plain areas.
- Deliver the targeted training program to improve capacity of farmers, agro-processors and extension service providers for increased uptake of modern technologies through knowledge transfer and skill development.
- Support targeted investment promotion and facilitation program for private investments in commercial farms and post-harvest/marketing infrastructure (matching and/or other competitive grant programs).

Medium to Long Term

- Diversify agriculture to high potential value chains (horticulture, livestock) and strengthen resilience of smallholder production and productivity while exploring comparative advantages. Develop integrated ICT-based climate, weather and market advisory services (for real-time agro-weather forecasting and market information for site-specific recommendations for crop cultivars, pest control, harvest time, etc.).
- Incentivize the participation of the private sector in agribusiness by providing improved trade logistics, access to finance, market access, and agribusiness innovation centers and incubators.
- Improve the capacity of agriculture extension service providers for continuous and sustainable advisory services to farmers and agro-processors.
- Continue investments in establishing appropriate rural infrastructure (e.g., feeder roads)
- Enhance measures to improve access to financial services
- Develop Agricultural Risk Management measures to provide insurance products to farmers to protect from extreme weather events (which will also lower credit interest rates).
- Mainstream relevant disaster risk management policy actions in the agricultural sector by strengthening links between the sector and shock-responsive social protection.

World Bank Group Engagement

Lending

Project Name	Approval Date	Closing Date	Size	Project Objective
Smallholder Agriculture Development Project (SADP)	Nov 2011	Feb 2020	\$30 mln (o/w IDA: \$20 mln, IFAD: \$10 mln)	To increase marketed output among project beneficiaries in Lesotho's smallholder agricultural sector.
Smallholder Agriculture Development Project (SADP II)	May 2019	May 2026	\$52 mln (o/w IDA: \$50 mln, Japanese PHRD Grant: \$2 mln, IFAD co-financing of \$5mln)	To support increased adoption of climate smart agricultural technologies, enhanced commercialization and improved dietary diversity among targeted beneficiaries
Agriculture Productivity Program for Southern Africa (APPSA) – Angola and Lesotho	June 2019	Jan 2025	\$50 mln (o/w IDA (Lesotho): \$20 mln, IBRD (Angola): \$25 mln, IDA Grant (CCARDESA): \$5 mln)	To increase the availability of improved agricultural technologies in participating countries in the Southern Africa Development Community (SADC) region. (Lesotho's focus is on horticulture technologies)
Food Systems Resilience Program for Eastern and Southern Africa	June 2022	-	-	The government of Lesotho showed its interest to participate in the Program.

COMPREHENSIVE DISASTER RISK MANAGEMENT AND SUSTAINABLE URBAN DEVELOPMENT

Key Issues and Challenges

Lesotho is exposed to multiple climatic hazards, particularly flooding and drought. The mountainous topography and prevailing poor socioeconomic conditions among most of its rural population, combined with a reliance on rain-fed agriculture renders the country highly vulnerable to weather-related shocks and adverse impacts of climate change. Lesotho experiences extreme weather events such as recurrent drought, heavy rain falls, flooding, strong winds, early/late frosts, hail, snowstorms, and emerging signs of progressive desertification caused by climate change. Increasingly warmer temperatures and lower levels of rainfall have significant implications for agriculture, food security, poverty, and vulnerability. The most frequent risk is drought and the resulting high food prices.²³ This hinder sustainability of agriculture and land productivity, water resources, health, and human development, in turn, exacerbating vulnerability amongst poor and rural communities who tend to have lower coping capacities.

The Government recognizes the importance of laws, policies, and strategies to advance comprehensive disaster risk management. To this end, the Government has developed the National Resilience Strategic Framework (NRSF) to enable it to guide, coordinate, and lead the process of resilience building in the country. The NRSF seeks to harmonize resilience building efforts with Lesotho's National Vision 2020 and National Strategic Development Plan II (NSDP-II) by creating resilience core operating principles that will guide its operationalization and ensure that development and humanitarian actors operate under a common set of operating principles and create synergies based on their individual competitive advantages. However, there remain

²³ World Bank, Lesotho Poverty Assessment 2019

gaps in terms of updating and/or developing relevant laws, policies and strategies that will ensure the implementation of the framework.

Rapid urban growth is driven by natural growth and increasing rural-to-urban migration.

Urban population was estimated at 28 percent of the total population. Although this is low compared to the average in Africa at 42 percent, the rate in Lesotho is projected to reach 45 percent by 2050. Urbanization is positively regarded, but Lesotho's inability to manage urbanization and weak land regulation has led to informal development and urban sprawl in the periphery of its cities. Poverty varies by geographic location with rural areas harder hit than urban areas, with a spatial rural-urban poverty split of 60:40 percent. The steep terrain poses development challenges for infrastructure and roads, service provision, climate change adaptation mechanisms and response during natural disasters especially in the rural mountainous areas.

Lesotho needs timely, reliable and actionable information on climate change mitigation and adaptation options.

Strengthening the ability to respond to climate shocks relies on its capability to generate, aggregate and analyze weather and climate data. Meteorological Services around the world are evolving rapidly and especially how national agencies operate, collaborate and use technologies. Lesotho needs to strengthen regional and international collaboration to leverage data generated by regional and international organizations. For example, collaboration between the South African Weather Services (SAWS) and Lesotho Meteorological Services (LMS) on forecasting and warning services from Nowcasting to seasonal prediction has a potential to enhance LMS operations. The models run at SAWS, the radar coverage, lightning detection, experience working closely with disaster management structures and other sectors, the pioneering work on impact-based forecasting have very practical value for LMS. In addition, SAWS will benefit from the experience in Lesotho dealing specifically with weather in mountainous regions and their microclimates. Furthermore, a more integrated water management system and the observational infrastructure that supports it between the two countries will have significant co-benefits. Establishing an Early Warning (and advisory) System that is community-based but informed by data and products flowing from especially the hydromet value chain is critical for building resilience.

Increasing urbanization and population growth make the provision of affordable housing, a challenge.

Housing is key for poverty reduction. About 80,000 new housing units need to be built in the Maseru planning areas alone in the coming decade. However, housing stock has deteriorated especially in the rural areas. Many houses do not meet the standards of decent living. Natural disasters mostly affect houses, damaging more than 1 percent of the total housing stock each time and mainly affecting the poor. Land ownership disputes related to inheritance rights often affect vulnerable groups. An urban policy exists but it is not implemented. A Sectional Titles Bill drafted in 2016 has not yet been approved. The Bill would open the housing market for the provision of more apartment blocks and is therefore a mechanism for affordable housing incremental densification. The revised National Housing Policy was approved in 2018, however, the strategy has not been implemented due to a lack of an action plan. Basic services including social, economic and community infrastructure and local jobs need to be created to close deficits in social facilities include education and health facilities and community centers. Public open space needs to be expanded and an estimated 1.2 million trees need to be planted in Maseru alone. The construction industry is weak and remains weakly regulated with no approved Local Construction Industry Policy and Building Standards Regulation.

Comprehensive climate and disaster risk management program is critical, as relief efforts after the occurrence of extreme shocks depletes the strained fiscal space and diverts funding from other development projects. The cost of disaster response is estimated at \$19.3 million, or 1.6 percent



of the total budget expenditure in FY2019/20. For more infrequent and severe shocks, the costs can be much higher: \$32 million (or 2.6 percent of total budget) for shocks that occur every 10 years and \$45 million (or 3.8 percent of total budget) for shocks occurring every 50 years.²⁴ While the Government has two existing contingency funds in place (one at MoF, the other at the Disaster Management Agency), both tend to get depleted early in the budget cycle rendering them ineffective when shocks occur. Thus, the government, as in other Sub-Saharan African countries, relies to a large extent on post-disaster government budget reallocation and development partner assistance, both of which are slow to mobilize. This approach disrupts the budgetary process with time consuming reallocations, introduces budget volatility, leads to uncertainty of funding levels (of donor assistance). There is a need to invest in ex-ante risk identification, risk reduction, preparedness and the risk financing measures to reduce the impact of shocks and avoid delays in emergency assistance.

24 WB, Lesotho Disaster Risk Finance Diagnostic 2019.

Policy Measures

Short Term

- Finalize the draft Disaster Risk Management (DRM) Bill 2020, the National DRM Strategy, the Early Warning System Strategy, and the National Disaster Risk Financing Strategy.
- Upon approval of the revised Public Financial Management Act, finalize regulations governing the Contingency Fund at the Ministry of Finance to increase transparency, effectiveness and efficacy of public funds spent on disaster response.
- Finalize, institutional and regulatory frameworks including the construction industry policy, construction standards, urban plans, housing action plans, and sectional titles bill.
- With financial support and technical assistance from the Competitiveness and Access to Finance World Bank Project, design and execute through a regional risk pool / the private non-life insurance market a sovereign risk transfer product. The sovereign risk transfer product would provide payouts into the Contingency Fund held by the Ministry of Finance in the event of significant disaster shock events, providing the government with additional liquidity to respond.

Medium to Long Term

- Draft a National Hydro-Meteorological Policy. Lesotho needs an adequate monitoring of quantity and quality of natural resources, weather and climate change to support preparedness to the effects of climate change and to make informed decisions.
- Draft a National Urban Policy (NUP) and National Spatial Strategy (NSS). Lesotho needs to embrace urbanization, starting with drafting a participatory NUP and accompanying NSS. Revise land, infrastructure and urban development framework, as (a) institutional and regulatory frameworks exist but they need to be updated including land management framework, the construction industry and urban planning and management plans and strategies and (b) Where adequate institutional and regulatory frameworks exist, they fail to be implemented. The reasons need be determined and mitigated for the different frameworks including incomplete decentralization process and resources constraints at local levels.
- Conduct a value for money assessment of additional risk financing instruments and programs which can strengthen the financial resilience of Lesotho to shocks. This can include contingent credit, non-life insurance programs (e.g., crop insurance) and shock-responsive safety nets.

World Bank Group Engagement

Technical Assistance and Analytics

Name	Date	Description
Lesotho Territorial Development for Resilient and Inclusive Growth	Ongoing	This study will analyze the state of territorial development in Lesotho across spatial and temporal dimension. The study seeks to understand the root causes of economic disparity between leading and lagging regions and the barriers to resilient growth and inclusive development and how to better place investments and strengthen institutions to promote economic growth and poverty alleviation across the country. It will do so while taking into consideration the future impacts of climate change and incentives dictated by political economy and institutional constraints.
Strengthening the institutional capacity for planning and preparedness to improve climate and disaster risks management	Oct 30, 2020	The objective of this technical assistance is to improve the Government of Lesotho (GoL)'s ability for emergency preparedness and response through strengthening of regulatory and policy framework for disaster risk management, and translation of these policies into action. This technical assistance will strengthen early warning systems strategies, develop multi-hazard contingency plan for better preparedness, support the strengthening of national public health, and improve management and operation of the Disaster Management Fund (DMF) managed by the Disaster Management Authority (DMA).
Disaster risk financing diagnostic	Dec 2019	The World Bank conducted a disaster risk financing diagnostic upon the request of the Ministry of Finance with an aim to identify options to strengthen the country's financial resilience to disasters. It includes a review of disaster response costs and the current disaster risk financing (DRF) arrangements of the Government, including institutional and legal frameworks, and proposes some recommendations.

Potential Lending Operation

Name	Date	Description
Potential Regional Climate Resilience Multiphase Programmatic Approach Project.	2024 or 25	Frequent drought and flooding significantly affect Lesotho. These natural disasters and their broader impact are regional in nature and are not limited to each country's boundaries. The solutions to these types of disasters also require sustained interventions as one-off projects might not sufficiently address the existing challenges. There is a potential to develop a regional and multi-phased project that can provide a more integrated regional solution for the persistent drought and flooding problems in Lesotho.

ENERGY

Key Issues and Challenges

The Lesotho Energy Policy (2015-2025) envisions that energy shall be universally accessible and affordable in a sustainable manner, with minimal negative impact on the environment. The government commits to: (a) improve access to renewable energy services and technologies; (b) promote energy efficient practices and equipment in all sectors of the economy; (c) ensure the security of electricity supply in the country; (d) develop and sustain a reliable and efficient transmission network in order to avoid interruptions in the power supply; (e) increase access to electricity for all socio-economic sectors to meet electrification targets within the framework of reliability, affordability and efficiency; and (f) ensure transparent and competitive electricity market operations where participating players have equal opportunities. The government also desires to ensure more connections and utilization of electricity by end-users.

Despite abundant renewable energy potential that could contribute to reducing the carbon footprint, Lesotho imports a significant portion of its electricity needs. Installed electricity generation capacity is 72MW²⁵ against the peak demand at 170MW²⁶. South Africa state-owned power utility, Eskom, is the main source of imported electricity with the balance provided by Electricidade de Mozambique (EdM). Lesotho has an estimated 450MW of large-scale hydropower potential. In addition, the Scaling-Up Renewable Energy Program (SREP) Investment Plan²⁷ states that there is approximately 2,000MW of utility scale solar-PV and wind renewable energy capacity with a generation potential in the order of 5,000GWh.

The government should update its Least-Cost Expansion Plan on a regular basis. The plan would enable the government to identify the least-cost investments for generation expansion and associated network infrastructure. It would also inform the demarcation between public and private investments. For private sector investments, such as independent power producers, procurement should be done on a competitive bidding basis.

²⁵ Muela Hydro Power Station

²⁶ 2020/21 Lesotho Electricity Company financial year.

²⁷ Developed by the government with the support of the World Bank and the African Development Bank



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Lesotho Electricity Company (LEC)'s membership of the Southern African Power Pool (SAPP) and the existing transmission interconnection with South Africa enable access to the regional electricity market. With strengthening/upgrading of existing transmission interconnection infrastructure, SAPP could provide a ready export market for clean energy as indigenous renewable energy generation sources are developed. This also presents an opportunity for improved supply security and resilience through diversifying potential sources of electricity imports during times of poor hydrology or other adverse climate and operational impacts, and for the provision of auxiliary services necessary for optimum operation of the electricity grid as the share of variable renewable energy increases. In addition, enhancing and reinforcing existing cross-border transmission interconnections will support the improvement of Lesotho's climate resiliency while increasing domestic renewable energy generation will displace carbon intensive energy imports.

Access to electricity remains low. Based on the 2017 Household Energy Consumption Survey, the national electricity rate is 37 percent (71 percent for urban and 44 percent for peri-urban and 11 percent rural households). The current rates could be higher. In recent years, there has been increased effort to accelerate electrification financed through annual government budget allocations and the Universal Access Fund (UAF) managed by the Lesotho Electricity and Water Authority (LEWA) that collects a levy from every unit of electricity purchased. While currently focused on on-grid electrification, the UAF is aimed at: (a) subsidizing electrification capital costs; (b) providing concessionary financing to developers for electrification; (c) facilitating education and training to local communities in the safe and efficient use of electricity; and (d) facilitating research relevant to the rural electricity supply. The two funding mechanisms have accounted for approximately 80 percent and 60 percent, respectively, of all new household electricity connections made in the last 10 and 5 years. Despite the progress made to date, progressing towards universal access requires scaling-up current efforts.

Off-grid electrification is important to achieve universal access to electricity. With around two-thirds of the country being sparsely inhabited and characterized by rugged mountainous terrain and deep valleys, the cost of on-grid electrification will escalate as progress towards universal access is made. While there has not been a large-scale government supported roll-out of solar home systems (SHS), such an approach is an option to achieve universal access. In five out of Lesotho's ten districts, there are areas where mini-grids may represent the least-cost option for electrification. While sustainable deployment of mini-grids, particularly in rural areas, can be challenging, recent experience with both publicly and privately funded projects could provide important lessons for how this approach can be scaled-up. As part of the drive towards achieving universal access to electricity, due consideration should also be given towards exploring modern, efficient and clean technologies for cooking and space heating needs of the population.

Policy Measures

Short Term

- **Incorporate stakeholder comments to the proposed Energy Bill** that aims to provide the regulation, development, management, utilization, and sustainability of the energy sector. This process requires government policies for the energy sector, the local context, and avoidance of undue proliferation of energy sector institutions as this has the potential of creating overlapping mandates and increasing bureaucratic burden. Also, as part of the Energy Bill review, create a framework to institutionalize power system planning and the competitive procurement of private sector led generation expansion projects.
- **Complete a Least-Cost Power System Expansion Plan** to inform the development of new renewable energy generation projects and provide clear delineation between investments to be undertaken by the public sector and those to be subject competitive procurement from the private sector.
- **Endorse the Lesotho Electrification Master Plan** that is intended for the systematic, predictable and equitable on-grid and off-grid electrification in Lesotho.

Medium to Long Term

- **Explore options to extract greater value from the regional electricity market** including (i) identifying potential export opportunities to match expected excess capacity as new generation capacity is developed within the country and (ii) improving resilience through diversifying import sources and procuring system support services.
- **Enhance power system planning capability and institutionalize the process** to ensure that the least cost power system expansion plan is updated at least every two years.
- **Institute a mechanism to review and update the Lesotho Electrification Master Plan** at least every two years.

World Bank Group Engagement

Project Name	Approval Date	Closing Date	Amount	Project Objective
Lesotho Renewable Energy and Energy Access Project (Credit #: 6532-LS)	Jan 30, 2020	Jan 31, 2027	\$52.9 million	To increase access to electricity in rural and peri-urban areas of Lesotho

The Multilateral Investment Guarantee Agency (MIGA), part of the World Bank Group, expects to support the Neo 1 20MW Solar PV Plant in Mafeteng by providing a Breach of Contract guarantee to the lender (the Renewable Energy Performance Platform of the UK), which will provide approximately LSL 300 million in financing for the Neo 1 solar plant.



FOUNDATIONAL ISSUES AND APPROACHES



MACROECONOMIC, FISCAL AND DEBT MANAGEMENT

Key Issues and Challenges

Lesotho's economy is struggling to grow. Real gross domestic product (GDP) contracted by an average 0.7 percent annually between 2017 and 2019 before the sharp contraction of 8.4 percent in 2020 due to the COVID-19 pandemic. Despite some recovery to 1.3 percent growth in 2021, uncertainties surrounding political stability, the fiscal outlook, the future of the COVID-19 pandemic, and higher import costs of fuel and food in the wake of the war in Ukraine, pose downside risks to growth outlook. Historically, growth is excessively reliant on public spending as the public sector accounts for 45-50 percent of GDP. Job creation is limited due to weak private sector.

The economy is prone to boom-and-bust cycles due to its procyclical fiscal policy. Large and volatile external SACU transfers have fueled government spending, instead of being used to build fiscal buffers. The volatility of SACU revenues renders macroeconomic management and budgeting difficult. When SACU revenues are high, the government tends to increase expenditures, which then becomes difficult to adjust downwards when SACU revenue declines. High recurrent spending is the root cause of fiscal procyclicality. The wage bill accounted for 18 percent of GDP in 2010/11-2020/21. The budget estimate for 2021/22 showed a 17 percent nominal increase in the wage bill pushing it to almost 20 percent of GDP. At this level, the relative size of Lesotho's public sector wage bill is one of the highest in the world. The government sector employs about 43,000 people and is the second largest employer after manufacturing. The increased absorption of young people in the public sector and the consequent sharp rises in the wage bill have undermined the private sector's ability to grow and create jobs. The high public sector wage bill also limits fiscal space for social assistance thus leaving elevated poverty and inequality unaddressed. Some efforts have been made to control high wages; however, the political environment has complicated civil service reform.

Capital investment as a share of GDP has been falling in recent years. From over 14 percent of GDP in 2018/19, capital spending declined to 11.6 percent of GDP in 2020/21. A perennial



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challenge has been the execution of the capital budget, which continues to underspend, with the implementing capacity of line ministries, cash shortages at the Treasury, and for development partner-financed projects complications with tendering and procurement processes being some of the reasons behind the decline. In addition, the criteria for prioritization of capital investments remains unclear.

Fiscal challenges have emerged. With SACU revenue below historical averages and government expenditure persistently high, fiscal deficit has been widening. SACU transfers accounts for more than 45 percent of the total revenues, implying that lower SACU revenues translate themselves into higher fiscal deficits, which are difficult to reduce immediately given the recurrent nature of many expenditure items. To finance the fiscal deficits, the public debt-to-GDP ratio has risen from 50.9 percent in 2018/19 to 59.2 percent of GDP in 2021/22, even though Lesotho is still within moderate risk of debt distress, according to the latest Debt Sustainability Analysis (DSA). While the expected recovery in GDP growth will help to mitigate rising debt risk, government domestic arrears are estimated at about M1 Billion (approximately 3 percent of GDP) as of March 2022. While the government is making efforts to clear arrears, the risk of re-occurrence is high given the weak implementation of expenditure control systems and as the number of unreconciled transactions continues to grow. Strong measures on fiscal consolidation are needed.

Inflationary pressures are on the horizon. The Ukraine war is a new challenge that is exacerbating the already weak growth hampered by the COVID-19 pandemic. The war has had detrimental effects on the net importers of fertilizers, food and oil such as Lesotho. Lesotho has been negatively impacted by the rapid increase in food and fuel prices which led to weakening of

the overall consumer demand. The annual inflation rate, which averaged 6.0 percent in 2021, has accelerated to a peak of 9.8 percent in July 2022 before decelerating to 9.4 percent in August 2022. The current inflation rate is above the upper limit of the South African Reserve Bank's inflation target rate of 6 percent per annum, which the other Common Monetary Area (CMA) countries are also pursuing indirectly.

In response to high inflation, the government introduced several policy measures. The government introduced 80 percent and 70 percent seed and fertilizers subsidies, respectively, to assist the agricultural sector. Furthermore, the government introduced a M30 million (approximately \$2 million) monthly fuel subsidy from July to December 2022. The fuel subsidy has reduced and the price of petroleum products have been fixed until December 2022. The Central Bank of Lesotho (CBL) adopted the contractionary monetary policy stance and increased the policy rate six times (between November 2021 and September 2022) from 3.5 to 6.25 percent per annum.

The government is formulating the NSDP-3. The government started preparation of the economic recovery plan. However, as the second National Strategic Development Policy (NSDP2) is to expire in March 2023, the government has decided not to prepare the economic recovery plan, but to start the preparation of the next NSDP. The World Bank provided technical and financial support to the formulation of the NSDP2 through the Public Sector Modernization Project. The World Bank Group has finalized the Systematic Country Diagnostics (SCD) Update in January 2022. The SCD Update identified key constraints and opportunities for Lesotho's medium-term development, and thus the Update is being used as a key reference for the NSDP3.

Negotiations of a potential medium-term program with the IMF have stalled. Following staff review, a three-year ECF/EFF arrangement for SDR59.93 million – aimed to support the near-term response to the pandemic, preserve macroeconomic stability, and assist with the post-pandemic recovery, was being discussed with the government. However, consensus could not be reached on the options for containing the fiscal deficit to a level that is sustainable and can be fully financed. As a result, the World Bank's Development Policy Operation (DPO) that was prepared in FY2020/21 has also not progressed, given challenges with the adequacy of the macro-framework.

Jobs and Competitiveness. Lesotho's export competitiveness in the US market has been declining, where Lesotho is no longer the leading apparel exporter under AGOA. As a result, the country needs to diversify products and markets. Several sectors present opportunities for export and job creation. Tourism has huge potential, too. Nature-based and adventure tourism can help to increase private investments and create new jobs in rural areas, tapping into regional markets. Furthermore, the digital transformation of the economy can be a source of growth and job creation, as it will lead to the creation of new digital jobs for young people, including tapping the benefits from private digital platforms for online wholesale, and retail trading and consumer services. Building key infrastructure is critical to competitiveness. While progress has been made toward trade facilitation, significant gaps remain in access to electricity, water (including irrigation) and sanitation, sustainable and safe road connectivity, and the speed, quality, and cost-effectiveness of ICT infrastructure.

Governance and Political instability. The poor and deteriorating governance and political instability contribute to Lesotho's challenging business enabling environment and slow growth. Instability of government coalitions in recent years, which is associated with a high turnover of ministers and principal secretaries between elections, has led to weak coordination between government ministries/agencies and development partners, and delayed the implementation of key reforms.

Inequality. Progress in poverty and inequality reduction has been slow; almost half of the population lives in poverty. Although Lesotho has become more equal, inequality remains high with the country among the 20 percent most unequal countries in the world. High levels of poverty and inequality are critical drivers of low human capital outcomes in Lesotho. Gender inequality has been a problem. Despite strides in creating an enabling legal framework for gender equality, consistent implementation of gender-progressive laws and policies is a major barrier.

Policy Measures

Short Term

- **Implement comprehensive public financial management (PFM) reforms, starting with support for the passage of the PFMA Bill of 2021.** The government submitted the draft Public Financial Management Accountability Act Amendment 2021 to parliament. The national assembly approved the bill and the final approval by the Senate is expected during FY23. The PFMA Act is intended to provide the legal framework for the full implementation of Integrated Financial Management Information System (IFMIS). The full implementation will ensure that all commitments made by the government agencies are registered in the IFMIS against warrants issued by the Budget Controller and payments are done through IFMIS against registered commitments. Thus, this will prevent the accumulation of arrears. The PFMA Act also aims to strengthen budget controls and PFM processes through introduction of medium-term budgeting, establishing cash management processes, and strengthening fiscal risks oversight.
- **Fiscal consolidation is crucial to reduce imbalances, finance economic recovery, and mitigate external shocks.** Authorities can explore measures to contain recurrent spending, scale back unproductive capital spending, and achieve fiscal sustainability and macroeconomic stability. The risk of ambitious revenue projections and high expenditure jeopardize not only fiscal sustainability, but also resources needed to sustain the exchange rate peg between the Lesotho loti and the South African rand. In addition, fiscal consolidation is essential to improve the overall fiscal balance over the medium-term and provide vital space should downside risks materialize. More specifically, the public sector wage bill needs to be contained. Wage growth and the hiring of non-essential public servants needs to be restricted in the near term. Over the medium term, additional steps in job grades and merit-based remuneration can also help reduce pay increases. Additional cost-cutting measures may include rationalization of foreign embassies and missions.
- **A Debt Management Strategy to preserve debt sustainability.** The government has continued to contract debt on both concessional and non-concessional terms to finance capital projects. Given recent increases in public debt and the growing risk of re-emergence of domestic arrears, it is recommended that new debt contracted should be focused on concessional sources. Financing needs are to be met by official flows—mostly on concessional terms. Furthermore, it is recommended that the domestic public debt markets be developed.
- **Improve public investment management.** Public investment should target areas with maximum growth impact, crowding-in private sector investment, and reducing poverty. A capital stock is relatively high as a share of GDP but of low quality. Furthermore, to efficiently monitor capital spending, the following steps have to be followed: (i) identifying and minimizing stalled projects; (ii) improving accountability, contract design, investment appraisal, and execution.

- **Policy coordination among authorities is necessary to promote macroeconomic stability.** At the operational level, policy consultation and coordination can be embedded through regular inter-institutional meetings and technical working groups. *It is recommended that the Macroeconomic Working Group (MWG) be resuscitated as this comprises of members from the MoF Macroeconomic and Policy Management, MoF Budget Department, MoF Debt and Aid Management Department, the Central Bank of Lesotho, Bureau of Statistics, and academia.* The aim of the group should be to bring all those who are producing forecasts of the Lesotho economy into one forum for the purpose of interrogating and reworking faulty assumptions. These would ensure the consistency of the data being produced and shared by the Lesotho authorities.

Medium/Long Term

- **SACU revenues can be used to build buffers, settle short-term debt, build deposits and reserves.** To manage the volatility of the SACU revenue and keep recurrent expenditures under control, the government may need to use SACU revenue windfalls to build buffers in the form of stabilization fund (e.g., sovereign wealth fund) and this could be used for reserves accumulation. Specific fiscal rules need to be developed to facilitate the establishment of the stabilization fund. Furthermore, the MOF should improve on the medium-term expenditure framework (MTEF) and this will re-enforce anchoring the budgeting process on medium-term objectives of the government. In addition, fiscal rules. This could assist the country to insulate itself from the SACU revenues volatility, hence enable the achievement of the medium to long-term objectives as stipulated in the national strategic development plans.

World Bank Group Engagement

Technical Assistance and Analytics

Name	Completion Date	Short description
Lesotho Development Update	Dec 2022	this series is expected to provide relevant information on recent economic developments that could be useful to policymakers, as well as the broader citizenry. In addition, the series will contain a “special topics” section which will analyze specific issues of upmost importance to Lesotho’s development, and provide recommendations for resolution.
Public Expenditure Review	Dec 2022	Intended to support the government’s efforts to adjust its policies to better address Lesotho’s current macro-fiscal circumstances with chapters on the macro framework, public investment management, and the wage bill.

DIGITAL TRANSFORMATION

Key Issues and Challenges

The digital economy holds significant potential for development and poverty reduction, be it through improved service delivery, accelerated private sector development.²⁸

Lesotho has followed a sound model for development of the digital sector, including independent sector regulation and strong private sector participation. The 2005 ICT Policy and the 2012 Communications Act have set the path for expanding the country’s infrastructure and growing the digital services market. However, the potential of digital has been underutilized.²⁹ Adoption and use of digital technology is lagging, with only a third of Basotho are regularly using the internet, and over 80 percent in rural areas do not use the internet, pointing to a wide digital divide. The ability of the government and the private sector to take advantage of internet connectivity and digital channels for service delivery, including COVID-19 response efforts, has as such been limited.

Lesotho has yet to fully benefit from its extensive broadband infrastructure. As of 2020, even though 97 percent of the population was covered by a 3G network, there is limited use of and demand for broadband services. The weak competition in the telecom sector contributes to the high cost of communication services and products, and low business and consumer internet use. The regulatory environment is principally sound, but the Lesotho Communications Authority’s (LCA) ability to regulate the wholesale market is limited due to its double role as a player and a referee through managing the government’s shares in West Indian Ocean Cable Company (WIOCC). In addition, demand side measures such as promoting device affordability, improving digital skills and enhancing local content through transactional digital government services should be considered to promote internet adoption and grow the digital market.

²⁸ Closing the digital infrastructure gap in East and Southern Africa could result in 1.5 percentage point growth increase in economic growth per capita. If complemented by expansion in human capital development, the growth effect could increase to 3.87 percentage points. Source: Africa’s Pulse No. 19: An Analysis of Issues Shaping Africa’s Economic Future, April 2019. <https://openknowledge.worldbank.org/handle/10986/31499>
²⁹ World Bank (2020). Lesotho Digital Economy Assessment. <http://documents.worldbank.org/curated/en/196401591179805910/Lesotho-Digital-Economy-Diagnostic>



PHOTO BY JOHN HOGG/WORLD BANK

Digital public platforms such as digital ID systems and digital financial services are key for improving efficiency, quality and inclusiveness of public and private services. Lesotho is one of the few countries in Africa with a fully biometric National ID that has been rolled out to 85 percent of the eligible population, forming a basis for digital authentication services. Several Government-to-Business (G2B) services have been developed and adopted with success. Digital financial services play a vital role; increased uptake in mobile money has successfully driven financial inclusion, and while there continues to be an over-reliance on cash for Government-to-Person transfers, work is ongoing to digitize Government-to-Person (G2P) payments. However, progress on digitalizing government services remains slow, with Lesotho ranking among Africa's lowest performers in the United Nations' global e-Government Development Index (EDGI). Existing digital tools in the public sector are not fully utilized and interoperability of different systems is lacking. The Government may wish to consider adopting a more coordinated and strategic approach towards advancing digital government. In addition, investments would need to be put on shared interoperable infrastructure and services that can be leveraged across various government entities to enable greater efficiency and scalable digital service delivery. Legal and regulatory gaps especially concerning cybersecurity, electronic transactions and e-commerce should also be fixed. A roadmap for adopting electronic payments across all government services should be developed. Operationalization of the data protection regime is also key.

Digital skills are priority in national and sectoral development strategies and plans, but implementation remains insufficient, constituting a clear bottleneck and an area where policy and institutional reforms are needed. Low basic literacy and numeracy skills have hampered the development of digital skills. Challenges in the formal education system include

deficiencies in the learning infrastructure, curricula, pedagogy, and the competencies of teachers. Although ICT education is included in the school curriculum from the 4th grade, many schools have no electricity, computers, and other basic requirements for digital skills development. Furthermore, digital infrastructure in the education sector is inadequate. Small and medium-sized businesses, as well as large corporations, indicate that there is a much higher demand for skilled ICT professionals than those available to meet the demand. Partnerships with the private sector should be expanded for promoting innovation in digital skills development. Lesotho would also benefit from establishing a national research and education network (NREN) to facilitate affordable access to internet and digital resources for educational institutions.

Digital entrepreneurship ecosystem is nascent in comparison to its African peers. Lesotho is disadvantaged by its small market size, cost of data, and brain drain to South Africa, viewed as a more attractive market. There are a limited number of IT firms operating in Lesotho and they face constrained firm growth due to a limited customer base. The diagnostic finds that the quality of existing program and services is inadequate for supporting the growth of idea-stage and early-stage entrepreneurs. Digital entrepreneurship should find a clear champion in the public sector. It could be stimulated by increasing the quality of support programs, promoting access to finance and leveraging regional networks in Southern Africa.

E-commerce platforms can be catalytic for advancing SMEs' access to markets and promoting digital entrepreneurship. However, they are not in widespread use. Seizing the opportunities provided by digital development to provide stronger access to broadband and use of digital tools can help digitization of key sectors, financial services, and e-commerce.

Policy Measures

Short Term

Improve the enabling environment for universal and affordable broadband and scale up public sector digital transformation.

- Finalize the draft national broadband strategy to guide the deployment of digital infrastructure deployment and bridge the digital divide.
- Improve the legal and regulatory environment for digital transformation by addressing identified gaps in legislation, with immediate priority given to passing the revised cybersecurity bill and e-transactions and e-commerce bill. There is a need to ensure that the latter is in line with international best practice.
- Strengthen digital safeguards through increased cybersecurity and data protection capabilities
- Improve the regulatory environment for digital financial services, including simplifying Know-Your-Customer (KYC) and Customer Due Diligence (CDD) requirements, lowering costs for remittances, improving market entry and interoperability and establishing a collateral registry.
- Ensure that government has the necessary digital data and connectivity infrastructure for its own facilities and that these are widely used.

- Improve coordination of the government digitalization agenda, by defining the roles by defining the roles, responsibilities, and coordination mechanisms between relevant ministries and agencies.
- Increase interoperability between platforms and make steps to leverage the national identity system and digital payments in service delivery across the government.

Long Term

Focus on accelerating digital transformation

- Strengthen the role of the LCA in ensuring market competition and reconsider the role of the state in the broadband market: make steps to divest state-owned shares in the WIOCC and investigate how the fiber optic assets of the Lesotho Electricity Company (LEC) could be better leveraged for improved connectivity across Lesotho.
- Ensure critical digital infrastructure are safeguarded from climate risks, and developing a data hosting strategy and protocols for disaster recovery will also be important to maintain telecommunications services and safeguard critical data, as the government moves towards greater digitalization.
- Invest in developing citizen-facing transactional digital public services to drive demand, access, and efficiencies. Digital government transformation should be based on a user-centered approach that responds to citizens' needs.
- Develop a strategy and defining the implementation mechanisms for digital skills development, underpinned by a new digital skills framework and improved monitoring.
- Improve digital infrastructure and connectivity in research and educational institutions by establishing a National Research and Education Network.
- Improve the coordination and implementation of the digital entrepreneurship agenda, among others, by identifying a public sector entity to coordinate activities, improving access to finance, developing the capacity of existing innovation hubs and scaling up entrepreneurship support programs.
- Enact the pending Electronic Transactions and Electronic Commerce Bill should be prioritized to enhance the enabling environment for e-commerce and to support the transition from paper-based to online transactions.

World Bank Group Engagement

Lending

Project Name	Approval Date	Closing Date	Size	Project Objective
Public Sector Foundations for Service Delivery	Pipeline	n.a	\$20m	To strengthen the performance of core government functions and improve the delivery of selected services.

Technical Assistance and Analytics

Name	Completion Date	Short description
Lesotho Digital Economy Country Diagnostic	6/1/2020	An overall analysis of the state of the digital economy in Lesotho, focusing on digital infrastructure, digital platforms, digital financial services, digital skills and entrepreneurship.
Lesotho ID4D Technical Assistance	11/30/2020	Provision of technical assistance to leverage the NID-CR system for improved service delivery, public sector efficiency and financial inclusion, applying good practice principles for data governance, privacy protection, sustainability, and inclusion.
Southern Africa Financial Sector Development	06/30/2023	Provision of technical assistance to support digitization of government to people (G2P) payments, in particular social protection transfers.

BUILDING A MORE EFFICIENT, TRANSPARENT, AND CITIZEN-CENTERED PUBLIC SECTOR

Key Issues and Challenges

The overlapping pressures of COVID-19, an uptick in climate-related natural disasters, elevated food and fuel prices due to the war in Ukraine and global disruptions to supply chains have added a renewed sense of urgency to building a fit-for-purpose public sector that can effectively respond to the needs of citizens and businesses. With the recent progress on the Tenth Amendment to the Constitution Act (known as the Omnibus Bill), long-standing governance and institutional reform issues could be addressed in the near-term, marking a fundamental shift toward more effective and efficient models of government operation, service delivery, and interaction with citizens.

Lesotho struggles with the efficient and effective delivery of public services, despite high levels of public spending. Lesotho's fiscal landscape is characterized by a large wage bill, high levels of externally funded capital investment, volatile revenues and a growing fiscal deficit. The fiscal deficit estimate for 2019/20 is -5.7 percent of GDP. In this context, identifying efficiencies in the delivery of public services is a critical imperative. This includes taking concrete actions on the wage bill, introducing reforms to public investment management and procurement, tightening controls on fraud and corruption, and digitizing services and government-to-people transfers to ensure services are not only more user-friendly, but can reach citizens in a crisis.



Wage Bill Management

A high government wage bill makes fiscal adjustment more challenging, crowds out expenditure on priority sectors, and has not translated into better development outcomes.

The wage bill averaged 18 percent of GDP between 2010/11 to 2020/21. The budget estimate for 2021/22 saw a 17 percent nominal increase in the wage bill (to M7.1 billion), pushing it to almost 20 percent of GDP. At this level, Lesotho's public sector wage bill is one of the highest in the world as a share of GDP, above that of advanced economies and middle and low-income economies.³⁰ The government sector employs about 43,000 people and is the second largest employer after manufacturing. The average government wage relative to per capita GDP is also high by international standards. Analysis reflects that government workers enjoy a substantial wage premium vis-à-vis their private sector counterparts with similar qualifications and experience.³¹ Critically, however, a high wage bill has not necessarily translated into better service delivery. For example, 80 percent of education expenditure is on teacher salaries, while outcomes in the sector have been low according to regional and international benchmarks and inequitable across income groups and geographic sub-regions.³²

³⁰ See forthcoming Public Expenditure Review section on the wage bill.

³¹ Note on the Management of the Wage Bill for the Government of Lesotho (World Bank, 2019)

³² Lesotho Education Public Expenditure Review (World Bank, 2019)

The absence of a strategic orientation to the wage bill and wage and payroll controls is a driver of the high wage bill. A 2018 Human Resource Management Information System (HRMIS) Assessment found there were no controls in major transaction and approval processes, as well as issues with data quality.³³ This was further confirmed by an analysis of the results of the Ministry of Public Service 2018 biometric census of civil servants and civil pensioners where 12 percent of the public sector payroll were not found during the census period, and more than 3 percent of total records were associated with an invalid National ID (NID) number or an NID with an inactive (deceased) record.

Following the biometric census, the government undertook a payroll cleaning exercise and implemented a new HRMIS to improve control and management functionalities. By November 2020, the payroll cleaning exercise was completed with 98 percent of irregularities removed/addressed leading to an estimated 1.7 percent of GDP in fiscal savings. The installation of the HRMIS core modules, including the payroll management module, is now complete. While these are positive developments, more work is required to properly implement establishment controls by the MoF and to bring a strategic orientation to wage bill management.

The payroll cleaning exercise also shows how the National ID system can be used to promote more efficient, transparent and citizen-centered service delivery. Lesotho has made significant progress implementing a National ID system (covering over 90 percent of the eligible population). The National ID system is being used for verification of public sector salaries, civil pensions, Old-Age pensions (OAP) and transfers to social protection beneficiaries. On the OAP beneficiaries, the National ID system was used to identify approximately 4,700 ineligible persons, representing an estimated fiscal savings of up to \$2.8 million a year. These examples point to significant opportunity to leverage the National ID to promote more efficient, transparent and citizen-centered service delivery. Future priorities include securing and connecting the National ID system with the Government's major ICT platforms, including the tax administration system, and to provide identity verification services for an even larger number of financial service providers, including remittance companies.

Managing capital investments and public procurement

Since 2010 Lesotho's capital budget has averaged over 30 percent of the total budget, although that amount was shrinking over the past few years to 24 percent of total expenditures in 2021/22. As a percent of GDP, the capital budget has gone from consistently being above 20 percent a decade ago to around 15 percent of GDP in recent years.³⁴ By international standards, Lesotho's spending on the capital budget is high. However, well-targeted and managed capital investments remain a challenge. Lesotho ranked 13 out of 17 comparator countries in terms of technical efficiency in public investment between 2011 and 2020. This indicates that Lesotho has significant scope to improve the efficiency of spending on infrastructure investment, particularly in the rural areas to match that of its peers.

Lesotho lacks a clear legal and institutional framework to guide the development and implementation of projects. A strong public investment management (PIM) system requires

³³ Lesotho Human Resource Management Information System Assessment (Government of Lesotho, 2019)
³⁴ See forthcoming Public Expenditure Review section on capital expenditures.

three tiers³⁵. Tier 1 provides legal authority, usually through legislation; Tier 2 provides basic procedural guidelines, defines roles and responsibilities, and designates analytical tools; Tier 3 identifies detailed criteria and templates for project design and implementation. Lesotho is weak at each level which has led to poor project development, negative project outcomes, cost and time overruns, and a lack of controls. For example, in the draft FY2020/21 budget, only 80 percent of new capital investment projects were appraised by the Public Sector Investment Committee (PSIC) and selected from the Public Sector Investment Plan aligned with the national development plan.³⁶

Public procurement, amounting to 35 percent of GDP, is a crucial component of public sector expenditure and a key determinant of the effectiveness of government in delivering essential services, programs, and projects.³⁷ The procurement legal system is not comprehensive and does not have an independent regulatory institution for public procurement nor include provisions for electronic government procurement (e-GP), public-private partnerships (PPP), emergency procurement, and standardized procurement documents. This has resulted in inefficiencies when procurement must be executed expeditiously. At times this has also led agencies to procure goods and services using alternative ways. To close these gaps, the government has embarked on drafting a new Public Procurement Bill and subsequent secondary regulations, including procurement manuals and standard procurement documents. While the new Public Procurement Bill has been approved by the Parliament, it awaits Royal assent and is expected to be enacted before end-2022. The new Public Procurement Act will help close some gaps in the procurement system including the establishment of the Lesotho Public Procurement Authority and Central Tender Board, for regulatory and central procurement operations, as well as for the use of e-GP and special procurement arrangements in emergency situations.

The absence of a strong PPP legal and regulatory framework has constrained effective investments in private or in partnership-financed infrastructure and social services. Revised PPP Regulations (2020) have been submitted by the MOF to the Office of the Parliamentary Council. Adopting these changes in the legal and regulatory environment and modernizing/streamlining of public procurement will not only enhance efficiency of delivering services with integrity and better value for money, but also strengthened public trust in Government systems.

Ensuring discipline and accountability in public financial management

Compliance with public financial management procedures remains a challenge. Despite a recently upgraded Integrated Financial Management Information System (IFMIS), key processes are still taking place outside of the system and the number of unreconciled transactions continues to grow. This is due to a lack of internal controls, basic compliance with legislation, and limited accounting skills. Strong expenditure controls that ensure resources are spent according to government priorities and prevent the build-up of arrears have become more critical under declining government revenue, a result of COVID-19 pandemic, as well as long-term decline in South African Customs Union (SACU) revenues.

³⁵ World Bank PIM reference Guide – page 33
³⁶ Ministry of Finance PFMR Secretariat reporting on Public Sector Modernization Project results framework
³⁷ [TheGlobalEconomy.com](https://www.theglobaleconomy.com), 2020

Strong leadership from the MOF is required to maximize the benefits of the IFMIS. In the latter half of 2021, a series of fraudulent payments were made outside the IFMIS. A rapid assessment of the IFMIS revealed that the system is not operating at full performance. Although accounting operations are stable, various modules have not been implemented (e.g., the Integrated Revenue Management System). As a result, some reports are not available, and the system workflow is not working reliably. The manual entry of data and the classification of transactions put the quality of revenue and expenditure information at risk, hampering operations, including bank account reconciliation. The current audit trail is limited and needs to be extended to all payment-related transactions.

For fiscal decentralization, the critical challenge is how to manage risks to fiscal discipline while achieving Lesotho's long-term vision of strengthening local governments to manage additional administrative functions and financial resources. Decentralization has been an important theme in governance reforms for the last 10 years. Renewed political support for moving the decentralization agenda forward led to recent updates to the legal and regulatory framework for decentralization. This includes updates to the Local Government Act (2022) and Public Financial Management and Accountability Bill (2022) with a dedicated section on local councils. The 2022 Local Government Act focuses primarily on the political aspects of decentralization and includes provisions for the restructuring of local councils, the establishment of local assemblies (elections and term limits), the establishment of committees and planning units, and the structuring of executive authority in Councils. The Act does not include any specific devolution of functions and corresponding financial resources. The 2022 PFMA provides additional clarity on the management of financial resources by local councils. A budget head for each council will be established in the national budget and local governments will be allowed to establish a council fund for the receipt of all revenues, transfers, grants and borrowing funds and payment of all expenditures.

As the Government moves to identify the administrative functions to be decentralized or deconcentrated to the district/local level, the country needs to complement the process by simultaneously strengthening local governance systems and administration. At present District Councils, Maseru Municipal Council as well as Community Councils typically manage their finances using manual books of accounts without the benefit of an integrated financial management system. A pragmatic approach to the complex reforms of fiscal decentralization is needed that adopts the approach of strengthening multi-level governance, empowering local authorities through structures that support increased accountability and coordination with the central level. A step-wise approach to putting in place the preconditions for effective fiscal decentralization is needed. These include first, putting in place effective local political decision-making and oversight (implementing the 2022 Local Government Act), second, implementing effective local administrative systems (including PFM systems), and finally putting in place an inter-governmental systems to finance service delivery (including intergovernmental fiscal systems as well as intergovernmental sectoral systems).

Enhancing efficiency and effectiveness of service delivery

Lesotho has higher spending in social services compared to peers but has had variable results in terms of the quality, effectiveness and responsiveness of public services. Global experience has indicated that citizen voice is an important driver of improvements in public services. In 2019, Lesotho was ranked in the 47th percentile according to the Worldwide Governance Indicators for Voice and Accountability and its score was just below the global average. This may be indicative of the fact that there are no formal and structured channels inside the ministries and service delivery facilities for receiving and managing citizen feedback on government services other than complaint boxes in some facilities. Citizens commonly use media channels to voice their feedback on government services, which make it difficult to track and monitor service delivery challenges in a systematic way.

Lesotho recently piloted an SMS-based citizen feedback mechanism (CFM) in two key service delivery sectors – health and transportation – however, momentum has been lost without further commitment of budget resources. From November 2020 to March 2021, the Office of the Prime Minister (OPM) developed an external mechanism to provide oversight and independence to address the quality of public service delivery vis-à-vis the collection of citizen feedback about the quality of services received. Citizen feedback supported evidence-based decision making and performance management to correct problems in the delivery chain. The pilot, conducted in three districts, aimed to use ICT as a tool to facilitate effective management for behavioral change in providing services, promoting transparency, and communicating with both the public and government ministries, departments and agencies. Feedback focused on recording the overall experience and not just complaints. The services included: outpatient services at four health centers; drivers' licenses, vehicle registration, and permitting services. Of the 2,430 citizens enrolled in the system during the pilot, 972 citizens provided feedback. OPM prioritized feedback deemed critical – e.g., to addressing corruption or safety – were address immediately with the relevant ministries. However, some feedback required additional budgetary resources and/or strategic shifts were temporarily tabled.

Aside from citizen feedback mechanisms, other ways to enhance the effectiveness of service delivery include continuous performance monitoring and the use of evaluations. However, the continuous performance monitoring of service delivery by line ministries and departments remains a challenge due to the lack of evidence-based decision-making. The Government still relies heavily on donor-funded projects to finance data collection and the conducting of evaluations. Less emphasis has been placed on improving the quality of decision-making within line departments and ministries. There is an effort underway by the Budget Department to introduce a medium-term expenditure framework that would eventually include key performance indicators by program, linked to expenditures. Further developing the capacity within line ministries to take charge of their own performance information to make changes in front-line service delivery is needed.

A recent development that should improve external accountability for improved public sector performance is the recent separation of the Auditor General's Office (AGO) from the MoF. The separation of the AGO from the MoF is considered best practice for independence and autonomy and has been advocated by all previous PEFA assessments. This new arrangement gives autonomy to the office of Auditor General, limiting the MoF from withholding budget if the audit scope or results are unfavorable. Going forward, further capacitating the new AGO to conduct periodic performance audits of selected programs linked with training for Parliamentarians to take action, could yield substantial performance improvements in selected areas.

Policy Measures

Short Term

Wage bill and performance management

- Manage growth in remuneration by refraining from Cost-of-Living Adjustments (COLA) and annual automatic step increases in salary (known as notch policies)
- Fully implement the establishment policy with all positions approved by both the Budget Department and the Ministry of Public Service before sign-off with line ministries

Public procurement

- Enact the new Public Procurement Bill and associated regulations
- Develop an e-GP strategy

Public financial management

- Implement the outstanding functionalities of Revenue Management, Inventory and Asset management of the IFMIS
- Conduct a full IFMIS network audit to ensure that all network security protocols are in place and secure

Public investment management

- Commence drafting of the PIM legal framework either in the PFM law or through a stand-alone PIM law that provides a legally binding process
- Prioritize completion of on-going domestically-financed projects already included in the budget for funding instead of new projects

Fiscal decentralization

- Develop a roadmap of administrative and capacity-development needs for implementation of the Local Government Act (2022) and PFMA Act (2022) following consultations with local councils and sector ministries.

Enhancing efficiency and effectiveness of service delivery

- Extend the Citizen Feedback Mechanism pilot to other front-line services and develop a strategy to address system weaknesses and roadmap to bring the system to scale
- Conduct a system's audit of the National ID system to review stability, security and data protection issues

Medium to Long Term

Leveraging digital technology

- Improve utilization of core administrative systems such as IFMIS and HRMIS
- Invest in the security of the National ID system to unlock digital id and digital payments
- Develop a long-term strategy for the leveraging of the National ID system to enhance additional public and private services
- E-GP implementation and roll-out
- Clarify institutional arrangements management of IT and data, including implementation of interoperability and data governance frameworks
- Build core capacity for digital service delivery in the public sector
- Provide more trainings and skills transfer to IFMIS ICT and Application teams
- Develop appropriate IT policies and procedures for IFMIS users, information, and systems management

Public investment management

- Implement a comprehensive projects database for capital investments
- Establish a medium-term action plan to improve public investment management with clear and costed targets that receives cabinet approval

Fiscal decentralization

- Implement administrative reforms and the capacity-building measures to support implementation of the fiscal decentralization approach

Enhancing efficiency and effectiveness of service delivery

- Budget for the continued use and expansion of the CFM including costs for software maintenance and upgrades, staff time for data collection, quality control and intermenstrual coordination
- Develop a targeted training program for Line Ministries on evidence-based decision-making/continuous performance monitoring

World Bank Group Engagement

Lending

Project Name	Approval Date	Closing Date	Size	Project Objective
Public Sector Modernization Project (COMPLETED)	May 2016	Nov 2021	\$10 mln	To strengthen strategic-level planning, and to improve efficiency in the fiscal and human-resources management of selected ministries
Lesotho Public Sector Foundations for Efficient Service Delivery Project (PIPELINE)	Q3 2023	Aug 2026	\$20 mln	To strengthen the performance of core government functions and improve the delivery of selected services

Technical Assistance and Analytics

Name	Completion Date	Description
Kingdom of Lesotho - Public Expenditure Review	Dec 2022	Intended to support the government's efforts to adjust its policies to better address Lesotho's current macro-fiscal circumstances with chapters on the macro framework, public investment management, and the wage bill.
Lesotho ID for Development Technical Assistance	June 2022	Provided just-in-time technical assistance to the MOHA to leverage the NID-CR system for improved service delivery, public sector efficiency and financial inclusion, applying good practice principles for data governance, privacy protection, sustainability, and inclusion.
G2Px – Government to Person payments Phase 2	June 2023	Support further digitization of government payments through technical design and advise on options for a payments gateway and interoperability of existing payment modules for social grants especially and the interlinked national payment system landscape including the National Switch, and the National Payment Gateway.
Updating e-GP Readiness Assessment and e-GP Strategy Development	Jun 2023	Support LPPA to update the e-GP Readiness Assessment followed by the e-GP strategy development as key building blocks towards the next phases of e-GP implementation, including business process re-engineering, business / functional / technical specifications and finally the bidding document to procure an e-GP system
Technical support for operationalization of the new procurement law	Jun 2024	Support LPPA in establishing Procurement institutional bodies, Finalization and dissemination of procurement regulations, Procurement manual, Standard Procurement documents and training of users of the system are precondition for operationalization of the new law
IFMIS Audit Report	June 2022	Identified gaps in the full utilization of the IFMIS, including operational, functional and system design deficiencies as measured against international best practices.

GENDER

Key Issues and Challenges

Poverty has a strong gender and rural dimension. Female-headed households, particularly those headed by single women, experience acute levels of poverty at 64 percent.³⁸ While gender-disaggregated poverty data are not systematically available, the depth and severity in rural areas are characterized by marked gender gaps.

Lesotho has embraced the advancement of women's rights through the adoption of several laws and policy reforms, aligning itself with global and regional standards on gender equality. On the domestic front, reforms introduced over the last two decades, such as the Legal Capacity of Married Persons Act of 2006, the Land Act of 2010, the Local Government Elections (Amendment) Act of 2011, and the Children's Protection and Welfare Act of 2011, have created the foundation for the institutionalization of equal rights for women and enhanced women's agency and voice in both the economic and political realms. However, barriers remain to the effective implementation of these laws and policies. Contradictions with customary law on critical aspects, such as the inheritance rights of girls and women and the legal marriageable age for girls, and gaps in legislation countering domestic violence, coupled with inadequate coordination, implementation, enforcement, and monitoring of laws, continue to limit the intended effects of an otherwise gender-progressive national law and policy framework.

Human Endowment (Health and Education). There is parity in access to education and enrolment in the early grades, but gender gaps are high in terms of retention and completion. For example, the lower secondary completion rate is 50 percent, with a completion rate of 58.5 percent for girls and a much lower 41.4 percent for boys.³⁹ Among boys, dropout rates are high in primary and secondary schools, particularly in rural and mountainous areas, where boys leave school to support their families' livelihoods, primarily as herders or small-scale farmers. Dropout rates for girls also increase after primary school, driven by poverty and the costs of schooling.⁴⁰ In the health sector, Lesotho has persisting challenges that link back to the need to improve the overall quality

³⁸ Lesotho Bureau of Statistics 2016

³⁹ World Bank. 2022. "Lesotho: Gender Assessment." Washington, DC: World Bank

⁴⁰ Ibid.

of health care. Although not rooted in gender, these challenges or gaps have outcomes that impact women more than men. For instance, Lesotho has one of the highest maternal mortality ratios in the Southern African Development Community (SADC).⁴¹

Economic Opportunities. Lesotho's history and contemporary reality of migrant labor leaves many women as de facto heads of families. While this has led women to seek employment, including in the formal sector, the gender gaps in economic participation and opportunities have persisted without any reduction in women's double burden of employment and household responsibilities.⁴² The labor force participation rate (LFPR) for males in Lesotho is higher than for females across all age groups, i.e., 55.0 percent for males and 45.3 percent for females (Lesotho Bureau of Statistics 2021). LFPR and unemployment data from urban and rural areas suggest that rural women are most excluded from the labor force. Women earned 28 percent less than men. Although Lesotho has a high percentage of female-owned firms in the formal sector (39.1 percent), female-owned businesses⁴³

Voice and agency. Women's lack of voice and agency persistently drive gender gaps in outcomes. Key issues have been and remain women's lack of societal voice due to underrepresentation in national and local decision-making bodies; the limited voice of women within households associated with their lower control over household resources and fertility; and their exposure to gender-based violence. For instance, women's representation in politics has declined over the last decade and is below the standards of SADC (30 percent) and African Union (50 percent) gender parities.⁴⁴ ⁴⁵ Women have more presence at the local government level, facilitated by previous legislative quotas, evidence suggests that decision-making on the local councils continues to be dominated by male members. The existence of male-dominated chieftainships further compounds the favoring of men as key decision-makers and principal owners of key resources within households and communities. Furthermore, the prevalence of gender-based violence⁴⁶ is higher than the global estimate of 30 percent.⁴⁷ About 42.8 percent of Basotho women report having experienced physical or sexual violence in their lives, more than half (52.4 percent) within the past 12 months.⁴⁸ These practices impose high costs on the economy, with a recent Commonwealth report revealing that violence against women and girls' costs Lesotho more than \$113 million a year, or roughly 6 percent of its gross domestic product (GDP) (Commonwealth Secretariat 2020).

Due to COVID-19 impacts some gender gaps seem to have widened. Adolescents and young women have become more vulnerable to gender-based violence, early and unwanted pregnancies, and child marriage. Further, fallout from South Africa's economy since the onset of the COVID-19 pandemic has disrupted supply chains in Lesotho, causing a decline in key sectors especially micro, small, and medium enterprises, textiles, and tourism— where women have a heavy presence. The pandemic also had an impact on women and men migrant workers and their families when these workers were either stranded in South Africa or had to return to Lesotho or were unable to send money home during the pandemic. These declines in employment for both men and women will have a stronger impact on poverty levels in rural households; impacts in terms of gender gaps may emerge in time.

41 Ibid.

42 World Bank. 2022. "Lesotho: Gender Assessment." Washington, DC: World Bank

43 World Bank. 2016. Enterprise Surveys: Lesotho 2016. Washington, DC: World Bank. <https://www.enterprisesurveys.org/en/data/exploreconomies/2016/lesotho#finance>.

44 IPU (Inter-Parliamentary Union). 2017. Lesotho. Geneva: IPU. 2019. Lesotho. Geneva: IPU. https://data.ipu.org/content/lesotho?chamber_id=13443.

45 World Bank. 2022. "Lesotho: Gender Assessment." Washington, DC: World Bank

46 WHO (World Health Organization). 2021. Violence against Women: Key Facts. Geneva: WHO. <https://www.who.int/news-room/fact-sheets/detail/violence-against-women#:~:text=Estimates%20published%20by%20WHO%20indicate,sexual%20violence%20in%20their%20lifetime>.

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48 Commonwealth Secretariat. 2020. The Economic Cost of Violence against Women and Girls: A Study of Lesotho. London, Marlborough House, and Maseru, Government of Lesotho. https://thecommonwealth.org/sites/default/files/inline/The_Economic_Cost_of_Violence_Against_Women_and



Finally, one of the key cross-cutting drivers of gender inequality is the pervasiveness of patriarchal norms that manifest at both the professional and household levels, as well as across different geographic areas, age groups, and income levels. The prevalence of strong traditional beliefs that position men as the head of the household with rights devolving along the male line leads to asymmetrical power relations between men and women within Basotho society. These norms negatively impact both men and women. For instance, social norms that place men as providers and women as caregivers contribute to boys being left behind in education and limit women's ability to participate in the labor market due to the unequal burden of care and household responsibilities placed upon them. (Government of Lesotho 2019; UNDP 2015; Ministry of Health and Social Welfare and ICF Macro 2014).

Policy Measures

The 2022 Lesotho Gender Assessment in collaboration with the Ministry of Gender, Youth, Sports and Recreation identifies eight ways forward where constraints on gender equality have been most persistent and gender gaps are likely to have increased with the impacts of the COVID-19 pandemic. For the most part, the opportunities that are identified build on the government's agenda in the National Gender and Development Policy (2018–2030) and the second National Strategic Development Plan (2018–2023).

Short Term

- **Support pregnant, parenting, and at-risk adolescent girls to stay in school and facilitate return.** Short-term actions include finalizing the Prevention and Management of Learner Pregnancy Policy, which includes specific measures for supporting pregnant and at-risk girls and expediting the ongoing reform of the Children's Protection and Welfare Act of 2011 to include a provision prohibiting marriage before 18.
- **Prepare girls for education and employment in high-earning fields.** Measures include promoting education in science, technology, engineering, and mathematics (STEM) through, for example, increasing women's access to internships and programs for young professionals
- **Promote women's land rights, with a focus on rural women.** Short-term measures are (a) strengthening the local capacity and knowledge of community councils, chiefs, and rural women on matters related to land rights under the Land Act of 2010; and (b) expediting ongoing legal reforms to inheritance laws led by the Lesotho Law Reform Commission and supporting other critical reforms, such as the digitization of land records from community councils.
- **Enhance women's financial inclusion and entrepreneurship** through legislative interventions, such as enacting the Public Procurement Bill of 2021 and conducting assessments with a focus on lagging rural areas, to inform future public and private sector interventions.
- **Strengthen women's participation in local government and resource the mechanisms on gender-based violence.** In the short term, equal candidature of women in electoral processes should be supported by introducing a legislated quota system for parity within the political system and revitalizing efforts to reform the Chieftainship Act of 1968. In the short term, the government could support the development of an action plan towards meaningful implementation of the Counter Domestic Violence Bill 2021 and adequately resource and enhance the capacity of the Anti-GBV Coordination Forum, as well as expediting the rollout of the national gender-based violence data collection tool to support evidence-based policymaking and programming.
- **Initiate gender-responsive budgeting, cutting across relevant ministries.** Such an initiative would, in the short term, build national capacity in gender-responsive budgeting at the macro and micro levels, including planning, tracking, monitoring and evaluation.

Medium Term

- **Support pregnant, parenting, and at-risk adolescent girls to stay in school and facilitate return.** The emphasis should be on social norm change programs with a focus on building girls' personal aspirations and attitude change programming for boys as a counterpoint to the influence of patriarchal values endorsing child marriage and refusal to use contraception.
- **Recognize, reduce, and redistribute unpaid care work and improve working conditions for women** through social norm change programs and behavior change communication developed in partnership with civil society organizations. Actions are (a) providing paid and gender-equitable parental leave to foster improved family structures and norms combined with behavior change and awareness-raising programs to ensure the uptake of paternity leave; (b) regulatory and enforcement procedures to improve working conditions for women workers, particularly in women-dominated and informal sectors such as manufacturing and

the household sector; (c) improving the affordability and accessibility of childcare options for low-income households, with a focus on free and low-cost options; and (d) promoting pay transparency and equal pay for equal work for both men and women.

- **Support boys and girls to enter and stay in secondary school and make it easy for them to return if they drop out.** This medium- to longer-term objective can be achieved by promoting social norm change programs to keep boys and girls in school (changing norms related to the roles of boys and girls in society) and targeting initiation schools and the reintegration of boys into the formal school system after initiation.
- **Prepare girls for education and employment in high-earning fields.** Measures include implementing programs targeting teachers, students, and parents that challenge the social norms that hinder girls' uptake of and success in higher-earning professions. Such programs could provide targeted peer group support and role modeling of women in STEM; and introduce employment targets for women in STEM.
- **Enhance women's financial inclusion and entrepreneurship.** Measures include introducing comprehensive gender-focused business development services, particularly in rural areas; developing new mechanisms for evaluating women's creditworthiness; and capacity building in both bank and nonbank financial institutions, including microfinance institutions, to address the discrimination that persists, despite the legal protections, and support the effective implementation of laws on the ground.
- **Initiate gender-responsive budgeting, cutting across relevant ministries.** In the medium to longer term, the focus should be on piloting gender-responsive budgeting with an emphasis on programs and policies relating to labor force participation and employment in a line ministry where the impact on narrowing gender gaps can be significant. Line ministries responsible for programs or policies relating to women in informal employment, women entrepreneurs, the household sector, and the manufacturing sector would be the most relevant for this intervention.

World Bank Group Engagement

Technical Assistance and Analytics.

Name	Completion Date	Short description
South Africa Gender platform FY22–23 (P177311)	<p>Completed: Co- launched with Ministry of Gender, Youth and Sports and Recreation, Lesotho Gender Assessment, April 2022</p> <p>Ongoing: Support to World Bank projects in identifying entry points & increasing impact by addressing priority gender gaps in Lesotho. The Gender platform team will support World Bank's portfolio and policy dialogue with government towards addressing identified legal and social barriers that hinder outcomes for women. In particular, gender gaps were found to be widest in the economic opportunities and voice and agency domains, which is a strategic focus of the ongoing support.</p>	To promote strategic support to address priority gender gaps – (i) identifying entry points & leveraging the pipeline & portfolio; (ii) generating & sharing knowledge and building capacity across sectors and with clients on addressing gender issues.

TERRITORIAL DEVELOPMENT AND DECENTRALIZATION

Key Issues and Challenges

Territorial development focuses on spatial inequality and efficiency in the context of leading and lagging regions to create regional convergence of living standards while also supporting the creation of economic opportunities based on local endowments and specializations. Thus, there is a need for a spatially differential approach in lagging versus leading regions to support the objectives of poverty reduction and economic growth. Based on other countries' experience, territorial development objectives are achieved through a three-pronged approach:

- Spatially agnostic strengthening of institutions to support service delivery
- Spatially connective infrastructure to reduce economic distance
- Spatially targeted interventions to tackle context-specific challenges to improve living standards

In Lesotho, the need for territorial development is highlighted by the gap of poverty ratio and service delivery indicators between urban and rural/mountain areas (Figure 4 under Resuming and Accelerating Poverty Reduction and Shared Prosperity). For example, most parts of Thaba-Tseka district do not benefit from the economic performance of Maseru district as there is a lack of connectivity: the Senqunyane River forms the border between the two districts creating economic distance, which in turn manifests as poorer development outcomes in Thaba-Tseka.

The new Local Government Act in 2022 is an opportunity for territorial development. The government has been attempting to establish a legal/institutional framework for decentralization, including the 2013 Decentralization Policy. However, few measures have been implemented to advance this objective. The Act includes adjustments to the decentralization framework with a focus on political decentralization. It includes provisions for the restructuring of councils, the



establishment of local assemblies (elections and term limits), the establishment of committees and planning units, and the structuring of executive authority in Councils. Further discussions on fiscal decentralization may be necessary to ensure adequate financial and human resources to support improved service delivery across the country.

Analytical works to inform evidence-based territorial development exist and will be leveraged for the territorial development analytics in Lesotho. However, they rely on quality and availability of data/information, which appear to be limited at the national level and more at the sub-national level in Lesotho. Nevertheless, the World Bank has been formulating the territorial development framework with the following three elements⁴⁹:

- **Density or the concentration of economic activity (firms/people)** to identify economic opportunities through agglomeration effects and lower cost of basic infrastructure and service delivery in Maseru and key secondary cities/towns.
- **Distance or the barriers to connectivity between people and firms and markets.** This analysis enables the identification of economic opportunity and paves the way for regional specialization in goods and services. Improved connectivity to economically dense areas can support economic development in less dense areas (through trade and value chain linkages),

⁴⁹ Framework adapted from World Development Report 2009 on Economic Geography.

but can also trigger migration to the leading areas that may be unable to keep up with the influx of people and succumb to congestion.

- **Disparity in living standards or the lack of access to basic services and infrastructure in lagging areas.** For example, access to electricity in Lesotho's urban areas is more than double that in rural areas (78 percent vs. 35 percent)⁵⁰.

The aforementioned elements will be captured in a 'lagginess index' which measures the extent to which Lesotho's districts and constituencies are lagging behind on metrics such as economic density, poverty rate, and climate resilience and human development indicators (e.g., years of schooling). This index will allow for an objective benchmark to help categorize Lesotho's districts and develop spatially differentiated policy and investment programs to support the development of lagging regions while also supporting the identification of urban centers that can be competitively developed to tap into the competitive advantages of Lesotho's districts with the aim to support job creation and higher incomes.

Policy Measures

Short-term

- Develop a Territorial Development National Strategy with spatially differentiated policy and investment programs to create resilient growth and inclusive development.
- Commence implementation of the Local Government Act (2022) to ensure sufficient capacity and resources at the sub-national level to support the objectives of territorial development

Medium-term

- Improve access to basic infrastructure and services across the country allowing for district-level discretion in selection of priority sectors (e.g., water, sanitation, education, health) through leveraging community-led investment selection and prioritization led by local government structures, whenever possible.
- Identify key investments for Maseru city and neighboring areas to ensure economic growth of the primary city and competitiveness in international market
- Select and invest in key secondary cities/towns to improve economic opportunities in lagging areas and strengthen trade/value chain links with Maseru.
- Deepen connectivity within Lesotho and with key cities in the Republic of South Africa to improve economic linkages. Strengthen connective infrastructure (roads /bridges /footbridges / broadband internet) to improve people's access to basic services (e.g., schools/ medical centers).
- Invest in climate resilience infrastructure to reduce the impact of climate events on people, economy, and assets. Focus on climate adaptation to reduce the impact of floods and droughts.

⁵⁰ WDI Indicators, 2020.

World Bank Group Engagement

Name	Completion Date	Short description
Country Partnership Framework (CPF) FY23-27	Expected in Jan-Mar 2023.	The CPF will adopt the lagging-region approach.
Lesotho Territorial Development Review (P177781)	Expected in June 2024	To improve the understanding of needs in leading vs. lagging regions of Lesotho to inform spatially differentiated policy reforms and investment programs Combination of spatial and non-spatial analytics, including the development of a 'lagging index' to benchmark Lesotho's districts in terms of economic density, poverty rate, and climate resilience and human development indicators to better understand the drivers of spatial inequality followed by the identification of spatially differentiated policy reforms and investment programs to support convergence in living standards and economic performance for resilient growth and inclusive development in line with district-level needs and endowments/specializations

PUBLIC PRIVATE PARTNERSHIPS

Key Issues and Challenges

Lesotho's national strategy prioritized infrastructure development, but the reality is stark.

Infrastructure deficits continue to press across all domains. Furthermore, geographically, Lesotho is largely rural in dwelling, with human settlements dispersed in hilly terrain, which presents substantial challenges in agglomeration of infrastructure services for efficiency. Road connectivity is poor, the Maseru International Airport, which is served by only one airline in a context of a largely absent domestic air market, stands in need of substantial investment to improve critical safety concerns. Energy connectivity remains disproportionately distributed, with more connections in urban areas and almost none in the rural areas, and getting connected remains expensive and covers a minority of the population, while generation mix (energy supply) remains inadequate. Water and sanitation service coverage, and access to such critical basic services as schools and health services, are similarly limited, and financial inclusion remains low.

The 2018 PPP Readiness Diagnostic notes that Lesotho is yet to leverage private capital in consolidating public infrastructure.

Lesotho faces several substantially binding constraints including absence of an adequately enabling PPP legal framework, nascent and inexperienced national PPP institutions, weak public sector capacity partly stemming from a limited understanding of the PPP business model, limited private sector capacity hence low involvement in PPP investments, and governance gaps.

These challenges have become more compelling due to limited fiscal space and weak country macroeconomic fundamentals.

It is important to identify where the PPP investment opportunities are, assess their replicability and scalability, their affordability and sustainability, and how they link to economic recovery. It is also important to identify which public agencies will spearhead the identified projects. Capacity to execute, and the framework for interventions and resourcing of inputs and project preparation, need to be structured around a few first mover flagship projects.



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Through World Bank support under a **Public Private Infrastructure Advisory Facility (PPIAF) Country PPP Readiness Diagnostic (TF053980)**, Lesotho adopted a PPP Policy in 2018 and initiated development of draft PPP Regulations under the country's Public Financial Management Accountability Act (PFMAA), and also initiated a process for PPP pipeline development. The PPP regulations, through which the PPP policy was to be implemented, are yet to be adopted. A PPP Office has been established at the Ministry of Finance, but remains understaffed (mainly one staffer in post). PPP pipeline development did not progress as anticipated.

Global evidence suggests that four key determinants define the ability of a country to move their PPP agendas forward: (a) the quality of the PPP regulatory environment, (b) the strength and quality of regulation on unsolicited proposals, (c) the quality of procurement practices, and (d) the quality of contract management practices⁵¹. These determinants shape the robustness of public investment planning, project preparation and de-risking mechanisms, management of PPP fiscal risk exposure, and provide context and rationale for strong/creditworthy public sector contracting authorities, strong institutional arrangements and public sector capacities, and the opportunity to progressively build a market for long-term local currency financing.

The Government requested the World Bank assistance to jumpstart its PPP program. The government and the World Bank agreed on the following priorities for Lesotho's PPP program in the short and medium terms: (a) completion of a supportive legal framework; (b) strengthening

51 PPI Report, 2022, The World Bank

PPP institutions; (c) development of a properly screened and prioritized pipeline of first mover transactions; and (d) outreach and capacity building for both the public and private sector. These priorities serve to consolidate gains made under previous World Bank support programs, while charting new ground in Lesotho's PPP journey. We capture these broad programmatic issues in the recommended policy measures below.

Policy Measures

Short Term

PPP Legal Framework and Implementation Tools:

- Establishment of a PPP legal framework through finalization of the draft PPP Regulations. The regulations are expected to provide process clarity and encompasses key PPP values and disciplines, rationalizes PPPs within the broader public investment management framework, addresses fiscal commitments and contingent liabilities, promotes PPP market and framework transparency for an enabled private sector, and entrenches a climate focus.
- Update the 2018 PPP Policy to reflect current realities and aspirations.
- Issue PPP implementation guidelines, tools and templates to support quality project development, process standardization, and framework transparency for greater private sector confidence and understanding of the PPP space.
- Develop a formal, structured project identification screening selection and prioritization methodology that entrenches objective choices in PPP candidate project ideas, and anchor such a methodology to the PPP Implementation Guidelines or PPP Regulations for improved bindingness and lowering of compliance costs for PPP implementers;

Medium Term

PPP Institutions and Capacity Building

- Strengthen the PPP Office at the MOF by implementing the recently developed organizational structure, which aims to recruit a critical mass of competent and qualified staff for the PPP Office.
- Strengthen PPP awareness, improve the quality of project selection, and strengthen gatekeeping on unsolicited proposals through provision of structured capacity building and strong gatekeeping measures by the MOF.
- Build capacity for private sector stakeholders on the PPP process, key values and engagement frameworks, including government support measures in order to promote wider Basotho business participation in PPPs
- Outreach to stakeholders to create awareness of PPP opportunities, showcase best practice examples, entrench critical good governance practices in PPP project identification, appraisal and procurement, and promote public accountability in PPP contracts.

PPP Projects Pipeline

- Identify a properly screened and prioritized pipeline of first mover transactions that are aligned with Lesotho's macroeconomic and fiscal frameworks and linked to economic recovery as the key demand and supply drivers to stimulate and jumpstart the PPP market;
- Identify and resource a clear funding mechanism for project preparation, procurement and implementation (both Government Budget and development partner resourcing)

Long Term

- Adopt a centralized public investment management framework that unifies, rationalizes and disciplines public infrastructure planning and financing, including public private partnerships
- Adopt a Fiscal Commitments and Contingent Liabilities Management and Reporting Framework to account for the liabilities that arise from public investment programs, in a way that aligns with the country's macroeconomic and fiscal frameworks and priorities;
- Evaluate the possibility and need for a project development fund (to support project preparation and procurement) and a viability gap fund (to support project bankability);
- Adopt a formal PPP projects and contract data disclosure framework to promote public accountability over PPPs, ensure citizen participation, and enables impact monitoring and measurement by both state and non-state actors;
- Design and deploy an effective contract management and evaluation framework anchored on performance indicators and satisfaction of public interests in PPP projects, and which embeds tools and mechanisms for government takeover of troubled, failing or collapsed PPP arrangements, to secure the public interest and guarantee continued performance/delivery of related public functions/services;
- Develop a structured private sector engagement strategy on PPPs to promote local private sector participation in PPPs, and build the capacity of local financial institutions

World Bank Group Engagements

Technical Assistance and Analytics

Name	Approval Date	Completion Date	Short Description
Country PPP Readiness Diagnostic 2019 (TF053980 – Parent Trust Fund and TF0A7319 – Child Trust Fund - \$236,315)	1/22/2018	12/31/2020	To undertake a PPP Country Readiness Diagnostic, support in preparation of PPP Roadmap/Business Plan, assist in PPP Institutional Development, Assistance in finalization of the draft PPP Act and Regulations, support PPP Pipeline Development and initial pre-feasibility study work, Support PPP Sensitization

ADDRESSING GAPS IN STATISTICS FOR EFFECTIVE PUBLIC POLICY MAKING

Issues and Challenges

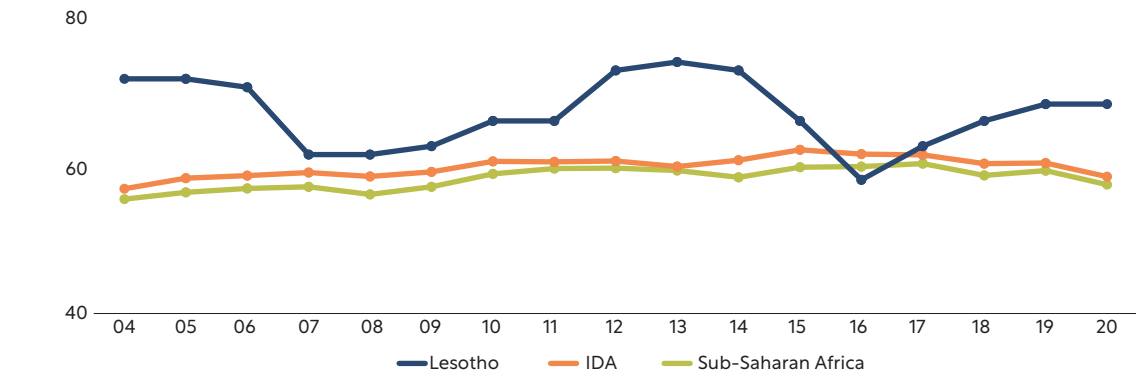
The state of statistics in Lesotho has been improving, especially after the adoption of the first National Strategy for the Development of Statistics I (NSDS-I) covering the period 2006/7-2015/16. The routine statistical work has been regularized including National Accounts, Foreign Trade Statistics, the Consumer Price Index) and the conduct of regular quarterly and annual surveys, which include the Continuous Multipurpose Household Survey (CMS), the Survey of Manufacturing and the Agricultural Production Survey (APS). National Accounts were re-based using 2012 constant prices whereas quarterly GDP estimates have been published since 2018. A Data Dissemination policy was approved, enabling the availability of anonymized micro-data to the public and stimulating the demand for statistical products. Similarly, the Open Data Portal, the Lesotho Microdata Catalogue, the guide on Concepts and Definitions and the Lesotho Quality Assessment Framework (LeSQAF) have become available. These improvements are evident in the recovery seen in the World Bank's Statistical Capacity Indicator (SCI) since 2017 (Figure 12).

But many challenges remain, starting with a weak institutional framework for statistics.

The Lesotho Bureau of Statistics (BOS), under the Ministry of Development Planning, is mandated by the 2001 Statistics Act to collect and publish official statistics in collaboration with other players in the National Statistical System (NSS). There are 15 sectoral Ministries, Departments and Agencies (MDAs) that are part of the NSS Strategic Plan. However, many gaps exist in the current statistics legislation such as unspecified responsibilities of the different members of the NSS. The MDAs do not have separate statistical units and few statistical activities are not coordinated across NSS members. While the adoption of the NSDSs is a right step, an independent evaluation of NSDS-I revealed several institutional shortcomings, including partial implementation of the strategy.

The NSS is largely unfunded and annual budgets are erratic. Planning and budgeting to establish the infrastructure and capacity needed to produce quality statistics are erratic. The lack

Figure 12. Lesotho's SCI has improved in recent years and is again above the regional average



Source: World Bank

of autonomy of BOS compromises its ability to perform its mandate with adequate planning and budget. At the same time, the involvement of Development Partners (DPs) in the strategy and financing of statistics is limited and often linked to ad-hoc demands for specific surveys, creating a vacuum on critical core statistics. The BOS does not have strong partnerships with regional and international organizations.

Furthermore, insufficient physical infrastructure, human resources and skills and statistical infrastructure are constraints. BOS' offices, both the central campus and 10 districts, were not purposely built for statistical work. ICT hardware and software are outdated, and internet connectivity is poor. The BOS is understaffed and many of the necessary skills are lacking. About 70 percent of the staff does not have a professional degree. The BOS struggles to retain the most experienced and qualified staff. Capacity is missing in many areas and technical and non-technical staff lack the necessary training, largely the result of BOS not having a Training Needs Assessment. Key elements of the statistical infrastructure, such as standards, classifications, sound methods for survey design and computations of statistics, metadata repositories and information systems, are underdeveloped

All the above challenges have adversely affected the completeness, quality, relevance, timeliness and credibility of statistics. As a result, there is limited availability of statistics to monitor and evaluate progress of the second National Strategic Development Plan (NSDP2) and the SDGs. Also, there are persistent delays in the implementation and publication of surveys. For instance, it took more than two years to publish the results of the Labor Force Survey collected in 2019 even though job creation is a national development priority. Important surveys are not conducted frequently, as they are funded by development partners. There is generally a lack of information communication technology (ICT) strategy for the collection, analysis, and dissemination of statistics. Digital technologies such as Computer-Assisted Personal Interviews (CAPI) and tablets for data collection are only partially adopted for major statistical operations while there is still heavy reliance on paper forms for important data. Several indicators are not compatible with international frameworks and classifications. Micro-data on poverty and other welfare measures is not regularly collected. The latest household survey available to measure poverty dates back to 2017/18, which was preceded by a survey conducted in 2002. There is little use of administrative records, big data and other third-party data for the production of statistics.

Low appreciation for the value of data by policy makers and inadequate statistical literacy among users further compound a vicious cycle of underproduction and underutilization of statistics. Overall, data is undervalued by most stakeholders, including policy makers, partly because of low research and analytical capabilities at the BOS. There is a lack of tools to improve statistical awareness among users of data, such as user/producer workshops. Similarly, mechanisms for collaboration and coordination through development of strategic partnerships with other data producers and users –such as the private sector, civil society, and academic institutions– are mostly absent. Missing documentation of metadata and protocols for data exchange further undermine the demand for statistics.

Policy Measures

Addressing the most pressing shortcomings in the NSS require prioritizing actions in the following areas, which have varying time frames for implementation:

Short term

- Formulate a human resource development and performance management strategy for the BOS.
- Undertake a training needs assessments and implement recruiting and training plans. The latter can be achieved through on-the-job training, short and long-term training courses, locally (in partnership with the National University of Lesotho) or regionally where required.
- Extend automated field data collection mechanisms such as CAPI to more surveys.
- Establish a formal fundraising and coordination mechanism with development partners.

Medium term

- Update and enact comprehensive statistics legislation to align it with international best practices, including grating planning and funding autonomy to BOS.
- Create the institutional architecture in the NSS to effectively implement NSDSs.
- Prioritize more regular large scale statistical operations such as the Continuous Multipurpose Household Survey/Household Budget Survey that are critical to inform, monitor and evaluate Lesotho’s development agenda.
- Enhance mechanisms to increase the demand and utilization of data and statistics, such as formal instruments of coordination and collaboration across MDAs (for instance, MoUs), data anonymization, documentation of metadata, open data policy, user and producer workshops, and sensitization activities.
- Leverage other non-traditional sources of information for statistics such as administrative records, geo-spatial data and big data.



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World Bank Group Engagement

Name	Approval Date	Closing Date	Size	Project Objective
Nutrition and Health System Strengthening Project	Aug 2021	Aug 2026	\$22.0 mln, TF PON \$4.4 mln, Total \$26.40 mln	This project budgeted around US\$1 million to support specific data production in Lesotho, including a contribution to the DHS 2021 and a MICS 2025.
Pathways to Sustainable Livelihoods Project, PSLP (P177814)	June 23, 2022	June 30, 2027	\$26.5m	The World Bank collaborates with BOS and the Ministry of Social Development in the design, implementation and analysis of a survey to assess the impact of the ongoing WB “Pathways to Sustainable Livelihoods Project”.
Regional statistics project	-	-	-	The WB is currently preparing a regional project with the Southern African Development Community (SADC). The main objective is to support the production of harmonized and quality statistics in some of the SADC member states through capacity building and investments in major statistical operations of their National Statistical Offices and the SADC Secretariat. Lesotho could benefit greatly from participating in this project.



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