

1. CAS Data**Country:** Lesotho**CAS Year:** FY1998**CAS Period:** FY1998- FY2000**CASCR Review Period:** FY1998 – FY2005**Date of this review** April 12, 2006**2. Executive Summary**

The FY98 CAS period, initially FY1998-2000, was extended to FY2005 as contested elections in 1998 led to political turmoil, a new government was elected only in 2002, and time was required to formulate a new program. The CAS objectives of poverty reduction and promoting integration into regional/world economies were consistent with the strategy of both the prior and current governments. These objectives were relevant but not achieved. The percentage of ultra poor households (incomes less than half the national poverty line) increased from 35% to 39%, while the overall poverty rate was unchanged at 58%. Little has been done to promote integration of Lesotho's economy into regional and world economies. Lesotho was able to attract large inflows of FDI and did benefit from a substantial growth of textile exports to the US from 2001-2005 as the US lowered Lesotho's textile import barriers, but there is already evidence of declines in exports as all textile quotas are being phased out. The FY98 CAS did not focus on HIV/AIDS despite evidence of it being a serious problem. In the event, Lesotho now has the highest HIV/AIDS prevalence rate (24%) among all IDA countries.

Approved at end May 1998, the CAS proposed four IDA credits for a total of \$50 million during FY99-00. Lending for these years came to \$32 million, while lending for FY01-05 came to \$76 million for an average of \$15 million per year over the 7 years. Only 44% of the outcomes of projects exiting the portfolio during FY98-05 were rated satisfactory, well below the average for Africa and the Bank. Some projects were pursued without firm government support and were too ambitious, with capacity constraints not well identified. However, portfolio management may be improving as no projects are now rated at risk. Physical implementation of the Lesotho Highlands Water Projects (LHWP), approved prior to the FY98 CAS, has been sound, although an environmental issue was identified. In addition, a major case of corruption against the former project administrator and Acres International (which was made ineligible to seek Bank-financed projects for a period of three years) was prosecuted by Lesotho with Bank support; other cases are still being prosecuted. Finally, two of the six proposed AAA tasks were not implemented and in place of a separate labor market study the CEM contained an analysis of labor market issues.

Achievement of the FY98 CAS objectives is rated "Moderately Unsatisfactory" by the CASCR while this review rates the outcome as "Unsatisfactory". The CASCR rates Bank Performance as moderately unsatisfactory (not a standard rating for Bank performance) while this CASCR Review rates Bank Performance as "Unsatisfactory".

The 2001 Lesotho Country Assistance Evaluation (CAE) evaluated implementation of the FY98 CAS through 2000. It evaluated the outcome of the Bank's assistance program as moderately unsatisfactory and noted shortfalls in Bank performance. The CAE recommended that World Bank assistance should continue to support reducing poverty and inequality by focusing on the quality of education and human capital development, combating HIV/AIDS, strengthening rural institutions, enhancing the enabling environment for private sector development, assisting Lesotho to improve its statistical database (most urgently in areas related to poverty reduction) and promote monitoring and evaluation systems. The CAE noted that the Bank's consultations with donors could be enhanced by a stronger operational representation in Maseru, or more frequent interaction with the government and development partners from the Bank's office in Pretoria. Although some progress has been achieved, this CASCR Review's findings are fully consistent with those of the CAE.

3. CASCR Summary

Overview of CAS Relevance:

- The FY98 CAS covered FY99-00, but during implementation the CAS period was extended through FY05 because of political instability stemming from contested election results (May, 1998), a mutiny by military officers and civil unrest which continued until troops from the Southern African Development Community restored calm. A political stalemate was resolved with new elections in 2002. The CAS period was further extended as the new government created a national consensus and prepared its strategies and programs. These included the National Development Goals and Vision 2020, and, most importantly, the 2004 Poverty Reduction Strategy Paper (PRSP).
- The main objectives of the 1998 CAS strategy were poverty reduction and closer economic integration with regional and global economies. This was consistent with the priorities of the government in power in 1998 as well as those priorities of the new government. The new government's focus was refined with the PRSP as: (i) rapidly expanding employment through private-sector led economic growth; (ii) delivering poverty-targeted programs that empower poor and vulnerable people; and (iii) deepening democracy and improving public sector performance.
- The key issues:
 - The poverty reduction objective was relevant in view of Lesotho's high poverty level. Demand for unskilled labor in South African gold mines is decreasing with resulting unemployment. Demand for skilled/professional workers is high in South Africa causing a brain drain thereby exacerbating capacity constraints. The CAS' proposed lending program was relevant to this objective, including projects for health, education, community development, and water supply. However, project formulation and implementation did not fully factor in either the political environment or institutional capacity constraints. At the macro level, the program to support GDP growth did not have a strong focus on private sector development with only one high case project which was not implemented. The Bank's assistance program for this objective as it was implemented was of modest relevance.
 - The regional integration objective was relevant. As a small country located geographically within the Republic of South Africa, Lesotho will need to increase its trade to grow and diversify. Private sector development needed for regional integration is constrained by public ownership of enterprises, formal and informal trade barriers, and the high costs of doing business. Therefore, the program as implemented merits a rating of negligible relevance.
 - The CAS did not focus on HIV/AIDS, although Lesotho has the highest HIV/AIDS incidence among IDA countries. This was a missed opportunity to assist Lesotho as HIV/AIDS was increasing dramatically. Subsequent to the CAS, and partly in response to the CAE's recommendation that the Bank address this issue much more forcefully, AIDS components were added to both the Health Sector Reform Project and to the FY98 Agricultural Policy and Capacity Building Project (APCBP). Further, an HIV/AIDS Capacity Building Project was added to the program in FY 2005. Therefore, the Bank's assistance became more relevant to addressing HIV/AIDS during CAS implementation.
- Overall, the relevance of the assistance program as implemented is rated as modest.

Overview of CAS Implementation:

- Overall lending volumes were lower than projected in the CAS. The CAS projected lending for five projects for US\$60 million (including US\$10 million for a GEF project) over two years. Actual lending came to US\$32 million for three projects (US\$ 21 million for the FY99 2nd Education Sector Development Project (ESDP), US\$6.5 million for FY00 Health Sector Phase I, and US\$4.7 million for the Community Development Support (CDS) project, and has averaged just US\$15 million per year from FY2001-2005. The sector allocation of lending was as foreseen, with the exception of a private sector development operation which was not implemented.
- Only two of the six proposed ESW tasks were completed within the CAS period, the FY99 Financial Sector Review (FSR) and the FY99 Public Expenditure Review (PER). The FSR was a basis for the FY99 Financial Institutions Act which initiated liberalization of the sector. The PER helped government focus on key fiscal issues. An Education Sector Review was substantially completed in FY05, but the proposed Health Sector Review and the Civil Service Reform task are outstanding, while in place of a separate study on Labor Market Dynamics, the FY05CEM contained an analysis of labor market issues. However, the FY05 CEM offers useful suggestions for addressing constraints to employment. A trust fund financed Integrated Framework Diagnostic Trade Integration Study was completed in 2003. The PRSP was introduced into the ESW program after the FY98CAS, and now plays a central role in the assistance program, especially in strengthening its poverty focus. The PRSP was based on a highly participatory process with a strong focus on poverty reduction though more detailed work will be needed to make it fully operational. A comprehensive financing plan is also needed.
- As the CASC noted, monitoring and evaluation were not adequately built into the program. In view of capacity constraints on the part of Government, this was a costly omission which obscured the need for mid-course corrections in project implementation. The PRSP requires a national M&E system for poverty reduction, but nothing has yet been done to create such a system (an IDF grant is under discussion).
- The triggers for the high case (comprising two additional projects) were clearly spelled out but were not fully met. They included improved portfolio management with no project at risk or with problems (now met), good implementation of reforms under the FY94 Privatization/Restructuring Project including addressing constraints of the three utilities (partially met), and enhancement of the Lesotho Highlands Revenue Fund (LHRF) with new legislation to provide a clear poverty focus and implementation of the Poverty Action Plan and poverty monitoring systems(not met, despite extra efforts by the Bank to work with the government).. Subsequent to the CAS period, one of the two high case projects (Water Supply) was implemented.
- Nine projects exited the portfolio from FY98-2005: 44% were satisfactory, 11% had an Institutional Development Impact (IDI) rating of substantial, and 50% a sustainability rating of likely (after excluding 3 projects which received a rating of non-evaluable, an unusually high occurrence). These ratings are much below averages for Africa. By contrast, none of the six ongoing projects is rated "at risk". However, there have been disconnects in the past (of the five projects which exited the portfolio from FY98-05 with outcomes evaluated as unsatisfactory or moderately unsatisfactory, three had received final DO and IP ratings of satisfactory).
- The Lesotho Highlands Water Project (LHWP) is an important ongoing project. It is a four-phase binational project between Lesotho and the Republic of South Africa (RSA), involving the export of water from Lesotho and power generation to meet Lesotho's power needs. Phase 1 of the four phase project comprises two components with costs of \$2.6 billion and \$1.1 billion. The Bank assisted in facilitating the treaty between Lesotho and RSA governing the LHWP and has thus far financed 4 % of total costs, including the FY98 LHWP IB, approved prior to the FY98 CAS. Issues of corruption were raised in the LHWP.

- The program assisted by the Community Development Support (CDS) project was also affected by corruption, as vested interests captured a number of subprojects which compromised the effectiveness of the CDS project. However, the CDS project itself was not affected by corruption. There do not appear to be any specific safeguards or fiduciary issues related to World Bank projects at this time.
- The program has done little to assist Lesotho to meet the exogenous shocks it faced. These included the accelerating decline in demand for labor in South Africa's gold mines and shifts in world trade in textiles, both of which are resulting in increased poverty.

Overview of Achievement by Objective:

1. *Poverty Reduction through Investing in Human Resources:* There was no change in percentage of households living below the poverty line and a substantial increase in the percentage of the population living in extreme poverty. The outcome of this objective is unsatisfactory.

- (i) *Poverty Reduction in Rural Areas:* The FY00 CDS tried to introduce a participatory demand-driven development system but has had little impact and its outcome was rated unsatisfactory. Severing this project from LHWP removed leverage and hobbled the Bank's poverty reduction work. The FY96 Road Rehabilitation and Maintenance Project was rated moderately satisfactory but IEG's performance assessment noted that, although privatized road maintenance was beneficial, project design did not adequately account for low capacity and that major institutional reforms to create a new agency for road maintenance had not yet taken place. The FY98 APCBP comprised dozens of significant project activities (signaling unsatisfactory quality at entry) and should have been simplified. The Ministry of Agriculture showed little ownership. In addition, implementation was hindered by delays in proposed civil service reform and decentralization, which the project was to have complemented. The outcome of APCBP was rated moderately unsatisfactory. Finally, the CAE recommended that the Bank program should support strengthening rural institutions and the statistical data base in areas related to poverty reduction, neither of which has yet been achieved.
- (ii) *Investing in Human Resources.* Progress was made in education as primary school enrollment increased from 65% in 1998 to 86% in 2002, and secondary school enrollment rates increased from 14% to 22 % during those years. By contrast, despite the FY00 Health Sector Phase I project and the new FY06 Health Sector Phase II project, some key indicators are still moving in the wrong direction. The infant mortality rate has increased from 75 in 2000 to 79 in 2003 (against a CAS target of 20), life expectancy decreased from 47 in 2000 to 37 in 2003 and the prevalence of HIV now at 24 percent is the highest of any IDA country. There has been no change in the percentage of the population with access to improved sanitation facilities at 37% for both 1990 and 2002.
- (iii) *Promotion of a Comprehensive Approach to the Natural Environment.* The Water Supply Improvement Project became effective only in 2005 and has yet to show results. The APCBP was to have provided support for range management, but did not achieve results. A GEF project (FY00 Maluti/Drakensburg, jointly implemented with South Africa) focused on biodiversity conservation and sustainable eco-tourism development but has yet to achieve any impact. Finally, the LHWP compromised the environment by providing only inadequate water flow in local streams. The Bank could have confronted the project authority earlier and more forcefully on this important issue, but substantial progress has now been made and flows have been increased.

2. *Supporting Closer Integration into the Regional Economy.* The outcome of this objective was unsatisfactory.

- (i) *Improve Macro-Policy Environment.* The FY99 PER helped focus government on key fiscal issues. The FY01 Utilities Sector Reform Project (LUSRP), which was not

included in the CAS, has improved public finance by helping to contain losses in the Telecommunications and Electricity utilities. The LHWP has been generating large amounts of resources since 1998. However, GDP growth at only 2% per year from 1998-2005 has been insufficient to reduce poverty.

- (ii) *Privatization and Private Sector Development.* Despite the relevance of this objective, the CAS proposed only one project related to its achievement and this was not implemented. A project approved prior to the CAS, the FY94 Privatization/restructuring project fell short in both of its objectives (improve the environment for private sector development and assist in privatization). A study on labor market dynamics proposed for FY2000 was rolled into the FY2005 CEM which contains a good analysis of labor market constraints. The CEM and Integrated Framework Diagnostic Trade Integration Study together offer specific guidance on policies to improve trade prospects, but do not appear to have had a strong impact to date. Privatization progress was disappointing; little progress was made under the APCBP or the FY94 Privatization/Restructuring project. More recently, privatization of Lesotho Telecoms and the placement of the Lesotho Electricity Company under a management contract resulted in substantial improvements. The number of telephone subscribers increased 10-fold from 2001 to 2005 when it reached almost 290,000. The electrification rate increased from 5 percent to 11 percent from 2001 to 2004. Despite these specific instances of progress, private sector development in general has been lagging. Lesotho ranks 101st for trading across borders (out of 150 countries) according to "Doing Business" indicators, 111th for ease of starting a business, and 117th for registering a company. It takes 50 % more time to start a business in Lesotho than the average for the Africa Region. Some progress has been made in reducing the time needed for imports, with 50 days required, compared to the Sub-Saharan average of 61 days, but this is still 4 times longer than the OECD average. Lesotho has not well utilized the boom in textile exports from 2001 to 2005 resulting from improved access to the US market, and this has now reversed with the general quota liberalization, leaving Lesotho still seeking to generate alternatives. Although the phase-out of this advantage was well known in advance, the Bank's assistance program, while providing some advice, has had little impact in helping Lesotho to adjust.
- (iii) *Build Institutional Capacity.* Some improvements in capacity were achieved in the education sector (distance learning for teachers, training of Management Committees and Secondary School Boards), and in the health sector (strengthened capacity of the Directorate of Planning to coordinate and monitor the reform program along with some improvement in financial management and information systems). The LHWP played an important role in improving institutional capacity, despite the Bank providing only 3% of total financing. The Bank improved technical quality of the LHWP which was well done, aside from the environmental impact noted above. Finally, the Bank assisted the government to prosecute corruption charges against the former chief executive of the Lesotho Highlands Development Authority (LHDA) and against Acres International. Another case is still in process. Despite these specific improvements, however, overall capacity is still a severe constraint.

Achievement of CAS Objectives			
Objectives	CASCR Rating	IEG Rating	Explanation / Comments
Poverty Reduction through investing in Human Resources	Unsatisfactory	Unsatisfactory	Poverty unchanged, extreme poverty increased. Good progress on education, poor outcomes in the health sector (and especially concerning HIV/AIDS), community development support, and

			agriculture policy and capacity building
Supporting Closer Integration into the Regional Economy	The CASCR rates this "less than satisfactory"	Unsatisfactory	Privatization programs achieved much less than envisaged, private sector development work has had low impact. Labor productivity remains low compared to wages. Infrastructure bottlenecks remain.

Comments on Bank Performance:

- The Bank's strategy was generally relevant, but did not take adequate account of capacity constraints, the need for government ownership, and the need for feedback from monitoring and evaluation. Quality at entry was very variable – good on education, health, much less good on other projects. The Bank did not take into account the long gestation period needed for Bank projects nor did it effectively pursue measures to address this issue (it takes an average of 919 days to prepare a project in Lesotho, vs. an average of 502 days for Africa Region and 482 days for the Bank).
- The proposed AAA program was too ambitious. This program had to be significantly redesigned after the CAE because it did not provide adequate support to either pillar. In addition, the program was not retargeted to assisting Lesotho to deal with the ending of its textile tariff advantage and the recent decline of its textile industry.
- Supervision has been inadequate to correct weak capacity and slow and cumbersome decision making processes in project implementation, slow disbursements, and overall delays leading to extensions of project closing dates.
- Donor coordination was unsatisfactory during the earlier part of the CAS period. Subsequent to the recommendations of the CAE, the Bank's Liaison Office in Lesotho has been strengthened with appointment of a Senior Country Officer (in January, 2005) who has been instrumental in improving donor coordination by organizing bi-monthly donor coordination meeting in Maseru (and who is also involved in project issues).
- Adequate attention is given by the Bank to safeguard and fiduciary issues. The Bank's assistance to the government on addressing corruption issues in the LHWP is an excellent example.

4. Overall IEG Assessment

Outcome:	<i>Unsatisfactory</i>
Bank Performance:	<i>Unsatisfactory (note that the CASCR rates this moderately unsatisfactory, but no such rating is available).</i>

Both pillars of the strategy were weighted equally. Government performance had shortcomings, especially in developing capacity to implement better a development program. An important exogenous shock was the improvement in 2001 in textile export access to the US which created a windfall, but little was done to utilize this opportunity to pursue a broader development program. As this window of opportunity is closing in 2005 with general textile quota liberalization, Lesotho must now search anew for a strategy to strengthen its links to the regional and world economies.

5. Assessment of CAS Completion Report

- The CASCR covered the CAS objectives and scope of the CAS adequately. Coverage of implementation (Bank lending and non-lending) assistance was also adequate. The CASCR focused on outcomes to a reasonable extent, given the fact that the CAS was not been based on performance indicators.
- The CASCR developed a number of useful performance indicators for the pillar on poverty reduction and human development. However, the performance indicators for improving private sector performance, competitiveness, and integration with the regional economy were not as well developed. Simple indicators on trade or on competitiveness of the labor force, for example, would have been very useful in this regard. The CASCR could have cited business environment indicators for private sector development, including those in "Doing Business". The FY06 CAS should develop performance indicators for all key objectives.
- Attribution of outcomes was qualitatively developed, but little evidence offered on the contribution of other donors. Shortfalls in government capacity and how to help address them were not fully discussed. This is especially important because the CASCR often cites government capacity as a constraint. The CASCR states that PRSP will allow the Bank to move to SWAs as a preferred lending vehicle, but does not fully develop the rationale as to why this approach will be better, given severe capacity constraints on the part of the government.
- The CASCR could have also added clarity to its evaluation of projects by referencing QAG outputs.
- IEG is in agreement with the lessons of the CASCR as far as they go. But the CASCR lessons are insufficient to address the constraints on private sector development and government capacity.

6. Findings and Lessons

- The CASCR found that more needs to be done to address the issues of HIV/AIDS, poverty, the weak rural economy, and regional integration. It also found that progress is needed in capacity building (while noting some success in education and health), and that improved monitoring and evaluation will be essential for sustained improvements. Finally, it found that the Bank will need to be selective, but that the PRS provides a credible framework for moving towards budget support operations.
- This CASCR review finds that the key lesson of the past is to focus on modest but feasible goals and avoid being overly ambitious. A corollary is to ensure full government ownership by proceeding only after full agreement is reached with the government on a feasible assistance program.
- The CASCR could have offered more guidance on education. The improvement in enrollment rates has been impressive, and it will be important to build on these successes with more attention to increasing the quality of education to make it more relevant for developing the skills needed to improve employment and reduce poverty. However, the proposed move to a SWAp for education (and with SWAPs also proposed for health and water) should be taken with caution as SWAPs can be complex to formulate and implement. The Education SWAp proposed for FY09 would need to be preceded by a broad-based sector review pursued jointly with the government and other donors to ensure that the SWAp is focused on agreed priorities and that it will support the quality improvements needed to improve the impact of education on poverty reduction.
- The health sector is problematic with key indicators moving in the wrong direction. The FY05 HIV/AIDS project and the FY06 Health Sector Reform Phase II are both new, and, while a health sector strategy note had been prepared, it may be worth waiting to see if developments support moving to a SWAp approach. The formulation and implementation of a SWAp for the education sector could provide useful lessons before proceeding with a SWAp in the health sector.
- Civil service reform is not identified as a specific topic for AAA tasks or lending operations.

Given that capacity constraints are frequently noted, some attention might be given to this, in close coordination with other donors. The CASCR notes that civil service reform is underway but does not indicate how or with what objective, other than to contain wages and salaries.

- Given government priorities to increase employment through private sector growth and the CAS objective of poverty reduction and increasing the integration of the economy into the regional and global economies, the CAS should place greater emphasis on PSD support than that given during FY1998-FY2005.
- The CAS proposes a strong focus on decentralization. In view of the failure of the CDS project and the strong capacity generally needed for an effective decentralization program, it may be worthwhile to postpone any move towards decentralization until the capacity issue has been more fully addressed.
- Monitoring, evaluation, and feedback needs to be built into each operation jointly with the government, so that implementation shortfalls can be quickly identified and mid-course corrections pursued.

CASCR Reviewed by:	Peer Reviewed by:	Group Manager
Michael Lav	John Johnson	R. Kyle Peters, IEGCR Sr. Manager

Annex Table 1: Actual vs. Planned Lending

Annex Table 2: Economic & Social Indicators (1998-2004)

Annex Table 3a: Development Assistance and World Bank Lending

Annex Table 3b: World Bank Commitments by Sector Board 1998-2005

Annex Table 3c: List of IBRD/IDA Approved Projects 1998-2005

Annex Table 4: Economic and Sector Work, 1998-2005

Annex Table 5a: Key OED Ratings (by Project Approval Year) FY 1998-2005

Annex Table 5b: Projects at Risk

Annex Table 6: Comparative Bank Budget by Cost Category

Annex Table 7: Senior Management CY 1998-2005

Annex Table 8: Millennium Development Goals

Annex Table 1: Lesotho CAS Proposed versus Actual Commitments

<i>CAS Proposal FY</i>	<i>Operation</i>	<i>Planned US\$millions</i>	<i>Actual FY</i>	<i>Actual US\$millions</i>	<i>Status</i>	<i>Purpose</i>
FY98	Ag. Policy and Capacity Building-IDA	22.0	FY98	6.8	Closed	a
	Highland Water – IBRD	45.0	FY98	45.0	Approved	a,b
FY99	2 nd Education Sector Development Project (ESDP)– IDA	15.0	FY99	21.0	Closed	a
	Social Fund (Community Development Support) (LIL) IDA	5.0	FY00	4.7	Closed	a
FY00	Health Sector Phase I(APL) IDA	20.0	FY00	6.5	Closed	a
FY00	Water Sector	10	FY05	14.0	Approved	a
FY00	Maluti/Drakensburg (GEF) IDA	10.0	FY02	7.4	Approved	b
	Post-CAS Operations					
N.A.	Utilities Sector Reform	N.A.	FY01	28.6	Approved	a,b
N.A.	2 nd ESDP Phase II (APL)	N.A.	FY04	21.0	Approved	a
N.A.	HIV/AIDS Capacity Building	N.A.	FY05	5.0	Approved	a
N.A.	Health Sector Reform Phase II	N.A.	FY06	6.5	Approved	a

Purpose: (a) Poverty Reduction, (b) Integrating into the Regional and Global Economy. Although the Utilities Sector Reform project in FY01 and all succeeding projects were not identified in the FY98 CAS, their purpose in terms of the FY98 CAS' objectives is inferred.

Annex Table 2: Lesotho - Economic & Social Indicators (1998-2004)

Series Name								Average 1998-2004						
	1998	1999	2000	2001	2002	2003	2004	Lesotho	Low Income	Sub-Saharan Africa	Comoros	Djibouti	Gambia	Sao Tome & Principe
Growth														
GDP growth (annual %)	-4.6	0.2	1.3	3.2	3.5	3.3	3.0	1.4	5.1	3.1	1.9	2.1	4.7	3.7
GNI per capita, Atlas method (current US\$)	690.0	670.0	640.0	600.0	540.0	590.0	740.0	638.6	408.6	504.3	418.6	671.4	301.4	301.4
GNI per capita, PPP (current international \$)	2630.0	2650.0	2710.0	2840.0	2960.0	3080.0	3210.0	2868.6	1914.3	1668.6	1754.3	2100.0	1681.4	..
GDP per capita growth (annual %)	-5.6	-0.8	0.3	2.2	2.6	2.4	2.1	0.5	3.1	1.0	-0.3	0.0	1.7	1.3
Agriculture, value added (% of GDP)	17.8	17.3	18.6	18.2	17.3	16.6	16.2	17.4	26.4	17.6	41.0	4.0	31.9	18.9
Industry, value added (% of GDP)	38.8	41.2	41.1	41.5	43.1	43.5	43.4	41.8	25.9	29.4	12.0	14.0	13.9	16.0
Services, etc., value added (% of GDP)	43.4	41.4	40.4	40.3	39.6	39.8	40.3	40.7	47.6	52.6	47.0	82.0	54.3	65.1
Macroeconomic Indicators														
Gross capital formation (% of GDP)	47.1	48.6	42.2	40.2	42.3	44.3	41.1	43.7	21.5	18.1	13.1	12.3	19.1	34.0
Gross domestic savings (% of GDP)	-33.5	-22.4	-20.4	-19.4	-27.2	-24.1	-24.2	-24.5	19.0	17.1	-1.7	-3.7	13.3	-13.4
Inflation, consumer prices (annual %)	..	..	6.1	-9.6	33.8	6.7	..	9.3	..	..	..	..	7.0	..
Real effective exchange rate index (2000 = 100)	106.4	104.2	100.0	86.7	75.9	104.3	90.6	95.4	..	..	..	..	82.4	..
Official exchange rate (LCU per US\$, period average)	5.5	6.1	6.9	8.6	10.5	7.6	6.5	7.4	..	..	477.6	178.0	18.3	8209.7
External Balance														
Exports of goods and services (% of GDP)	26.8	23.8	29.8	38.6	43.7	41.4	39.0	34.7	19.4	31.6	14.2	46.3	..	35.0
Imports of goods and services (% of GDP)	107.4	94.8	92.4	97.6	103.4	95.2	90.5	97.3	21.9	32.4	30.0	62.7	..	86.1
Current account balance (% of GDP)	-31.5	-24.2	-17.6	-12.5	-17.0	..	..	-20.6	..	..	..	..	..	-38.4
Total debt service (% of GNI)	8.5	10.1	11.3	12.3	11.7	8.7	..	10.4	13.5	11.3	..	..	..	27.5
External debt (% of GNI)	60.3	59.0	62.3	63.7	76.4	53.4	..	62.5	45.5	65.3	105.3	51.8	137.0	707.5
Total reserves in months of imports	6.6	6.6	6.0	5.9	6.0	5.2	5.1	5.9	7.4	7.6	..	..	..	4.7
IBRD Loans and IDA credits (PPG DOD, million current US\$)	241	241	242	242	255	266	..	247.7	88,548.57	41,339.63	84.30	65.85	..	63.15
Public Finances														
Grants and other Revenue (% of revenue)	26.2	22.9	28.9	20.1	22.7	20.2	..	23.50	..	..	..	..	..	..
Overall budget balance, excluding capital grants (% of GDP)	-6.1	..	..	..	..	..	..	(6.10)	..	..	..	..	..	..
Overall budget balance, including grants (% of GDP)	-3.6	..	..	..	..	..	..	(3.60)	-4.5	-2.0	..	..	..	..
Current revenue, excluding grants (% of GDP)	44.1	..	..	..	..	..	..	44.10	12.8	23.0	..	..	..	..
Current expenditure, total (% of GDP)	40.1	..	..	..	..	..	..	40.10	..	..	..	..	..	..
Social Indicators														
Immunization, DPT (% of children ages 12-23 months)	86.0	85.0	82.0	79.0	79.0	79.0	..	81.7	61.2	51.8	75.5	45.8	90.7	85.0
Improved sanitation facilities (% of population with access)	..	..	..	..	37.0	..	..	37.0	36.0	36.0	23.0	50.0	53.0	24.0
Improved water source (% of population with access)	..	..	..	..	76.0	..	..	76.0	75.0	58.0	94.0	80.0	82.0	79.0
Life expectancy at birth, total (years)	..	..	..	..	37.9	37.2	..	37.6	58.0	46.0	61.5	43.5	53.0	66.0
Mortality rate, infant (per 1,000 live births)	..	..	75.0	..	..	79.0	..	77.0	79.0	101.0	57.5	99.5	91.0	75.0
Literacy rate, adult total (% of people ages 15 and above)	..	..	..	81.4	..	..	..	81.4	61.0	59.0	56.0	..	..	..
Population growth (annual %)	1.0	1.0	1.0	0.9	0.9	0.9	0.9	0.9	2.0	2.1	2.3	2.1	2.7	2.0
Population, total (in million)	1.7	1.7	1.7	1.8	1.8	1.8	1.8	1.8	2,216.03	673.77	0.57	0.68	1.35	0.15
School enrollment, preprimary (% gross)	24.9	23.2	21.4	29.3	29.6	..	..	25.7	24.2	..	2.0	0.0	18.7	25.6
School enrollment, primary (% gross)	109.2	108.3	122.3	124.3	126.4	..	..	118.1	93.0	86.8	85.2	39.0	81.2	119.3
School enrollment, secondary (% gross)	31.7	31.8	31.7	33.6	34.7	..	..	32.7	41.0	26.3	27.0	18.0	33.2	39.0
Urban population (% of total)	17.5	17.5	17.6	17.7	17.8	18.0	18.1	17.7	29.6	34.9	33.9	82.7	26.0	38.0

Source: WB DDP database, as of December 13, 2005

Annex Table 3a: Lesotho - Development Assistance and World Bank Lending**Table 3a. Total Receipts (ODA*, OOF*, Private). 1998-2004**
Data in USD million

	1998	1999	2000	2001	2002	2003	2004	1998-2004
<i>ALL Donors, Total</i>	63.5	91.5	50.6	78.7	53.6	100.1	86.5	74.9
<i>DAC Countries, Total</i>	15.1	12.1	26.2	28.6	32.2	39.3	46.0	28.5
<i>o/w Germany</i>	-	4.5	5.3	4.2	2.5	8.0	5.7	5.0
<i>o/w Japan</i>	2.4	0.1	2.1	6.4	2.4	1.9	10.3	3.7
<i>o/w United Kingdom</i>	11.1	3.4	7.4	0.6	6.9	13.6	10.2	7.6
<i>o/w United States</i>	-	2.4	2.0	1.9	6.2	2.6	4.0	3.2
<i>Multilateral, Total</i>	48.4	79.4	24.5	50.1	21.4	60.8	40.4	46.4
<i>o/w AfDF</i>	18.0	4.8	15.5	-	15.1	14.7	15.6	14.0
<i>o/w EC</i>	15.1	47.7	1.7	20.5	4.6	22.9	3.7	16.6
<i>o/w IDA</i>	6.8	25.7	6.5	28.6	-	21.0	19.1	17.9
<i>IBRD & IDA Share of Multilateral Assistance, %</i>	14.1	32.3	26.6	57.1	-	34.5	47.2	35.3
<i>IBRD & IDA Share of Total Assistance, %</i>	10.7	28.1	12.8	36.4	-	21.0	22.1	21.8

Source: OECD International Development Statistics (IDS) Online, February 1, 2005.

*ODA: Official Development Assistance- Grants or loans to countries and territories on Part 1 of the DAC List of Aid Recipients (developing countries) that are:
1- Undertaken by the Official Sector; 2- Have promotion of economic development and welfare as their main objective, 3- Are granted at concessional terms.
(the loan has a grant element of at least 25%)

* Other Official Flows (OOF)- Transactions by the official sector with countries on the List of Aid Recipients that do not meet the conditions of Official Development Assistance or Official Aid eligibility, either because they are not primarily aimed at development, or because they have a grant element of less than 25 percent.

** DAC: Development Assistance Committee. The committee of the OECD which deals with development cooperation matters.

Annex Table 3b: Lesotho - World Bank Commitments by Sector Board 1998-2005

Sector Board\Fiscal Year	1998	1999	2000	2001	2002*	2003*	2004	2005	1998-2005
Economic Policy									0
Education		21					21		42
Environment									0
Financial Sector									0
Health, Nutrition and Population			7					5	12
Private Sector Development				29					29
Public Sector Governance									0
Rural Sector	7								7
Social Protection			5						5
Water Supply & Sanitation	45							14	59
Total Commitments	52	21	11	29	0	0	21	19	153

Source: BW Tables 2a.1 IBRD/IDA No. and Commitments (and Supplements) as of December 14, 2005.

* There were no commitments in 2002, and 2003.

Annex Table 3c. Lesotho: List of IBRD/IDA Approved Projects 1998-2005 (By Approval Year)

Proj ID	Proj Name	Approval FY	Sector Board	IBRD/IDA Amt.	Latest DO	Latest IP	Latest Risk	Project Status	Date, Rev. Closing	Outcome	Sustainability	Institutional Development
P001409	LS-Highland Water IB (FY98)	1998	Water Supply and Sanitation	45	S	MS	-	Active	12/31/2005			
P053200	Health Sector Reform	2000	Health, Nutrition and Population	7	S	S	-	Active	06/30/2005			
P070673	LS-Utilities Sec Reform SIL (FY01)	2001	Private Sector Development	29	S	S	-	Active	12/31/2005			
P081269	LS-ESDP Phase 2 APL 2 (FY04)	2004	Education	21	S	MS	-	Active	12/31/2007			
P056418	LS-Water Sec Improvements APL (FY05)	2005	Water Supply and Sanitation	14	S	S	-	Active	06/30/2008			
P087843	LS-HIV/AIDS Cap Bldg TAL (FY05)	2005	Health, Nutrition and Population	5	MS	MS	-	Active	12/31/2008			
P001395	HEALTH/POP.II	1990	Health, Nutrition and Population	11	S	S	M	Closed	03/31/1998	MODERATELY UNSATISFACTORY	UNLIKELY	MODEST
P001391	LS-Industry and Agro-Industry FIL	1991	Private Sector Development	19	S	S	M	Closed	06/30/1998	UNSATISFACTORY	UNLIKELY	NEGLIGIBLE
P001392	EDUC. SECTOR DEVELOPMENT	1992	Education	25	S	S	N	Closed	06/30/1999	MODERATELY SATISFACTORY	UNCERTAIN	MODEST
P001396	HIGHLAND WTR I	1992	Water Supply and Sanitation	69	S	S	M	Closed	03/31/1999	SATISFACTORY	LIKELY	SUBSTANTIAL
P001401	PRIVATISATION/RESTRUCTURING	1994	Private Sector Development	9	S	S	N	Closed	12/31/2000	MODERATELY UNSATISFACTORY	NON-EVALUABLE	MODEST
P001403	Lesotho ROAD REHAB. & MAINT	1996	Transport	23	S	S	M	Closed	12/31/2003	MODERATELY SATISFACTORY	NON-EVALUABLE	MODEST
P001402	AG POL & CAP BLDG	1998	Rural Sector	7	U	U	S	Closed	12/31/2003	MODERATELY UNSATISFACTORY	LIKELY	MODEST
P056416	2nd Education Sector Dev. Proj (Phase 1)	1999	Education	20	S	S	M	Closed	12/31/2003	SATISFACTORY	LIKELY	MODEST
P058050	Community Dev. Support	2000	Social Protection	3	U	U	H	Closed	09/30/2003	UNSATISFACTORY	NON-EVALUABLE	NEGLIGIBLE

Source: Table 4a.6 Key OED Ratings and Table 2a.1 IBRD/IDA No. and Commitments as of February 4, 2005

Note: M - Modest risk, N - Low or negligible risk, H - High risk

Annex Table 4: Lesotho - Economic and Sector Work, 1998-2005

<i>Document Title</i>	<i>Date</i>	<i>Report No</i>	<i>Document Type</i>
Country Assistance Strategy			
Lesotho - Country Assistance Strategy	05/21/1998	17751	Country Assistance Strategy Document
Poverty Reduction Strategy Paper			
Lesotho - Interim Poverty Reduction Strategy Paper and Joint Assessment	12/31/2000	21834	PRSP
Lesotho - Poverty Reduction Strategy Paper and Joint Assessment	02/28/2002	23735	PRSP
Lesotho - Poverty Reduction Strategy Paper preparation status report and joint IDA-IMF Staff Assessment	04/23/2003	25712	PRSP
Lesotho - Poverty Reduction Strategy Paper Preparation Status Report and Joint IDA-IMF staff assessment	08/23/2004	29881	PRSP
Lesotho - Poverty Reduction Strategy Paper and a joint IDA-IMF staff advisory note	07/18/2005	32541	PRSP
Economic and Sector Reports			
Lesotho - The Development Impact of HIV/AIDS: Selected Issues and Options	10/18/2000	21103	Sector Report
Lesotho - Country Economic Memorandum	04/21/2005	35359-LS	CEM
Working Papers			
Strengthening Lesotho's Health Care System	01/01/1999	20001	Working Paper
Integrating Gender into World Bank-Financed Transport Programs: Case Study - Lesotho Integrating Gender into the Ireland-aid Financed Rural Roads and Access Program	06/01/2003	34494	Working Paper
Interactive Radio Instruction : Impact, Sustainability, and Future Directions, Volume 1	01/01/1999	19766	Working Paper
Publications			
Lesotho: Development in a Challenging Environment	05/31/2002	24526	Publication
Private Solutions for Infrastructure in Lesotho	01/01/2004	34354	Publication

Source: Imagebank, World Bank as of January 31, 2005

Annex Table 5a. Key OED Ratings (by Project Approval Year) FY 1998-2005

	Total Evaluated (No)	Outcome % Sat (No)	Inst Dev Impact % Subst (No)	Sustainability % Likely (No)	Total Evaluated (\$ million)	Outcome % Sat (\$)	Inst Dev Impact % Subst (\$)	Sustainability % Likely (\$)
Lesotho	9*	44.4	11.1	50*	195.1	73.6	35.3	65.1*
Comoros	9.0	62.5	25.0	14.3	66.2	52.6	30.0	12.6
Djibouti	4	25.0	0.0	25.0	35.7	45.4	0	45.4
Gambia	5	80.0	40.0	40.0	48.9	74.0	55	18.9
Sao Tome & Pr	4	25.0	0.0	50.0	35.6	18.0	0	53.7
Africa	235	74.2	46.7	68.0	10,344.1	84.9	42	75.8
World Bank	1,085	81.0	52.8	77.6	92,600.4	86.0	54	82.8

Source: WB Business Warehouse Table 4a. 5 OED Rating Aggregates- By Net Commitments and Number as of December 18, 2005

* Excludes 3 projects for which sustainability was rated "non-evaluable"

Annex Table 5b: Projects at Risk

Country	# Proj	Net Comm Amt (USD million)	# Proj At Risk	% At Risk	Comm At Risk (USD million)	% Commit at Risk
Lesotho	6	111.2	0	0.0	0.0	0.0
Comoros	1	13.3	0	0.0	0.0	0.0
Djibouti	6	70.3	1	16.7	6.5	9.2
Gambia	4	65.0	0	0.0	0.0	0.0
Sao Tome & Principe	2	11.5	0	0.0	0.0	0.0
Africa	348	17,536.0	94	27.0	4,602.1	26.2
World Bank	1,380	97,602.4	229	16.6	14,564.0	14.9

Source: WB Business Warehouse Table 3c. 4- Projects at Risk as of December 18, 2005

Annex Table 6: Lesotho Comparative Bank Budget by Cost Category (in USD thousands) 1998-2005

Country/Regions	Cost Category	1998	1999	2000	2001	2002	2003	2004	2005	1998-2005	1998-2005 (%)
Lesotho	ESW	152	255	273	81	451	521	474	429	2,636	17%
	Lending	981	523	727	548	254	457	595	493	4,580	30%
	Project Supervision	417	595	962	854	930	1,093	1,058	880	6,788	45%
	Other	158	6	157	104	219	165	112	159	1,080	0%
	Total	1,708	1,379	2,119	1,587	1,854	2,236	2,240	1,961	15,085	100%
Africa	ESW	21,961	22,383	34,190	23,994	30,840	32,614	36,157	36,000	238,139	24%
	Lending	27,575	23,605	33,387	31,204	30,934	31,086	43,548	38,291	259,628	26%
	Project Supervision	36,084	32,610	44,030	38,583	36,329	39,779	42,193	49,765	319,374	32%
	Other	7,213	5,731	21,481	25,871	23,729	26,280	30,193	34,930	175,428	18%
	Total	92,833	84,329	133,087	119,652	121,832	129,759	152,091	158,987	992,570	100%

Source: World Bank. BW RM Tables 4.0 and 4.1 as of February 4, 2005

Annex Table 7- Lesotho Senior Management CY 1998-2005

Year	Vice-President	Div. Chief/ Country Director	Economist
1998	Callisto Madavo	Pamela Cox	James Sackey
1999	Callisto Madavo	Pamela Cox	James Sackey
2000	Callisto Madavo	Fayez Omar	James Sackey
2001	Callisto Madavo	Fayez Omar	James Sackey
2002	Callisto Madavo	Fayez Omar	James Sackey
2003	Callisto Madavo	Fayez Omar	Preeti Arora
2004	Gobind Nankani	Ritva Reinikka	Preeti Arora
2005	Gobind Nankani	Ritva Reinikka	Preeti Arora

Source: WB Directories 1998-2005

Table 8: Lesotho - Millennium Development Goals

	1990	1994	1997	2000	2003	2004
Goal 1: Eradicate extreme poverty and hunger						
Percentage share of income or consumption held by poorest 20%	..	1.5	..	..	..	..
Population below \$1 a day (%)	..	36.4	..	..	..	..
Population below minimum level of dietary energy consumption (%)	..	..	14	..	12	..
Poverty gap ratio at \$1 a day (incidence x depth of poverty)	..	19	..	..	..	..
Poverty headcount, national (% of population)	..	..	..	..	..	..
Prevalence of underweight in children (under five years of age)	..	21.4	16	17.9	..	..
Goal 2: Achieve universal primary education						
Net primary enrollment ratio (% of relevant age group)	73	..	64.5	83.4	85.8	..
Primary completion rate, total (% of relevant age group)	67.2	76.7	64.4	63.1	74.4	74.4
Proportion of pupils starting grade 1 who reach grade 5	69.9	..	68.9	66.7	..	..
Youth literacy rate (% ages 15-24)	..	..	..	..	..	..
Goal 3: Promote gender equality and empower women						
Proportion of seats held by women in national parliament (%)	..	..	5	4	12	12
Ratio of girls to boys in primary and secondary education (%)	123.8	..	112.4	107	105.1	..
Ratio of young literate females to males (% ages 15-24)	..	..	..	..	..	..
Share of women employed in the nonagricultural sector (%)	24.7	..	..	..	..	..
Goal 4: Reduce child mortality						
Immunization, measles (% of children ages 12-23 months)	80	81	80	74	70	70
Infant mortality rate (per 1,000 live births)	74	70	..	75	79	79
Under 5 mortality rate (per 1,000)	104	97	..	105	110	110
Goal 5: Improve maternal health						
Births attended by skilled health staff (% of total)	..	49.6	..	59.8	..	..
Maternal mortality ratio (modeled estimate, per 100,000 live births)	..	..	..	550	..	..
Goal 6: Combat HIV/AIDS, malaria, and other diseases						
Contraceptive prevalence rate (% of women ages 15-49)	23.2	..	..	30	..	..
Incidence of tuberculosis (per 100,000 people)	185.8	283.7	419.5	579.1	732.8	732.8
Number of children orphaned by HIV/AIDS	..	..	..	68000	100000	100000
Prevalence of HIV, total (% of population aged 15-49)	..	..	..	29.6	28.9	28.9
Tuberculosis cases detected under DOTS (%)	..	62.3	83.5	74.3	69.8	69.8
Goal 7: Ensure environmental sustainability						
Access to an improved water source (% of population)	..	..	..	..	76	..
Access to improved sanitation (% of population)	37	..	..	..	37	..
Access to secure tenure (% of population)	..	..	..	..	..	..
CO2 emissions (metric tons per capita)	..	..	..	..	..	..
Forest area (% of total land area)	0.5	..	..	0.5	..	..
GDP per unit of energy use (2000 PPP \$ per kg oil equivalent)	..	..	..	..	..	..
Nationally protected areas (% of total land area)	..	..	..	..	0.2	0.2
Goal 8: Develop a global partnership for development						
Aid per capita (current US\$)	90.3	70.8	54.2	21	44.1	44.1
Debt service (% of exports)	4	5	7	11	9	9
Fixed line and mobile phone subscribers (per 1,000 people)	7.2	7.9	11.3	20.3	55.7	..
Internet users (per 1,000 people)	..	..	0	1.9	9.7	..
Personal computers (per 1,000 people)	..	..	..	..	..	..
Unemployment, youth female (% of female labor force ages 15-24)	..	..	58.5	..	..	..
Unemployment, youth male (% of male labor force ages 15-24)	..	..	37.9	..	..	..
Unemployment, youth total (% of total labor force ages 15-24)	..	..	47.4	..	..	..
Other						
Fertility rate, total (births per woman)	5.1	..	4.8	..	4.3	4.3
GNI per capita, Atlas method (current US\$)	650	780	830	640	590	740
GNI, Atlas method (current US\$) (billions)	1	1.3	1.4	1.1	1.1	1.3
Gross capital formation (% of GDP)	53.3	55.6	54	42.2	44.3	41.1
Life expectancy at birth, total (years)	57.6	..	46.6	..	37.2	37.2
Literacy rate, adult total (% of people ages 15 and above)	..	..	..	81.4	..	..
Population, total (millions)	1.6	1.6	1.7	1.7	1.8	1.8
Trade (% of GDP)	139.3	134.9	138.8	122.2	136.6	129.6

Source: World Development Indicators database, April 2005