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Report No: PAD1531

INTERNATIONAL DEVELOPMENT ASSOCIATION

PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED CREDIT

IN THE AMOUNT OF SDR 7.3 MILLION
(US$10 MILLION EQUIVALENT)

TO THE

KINGDOM OF LESOTHO

FOR A

PUBLIC SECTOR MODERNISATION PROJECT

March 3, 2016

Governance Global Practice
Africa Region

CURRENCY EQUIVALENTS

Exchange Rate Effective: February 9, 2016

Currency Unit	=	Lesotho Maloti (LSL)
US$ 1	=	LSL 14.92
US$ 1	=	0.724375

FISCAL YEAR

April 1 – March 31

ABBREVIATIONS AND ACRONYMS

AFRITAC	African Regional Technical Assistance Centre
AWP	Annual Work Plan
BFP	Budget Framework Paper
BOS	Bureau of Statistics
BSP	Budget Strategy Paper
CBL	Central Bank of Lesotho
CMS	Continuous Multiple Survey
CPAR	Country Procurement Assessment Report
DA	Designated Account
EU	European Union
FM	Financial Management
FMIP	Financial Management Improvement Plan
FY	Fiscal Year
GDP	Gross Domestic Product
GoL	Government of Lesotho
GRS	Grievance Redress Service
HBS	Household Budget Survey
HR	Human Resource
HRM	Human Resource Management
HRIS	Human Resource Information System
ICB	International Competitive Bidding
ICR	Implementation Completion and Results Report
IFMIS	Integrated Financial Management Information System
IFR	Interim Financial Report
IMF	International Monetary Fund
IPF	Investment Project Financing
ISM	Implementation Support Missions
IRSC	Improvement and Reform Steering Committee
M&E	Monitoring and Evaluation
MDP	Ministry of Development Planning
MDG	Millennium Development Goal
MOET	Ministry of Education and Training
MOF	Ministry of Finance
MOH	Ministry of Health

MPS	Ministry of Public Service
MTEF	Medium-term Expenditure Framework
NCB	National Competitive Bidding
NSDP	National Strategic Development Plan
NSDP-1	National Strategic Development Plan 2012/13–2016/17
NSDP-2	National Strategic Development Plan 2017/18–2021/22
PBM	Performance-based Management
PCM	Project Cycle Management
PDO	Project Development Objective
PCU	Project Coordination Unit
PEFA	Public Expenditure and Financial Accountability
PER	Public Expenditure Review
PETS	Public Expenditure Tracking Survey
PFM	Public Financial Management
PFMRSP	Public Financial Management Reform Support Project
PFMRSAP	Public Financial Management Reform Strategic Action Plan
PIP	Public Investment Program
PIM	Public Investment Management
POM	Project Operational Manual
PMO	Prime Minister's Office
PPAD	Procurement Policy and Advisory Division
PPA	Project Preparation Advance
PSR	Public Sector Reform
PPR	Public Procurement Regulations
PSIC	Public Sector Investment Committee
PSMP	Public Sector Modernisation Project
RBF	Results-based Financing
ROSC	Reports on the Observance of Standards and Codes
RTC	Reform Technical Committee
SACU	Southern African Customs Union
SBD	Standard Bidding Documents
SDDS	Special Data Dissemination Standards
SDG	Sustainable Development Goals
SUT	Supply and Use Table
TA	Technical Assistance
QIP	Quick Impact Projects
QSDS	Quantitative Service Delivery Surveys
QCBS	Quality- and Cost-Based Selection

Regional Vice President:	Makhtar Diop
Country Director:	Guang Zhe Chen
Acting Senior Global Practice Director:	James A. Brumby
Practice Manager:	Guenter Heidenhof
Task Team Leader:	Shiho Nagaki

KINGDOM OF LESOTHO
Public Sector Modernisation Project

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PAD DATA SHEET

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Public Sector Modernisation Project (P152398)

PROJECT APPRAISAL DOCUMENT

AFRICA

GGO13

Report No.: PAD1531

Basic Information			
Project ID P152398	EA Category C - Not Required	Team Leader(s) Shiho Nagaki	
Lending Instrument Investment Project Financing	Fragile and/or Capacity Constraints [ ]		
	Financial Intermediaries [ ]		
	Series of Projects [ ]		
Project Implementation Start Date 24-March-2016	Project Implementation End Date 24-May-2020		
Expected Effectiveness Date 24-May-2016	Expected Closing Date 24-May-2020		
Joint IFC No			
Practice Manager/Manager	Senior Global Practice Director	Country Director	Regional Vice President
Guenter Heidenhof	James A. Brumby	Guang Zhe Chen	Makhtar Diop

Borrower: KINGDOM OF LESOTHO			
Responsible Agency: Ministry of Development Planning			
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Responsible Agency: Ministry of Finance			
Contact:	Mrs. Mapalesa Rapapa	Title:	Principal Secretary
Telephone No.:	26658916035	Email:	mrapapa2003@yahoo.co.uk

Project Financing Data (in USD Million)					
[ ]	Loan	[ ]	IDA Grant	[ ]	Guarantee
[X]	Credit	[ ]	Grant	[ ]	Other

Total Project Cost:	10.00	Total Bank Financing:	10.00
Financing Gap:	0.00		

Financing Source	**Amount**
BORROWER/RECIPIENT	0.00
International Development Association (IDA)	10.00
Total	10.00

Expected Disbursements (in US$, millions)

Fiscal Year	2016	2017	2018	2019	2020
Annual	0.00	1.50	3.50	3.00	2.00
Cumulative	0.00	1.50	5.00	8.00	10.00

Institutional Data

Practice Area (Lead)

Governance

Contributing Practice Areas

Macroeconomics & Fiscal Management, Poverty & Equity, Education and Health, Nutrition & Population

Cross Cutting Topics

[ ] Climate Change
[ ] Fragile, Conflict & Violence
[ ] Gender
[ ] Jobs
[ ] Public Private Partnership

Sectors / Climate Change

Sector (Maximum 5 and total % must equal 100)

Major Sector	Sector	%	Adaptation Co-benefits %	Mitigation Co-benefits %
Public Administration, Law, and Justice	General public administration sector	70		
Public Administration, Law, and Justice	Sub-national government administration	30		
Total		100		

☑ I certify that there is no Adaptation and Mitigation Climate Change Co-benefits information applicable to this project.

Themes

Theme (Maximum 5 and total % must equal 100)

Major theme	Theme	%
Economic management	Economic statistics, modeling and forecasting	20
Public sector governance	Administrative and civil service reform	40
Public sector governance	Public expenditure, financial management and procurement	20
Public sector governance	Managing for development results	20
Total		100

Proposed Development Objective(s)

The project development objective (PDO) is to strengthen strategic-level planning and to improve efficiency in the fiscal and human resource management of Selected Ministries.

Components

Component Name	**Cost (US$, millions)**
Component 1. Strategic Planning and Fiscal Management	2.00
Component 2. Strengthening Human Resource Management	4.50
Component 3. Improving Statistical Capacity	2.00
Component 4. Strategic Implementation Support	1.50

Systematic Operations Risk- Rating Tool (SORT)

Risk Category	**Rating**
1. Political and Governance	High
2. Macroeconomic	High
3. Sector Strategies and Policies	High
4. Technical Design of Project or Program	Moderate
5. Institutional Capacity for Implementation and Sustainability	High
6. Fiduciary	Moderate
7. Environment and Social	Moderate
8. Stakeholders	Substantial
9. Other	–
OVERALL	High

Compliance	
Policy	
Does the project depart from the CAS in content or in other significant respects?	Yes [ ] No [X]

Does the project require any waivers of Bank policies?	Yes [ ] No [X]
Have these been approved by Bank management?	Yes [ ] No [ ]
Is approval for any policy waiver sought from the Board?	Yes [ ] No [X]
Does the project meet the Regional criteria for readiness for implementation?	Yes [X] No [ ]

Safeguard Policies Triggered by the Project	**Yes**	**No**
Environmental Assessment OP/BP 4.01		**X**
Natural Habitats OP/BP 4.04		**X**
Forests OP/BP 4.36		**X**
Pest Management OP 4.09		**X**
Physical Cultural Resources OP/BP 4.11		**X**
Indigenous Peoples OP/BP 4.10		**X**
Involuntary Resettlement OP/BP 4.12		**X**
Safety of Dams OP/BP 4.37		**X**
Projects on International Waterways OP/BP 7.50		**X**
Projects in Disputed Areas OP/BP 7.60		**X**

Legal Covenants

Name	**Recurrent**	**Due Date**	**Frequency**
Recruitment of staff for the PFM Secretariat in the Ministry of Finance (MOF)		Within three months after the effectiveness date	

Description of Covenant

The Recipient shall recruit, no later than three (3) months after the Effective Date: (i) a deputy Project coordinator, (ii) a procurement officer and (iii) a monitoring and evaluation expert for the PCU, all with terms of reference, qualifications and experience acceptable to the Association.

Name	**Recurrent**	**Due Date**	**Frequency**
Adoption of the Project Operational Manual (POM)		Within two months after the effectiveness date	

Description of Covenant

No later than two (2) months after the Effective Date, the Recipient shall adopt the POM, in form and substance acceptable to the Association, for the purpose of implementing the Project.

Team Composition				
Bank Staff				
Name	**Role**	**Title**	**Specialization**	**Unit**
Shiho Nagaki	Team Leader (ADM Responsible)	Senior Public Sector Specialist	Senior Public Sector Specialist	GGODR
Chitambala John Sikazwe	Procurement Specialist	Senior Procurement Specialist	Procurement Specialist	GGODR
Tandile Gugu Zizile Msiwa	Financial Management Specialist	Financial Management Specialist	FM Specialist	GGODR
Christian Yves Gonzalez Amador	Team Member	Senior Economist	Senior Economist	GMFDR
Gert Van Der Linde	Team Member	Lead Financial Management Specialist	Lead Financial Management Specialist	GGODR
Harisoa Danielle Rasolonjatovo Andriamihamina	Team Member	Senior Education Specialist	Senior Education Specialist	GEDDR
Jose C. Janeiro	Disbursement officer	Senior Finance Officer	Senior Finance Officer	WFALA
Kanako Yamashita-Allen	Team Member	Senior Health Specialist	Senior Health Specialist	GHNDR
Kathrin A. Plangemann	Team Member	Lead Public Sector Specialist	Lead Public Sector Specialist	GGODR
Kisa Mfalila	Environmental Specialist	Senior Environmental Specialist	Senior Environment Specialist	GEN01
Naoko Hosaka	Team Member	Monitoring and Evaluation Officer	M&E Specialist	DFGPE
Paula F. Lytle	Safeguards Specialist	Senior Social Development Specialist	Senior Social Development Specialist	GSU07
Pierre M. Lenaud	Team Member	Program Assistant	Program Assistant	GGODR
Ruxandra Costache	Country Lawyer	Senior Counsel	Senior Counsel	LEGAM
Shomikho Raha	Team Member	Public Sector Specialist	Public Sector Specialist	GGODR

Victor Sulla	Team Member	Senior Economist	Senior Economist (Statistics)	GPVDR
Yoko Kagawa	Team Member	Senior Operations Officer	Senior Operations Officer	GGODR

Extended Team

Name	Title	Office Phone	Location
Andrew Bird	Senior Fiscal Management Expert, Consultant		Oxford, UK
Marius Tolmie	HRM Expert, Consultant		Pretoria, South Africa
Erinn Wattie	Governance Specialist, Consultant		Montreal, Canada

Locations

Country	First Administrative Division	Location	Planned	Actual	Comments
Lesotho	Maseru	Maseru			

Consultants (Will be disclosed in the Monthly Operational Summary)

Consultants Required?	Consulting services to be determined

I. STRATEGIC CONTEXT

A. Country Context

1. **Lesotho is a small, lower-middle-income country with per capita gross national income of US$1,220 and a high level of poverty and inequality.** The country is mountainous and rural, with a population of about 2 million people, and is completely surrounded by South Africa. The economy of Lesotho is mainly supported by exports of textiles, water, and diamonds to South Africa and the United States. The annual economic growth rate has been stable at around 4.5 percent a year from 2010 to 2014 but is projected to decline to 2.7 percent in Fiscal Year (FY) 2015–16. While 57 percent of the population live below the national poverty line, 34 percent fall below the extreme poverty line. Both poverty and extreme poverty disproportionately affect the rural population. Lesotho is one of the 10 countries with most inequality in the world[1] and inequality increased from a Gini coefficient of 0.51 in FY2002/03 to 0.53 in FY2010/11. This increase in inequality indicates that growth that is both geographically and globally inclusive will be needed to lift a majority of the poor out of poverty.

2. **The current macroeconomic situation calls for urgent control over the fiscal management in a fragile regional economic environment.** Public spending has been skyrocketing over the last few years and reached 63 percent of gross domestic product (GDP) in FY2013/14. In FY2014/15, 83 percent of the national budget was absorbed by government consumption, particularly public wages that reached 23.1 percent of GDP in 2015. These figures are among the highest in the world and represent a significant challenge to fiscal consolidation efforts. The revenues of the government depend, to a large extent, on revenues received from the Southern African Customs Union (SACU), which are highly volatile. The sharp decline in growth in South Africa poses a severe challenge to the regional economy and its ability to subsidize SACU members; Lesotho is the worst affected country in the SACU zone. The revenues are expected to decline to 25.7 percent of GDP in 2015/16 and 15.5 percent of GDP in 2016/17. After falling by 2.5 percentage points of GDP in 2015/16, they are projected to further fall to about 16.5 percent of GDP in the coming years and this significant decline calls for a major fiscal adjustment to ensure macroeconomic stability.

3. **High spending in the public sector has not been translated into performance and productivity**; in particular, human development indicators are far below those of other countries at Lesotho's level of income. Despite a high level of public spending in social sectors, Lesotho has the world's second highest HIV/AIDS prevalence—at 23.6 percent—and a level of maternal mortality that is among the highest in Sub-Saharan Africa. Lesotho did not meet the health-related Millennium Development Goals (MDGs) by the end of 2015. The country also did not achieve the two education-related MDGs, with both primary enrolment (82 percent) and primary completion (65 percent) rates lagging far behind the goal of 100 percent by the end of 2015. These worsening health and educational outcomes are considered as one of the causes of poverty in Lesotho.

4. **Limited employment opportunities in the private sector has aggravated the poverty situation and inequality and led to a situation in which the public sector becomes de facto a social safety net.** The broad unemployment rate, which includes discouraged workers, is estimated

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[1] World Bank. 2015. Systematic Country Diagnostic.

at 28 percent and it is as high as 43.2 percent among youths aged 15 to 24. The public sector has been absorbing employment needs and providing relatively well-paid jobs. Among households depending primarily on public sector wages, 78 percent are in the two highest income groups, compared with 32 percent of the population as a whole. This situation has created a vicious cycle, because government-led investment has been crowding out private sector-led investment and employment—which has a larger impact on reducing poverty in Lesotho.

5. **Cycles of growth and a difficult governance environment, coupled with low levels of social inclusion, have led to recurrent challenges to effectiveness and accountability of public services.** These challenges include: lack of accountability of the government for service delivery; weak involvement of oversight institutions and civil society; and relatively high levels of corruption. There have been several allegations of high-level corruption cases; in fact, the severity of governance challenges in Lesotho is not fully conveyed by its ranking in international governance indicators.[2] While a number of civil society organizations are active in Lesotho,[3] restrictions on citizens' access to government information and/or limited availability of information to the public, appear to have led to a general lack of interest in the government's actions, inhibited the demand for good governance, and resulted in civil society organizations' limited participation in the monitoring of service deliveries and public administration reform.

6. **The new government now faces the critical challenges of addressing inclusive growth and providing access to quality services for the poor, while operating a difficult economic situation in a highly fragile environment.** After the political turmoil in 2014, the new government was elected in February 2015, and established in April 2015 with a coalition of seven parties. In this volatile political environment, the government faces the critical challenge of moving to a new growth model that requires a structural change from one dependent on the public sector to one driven by a strong and competitive private sector.[4] The new growth model will have to shift (a) from state-led to a private sector/export-led growth model; (b) from public-consumption-driven growth to investment-driven growth (public and private); (c) from macro-imbalances to pro-growth macro/fiscal stability; and, (d) from the inefficiency and ineffectiveness of state interventions to more effective public sector management. Achieving this structural change will depend on building more assets for the poor—especially in human capital and institutions. Inclusiveness will require broad-based job creation, enhancing productivity, and changing the structure of growth.

7. **The government envisions economic development and social transformation by increasing efficiency and effectiveness in the public sector through the National Strategic Development Plan (NSDP).** The NSDP 2012/13–2016/17 focuses on high, shared, employment-creating economic growth; social inclusion; promotion of peace and democratic governance; and rebuilding effective institutions. The NSDP calls for optimal use of public resources to address the following objectives: (a) improving resource allocation and cost efficiency; (b) promoting fiscal consolidation and ensuring fiscal discipline; (c) improving tax/revenue administration; (d)

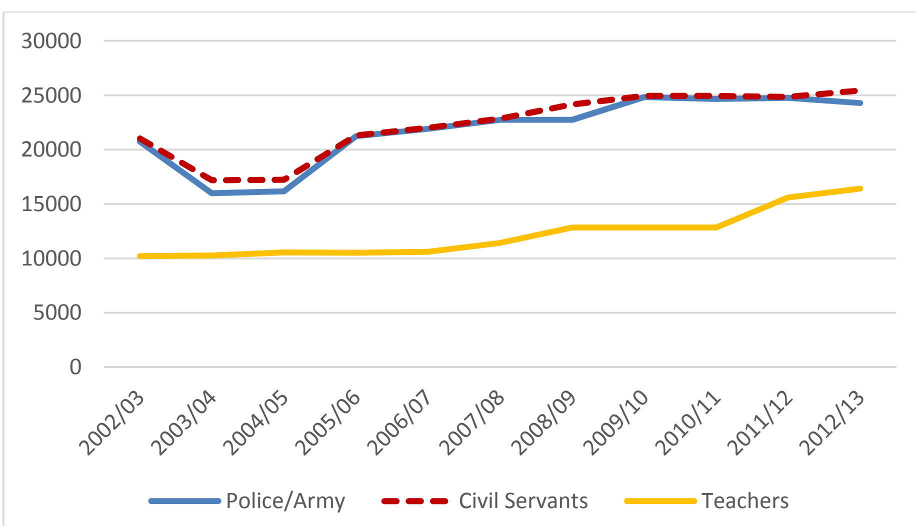
[2] The Mo Ibrahim African Governance Index (2014) ranked Lesotho 10 out of 52 African countries, with a score of 62.3 out of 100, and Transparency International ranks Lesotho 55 out of 174 countries on its 2014 Corruption Perception Index.
[3] The Lesotho Council of nongovernmental organizations alone includes a membership of over 110 organizations, but had an even larger membership some years earlier.
[4] World Bank. 2015. Systematic Country Diagnostic.

increasing the absorptive capacity of ministries to spend budget allocations efficiently; (e) sustaining the real value of capital expenditure; and (f) containing the wage bill and increasing public sector efficiency. Building on achievements and lessons learned from National Strategic Development Plan 2012/13–2016/17 (NSDP-1), the new government envisages developing National Strategic Development Plan 2017/18–2021/22 (NSDP-2).

B. Sectoral and Institutional Context

8. **Lesotho's public sector is one of the largest employers and service providers in a country where alternative job opportunities in the private sector are scarcely provided; and yet, it delivers poor services at high costs.** The current size of the public service is about 51,400 staff—excluding the parastatals—of which civil servants constitute 15,707, police and military 20,500, and teachers 15,180 as of June 2015.[5] The public sector constitutes about 3.05 percent of the total population and about 10 percent of the employed population. The lack of absorption of employment into the private sector has led to a high unemployment rate and a situation in which the public sector has become a critical source of employment. This situation has precipitated significant hiring of public servants, particularly teachers and security forces, over the past 10 years (figure 1), and an escalating wage bill—combined with constant and significant wage increases (table 1). However, despite huge public spending, particularly in social sectors, as previously mentioned, Lesotho has seen worsening development outcomes in social sectors. The current size of public service and spending is no longer sustainable, particularly in light of a projected significant decline in SACU transfers in the coming years. This situation underlines the urgent need to tighten its underlying fiscal positions; further, an improvement in the effective use of public finance and human resource (HR) is imperative. While structural change from the public sector led employment model to the private sector led one is needed in the long term, the immediate key question for the government of Lesotho (GoL) will be how to deliver better services within current or reduced levels of public spending.

Figure 1. Public Service Employment in Lesotho



[5] Ministry of Finance.

Table 1. Wage Settlements

	Percent Increase	Inflation (%)	Net Growth of Compensation for Employees (%)
2007/08	10.0	8.0	n.a
2008/09	15.0	10.7	8.4
2009/10	8.5	7.2	6.9
2010/11	3.5	3.8	11.3
2011/12	5.0	6.0	3.1
2012/13	4.0	5.0	22.4

Source: International Monetary Fund/World Bank.

Fiscal management and decision-making processes need to be strengthened to regain control of over-sized public spending.

9. **The relationship between policy priorities and spending patterns will need to be strengthened to improve fiscal management.** In addition to the lack of fiscal controls over the wage bill, a linkage between planning and budgeting under a Medium-term Expenditure Framework (MTEF) appears to be missing in the current fiscal management process.[6] The MTEF's outer-year spending plans are seldom used in preparing subsequent years' budgets and the approach to budgeting remains largely incremental and line-item-based. Policy discussion takes place only when the Budget Framework Papers (BFPs) are being finalized; and, further, the BFPs are scarcely reflected in the final budget. The role of the Ministry of Development Planning (MDP) in the area of capital budget preparation needs to be intensified to help improve the quality of the budget. A lack of accurate and timely production of national accounts data, revenues and budget execution data, and GDP data is also negatively impacting the current budget process and the quality of budget planning. There is a clear need to improve the quality of fiscal planning, strengthen the budgeting process, enhance institutional coordination and support for the implementation of the MTEF, and produce higher-quality national accounts data. In addition, Public Expenditure Reviews (PERs) are rarely conducted, resulting in poor measurability of public policy implementation in key areas of the NSDP and oversized recurrent cost, including the wage bill. This lack of meaningful input and oversight makes it difficult for decision makers to have the appropriate tools to assess alternative policies.

10. **Use of the scarce capital budget, through public investment projects, is neither strategic nor qualitative.** Given the large scale of recurrent spending, the capital budget represents only 19.5 percent of the national budget for FY15/16 (excluding donor grants and loans) or 28.8 percent of the total budget. As structural, organizational, procedural, and functional weaknesses persist in the management of public investment projects, the GoL has been attempting to improve efficiency and effectiveness in the use of the capital budget by strengthening the public investment project appraisal system and by reorganizing the Public Sector Investment Committee (PSIC). The capacity to conduct technical appraisals to adequately assess projects before approval is generally weak and many projects, even large-scale ones, still do not go through a rigorous appraisal process. The quality of the project appraisal documents from the sectors is very poor. Rigorous cost-benefit or cost-effectiveness analyses are rarely done and project proposals often do not set defined physical scopes or hard ceilings on financial resources. In addition, once projects are approved, they are moved to a database of approved projects, even though the budget allocation

[6] World Bank. 2011. *Lesotho Public Expenditure Decision Making: An Institutional Analysis of the Budget Process.*

is not guaranteed. Going from approval to implementation is challenging. Poor public investment planning impacts the quality of service delivery.

11. **In the health and education sectors, weaknesses in expenditure planning and management contribute to significant resourcing imbalances and inefficiencies.** Staffing costs are treated as central administrative overhead costs rather than being included in facility-level budgets. Similarly, the absence of transparent criteria-based funding norms for determining district- and facility-level expenditure allocations contributes to significant unexplained variations in per capita spending allocations in operational budgets. Delays in funding releases, poor supplies management, and slow procurement result in shortages of critical supplies that particularly affect health services delivery. Improved application of existing public financial management (PFM) processes will be required to address these issues and ensure the more efficient use of available resources.

Table 2. Recurrent and Capital Expenditure by Education and Health

	Recurrent		**Capital**		**% of Total Budget**
	Budget (million maloti)	**% of Total Recurrent**	**Budget (million maloti)**	**Total**	
Ministry of Health (MOH)	1761.9	15.1	234	1996.05	12%
	88.3%		11.7%		
Ministry of Education	2152.6	18.4	86	2238.78	14%
	96.2%		3.8%		
Total Budget	11694.2		4726.3		16420.5
	71.2%		28.8%		100%

Source: Lesotho Budget FY2015/16.

12. **Despite some progress in the area of PFM reform in recent years, the latest Public Expenditure Financial Accountability (PEFA) Assessment (2012) confirms that key challenges to sound fiscal management still exist.** Progress has been made on some fronts; most notably, in improved budgeting and macroeconomic forecasting; the introduction of a new legal framework for PFM; the introduction of a new Integrated Financial Management Information System (IFMIS) in April 2009; and completion of public accounts from 2005 to 2010. However, several problems are yet to be resolved, including the lack of a strategic overview of the allocation of resources; inadequate planning of services; absence of payroll control; weak accounting processes and disciplines; and ineffective internal and external audit systems.

13. **To further strengthen PFM systems and address the weaknesses identified in the 2012 PEFA report, the GoL launched in 2013 its PFM Reform Strategic Action Plan (PFMRSAP) 2012–17.** The action plan covers eight components: (a) the PFM regulatory framework; (b) policy orientation and transparency of the budget; (c) cash flow forecasting and management; (d) internal control environment; (e) accounting and fiscal reporting; (f) procurement; (g) external audit; and (h) management of reform processes.

14. **Substantial assistance from the development partners has been committed to support PFM systems development and capacity-building reforms.** World Bank assistance is being

provided through the PFM Reform Support Project (P143197), which focuses on strengthening and modernizing the IFMIS platform and related training and change management requirements. The European Union (EU) support covers updating of the PFM regulatory framework and planning and budgetary systems and processes, including: macro-fiscal analysis; expenditure planning; program-based budgeting; public investment management (PIM); and monitoring and evaluation (M&E) procedures. African Development Bank assistance addresses procurement, internal and external audit systems, as well as technical and equipment support to the PFM Reform Secretariat and the e-government project. International Monetary Fund (IMF)'s assistance involves just-in-time inputs from technical advisers based at its Southern Africa Regional Technical Assistance Centre, as well as providing a long-term expert to advise and support the strengthening of the Accountant General's Department.

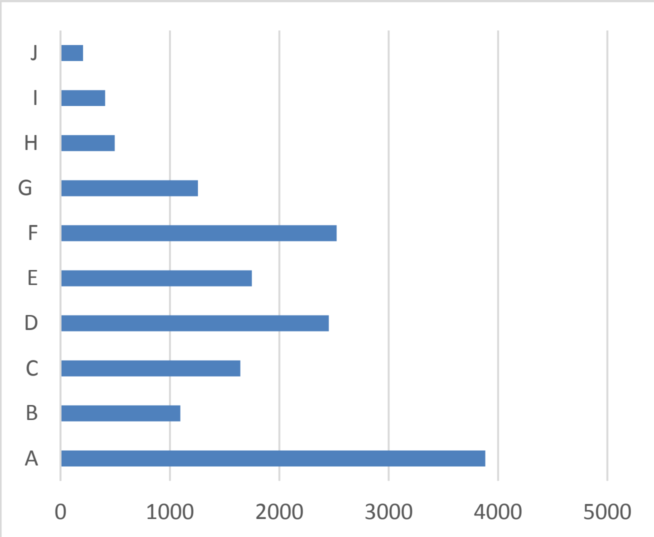
15. **Experience from previous technical assistance (TA) operations in Lesotho indicates that measures to strengthen PFM systems and procedures need to be complemented with more direct assistance to supporting public expenditure at strategic and decision-making levels.** Although significant progress has been made in strengthening strategic planning and budgeting processes and capacities, this has not led to key policy issues being addressed. These issues include: the size of the public service and wage bill; the need for greater realism in strategic planning; the persistence of an incremental approach to expenditure planning; a public investment program that is underfunded and contains significant elements of recurrent expenditures.

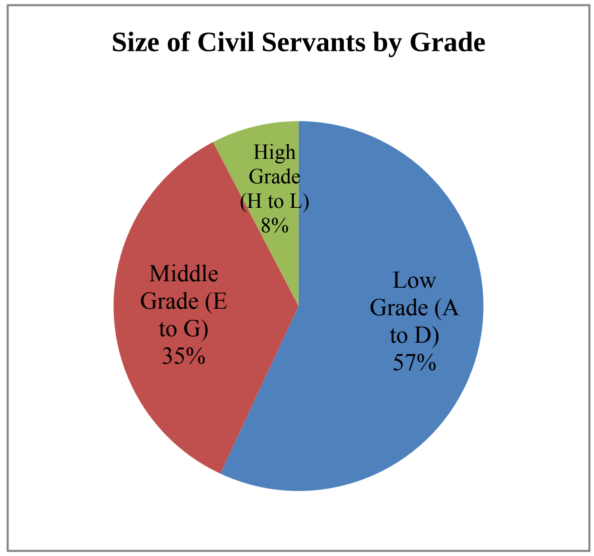
Human Resource Management is at the core of public administration reform

16. **The current civil service is not controlled based on an establishment list and it comprises many non-essential staff.** Although the vacancy rate for civil servants stands at 33 percent as of June 2015 according to the latest establishment list (2012/13), the establishment list itself seems to neither reflect the real needs of public administration nor provide an effective basis for control. The establishment list has also not been integrated in the previous payroll system/new Human Resource Information System (HRIS), thus compromising the ability to ensure an authorized, budgeted, and valid payroll. Currently, there is basically no ex ante establishment control over the payroll and limited ex post controls. This situation is further worsened by the fact that there is no monthly reconciliation of the wage bill per ministry and this makes it difficult to project the wage bill and control the size of public service.

17. **The current civil service has a bottom-heavy structure and lacks significant middle management and technical staff, which affects the quality and performance of public service.** The structure of the civil service is organized according to grades ranging from A (lowest) to L (highest). As figure 2 shows, 57 percent of civil servants (Grade A–D) are classified as low-skilled professionals and 25 percent of civil servants, or 3,883 out of 15,707, are concentrated in Grade A alone. In addition, there seem to be many temporary supporting staff—such as cleaners, handymen, plumbers, and carpenters—directly hired by each line ministry with their operational budget. Although the wage bill for the low grades constitutes only 22 percent and there are no perfect models of structure for civil service, there is a clear need for more mid-management and technical staff who provide substantive and technical work, facilitate decision-making, and ensure policy implementation. The key questions appear to be (a) how to improve service delivery with these existing staff and (b) how to restructure this overweighting of A-level personnel that largely affects the quality and performance of public service.

Figure 2. Composition of the Civil Service in Lesotho





Source: Ministry of Finance (MOF).

18. **Irregularities persist in Human Resource Management (HRM).** The GoL recognizes that the staffing and payroll records and data are fragmented and not updated and that controls such as reconciliations are ineffective or not performed. This leads to invalid payroll records, such as in the case of ghost workers, double dippers, and so on. Another problem is that key processes, such as retirement and removal from payroll, are not executed efficiently, resulting in retirees remaining in the system. These invalid HR cases are potentially one of the major causes of the bloated wage bill and make the HR records inaccurate. Further, the existence of multiple HR and payroll databases across the government makes it even more difficult to identify those invalid cases. The Ministry of Public Service (MPS) has therefore attempted to conduct a payroll audit in a few ministries in recent years. However, while the audit for the MOH identified discrepancies of 30 percent between actual headcounts and the payroll lists, these discrepancies have not been properly addressed and/or rectified. The payroll audit has so far had very limited impact on the reduction of the wage bill and/or the regularization of HR control.

19. **HRM in social sectors faces a challenge.** The Ministry of Education and Training (MOET) manages an estimated 45 percent of the total number of civil servants, mainly teachers, whose salaries account for approximately 64 percent of the national wage bill. However, MOET manages its own HRM system and the MPS has only limited knowledge of their HR records. The accurate number of teachers and their working locations are not precisely captured in the system. In addition, the MOET has a significant amount of unbudgeted salary payments, mainly due to hiring a large number of temporary 'substitute teachers' who are not accounted for in the budget. The MOET and the MOH, recognize: (a) a large number of irregular HR cases; (b) mismanagement in HRM processes; and (c) errors in salary payments.

20. **In recent years, the GoL has taken a number of critical steps aimed at civil service reform (CSR); yet it has been mostly ineffective.** The reconciliation of HR records and payroll/pension data was initiated in August 2012 to migrate into the new HRIS (called 'Resource Link'). While some positive progress has been observed, several concerns remain, such as unavailable data in multiple fields. In 2013, the MPS implemented a new grading system,

consisting of 13 grades (with a set of 6 steps within each grade), moving on from the old system that had 12 non-overlapping grades (with a set of 6–13 steps—increments—within each grade). However, necessary processes such as job evaluation have not been undertaken. A performance contract between ministers and principal secretaries has also been piloted since 2013 with support from the United Nations Development Program. This new regimen has also had limited success, likely because of a lack of incentives for its enforcement and the absence of an evaluation system to actually monitor performance.

21. **The new government is committed to regaining control over the wage bill and strengthening HRM as their top priority.** It prioritized the public service reform that was prominently featured in both the Coalition Agreement of the new GoL as well as in the first budget speech delivered by the Minister of Finance in May 2015. In light of the structural and recurrent problems in HRM and the possible oversized establishment list and wage bill (which do not reflect the real needs in public service), the current civil service will benefit from a comprehensive reform. Introducing and implementing performance-based management (PBM) will be needed once a more reliable HRM system is in place and the capacity to apply it is built.

Lack of reliable statistics undermines effective decision-making and monitoring of the development *outcomes.*

22. **Failure to produce timely and reliable economic, social, and poverty statistics also undermines the effectiveness of the government's decision-making.** The Bureau of Statistics (BOS) approved a new National Statistical Development Strategy in 2012 that outlines the range of improvements in different areas of statistical capacity and the M&E system. The national accounts chart does not fully cover critical sectors (such as agriculture, transport, and dwelling services) and the BOS faces challenges in making quality social and poverty data available on a regular basis. Those persistent issues result not only from insufficient financial resources, but also from institutional weaknesses and from lack of coordination with other sectoral institutions which are primarily responsible for providing quality data to the BOS.

23. **As a result of the donors' support, the quality of the national accounts data has improved in recent years, but further improvements are needed.** With TA from the IMF, the national accounts have been revised and rebased based on the 2012 economic census. Annual GDP estimates in current prices and volume terms from the production, expenditure, and income sides have been produced and published by the BOS. In addition to the limited sectoral coverage in the current GDP calculation, the fact that more than 30 percent of businesses are underestimated affects the quality and accuracy of GDP. Other macroeconomic indicators, such as high-frequency industrial production/trade indices, are used to monitor developments during the year. Despite these improvements, further development is required to achieve a high frequency of quality national accounts data. New sources of data, including value added tax records, the 2010–11 household budget survey (HBS), the Continuous Multiple Survey (CMS), and the completed economic census should be used to further improve the quality and frequency of reporting of national accounts. The GoL aims to develop the quarterly GDP estimates as a high priority, as this could contribute to improving fiscal planning.

24. **The demand for poverty data has evolved in Lesotho, with the aim of developing evidence-based policy.** The discussion of the need for more and better data for policymaking and

the MDGs has principally focused on the statistical systems that must produce the data to monitor a wide range of social indicators. Demand has shifted to complex programs designed to determine the effect of government policies on the population's choices and welfare. Microdata from household surveys are used to frame socioeconomic developmental plans and initiate interventions for improving people's socioeconomic conditions. Information from the household surveys can provide the foundation and monitoring mechanism for poverty eradication efforts in Lesotho. Improving the CMS and conducting poverty surveys will have a lasting impact on monitoring the NSDP and boosting evidence-based policymaking.

C. Relationship to Country Assistance Strategy

25. **The project is being prepared based on the analysis in the Systematic Country Diagnostic (SCD), taking a holistic approach to assessing the priority issues of the country.** The SCD calls for addressing structural weaknesses in public institutions and it particularly highlights the importance of taking the following actions: fiscal consolidation; strengthening the management of SACU receipts and exploring alternatives such as domestic tax collection to supplement revenues; regularizing HRM and establishing a performance management system; improving the effectiveness and efficiency of public spending; and, improving PIM, project management, and program delivery by adopting systems and processes that establish and implement systematic and meaningful monitoring and accountability processes. A new Country Partnership Framework is being developed and the project will be fully aligned with its Pillar One: Efficiency and Effectiveness of the Public Service.

26. **There are a number of Bank operations currently ongoing in Lesotho to which this project offers complementary support**. First, support to PFM is mainly provided through the PFM Reform Support Project. The activities that are outlined as part of this project will provide complementary focused-support for strategic fiscal planning, management, and control over the wage bill, as well as improved HRM at the MOF and MPS. Second, the project will enhance institutional and resources management capacities that enable delivery of better services which are directly supported by the other social sector projects: for instance, the Maternal and Newborn Health Performance-Based Financing Project (P114859); the Education Quality for Equality Project (P156001); and the Social Assistance Project (P153424).

D. Higher Level Objectives to which the Project Contributes

27. **Through institutional strengthening aiming to deliver better public service, the project will contribute to the World Bank Group's strategic goals of eliminating extreme poverty and promoting shared prosperity.** The project will directly address inefficiency and ineffectiveness in the use of public financial resources and HR which affect delivery of public services to poor people. Despite the huge financial investment in social sectors with a large number of dedicated staff, institutional weakness undermines the use of those resources to maximize effect and directly reach the poorest population who most need the services. In addition, lack of timely and reliable poverty and economic data also undermines the monitoring of development results and effective government decisions for the appropriate allocation of resources. Improved public resources management, through strengthened HRM and a more strategic national planning and budgeting process with a better PFM system, will not only enhance the efficiency and effectiveness of public service, but will also ultimately contribute to improving service deliveries. Improved

production of high-quality and comprehensive poverty and economic statistics enhance accountability by enabling evidence-based decisions and facilitate citizens' monitoring of the use of public resources.

II. PROJECT DEVELOPMENT OBJECTIVES

A. PDO

28. **The project development objective (PDO)** is to strengthen strategic-level planning and to improve efficiency in the fiscal and human resource management of Selected Ministries.

Project Beneficiaries

29. **Project beneficiaries will primarily be the members of the public service in the targeted ministries and public agencies.** The project will provide horizontal support to the central ministries to strengthen public administration, as well as vertical support to targeted sector ministries to improve resource management systems and capacities for service delivery. The project will address 'broad cross-cutting issues', such as civil service and fiscal management, to reduce inefficiencies in the use of public resources across the administration. At the same time, given the high level of irregularities in both HR and financial management (FM), the project will focus on improving those areas in the MOH and Education which would significantly impact social service delivery and poverty reduction in Lesotho. Direct beneficiaries of this multi-sectoral operation will therefore be the stakeholders of the Prime Minister's Office (PMO), MPS, MOF, MDP, MOH, MOET, and BOS—that is, those engaged in addressing institutional-strengthening needs that are essential to enhancing service delivery.

30. **The ultimate beneficiaries of the project will be the citizens of Lesotho who should benefit from improvements in the quantity and quality of public services delivered.** The citizens of Lesotho are expected to receive improved services, as the project moves forward, through better performing public servants, improvement in effective and credible financial resources allocation and management, as well as improved decision-making, backed up by more reliable statistical data about the poor and vulnerable in Lesotho.

PDO Level Results Indicators

31. **The achievement of the project's** overall development objective will be measured by the following key outcome indicators:
   - (a) Credibility of budget framework
   - (b) Consistency of sectoral budget allocations with NSDP forecasts
   - (c) Irregular HR and payroll records corrected/removed
   - (d) Vacancy rate based on the revised establishment list in MOET and MOH
   - (e) Direct project beneficiaries; of which female

III. PROJECT DESCRIPTION

A. Project Components

32. **The proposed project will be financed by an Investment Project Financing (IPF) of US$10 million over a four year period.** The modality for project implementation will consist of a blended approach which combines TA to provide hands-on support as well as knowledge expertise. The project will be organized into four components, deemed critical to achieve the PDO. The components are: (a) Strategic Planning and Fiscal Management; (b) Strengthening Human Resource Management; (c) Improving Statistical Capacity; and (d) Strategic Implementation Support.

33. **Given the current and projected severe fiscal situation for the next few years and building on previous analytical work,[7] the project prioritizes establishing the basics for good HRM and wage bill control.** As described below, the project pays the largest attention to HR management through Component 2, while simultaneously strengthening planning and management of both recurrent and capital expenditures and enhancing the linkage between policies and budget processes through Component 1. Component 3 will enhance statistical capacities as a monitoring and accountability tool which will allow the government and the population to capture the results of economic and social development in a timely manner.

34. **The project will attempt to support improvements in the use of public resources for better service delivery in the Selected Ministries.** While the development of strategic planning and the improvement of systematic management are critical to strengthening public administration from a long-term perspective, the importance of delivering better services within current or reduced levels of public expenditure should be noted. The project may include activities with a quick impact for better service delivery, which can be developed at an early stage of the project's implementation.

Component 1: Strategic Planning and Fiscal Management (US$2.0 million)

35. **The objectives of this component are to strengthen strategic and fiscal planning and the decision-making processes and improve expenditure planning and management in the health and education sector to achieve more effective and efficient service delivery.** The component focuses on three main activities: (a) preparation and implementation of the next NSDP, covering the period 2017/18–2021/22; (b) development of the annual BFP, setting out the fiscal framework and spending priorities and choices for the coming three-year period; and (c) budget preparation and execution processes in the two major service-delivery ministries.

36. **The assistance to be provided under this component complements actions being taken under Lesotho's PFMRSAP.** Through the PFMRSAP that addresses 'transparency and effectiveness of policy orientations of the budget', the EU is providing TA on strengthening budget preparation and execution processes and improving the quality of budget documents and reports. The Public Sector Modernisation Project (PSMP) assistance complements these efforts and

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[7] Public Expenditure Review including detailed note on Public Expenditure Decision Making (2012), Growth Study (2014), Selected Policy Notes, Public Investment Management Review (2012), Policy Note on Option for Reducing the Wage Bill (2011), Volatility of SACU Receipts and Fiscal Rules in Lesotho and Swaziland (2015), World Bank.

focuses primarily on improving the NSDP process, strengthening the strategic policy focus in the budget preparation process, as well as FM in the MOH and MOET.

Subcomponent 1.1: Support to Strategic Planning and Budgeting (US$1.0 million)

37. **Experience with the implementation of NSDP-1 has highlighted the need for a more robust and fiscally realistic strategic-planning framework** which is backed by a budget process which more explicitly addresses key fiscal sustainability issues. The PSMP will assist these challenges through support to the preparation and implementation of NSDP-2 and strengthening that analysis of key fiscal policy issues as part of the strategic phase of budget preparation. Assistance under the subcomponent will be flexible and demand-led, enabling responsiveness in addressing emerging strategic and fiscal policy issues and priorities. Assistance will be provided in the following activity areas:

(a) **Preparation of NSDP-2**. The PSMP will provide analytical and facilitation assistance to the MDP for the preparation of NSDP-2. The new NSDP will be strengthened by the inclusion of a comprehensive and costed government program covering both public investment and recurrent expenditures and a financing plan. Provision will be made for improved consultation with the cabinet, donors, and civil society at key stages during preparation of the new plan.

(b) **Strategic phase of budget preparation.** The PSMP will support the MOF and MDP with the development of policy analysis as input into a strengthened Budget Strategy Paper (BSP). Specifically, it will support (a) regular conduction of the PER involving the preparation of cross-cutting and sectoral PERs and establish an internalized PER process; and (b) the development of an improved wage bill modeling and forecasting tool to facilitate medium- and long-term payroll planning and management.

(c) **PIM.** The PSMP will assist the MDP in further developing the role and operations of the PSIC in overseeing investment cycle management. The support will focus on (a) improving investment prioritization and appraisal procedures and capabilities; (b) eliminating nonperforming and low priority projects from the investment portfolio; (c) managing fiscal space to ensure that projects included in the public investment program (PIP) are fully funded; and (d) strengthening investment program M&E.

(d) **Institutional strengthening in the MDP.** Support will be provided for the development and implementation of a strategic institutional plan for strengthening organizational structures and program-management capacities in MDP and addressing change management to facilitate NSDP-2 implementation.

Subcomponent 1.2: Strengthening Expenditure Planning and Execution in the MOH and MOET (US$1.0 million)

38. **The PSMP will address inefficiencies in resource allocation and FM in the two largest service-delivery ministries, Health and Education.** Specifically, it will support (a) improvements in the budgeting processes at ministry and service-delivery program levels to ensure more equitable financing across key services; and (b) the development and implementation

of ministry-level FM improvement plans that will focus on actions that can be taken at the line-ministry level to improve the effectiveness and efficiency of public resource planning and utilization.

Component 2: Strengthening Human Resource Management (US$4.5 million)

39. **The objectives of this component** will be (a) to reduce irregular HR and salary payments cases; (b) to enhance wage bill and HR control at the Selected Ministries; and (c) to improve HRM practices and deployment of HR for better service delivery. The component will comprise three subcomponents: (i) establishing a HRIS by reducing irregularities and discrepancies in HR and payroll records for the whole government; (ii) reviewing and redefining HRM and payroll processes, controls, and practices and implementing the improved practices; (iii) improving HRM practice in the MOH and MOET.

Subcomponent 2.1: Establishing a Human Resource Information System (US$2.5 million)

40. **The lack of credibility in current HR records needs to be addressed through a functional and well-controlled HRIS.** The MPS and the MOF are currently reconciling the HR records and the payroll list with the intent of compiling the reconciled data in the new HRIS (Resource Link). This subcomponent will provide support for the data migration process to create a master HR list and the roll out of the HRIS to line ministries, providing a training program for current HR staff to strengthen their technical skills and change management processes to adapt to the new environment with an automated system.

41. **The credibility of information in HRIS will not be enhanced unless the updated data is verified through physical identification.** Once the reconciled data is made available, it will be critical to verify the records and identify invalid cases to improve data accuracy. This subcomponent will support a biometric census that allows for physical identification of all civil servants across the country. This biometric census will be conducted by connecting it with the ongoing establishment of a national ID system through the national census. Once the biometric census is completed, a database and record for each civil servant will be embedded in the new HRIS, which will be subsequently interfaced to IFMIS to better control wage bill expenditures. This subcomponent will provide support to the MOF and MPS, in collaboration with the Ministry of Home Affairs, which is responsible for the national census, and the line ministries to roll out the HRIS.

Subcomponent 2.2: Strengthening HRM Controls and Processes (US$1.0 million)

42. **This subcomponent will support reintroducing establishment controls.** Current establishment controls are weak or nonexistent and tend to reduce the credibility and integrity of HR and wage bill management. Regaining HR and wage bill control can only be achieved through hiring controls and eliminating legally non-justified registries and positions. Once the HRIS is established and more accurate information is captured, it will be even more critical to strengthen control based on the establishment list. This subcomponent will support appropriate control mechanisms—such as monthly reconciliation between headcount, the establishment list and budget, and payment authorization processes.

43. **The establishment list itself needs to be updated.** In light of the high vacancy rate of 30 percent (based on the current establishment list), there seem to be redundant positions within the civil service, which could be one of the causes of the oversized wage bill and bloated civil service. This subcomponent will support a revival of the Establishment Committee and review of the list—including cancelation of positions which have not been filled for more than one year—so as to provide an improved basis for establishment controls. The revision of the establishment list will also contribute to reducing the vacancy rate between the establishment and actual headcounts, better forecasting the wage bill, and controlling the size of the public service. The revised establishment list needs to be managed via the HRIS/Resources Link system so as to automatically control the actual headcount and the established positions.

44. **The subcomponent will also support improvement of HRM processes and the capacities of HRM staff.** Recurrent problems in HRM today seem to result from unclear business processes within the MPS and MOF and between those two central ministries and line ministries. This subcomponent will support, through TA, review of the HRM business processes in the MPS and MOF and of HR departments in line ministries and will also provide the training program for all stakeholders to apply the improved procedures.

45. **Once the critical HRM practices are improved, this subcomponent will enhance support to address PBM.** It includes: (a) introduction of PBM system and (b) developing a professional training plan and providing continuous training to develop the technical and management skills of the workforce. The subcomponent will also support developing service-level standards at facilities' level in the MOH and MOET as a way of raising awareness and mobilizing citizens and monitoring staff performance. This subcomponent will provide support to the MOF and MPS and HR departments in the line ministries.

Subcomponent 2.3: Improving HRM Practices in the MOET and MOH (US$1.0 million)

46. **Strategic staffing will be critical to improve social services provided by the MOH and MOET.** As underlined in the latest public health PER 2015, the shortage of health workers, in particular in remote areas, appears to be a key issue that undermines access to and quality of health care, while in the MOET, there seem to be redundant teachers in certain areas. As inadequate staffing in public facilities immediately undermines the provision of necessary quality service, this subcomponent will finance a HR deployment assessment for these two ministries; that review will identify a gap in staffing, based on which the ministries can develop a strategic HR staffing plan and reestablish an establishment list at the public facilities' level. The assessment will include, for health rationalizing, the distribution of cadres in relation to the assessed HR needs at facilities, as well as addressing the gaps identified through the ongoing Public Expenditure Tracking Survey (PETS) and Quantitative Service Delivery Surveys (QSDS), financed by the health project of the Bank.

47. **This subcomponent will support strengthening the HRM process and internal control in MOH and Teaching Service Department.** Inadequate staffing, either short or redundant, seems to result from HR mismanagement. Upon establishing the basic HRIS and an improved staffing plan, it will be critical to strengthen the HRM process and internal controls (for example, recruitment, transfers, career management, and salary payments) through business process reengineering which is unique to each ministry's context. The proposed reform will link staffing

requirements to specific services and locations, providing the opportunity for improved planning, distribution, and management of the workforce to ensure more equitable service delivery. A few districts will be selected to review and apply the improved HR business process as a pilot case before it is rolled out to other districts.

48. **This subcomponent will support a review of the pay policy by linking with the PBM for teachers.** The results of the review will provide policy options to redefine pay policies for teachers (including substitute teachers), based on PBM, as a way of improving the quality of education services. This activity will be carried out as a second step of the reform, when the cleanup of the HR records is completed and HRM business processes are reviewed.

Component 3: Improving Statistical Capacity (US$2.0 million)

49. **The objectives of this component will be to produce timely and reliable economic, social, and poverty statistics to provide a basis for better fiscal planning, as well as a monitoring tool for NSDP.** This component will provide support for: (a) improvement of national accounts and (b) conducting HBSs.

Subcomponent 3.1: Improving the Quality of National Accounts Statistics (US$0.5 million)

50. **This subcomponent aims at improving the quality and timeliness of core national accounts and producing the quarterly GDP**. Assessing the current status of Lesotho statistics reveals that the following areas need support for improving the national accounts. This subcomponent will mainly provide technical support and necessary equipment to improve the statistical infrastructure.

(a) **Introduction of quarterly GDP estimates**. Three important economic activities—agriculture, transport, and dwelling services—are not included in the current GDP calculation. Building on recently re-based GDP, the subcomponent will provide technical support for building the capacity of BOS staff to improve the coverage of national accounts and be able to produce and publish the quarterly GDP consistent with the Special Data Dissemination Standards (SDDS). Quality assessment such as the Reports on the Observance of Standards and Codes (ROSC) will be regularly conducted.

(b) **Development of a Supply and Use Table (SUT).** TA will be provided for the next phase of revising and re-basing national accounts planned for 2017 through SUT, which is a powerful tool for improving the national accounts and providing a framework for reconciliation of production and expenditure estimates.

(c) **Development of a business statistics database.** This subcomponent intends to support enhancing data collection and development of the business statistics database, based on data extracted from the business registry system in the Ministry of Trade and Industry.

Subcomponent 3.2: Improving Poverty and Social Statistics (US$1.5 million)

51. **This project proposes a multiyear program encompassing design and implementation of the HBS**. This subcomponent will provide: (a) support for development of the survey methodology; (b) financial and technical support for two rounds of the HBS; and (c) technical support to the BOS and the M&E unit in the MDP to strengthen capacity for analyzing the results of the HBS by linking with the Sustainable Development Goals (SDG) and NSDP.

Component 4: Strategic Implementation Support (US$1.5 million)

52. **The component will facilitate the seamless management and coordination of implementing the project.** This component finances a Project Coordination Unit (PCU) to coordinate the implementing ministries and agencies so as to create synergy and a coherent approach to public sector modernization. The PCU will carry out project implementation, procurement, and FM and produce a quarterly progress report. This subcomponent will finance the additional staff for the PCU, office equipment, running costs, as well as an annual audit and independent performance review of the project.

53. **This component will also provide support for the public service reform and a communication strategy at a strategic level to strengthen concerted and coherent efforts within the GoL.** Within the coalition government, policy coordination to be led by the PMO is becoming a more vital issue to pursue necessary reforms. The project will support capacity building of the PMO for policy formulation, coordination, and M&E and building on an assessment. In addition, in light of its strategic importance for public sector reform, this component will provide technical support to the Improvement and Reform Steering Committee (IRSC) to develop the policy action plan for the public service reform and enhance its oversight role and its communication to the public.

54. **The project may include activities with a quick impact for better service delivery.** While the development of strategic planning and the improvement of systemic HRM are critical to strengthening public administration from a longer-term perspective, it is critical for the citizen to benefit from better services that should be delivered within current or reduced levels of budget and by mobilizing existing public servants. In light of the lack of a clear vision and action plan for the public sector reform (PSR) that identifies priority areas, the project will provide support for identifying such areas through this component and it will further finance priority activities that should be developed at an early stage of the project's implementation. It could finance, for instance, Quick Impact Projects (QIP) with innovative approaches that visibly contribute to directly addressing the needs of the population, thus demonstrating the GoL's positive interactions with the population (that is, quicker issuance of drivers' licenses or passports, a cleaning campaign mobilizing redundant civil servants in lower grades, and so on). The selection and implementation of the QIP will require due diligence and appraisal by the GoL and the Bank and an approval through restructuring of the project.

B. Project Financing

55. **An IDA credit of US$10 million will be provided in the form of an IPF.** An IPF is suggested as the most appropriate and realistic instrument for meeting the GoL's needs for TA to

establish basic systems and capacity and to strengthen management and coordination in the administration. An IPF will also be a strong tool to complement the ongoing sectoral projects, facilitate institutional strengthening, and ensure tangible results.

Project Cost and Financing

Component	IDA (US$, millions)
Component 1: Strategic Planning and Fiscal Management	**2.0**
Subcomponent 1.1: Support to Strategic Planning and Budgeting	1.0
Subcomponent 1.2: Strengthening Expenditure Planning and Execution in the MOH and MOET	1.0
Component 2: Strengthening Human Resource Management	**4.5**
Subcomponent 2.1: Establishing a Human Resource Information System	2.5
Subcomponent 2.2: Strengthening HRM Controls and Processes	1.0
Subcomponent 2.3: Improving HRM Practices in the MOH and MOET	1.0
Component 3: Improving Statistical Capacity	**2.0**
Subcomponent 3.1: Improving the Quality of National Accounts Statistics	0.5
Subcomponent 3.2: Improving Poverty and Social Statistics	1.5
Component 4: Strategic Implementation Support	**1.5**
TOTAL	**10.0**

C. Lessons Learned and Reflected in the Project Design

56. **The proposed program design considers the evolving knowledge of designing and implementing projects in fragile political and economic environments and integrates the recommendations of reviews in the Bank.** Given the fluid political environment and fragile economic situation in Lesotho, the project has benefited from lessons learned from similar projects in other fragile contexts. A complex project design in a fragile context can create enormous challenges and obstacles for project implementation and management. Past experiences provide important guidance for project design, including (a) developing simpler and more focused project structures to achieve tangible results; (b) understanding the political economy of the country or project context; (c) creating incentives for government buy-in; (d) developing flexible implementation arrangements, depending on political economy; and, considering the appropriate time frame to implement the project. Thus, the project design is focused on the most critical issues in PSR and has structured in measures to anticipate implementation challenges, including political economy to better understand obstacles and implementation structures that facilitate buy-in and monitoring as well as cross-ministry coordination.

57. **Recent reports on reviewing project implementation, highlight the importance of built-in flexibility in project design, especially in supporting innovations.** The recent Implementation Completion and Results Report (ICR) on the basic education project in Lesotho, funded by the Global Partnership for Education, concluded that one of the key lessons is the importance of having a phased approach within the project design. In addition to adopting such a

phased approach, it is also proposed that there be built-in flexibility so that the program can be responsive and adaptive to new challenges and opportunities.

58. **Past experience has shown that fiscal and budgetary planning, in addition to improving PFM, needs to be strengthened to address critical strategic issues**, particularly relating to fiscal consolidation, the size of the public sector wage bill, and public investment prioritization. The government's PSR and modernization program will fail, unless it is linked to a robust fiscal consolidation framework. Activities under Component 1 will ensure that the cabinet is provided with quality analysis to support the often-difficult decisions that must be faced in managing fiscal consolidation.

59. **Addressing change management is a key success factor for PSR projects.** Adaptive challenges must be considered alongside technical challenges when outlining obstacles to the implementation of a reform program. As raised in a number of recent ICRs for PSR projects, the innovation and changes introduced by the project can frequently generate resistance by stakeholders. While a project may offer technical solutions to specific problems by using good-practice examples, a change management strategy and problem-solving approach based on the principles of empowerment, integration, and collaboration among various stakeholders, must not be omitted. Support for change management is therefore embedded in Components 1 and 2.

60. **An enabling environment for the key implementation agency or agencies has been found to be critical for the reforms being considered in past ICRs from Lesotho projects.** This will be especially important for the proposed program (given that there are multiple ministries engaged and coordination will be key for effective implementation of the project activities). Given past lessons of having a reform action plan clearly articulated by the GoL to create an enabling environment, the program will support a cross-ministerial steering committee (see section IV) and the reinstitution of the Establishment Committee (under Component 2), which aims at articulating the GoL's Establishment Policy and reform plan.

61. **Because of a strong correlation between results and close supervision and monitoring, robust supervision arrangements need to be included in the project design.** Past experiences in other public sector reform projects indicate that conducting project supervision twice a year may not be enough in a fragile context and needs to be strengthened and combined with frequent dialogue and communication with the project counterparts by information technology tools (videoconferencing, audio, and so on). Furthermore, the field presence of Bank staff in the country and/or region could help strengthen policy dialogues with counterparts and facilitate more frequent hands-on support. Annex 4 proposes such supervision arrangements (which should be supported with a sufficient supervision budget to the team).

IV. IMPLEMENTATION

A. Institutional and Implementation Arrangements

62. **The implementation arrangements for the proposed project will be built upon the existing structure and functions of the implementing arrangements of the Bank's other investment financing project, the Public Financial Management Reform Support Project**

(PFMRSP). Since the Bank's Board approval on February 6, 2013, the project has established a well-organized and functioning oversight body, as well as implementation arrangements. The IRSC for the PFMRSP, chaired by the MOF was reconstituted recently. Its membership includes: key ministers (Finance, Public Service, and Development Planning); PFM development partners; the chairperson of the Parliamentary Public Accounts Committee; and the Economic Cluster of the MPS. The IRSC for the PFMRSP has been meeting on a regular basis at least thrice a year. The PFM Reform Secretariat has been serving as the IRSC Secretariat.

63. **The IRSC will expand its mandate to serve as the highest-level intergovernmental oversight and steering committee for PSR.** Instead of creating another oversight/steering committee for the proposed project, the IRSC for the PFMRSP will become a high-level committee for a comprehensive public sector, with an emphasis on HRM and PFM. This expansion will ensure commitment from the government as a whole and intergovernmental coordination, which is key to the success of the proposed project. The ministers of MOET and MOH will be invited to regular meetings at the request of chairs.

64. **The ministries (MOF, MPS, MDP, MOH, and MOET) will be responsible for implementing and monitoring the interventions of their respective areas.** To establish synergetic and effective project implementation, while retaining the flexibility of different beneficiaries, a Reform Technical Committee (RTC) chaired by three principal secretaries from the MOF MPS, and MDP will be responsible for management of the project. The RTC will also benefit the existing RTC for PFM reform by including the mandate for PSR. The RTC will meet once a month to ensure close coordination and collaboration among different components. Three ministries will appoint the component leaders. All ministries will appoint technical experts to lead the activities of their respective areas.

65. **For the smooth launch and implementation of the project, the existing PFM Secretariat will take on the fiduciary responsibilities as the PCU.** The PFM Secretariat has accumulated experience with the Bank's rules and procedures for FM and procurement through the PFM project. Additionally, the PFM Reform Secretariat, under the guidance of the PFM reform coordinator, will provide overall coordination, including the role of the IRSC Secretariat. The PFM Secretariat, led by the project coordinator, will play the role of the PCU for FM, procurement, and M&E, with additional staff to carry out the project.

66. **An agreement for a Project Preparation Advance (PPA) of US$1,000, 000 was signed on February 2, 2016 with the GoL.** The PPA will mainly finance the following project preparation activities: (a) TA to prepare a policy framework for civil service management and revision of the establishment list; (b) TA to reconcile data in the HRIS; (c) TA to develop a methodology for the biometric census; (d) stocktaking work of NSDP-1 and preparatory work for NSDP-2; and the costs of establishing and/or operating a project implementation team within the MOF (staff costs, purchase of equipment, office furniture, and supplies). The PPA will be managed by the PFM Secretariat.

67. **The roles, responsibilities, relationships, and accountability of the IRSC, RTC, and PCU**, will be defined in more detail in the Project Operational Manual (POM), which will be adopted before project effectiveness, in addition to other arrangements described in annex 3.

B. Results Monitoring and Evaluation

68. **With support from the PCU, M&E of outcomes and results under the proposed project will be the responsibility of the implementing ministries and agencies.** Key outcome indicators will be monitored primarily on the basis of data gathered as part of regular government activities (for example, data on budget submissions and budget execution; civil service statistics available through the HRIS and payroll database). Progress will be measured with reference to baselines established before negotiations. It is proposed that terms of reference for consulting work under project activities should include the requirement of reporting on relevant interim outcome indicators.

69. **While the cabinet meeting, as well as the IRSC, will oversee the progress of the implementation, the PCU will be responsible for M&E and will report to them.** The PCU will produce quarterly progress reports, which will be subject to review and 'no objection' by the Bank. The PCU will compile progress on PDO indicators and intermediate outcome indicators in cooperation with the relevant implementing ministries and agencies and incorporate it into the semiannual progress report.

70. **An independent annual review will be added to assess progress in PFM and CSR reforms as well as implementation performance.** Given the high-risk nature of operations, the project will include an annual independent review that can provide guidance for better performance for the subsequent years. In addition, the project will benefit a joint review, with the EU, to monitor and evaluate the progress of PFM reform and CSR for their budget support annual review.

C. Sustainability

71. **The project is designed to build solid capacity and systems and improve longer-term management.** The project draws on the analytical underpinnings from the SCD and policy notes on the wage bill management and the improvement of PIM that identified weak management and systems and unclear business processes as fundamental issues in current public service management. The project is designed to support the vision and ownership of the new government, which is committed to institutional reforms and the effective use of public resources, particularly to achieve tangible results in social sectors. High levels of ownership—together with a basic, but realistic approach used to develop capacity and systems and improve the management process—are expected to create a strong foundation from which PSR efforts can be continued and scaled up. The project's focus on building the necessary operational systems for HRM and strengthening the core capacities of civil servants, will create the necessary foundation for sustained reform implementation.

72. **Project implementation will be undertaken by existing organizational entities instead of creating an ad hoc PCU.** The expectation is that through this approach, the country's capacity to manage and operate complex projects, including those financed by development partners, will be strengthened. The existing PCU basically comprises government staff under secondment arrangements. In principle, the same practice will continue to be applied to this project (unless other arrangements are found to be more appropriate). The existing project management capacity will be further augmented by the projects' activities, including, for instance, financing of training

courses for leadership, change management, communication, project management, M&E, procurement, and FM.

V. KEY RISKS

A. Overall Risk Rating

Risk Category	Rating
1. Political and Governance	High
2. Macroeconomic	High
3. Sector Strategies and Policies	High
4. Technical Design of Project or Program	Moderate
5. Institutional Capacity for Implementation and Sustainability	High
6. Fiduciary	Moderate
7. Environment and Social	Moderate
8. Stakeholders	Substantial
9. Other	–
OVERALL	High

B. Explanation of Key Risks

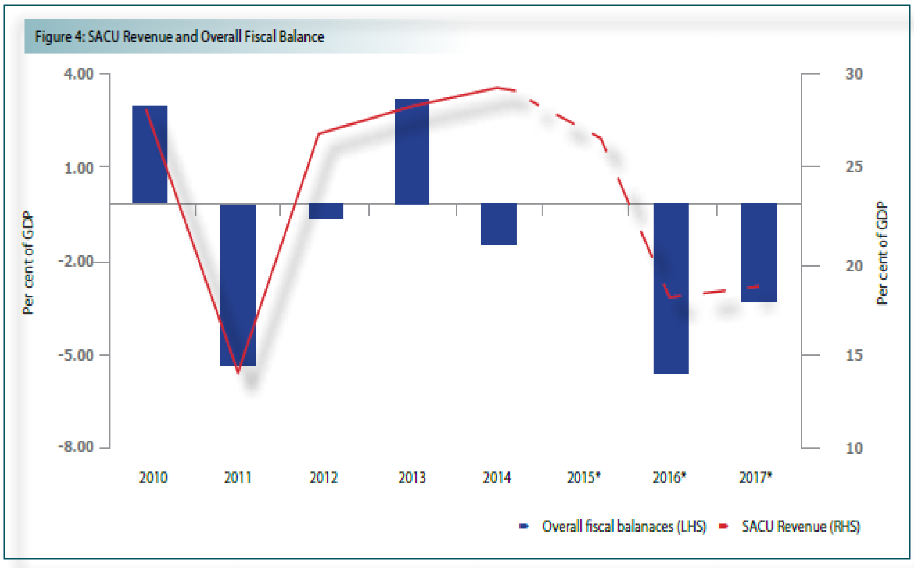
73. **The overall risk of the project is rated High.** This rating is based on the significant risks stemming from the complex political environment, the volatile macroeconomic situation, the inter-related nature of the proposed reforms, weak institutional coordination and implementation capacity, and the sensitive nature of CSR and strategic fiscal planning.

74. **Political and governance risk is High.** The political and security situation presents a significant risk that might compound economic vulnerabilities. The current fragile political environment may make it difficult to predict the appetite for reform and manage the new multiparty government around pro-reform consensus and commitments. This will also strain the government's ability to mobilize enough popular support to initiate vital structural reforms and will strain the government's capacity to implement complex reform programs. Any discussions about reforms in areas that are highly susceptible to corruption and patronage could be controversial as several cases of high-profile corruption allegations, involving high-ranking officials, remain unaddressed. The project will therefore attempt to strengthen the IRSC, as an oversight and principal mechanism for PSR, and proposes that the IRSC be co-chaired by the Ministers of Finance and Public Service to facilitate policy dialogue and sustain commitments from the highest officials within the government.

75. **Volatile macroeconomic situation.** Government spending has been significantly increasing over the last few years and calls for urgent control over the fiscal situation. Public spending rose to 63 percent of GDP in FY2013/14 and 83 percent of the national budget in FY2014/15 was absorbed by government consumption, particularly for public wages. The GoL's

revenues depend on a receipt from the SACU and are highly volatile, falling from 30 percent of GDP in 2014/15 to 25 percent of GDP, and further to about 17 percent of GDP. As a result, the wage bill is estimated to reach 47 percent of revenues in FY2017/18. This wage bill percentage is among the highest in the world and represents a significant challenge to fiscal consolidation efforts. Under this fiscal pressure, the project itself will provide mitigation measures through TA—strengthening fiscal control and planning—and better forecasting the wage bill so that the government can take appropriate policy measures.

Figure 3. SACU Revenue and Fiscal Balance



Source: Economic Outlook 2015–2017, November 2015, Central Bank of Lesotho.

76. **Lack of clear strategy and vision for public-sector reform is a high risk.** Although the government is committed to public sector reform, which has been demonstrated in different statements—such as a budget speech in May 2015 and the coalition agreement—, the government lacks a clear vision and action plan for such reform. Therefore, the project will attempt to strengthen the country's vision and strategy for public sector modernization and better service delivery by supporting the IRSC and the cabinet committee for PFM. In light of the increasing importance of policy coordination to be led by the PMO, the project will also support capacity building for policy formulation and coordination of the PMO.

77. **Limited institutional capacity is a major challenge for implementation of and sustainability for the project.** Because of the weakness in institutional capacity and the dispersion of responsibility and lines of accountability, the risk for implementation capacity is rated Substantial. Although the basis for controlling HR and managing public administration will be strengthened by the proposed project, traditional practices may persist without appropriate measures being taken by the GoL. These risks were predicted during the preparation and the project design includes mitigation measures not only to strengthen technical capacity but also to address change management. In addition, past failure shows that complex reform, such as introducing PBM, requires a certain maturity in the administrative system and institutional capacity. The project will therefore suggest taking a step-by-step approach: first focusing on basic institutional strengthening and then to gradually move to more complex reform. Furthermore, following due

diligence to address implementation challenges, the following mitigation measures are proposed: (a) utilizing the existing PFM Secretariat as a PCU; (b) hiring three additional staff to strengthen the capacities of the PCU; (c) the reassessment of capacities of the PCU as part of the midterm review of PFM reform at the end of the first year; and (d) a joint review, with the EU, to monitor and evaluate the progress of PFM reform and CSR for their budget support annual review.

78. **Coordination among the stakeholders and their potential resistance for critical reform can be considered as substantial risks.** The key challenge for the Lesotho public administration is the absence of a management culture and significant coordination failures among key stakeholders. That lack of a management culture and lack of coordination are considered chief causes for failure in public service reform in the past. The project will pay particular attention to change management to generate coordination within the government and to establish a results-focused mindset among key stakeholders. In addition, because of the horizontal and vertical nature of project activities that involve both central and line ministries, implementation arrangements were carefully examined and construed to be best anchored in the MOF which provides convening power and an adequate authorizing environment to enable inter-agency collaboration at various levels.

VI. APPRAISAL SUMMARY

A. Economic and Financial Analysis

79. **By improving efficiency and decreasing the loss of public funds due to heightened transparency and improved efficiency in wage bill and HR management, the project is expected to yield fiscal gains.** Similar projects have shown high returns as a result of reducing irregularities in the public service wage bill, with minimal comparative costs. By improving the quality of information made available to the budget development process, including the national accounts data, the project will contribute to the quality of national budgets. Better quality budgets mean less waste and an increase in the fiscal space available to line ministries for planning activities and investments in line with national priorities.

80. **Fiscal projections suggest that the project might result in creating significant fiscal savings in the range of 0.7 percent to 3.5 percent of GDP.** Component 2 will address removing irregular HR cases and salary payments by supporting data reconciliation, a biometric census, and the strengthening of internal controls. The payroll audit for the MOH conducted in 2013 that identified a rate of 30 percent discrepancies between payroll records and actual headcounts indicates the extent of potential irregular cases across the administration today. Based on this example, the fiscal analysis focuses on estimating different scenarios for net savings resulting from the cleanup of databases and the elimination of irregular and illegal payment cases. Table 3 suggests fiscal impacts with regard to real terms and percentage of GDP if 10, 15, and 25 percent of irregular payment cases for each category of public servants are eliminated as a result of biometric census.

Table 3. Projection of Estimated Savings from Elimination of Irregular Wage Payments

		Year 1: 2016/17 Data Reconciliation &Payroll Control	Year 2: 2017/18 Biometric census			Year 3: 2018/19 Payroll Control	Year 4: 2019/20 Payroll Control
		Estimate	Scenario 1	Scenario 2	Scenario 3	Estimate	Estimate
Projected savings (million Maloti/as % of GDP)		5%	25%	15%	10%	3%	5%
Irregular payroll cases	Civil Servants	64	320	192	90	n/a	n/a
		0.23%	**1.04%**	**0.63%**	**0.29%**		
	Teachers	74	372	223	149	n/a	n/a
		0.27%	**1.21%**	**0.73%**	**0.49%**		
	Military/Police	76	380	227	152	n/a	n/a
		0.27%	**1.24%**	**0.74%**	**0.50%**		
	Total	214	1071	642	390	239	434
		0.77%	**3.50%**	**2.10%**	**1.27%**	**0.70%**	**1.17%**

Source: MOF, World Bank staff

81. **A cost-benefit analysis indicates that the return, with regard to savings in the wage bill, could be significant.** The investment cost for cleanup of payroll records and strengthening internal control is estimated at US$4.5 million. If the fiscal savings are estimated at 390 million maloti (US$26.18 million) to 1,071 million maloti (US$72.54 million), as indicated in table 3, the return could be between 5.8 and 16 times greater. However, given the fact that the degree of irregular cases is unknown, these figures should be considered as rough assumptions.

B. Technical

82. **The project has been developed by building on lessons from past public sector reform projects and the focus and design are technically sound.** The project is based upon several analytical underpinnings of public sector reform and a number of lessons drawn from Bank experiences around the world. The project also builds on the achievements and learns from and rectifies the shortcomings of existing Bank support to the sectors in Lesotho. Project preparation has relied upon the active engagement of sectoral expertise within the Bank. Development partners engaged in Lesotho, especially the IMF and EU, have also positively reviewed the project from a technical perspective. The technical merits of the project design have been examined by Bank staff over the course of project preparation and are considered sound and in line with international standards.

83. **The IPF is selected as the most appropriate financing instrument in the current context of Lesotho.** During the project appraisal, the financing instrument was discussed—whether the traditional IPF or the Results-based Financing (RBF) with disbursement linked indicators would be suitable for this project. While the idea of the RBF was welcomed as a way of focusing on producing tangible results, certain reservations were expressed about ‘readiness’ or preparedness for such an instrument. The GoL and Bank agreed that the IPF that provides hands-on support through TA is more appropriate at this stage and the RBF could be considered when the timing is appropriate through the restructuring process.

C. Financial Management

84. **The PFM Reform Secretariat within the MOF will be accountable for the project's FM.** The overall responsibility for FM (including budgeting, accounting, payments, internal controls, transaction processing, and quarterly and annual financial reporting) rests with the dedicated project accountant who will be supported by the finance officer. The FM assessment of the Secretariat's capacity to implement the PFMRSP revealed weak capacity, which the GoL has addressed by appointing a dedicated project accountant with experience in donor projects and the setting up of the project finance unit to process and report the project's financial transactions. The new project is designed to benefit from these existing arrangements. The project accountant, with the support of other accounting staff will process all project financial transactions in line with the GoL payment approval procedures. In accordance with the Bank's financial reporting and audit requirements, the project will be required to prepare and submit interim financial reports (IFRs) to the Bank not later than 45 days after the end of each fiscal year quarter of the country.

85. **Disbursements under the project will be in accordance with rules and procedures as set out in the Bank's disbursement handbook.** The various disbursement methods available for use by the project include: (a) advances to a designated account (DA) and (b) reimbursement. The accountant general will authorize the opening and use of a DA (as part of the GoL Development Fund), denominated in U.S. dollars, at the Central Bank of Lesotho (CBL) to receive the funds from IDA. Local project expenditures will be paid from the normal treasury bank accounts, through the normal IFMIS-supported processes and reimbursed by transfers from the DA. Foreign currency project expenditures will be paid directly from the DA at the CBL. Preparation of withdrawal applications and justification of funds into the DA, as well as documentations for all direct payments will be the responsibility of the dedicated project accountant following Bank requirements. The Bank will issue a disbursement letter of which the content was discussed and agreed during negotiations. Disbursements will be based on statements of expenditure.

86. **Annual project audited financial statements, including the auditor's opinion and a management letter, will be submitted to the Bank not later than six (6) months after the end of each fiscal year of the country.** The project will audited by the office of the auditor general.

87. **The overall conclusion of the FM assessment** is that the project's FM arrangements have an overall Moderate risk rating.

D. Procurement

88. **All procurement to be financed under the proposed project** will be carried out in accordance with the Bank's 'Guidelines: Procurement of Goods, Works, and Non-Consulting Services under IBRD Loans and IDA Credits & Grants by World Bank Borrowers', dated January 2011 and revised July 1, 2014 and 'Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits & Grants by World Bank Borrowers', dated January 2011 and revised July 1, 2014, as well as the provisions stipulated in the Legal Agreement. For International Competitive Bidding (ICB) and National Competitive Bidding (NCB), all procurement of goods, works, and non-consultant services will be done using the Bank's Standard Bidding Documents (SBDs).

89. **All consultant selection undertaken for firms will be done using the Bank's Standard Requests for Proposals.** The project will carry out implementation in accordance with the 'Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants', dated October 15, 2006 and revised in January 2011 (the Anticorruption Guidelines).

90. **An assessment has been made of the procurement capacity of the PFM Reform Secretariat.** The key procurement issues identified are (a) the need for the PFM Reform Secretariat to assign a dedicated procurement officer to the PSMP; (b) limited capacity of the implementing partners under the PSMP to assure adherence to Bank Procurement and Consultant Guidelines.

91. **Proposed corrective measures to mitigate the overall risks include: (a) the PFM Reform Secretariat to hire an additional procurement officer; (b) training of implementing partners under the PSMP in Bank procurement and consultant selection methods and procedures; (c) selected contracts to be subject to prior review and a Procurement Manual to be developed.** An acceptable Procurement Plan covering the first 18 months of the project and a Procurement Manual has been prepared.

E. Social and Environmental Safeguards

92. **The project is classified as Category C. The proposed project does not trigger any of the Bank's safeguards policies.** Since the project will primarily focus on building institutional capacity through TA and advisory support, the project will not require any social and environmental assessment. Some civil servants identified through project-provided TA might lose their jobs and salary payments due to their irregular and/or illegal HR cases. It is expected that the improved HR and payroll management will allow use of public resources for identified intended purposes.

F. World Bank Grievance Redress

93. **Communities and individuals who believe that they are adversely affected by a Bank-supported project may submit complaints to existing project-level grievance redress mechanisms or the Bank's Grievance Redress Service (GRS).** The GRS ensures that complaints received are promptly reviewed to address project-related concerns. Project-affected communities and individuals may submit their complaints to the Bank's independent Inspection Panel, which determines whether harm has occurred or could occur as a result of Bank noncompliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the Bank's attention and Bank management has been given an opportunity to respond. For information on how to submit complaints to the Bank's corporate GRS, visit http://www.worldbank.org/GRS. For information on how to submit complaints to the Bank's Inspection Panel, visit www.inspectionpanel.org.

Annex 1: Results Framework and Monitoring

Lesotho: Public Sector Modernisation Project (P152398)

Results Framework

Project Development Objective

PDO Statement

The project development objective (PDO) is to strengthen strategic-level planning and to improve efficiency in the fiscal and human resource management of Selected Ministries.

Project Development Objective Indicators

Indicator Name	Core	Unit of Measure	Baseline	Cumulative Target Values						Data Source/ Methodology	Responsibility for Data Collection
				YR1	YR2	YR3	YR4	End Target	Frequency		
Credibility of budget framework.	X	% variance between aggregate expenditure outturn compared to original approved budget	Less than 10%[8]	10	9.5	8.5	7.5	7.5	Annually	PEFA PI-1	MOF
Consistency of sectoral budget allocations with NSDP forecasts	X	% variance in composition of budget allocations compared to	n.a.		8	7	5	5	Annually	PEFA PI-2	MOF

[8] PEFA 2012—actual expenditure deviated from budget more than 5 percent, but less than 10 percent in two of the three years (2009–2011) considered.

Indicator Name	Core	Unit of Measure	Baseline	YR1	YR2	YR3	YR4	End Target	Frequency	Data Source/ Methodology	Responsibility for Data Collection
		NSDP forecasts									
Irregular HR and payroll records corrected/removed		Percentage	0	0	0	50	100	100	Annually	Results of biometric audit of data on HRIS	MPS/MOF
Vacancy rate based on the revised establishment list in MOH and MOET		Percentage	33		25	15	5	5	Annually	Measured by discrepancy between the payroll list and current establishment list	MPS/MOF
Direct project beneficiaries, of which female		Cumulative number (of which female)	0	0	20 (10)	50 (25)	100 (50)	100 (50)	Annually		
Intermediate Results Indicators											
Indicator Name	**Core**	**Unit of Measure**	**Baseline**	**Cumulative Target Values**						**Data Source/ Methodology**	**Responsibility for Data Collection**
				YR1	**YR2**	**YR3**	**YR4**	**End Target**	**Frequency**		
Revised Institutional Plan implemented by MDP		Yes/No	No	No	No	Yes	Yes	Yes	–	Annual project report	MDP
Comprehensive facility budget developed in MOH and MOET		Yes/No	No	No	No	Yes	Yes	Yes	–	Annual project report	MOF/MOH and MOET
Budget execution rate in MOH and MOET is improved at district level		Percentage of districts with over 90% of execution	n.a.	75	75	85	95	95	Annually		

PBM introduced		Number of ministries	0	0	PBM developed	3	5	5	–	Annual project report	MPS
A training gap report based on the revised qualification in Selected Ministries completed		Yes/No	No	No	No	No	Yes	Yes	–	Annual project report	MOH/MOET/MPS/MOF
Reduction in numbers of temporary teachers		Percentage of cumulative reduction of temporary teachers	0	10	20	30	40	40	Annually	–	MOET/MPS/MOF
Quarterly time series published consistent with SDDS requirements		Timing of the publication of quarterly GDP	No quarterly based GDP published	Source data collections and processing system developed and finalized. GDP re-based to 2012	Quarterly GDP volume time series commencing in calendar year 2012 published. Quality assessment such as ROSC conducted	Quarterly GDP current price and volume series commencing in calendar year 2012 published	Quarterly GDP current price and volume time series commencing from the start of the annual time series published	Quarterly GDP published in line with SDDS requirements	Quarterly	BOS online publication	BOS
Publication of the HBS		HBS conducted and published	No survey conducted	Survey methodology developed	First HBS completed	Results of first survey published	Second survey completed and published	Two HBS conducted and published	Annually	BOS conducting the surveys	BOS
Service-level standards developed in MOET and MOH with citizens' feedback		Yes/No	No standards established		Service-level standards prepared	With citizen's feedback, service-level standards published	Service-level standards adopted as performance benchmark goal in all districts	Service-level standards adopted as performance benchmark goal in all districts	Annually	MOET and MOH website	MOET and MOH

Annex 2: Detailed Project Description

LESOTHO: Public Sector Modernisation Project

1. **The proposed project will be financed by an IPF of US$10 million.** The modality for project implementation will consist of a blended approach which combines TA to provide hands-on support and knowledge expertise. The project will be organized into four components, deemed critical to achieve the PDO. The components are: (a) Strategic Planning and Fiscal Management; (b) Strengthening Human Resource Management; (c) Improving Statistical Capacity; and, (d) Strategic Implementation Support.

Component 1: Strategic Planning and Fiscal Management (US$2.0 million)

2. **The support under this component aims to facilitate implementation of the public sector modernization agenda and provide for more effective and equitable distribution of public resources.** It will do this by financing analytical studies and related TA activities aimed at improving resource planning and expenditure decision-making. The PSMP assistance complements actions being taken under Component 2 of Lesotho's PFMRSAP—which addresses the transparency and effectiveness of policy orientation of budgets.[9]

3. **The support under this component supports Component 2 of Lesotho's PFMRSAP**, which addresses transparency and effectiveness of policy orientation of the budget, and complements other donors' support. Under Component 2 of PFMRSAP, the EU is particularly providing TA support on strengthening budget preparation and execution processes and improving the quality of budget documents and reports. The support being provided under the PSMP complements these efforts and focuses primarily on improving NSDP processes, strengthening the strategic policy focus in the budget preparation process, and FM in the MOH and MOET.

Subcomponent 1.1: Support to Strategic Planning and Budgeting (US$1.0 million)

4. **Experience with implementation of the NSDP has highlighted the need for a more rigorous, resource-constrained strategic planning framework within which public expenditure priorities can be determined.** The PSMP will assist the MDP with the preparation of NSDP-2 which is to cover the period 2017/18–2021/22. The new NSDP will be strengthened by the inclusion of a comprehensive and costed government program covering both public investment and recurrent expenditures and the development of a financing plan. Measures will also be taken to improve consultation with the cabinet, donors, and civil society at key stages during preparation of NSDP-2.

5. **Strategic budgeting reforms introduced in recent years have involved the preparation of the BFPs by line ministries and the national BSP.** These papers are presented at the cabinet budget retreat that precedes the preparation of the detailed ministry budget proposals. However, as yet, BSP has had limited influence on subsequent budget preparations and the MOF recognizes that its underlying policy content and analysis needs to be substantially improved. It is further

[9] Under Component 2 of the PFMRSP, the EU is providing TA for strengthening budgeting systems and procedures, including the budget-cycle management, macro-fiscal modelling, ministry BFPs, integration of aid financing into the budget, sectoral and program-based budgeting, and budget documentation.

recognized that the cabinet budget retreat should be brought forward to the beginning of the fiscal year so that conclusions and agreements reached can inform the development of line ministry BFPs and the BSP. Preliminary BFP budget ceilings should also be provided to line ministries to ensure that spending proposals contained in their BFPs are based on realistic resourcing assumptions.

6. **The subcomponent will be led by a semi-resident adviser who will assist the Policy and Strategic Planning Department in the MDP.** The adviser will also advise the MOF and MDP on strengthening policy analysis and content in the BSP and on the commissioning of policy studies and analytical inputs for the BSP to be funded under the PSMP. Support will be flexible and able to respond to demands that arise because of the government's evolving policy reform agenda. It is envisaged that assistance will be provided in the following areas:

(a) **NSDP-2 preparation.** It is anticipated that technical support and facilitation provided through the PSMP will cover the following tasks relating to the preparation of NSDP-2: (i) undertaking a quick stocktaking of the experience with implementing NSDP-1 and the lessons for updating and rolling forward NSDP-2; (ii) scoping of NSDP-2 preparation and task scheduling; (iii) identifying requirements for supporting analytical studies; (iv) coordinating NSDP-2 preparation, including commissioning and quality assurance of analytical work; (e) advising on the final format and editing of NSDP-2 documents; and (f) developing an M&E framework for NSDP-2. The scope and scale of the PSMP will be agreed with the MDP once the semi-resident adviser and a detailed work program for the preparation of NSDP are in place.

(b) **Strategic phase of budget preparation.** The PSMP will support the development of policy analysis linked to the preparation of the BSP. Assistance will be provided primarily to the Macro-Economic Policy and Management Unit in the MOF and the Policy and Strategic Planning Department in the MDP and will focus on the following: (i) support provided to the MOF in developing capacities for PER analysis as an integral part of the annual work program of the Macroeconomic Policy and Management Unit in the MOF. The support will cover assistance to the department in building its capabilities for planning, managing, and carrying out PER studies, and funding for commissioning the preparation of analytical PER papers on crosscutting and sectoral public expenditure issues. Support will also be provided for the dissemination and discussion of PER findings; and (ii) assistance to the Macroeconomic Policy and Management Unit for developing an improved wage bill simulation and forecasting tool to facilitate medium- and long-term payroll planning and management. The model will make use of biometric data available from the HRIS database in the MPS. Support will also be provided for the development of wage bill policies and strategies and, in collaboration with the MPS, to develop a strategic vision for transition to an affordable payroll as an integral element of the government's medium-term fiscal framework.

(c) **PIM.** Support under the PSMP will build on recent steps taken to improve project cycle management (PCM), including the establishment of the PSIC and the issuance of capital project appraisal guidelines. TA and mentoring support under the PSMP will build on and further develop these initiatives. This subcomponent will focus on improving investment prioritization and portfolio management through (i) identifying the extent of recurrent expenditures being financed through Public Investment Program (PIP) and complementary required measures, providing a timetable for moving such expenditures to the recurrent budget; (ii) analysis of the extent of underfunded and nonperforming projects in PIP and the development resolution program, considering options for bringing them to early completion, restructuring and refinancing, or curtailment and closure; (iii) sector-level investment program and project evaluations to assess the quality of the investment portfolio, implementation performance, and issues around program financing and management; (iv) analysis of the available fiscal space for financing new investment projects after taking account of forward-funding requirements for ongoing projects; (v) undertaking a cross-sectoral analysis of public investment priorities and resourcing envelopes linked to the preparation of NSDP-2; and (vi) putting in place a PIP performance monitoring framework. Where appropriate, follow-up technical support will be provided to address findings and recommendations. Support also will be provided to further define and develop the role of the PSIC and to strengthen the Secretariat functions provided by the PCM Department.[10]

(d) **MDP strategic (institutional) plan.** The PSMP will assist the MDP in updating and revising its strategic plan so that it is better aligned to support the implementation of NSDP-2. The plan will provide for a strengthened MDP organizational structure and updated departmental mandates and results frameworks. Support will also be available for implementation of the plan focused on strengthening management processes' developing capabilities in key areas of the MDP's work program.

Subcomponent 1.2: Strengthening Expenditure Planning and Execution in the MOH and MOET (US$1.0 million)

7. **This subcomponent will directly address inefficiencies in FM in the two largest service-delivery ministries, Health and Education.** Resource planning and budgeting in these two ministries reflects a wage bill-driven incremental approach that locks in existing resourcing imbalances between and within major service delivery programs. This approach contributes to considerable variations in the quality of and access to public services at the district level. There is also substantial scope for improving the operation of PFM systems at the line ministry level to facilitate timely budget execution and ensure that materials and supplies are available at the facility level when required.

8. **Support provided through the PSMP** for strengthening expenditure planning and execution in the two ministries will commence during year 2 of PSMP implementation and cover the following activities:

(a) **Improved budgeting at the ministry and service-delivery program levels.** This will be facilitated through the development of budget simulation tools that provide a top-down approach to assessing ministry budget requirements, utilizing a number of criteria (for example service-demand forecasts, pay levels, and operational cost

[10] The support to the PSIC will follow on for the current support that is being provided by EU which focuses on the development of the PSIP database and capacity building in PCM.

norms). The simulation tools will investigate the impact of different funding scenarios. They will also support a more robust approach to determining district and facility-level budget allocations by including staffing costs and taking into account factors such as the population served, population density, and remoteness. Sector budget analysts in the MOF will be involved in the development of the simulation tools and trained in their use, so that they can help to inform the determination of budget ceilings. In the health sector, the measures taken under the PSMP to improve the allocation and budgeting of core health-service resources will complement the initiatives being undertaken to incentivize improved service delivery through the Bank-financed Maternal and Newborn Health Performance Financing Project.

(b) **Development and implementation of Financial Management Improvement Plans (FMIPs) for the two ministries.** This will be initiated through review of how PFM procedures currently operate in the ministries and the key areas in which strengthening is required. The analysis will identify actions that can be taken at the line ministry level within the current PFM framework, as well as systemic issues that need to be addressed by the MOF. Based on review findings, the FMIPs will be developed for each ministry. These will focus primarily on actions to be taken at the ministry-level while also identifying complementary actions that need to be taken by the MOF. The FMIPs will provide a basis for further support to the two ministries, improving (i) the internal control and management environment; (ii) internal budget preparation processes; (iii) budget implementation planning, reporting, and monitoring; (iv) procurement and stores management, particularly in the MOH; and (v) internal procedures and capabilities for in-year expenditure program monitoring.

Component 2: Strengthening Human Resource Management (US$4.5 million)

9. **The objectives of this component will be** (a) to reduce irregular HR cases and salary payments; (b) to enhance wage bill and HR control at the Selected Ministries; and (c) to improve deployment of HR for better service delivery. The component will comprise three subcomponents: (i) establishing a HRIS by reducing irregularities and discrepancies in HR and payroll records for the whole government; (ii) reviewing and redefining HRM and payroll processes, controls, and practices and implementing the improved practices at the MPS and MOF; (iii) improving HRM practices in the MOH and MOET.

Subcomponent 2.1: Establishing a Human Resource Information System (US$2.5 million)

10. **The lack of credibility in current HR records needs to be addressed through a functional and well-controlled HRIS.** The MPS and MOF are currently reconciling the HR records and the payroll list with the intent of compiling the reconciled data in the new HRIS (Resource Link). The credibility of current records is negatively affected by invalid payments to 'ghost' workers, multiple monthly salary payments to a single worker (that is, 'double dippers'), and salary payments to officially retired workers who continue to remain in the system. This subcomponent will provide support for the reconciliation process to create a master HR list and roll out of the HRIS to line ministries, providing a training program for current HR staff to strengthen their technical skills, and change management processes to adapt to the new environment with an automated system.

11. **The credibility of information in the HRIS will not be enhanced unless the updated data is verified through physical identification.** Once the reconciled data is made available, it will be critical to verify the records and identify invalid cases to improve accuracy. This subcomponent will support a biometric census that allows for physical identification of all civil servants across the country. Experiences in other countries indicate that the biometric census, with multiple layers of verification processes, could identify irregular HR cases and thus create some fiscal space if they are eliminated from the civil service and/or regularized at the end of the process (see section VI-A Fiscal Analysis). Once the biometric census is completed, one single database and record for each civil servant will be embedded in the new HRIS, which will be interfaced to the IFMIS to better control and manage new appointments and wage bill expenditures.

12. **This subcomponent will provide** support to address the following issues:

(a) **Reconcile personnel records to the establishment list data** held by the MPS and the payroll data maintained by the MOF and create a single integrated database in HRIS, verified through a biometric census.

(b) **Support the implementation of HRIS** through investment in hardware, TA, training, and change management, to fully implement all key functionalities of the HRIS in the MPS, MOF, MOET, and MOH.

(c) **Conduct a biometric census to physically** verify permanent and contractual staff at both the central and decentralized levels and identify invalid HR cases. The biometric identification for civil servants could potentially be connected to the ongoing national biometric identification system.

Subcomponent 2.2: Strengthening HRM Controls and Processes (US$1.0 million)

13. **This subcomponent will first support reintroducing establishment controls.** Current establishment controls are weak or nonexistent and tend to reduce the credibility and integrity of HR and wage bill management. In the past, the Establishment Committee (comprising the ministers of MPS, MOF, and MDP) regularly reviewed and officially approved the list. Regaining HR and wage bill control can only be achieved through hiring controls and eliminating legally non-justified registries and positions (as based on reliable establishment and continuing establishment control). Once the HRIS is established and accurate information is captured, it will be even more critical to strengthen control that is based on the establishment list. This subcomponent will support appropriate control mechanisms—such as monthly reconciliation between headcount, the establishment list and budget, and payment authorization processes.

14. **The establishment list itself needs to be updated.** In light of the high vacancy rate of 30 percent (based on the current establishment list), there seem to be redundant positions within the current civil service, which could be one of the causes of the oversized wage bill and bloated civil service. This subcomponent will support a revival of the Establishment Committee and review of the list so as to provide an improved basis for establishment controls. The revision of the establishment list will also contribute to reducing discrepancies between the approved establishment list and actual headcounts, better forecasting of the wage bill and controlling the size of the public service, through the HRIS platform.

15. **Moreover, the subcomponent will support improvement of HRM processes and the capacities of the HRM staff.** The recurrent problems in HRM currently seem to result from unclear business processes within the MPS and MOF and between those two central ministries and line ministries. Some recruitments (especially Grade A) are taking place under delegated powers to line ministries without controls from the MPS. Transfers of staff in the line ministries are often verbally communicated to them without the necessary paperwork filed to the MPS, nor are the transfers recorded in a timely manner in the payroll at the MOF. The payroll list, maintained by the accountant general in MOF, is consequently often inaccurate in its cost allocation to cost centers and the budget codes to be used. Retirement processes and paperwork pertaining to the death of a staff member, are filed with significant delays, if at all, and both the line ministry and the MPS are unable to maintain up-to-date records. This subcomponent will therefore support, through TA, a review of HRM business processes in the MPS and MOF and in HR departments in line ministries and will also provide the training program for all stakeholders to apply the improved procedures.

16. **Once the critical HRM practices are improved, this subcomponent will enhance its support to address performance management.** It includes (a) establishment of a performance culture by introducing PBM; and (b) developing a professional training plan and providing continuous training to develop the technical and management skills of the workforce.

17. This subcomponent will provide support for the following activities:

(a) **Support the reinstituted Establishment Committee** to undertake strategic planning and control of HR across the public service and review of the establishment list.

(b) **Provide TA to the MPS and MOF to strengthen the mechanisms and procedures of establishment control,** based on the revised establishment list and improved HR processes. This will include financing of a training and change management program for staff at the MPS, MOF, and in HR directorates of the line ministries (including the MOET and MOH) to apply the revised HRM business procedures.

(c) **Support and implement the setting up of** monthly payroll authorization and reconciliation procedures in the MOF.

(d) **Support for developing and introducing** the PBM and evaluation system for selected positions within the MOH and MOET and strengthening professional, technical, and management skills.

Subcomponent 2.3: Improve HRM Practices in the MOET and MOH (US$1.0 million)

18. **Strategic staffing will be critical to improve social services provided by the MOH and MOET.** The MOH and MOET manage a large number of direct service providers: for example, teachers, and health workers, in addition to administrative staff. As underlined in the latest public health PER 2015, the shortage of health workers, in particular in remote areas, appears to be a key issue that undermines access to and quality of health care, while in the MOET, there seems to be redundant teachers in certain areas. As inadequate staffing in public facilities immediately undermines the provision of necessary quality service, this subcomponent will finance an HR deployment and skills assessment for these two ministries; that review will identify any gaps in

staffing, based on which the ministries can develop a strategic HR staffing plan and reestablish an establishment list at the public facilities level. The assessment will provide for health rationalizing the distribution of cadres in relation to the assessed HR needs at facilities and will also address gaps identified through the PETS/QSDS mapping exercise.

19. **Inadequate staffing, training, and successor planning seem to result from HR mismanagement.** Upon establishing the basic HRIS and an improved staffing plan, this subcomponent will support strengthening the HRM process and internal controls (for example, recruitment, transfers, career management, and salary payments) by reviewing the business engineering process which is unique to each ministry's context and applying the improved method/procedure. A few districts might be selected to review and apply the improved HR business process as a pilot case before rolling it out to other districts.

20. **In light of the high salary scale and a large number of teachers, this subcomponent will provide a review of the wage scale and staffing structure in the Teaching Service Department in the MOET.** This review will provide policy options to redefine the pay policy for teachers (including substitute teachers). In addition, to address relatively poor outcomes compared with high inputs (with regard to personnel costs), the project will review the HR staffing structure and develop a Performance Management System for teachers as a way to improve the quality of services. This will include developing service-level standards for the MOET.

21. **Support for developing service-level standards in education and health will require a communications strategy to inform communities and mobilize citizenry through greater awareness of the performance of health facilities and schools.** Citizens are currently largely disengaged from holding public services accountable and this is partly a result of minimal information, thereby contributing to low expectations. Through the development of service-level standards for education and health, minimum performance benchmarks will be created. These minimum service-level standards, agreed on by the line ministries (MOH and MOET), will help monitor information on performance. Such information can then be made widely available to citizens and used to mobilize communities to engage in holding school head teachers and health facility managers accountable.

22. **Priority activities to be supported** through this subcomponent include:

(a) **conducting a staff deployment assessment**, developing a strategic staffing plan, and revising the establishment list for the MOH and MOET;

(b) **providing TA to HR and Planning Departments** to improve the HRM process and internal controls by reviewing and strengthening business processes for HRM and salary payments;

(c) **supporting selected districts** as pilot cases to apply the improved HRM practices;

(d) **reviewing the wage scale and payment policy** for teachers, including substitute teachers, developing a Performance Management System, and revising the Teaching Services Act accordingly.

Component 3: Improving Statistical Capacity (US$2.0 million)

23. **The objectives of this component will be to produce timely and reliable economic, social, and poverty statistics to improve the effectiveness of the GoL's decision-making process and measure development.** This component will provide support for (a) improvement of national accounts; and (b) conducting the HBSs.

Subcomponent 3.1: Improve the Quality of National Accounts Statistics (US$0.5 million)

24. **This subcomponent aims at improving the quality and timeliness of core national accounts and producing the quarterly GDP record.** The assessment of the current status of Lesotho statistics reveals that the following areas need support for improving the national accounts. This subcomponent will mainly provide technical support and necessary equipment such as personal computers and software to improve the statistical infrastructure.

(a) **Introduction of quarterly GDP estimates.** Three important economic activities—agriculture, transport, and dwelling services—are not included in the current GDP calculation. Building on the recently re-based GDP, the subcomponent will provide technical support for building the capacity of BOS staff to be able to produce and publish the quarterly GDP record consistent with SDDS, which includes the aforementioned sectors—agriculture, transport, and dwelling services—by the end of 2017. Quality assessment such as the Reports on the Observance of Standards and Codes (ROSC) needs to be regularly conducted.

(b) **Development of a SUT.** TA will be provided for the next phase of revising and re-basing national accounts planned for 2017, through SUT—a powerful tool for improving the national accounts, providing a framework for reconciliation of production and expenditure estimates.

(c) **Development of a business statistics database.** The limited coverage of business registries in the current statistics, where 30 percent of businesses are underestimated, affects the quality and accuracy of the GDP. This subcomponent intends to support enhancing data collection and the development of the business statistics database—based on data extracted from the business registry system in the Ministry of Trade and Industry.

Subcomponent 3.2: Improving Poverty and Social Statistics (US$1.5 million)

25. **This project proposes a multiyear program encompassing design and implementation of the HBS** in the framework of the improved CMS survey. The project is also devoted to improving macro data to comply with international standards. This subcomponent will provide support for the following activities:

(a) Support for development of the survey methodology

(b) Financial and technical assistance for two rounds of HBS

(c) Technical support to the BOS and the M&E unit in the MDP to strengthen capacity for analyzing the results of the HBS by linking with the SDG and NSDP.

Component 4: Strategic Implementation Support (US$1.5 million)

26. **The component will facilitate the seamless management and coordination of implementing the project.** The first subcomponent finances a PCU to coordinate the implementing ministries and agencies so as to create synergy and a coherent approach to public sector modernization. The PCU will carry out project implementation, procurement, and FM, and produce a quarterly progress report. It will serve as the Secretariat for the IRSC and will be responsible for producing a progress report four times a year. The main activities will include the following:

(a) **Providing manpower for the PCU** to expand the PFM Secretariat

(a) **Purchase of any office equipment** that is urgently required, as well as overseeing coverage of other expenses directly relating to the project

(b) **Training in project management**, procurement, and/or FM, as required

(c) **Annual audit** of the project

27. **This component will provide implementation support at a strategic level to strengthen concerted and coherent efforts within the GoL.** Within the coalition government, the capacity for policy coordination is becoming a more vital issue to pursue necessary reforms. Aware of this, the PMO has undertaken the reorganization of a Policy Coordination Unit within the PMO. The project will support capacity building of the PMO for policy formulation, coordination, and M&E, building on an assessment. That assessment will serve as a basis for defining the approach, scope, and content of a strategy to strengthen the PMO's capacity in policy formulation and coordination in general, as well as to determine the specific input that the PMO will provide to the project. In addition, in light of its strategic importance for public sector reform, this subcomponent will provide technical and financial support to IRSC to develop its policy action plan and enhance its oversight role and its communication to the public.

28. **The project may include activities with a quick impact for better service delivery in the course of project implementation.** While the development of strategic planning and the improvement of systemic HR management are critical to strengthening public administration from a longer-term perspective, it will also be important to address better services delivery within current or reduced levels of public expenditure. In the short term, it will be necessary to reach out to the population, by mobilizing and/or incentivizing like-minded existing public servants within the government. In light of the lack of a clear vision and action plan for PSR that identifies priority areas in the short and medium terms, the project will provide support for identifying such areas through this subcomponent and it will further finance priority activities for service delivery that should be developed at an early stage of the project's implementation. An unallocated fund could finance, for instance, QIPs with innovative approaches that visibly contribute to directly addressing the needs of the population, thus demonstrating the GoL's positive interactions with the population (that is, issuance of drivers' licenses or passports, a cleaning campaign mobilizing

redundant civil servants in lower grades, and so on). The selection and implementation of the QIP will require due diligence and appraisal by the GoL and the Bank and an approval through restructuring of the project.

Annex 3: Implementation Arrangements

LESOTHO: Public Sector Modernisation Project

Project Institutional and Implementation Arrangements

1. **The implementation arrangements for the PSMP consist of three tiers**: (a) the IRSC to provide oversight and strategic directions for the entire project; (b) the RTC for public service to oversee and manage the envisaged activities for synergy and cooperation of the reforms; and (c) three component lead coordinating working groups to carry out the activities in each intervention area. The division of institutional mandates, roles, and responsibilities for the implementation of the proposed project is summarized in figure 3.1 and described in detail in the following paragraph**.**

(a) **IRSC.** The IRSC will be the highest-level body mandated to provide strategic directions, exercise oversight, and resolve any contentious issues that might arise in the course of project implementation. The IRSC for this project will be an expansion of the already existing IRSC for another Bank-financed project, the PFMRSP. The IRSC for PFM has been established under the authority of the MOF. Its membership includes high-level representatives of the MPS; key ministries, departments, and agencies (local government, the Parliamentary Public Accounts Committee, the Economic Cluster, and so on); PFM development partners; component leaders, and the coordinator for PFM reform. The PFM Reform coordinator has been serving as the IRSC Secretariat. In February 2016, the cabinet meeting approved that the IRSC will undertake PSRs by expanding the existing IRSC for PFM reform. The membership of the expanded IRSC will include representatives from the PMO and the parliament. It will meet every three months, four times a year, with the purpose of driving the reform process; raising support for the reforms; and deciding on critical conceptual issues and recommendations related to the reforms. The IRSC will also review and approve the Annual Work Plan (AWP) to ensure it continues to be relevant to the government's reform agenda.

(b) **RTC.** Day-to-day PSMP activities of the three components will be managed and overseen by the RTC. The RTC will be built upon the existing PFM RTC (more specifically the technical committee for Component 2 of the PFMRSAP), which extends their mandate to include PSR. The IRSC led by three principal secretaries from the MOF, MPS, and MDP meets once every month to ensure close coordination and collaboration among the different reform areas. The RTC will be in charge of operational decisions, oversight of fiduciary functions, and project implementation—according to the AWP. Its responsibilities include, among others, reviewing budget allocations and making proposals for the approval of the IRSC. It is the role of the RTC to ensure strong ownership of the program activities by managing and coordinating all reform activities between subcomponents. The RTC will also ensure that change management activities are adequately rolled out to support reforms at different levels.

(c) **Component leaders.** Each beneficiary ministry will designate a component leader (a senior civil servant to be appointed by the respective ministry) who will act as the contact person responsible for leading project activities in their ministry, department, or agency. Each component leader will lead a group of technical specialists responsible for the implementation of project activities. The component leaders will: provide input to the principal secretary of the respective ministry for the preparation of the AWP; facilitate the development of terms of reference and technical specifications; guide and supervise the work of consultants; and monitor implementation progress, including procurement and disbursements, on a regular basis.

(d) **PCU.** The existing PFM Reform Secretariat has been responsible for day-to-day monitoring, coordination, and support of the implementation of the PFMRSP and operating with six staff. This PCU will expand their responsibilities and support to the proposed PSMP project with staff who, in principle, are government officials. Additional staff will consist of (i) a deputy coordinator, who will assist the coordinator in coordinating and integrating the project, with a focus on CSRs; (ii) a procurement officer; and (iii) an M&E and quality control officer. Other staff may join the PCU if necessary—depending upon the workload. The following are the PFM Reform Secretariat staff:

   (a) **Project coordinator** (PFM reform coordinator, who is appointed by the MOF) will be responsible for overall coordination of the entire project, particularly through the role of the Secretariat for the IRSC.

   (b) **Finance manager and finance officer** (government officials, appointed by the MOF) are responsible for management of project funds (for example, the overall utilization of funds) and ensure that the activities receive the necessary funding and provide appropriate accountability/preparation of financial reports.

   (c) **Procurement officer** (a government official, appointed by the MOF) supports procurement activities undertaken by the component leaders and technical specialists and members working for each RTC.

   (d) **M&E and quality control officer** assists the PFM reform coordinator in monitoring activities related to the PFM reform action plan to ensure timely delivery of quality outputs and reporting responsibilities, including drafting progress reports with updated indicators for the project results framework.

   (e) **Administrative assistant** provides administrative support to the Secretariat.

2. To strengthen the PCU, the following three staff will be hired and financed by the project:

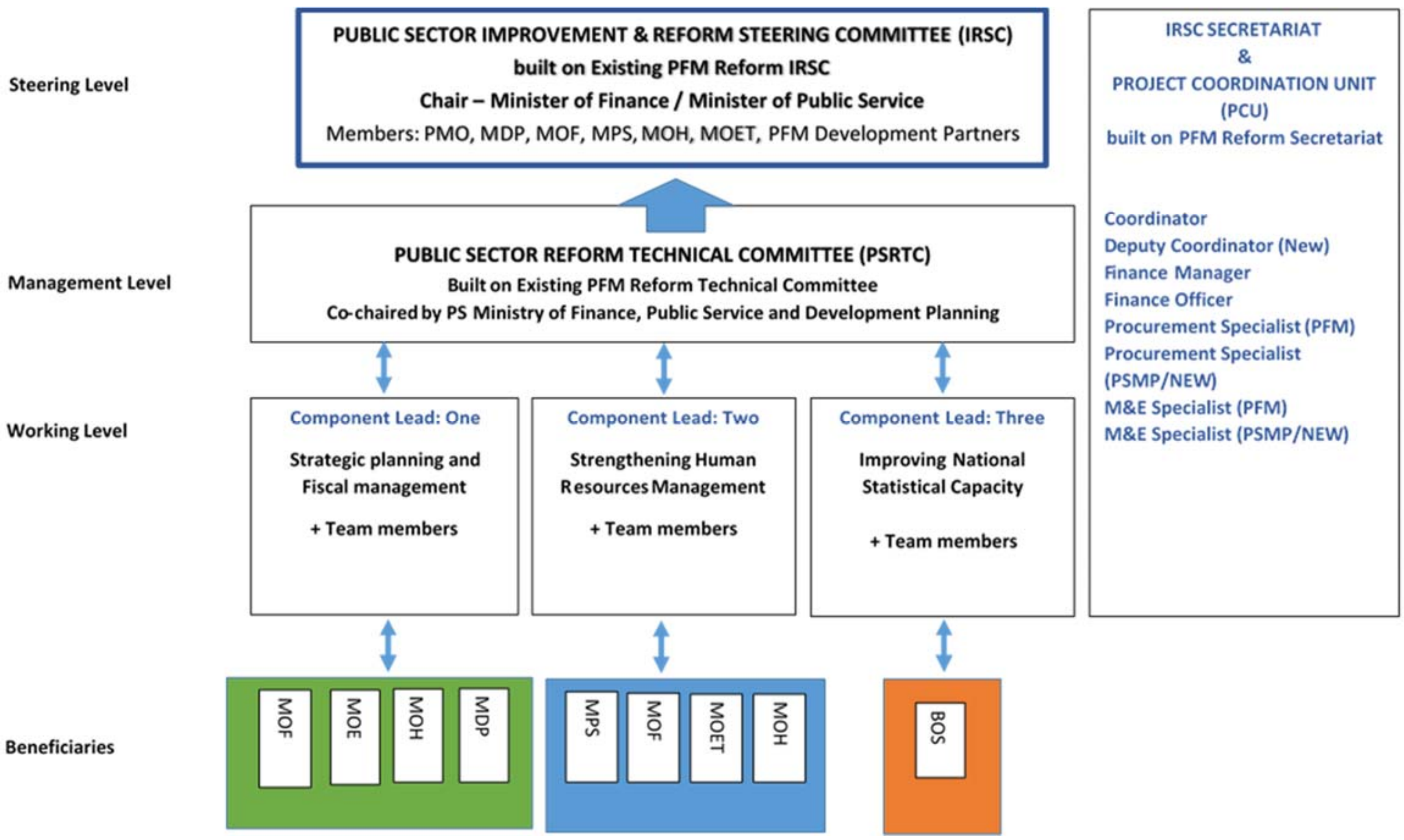
(a) **Deputy coordinator** who will assist the project coordinator in coordinating and integrating the project, with a focus on CSR

(b) **Procurement officer** who will exclusively work for the PSMP

(c) **M&E and quality control officer** who will assist monitoring of the CSR Action Plan and ensure timely delivery of quality outputs and reporting responsibilities, including drafting progress reports with updated indicators for the project's results framework.

3. **POM.** The roles, responsibilities, inter-relationships, and accountability lines of the IRSC, RTC, and component leaders will be defined in more detail in the POM. The POM covers institutional arrangements for managing and implementing the proposed project, as well as processes and procedures for planning, budgeting, accounting, procurement, internal controls, reporting, and M&E. The POM provides operational guidance for component leaders and technical experts and members of the RTC and project coordinator, FM and procurement specialists, and M&E/quality control officer of the Secretariat. The POM was jointly prepared by the MOF and MPS in consultation with other beneficiary agencies and the final version should be adopted within two months after project effectiveness. The members of the working groups, including component leaders and technical experts will be designated before project effectiveness.

Figure 3.1. Implementation Arrangement Diagram



Financial Management, Disbursements, and Procurement

Financial Management

4. **The PFM Reform Secretariat within the MOF will be accountable for the project's FM.** The overall responsibility for FM (including budgeting, accounting, payments, internal controls, transaction processing, and quarterly and annual financial reporting) rests with the dedicated project accountant who will be supported by the finance officer. The FM assessment of the Secretariat's capacity to implement the PFMRSP project revealed weak capacity, which the GoL has addressed by appointing a dedicated project accountant with experience in donor projects and the setting up of the project finance unit to process and report the project's financial transactions. The new project is designed to benefit from these existing arrangements. The project accountant, with the support of other accounting staff will process all project financial transactions in line with GoL payment approval procedures. In accordance with the Bank's financial reporting and audit requirements, the project will be required to prepare and submit IFRs to the Bank not later than 45 days after the end of each fiscal year quarter of the country.

5. **Disbursements under the project will be in accordance with rules and procedures as set out in the Bank's disbursement handbook.** The disbursement methods available for use by the project include: (a) advances to a DA and (b) reimbursement. The accountant general will authorize the opening and use of a DA (as part of the GoL Development Fund), denominated in U.S. dollars, at the CBL to receive funds from IDA. Local project expenditures will be paid from the normal treasury bank accounts, through normal IFMIS-supported processes, and reimbursed by transfers from the DA. Foreign currency project expenditures will be paid directly from the DA at the CBL. Preparation of withdrawal applications and justification of funds into the DA, as well as documentations for all direct payments will be the responsibility of the dedicated project accountant following Bank requirements. The Bank will issue a disbursement letter, of which the content was discussed and agreed during negotiations. Disbursements will be based on statements of expenditure.

6. **Annual project audited financial statements, including the auditor's opinion and a management letter, will be submitted to the Bank not later than six months after the end of each fiscal year.** The project will be audited by the Office of the Auditor General.

7. **The overall conclusion of the FM assessment is that the project's FM arrangements have an overall Moderate risk rating.**

Disbursements

8. **Banking arrangements**. The accountant general will authorize the opening and use of a DA (as part of the GoL Development Fund), denominated in U.S. dollars (US$), at the CBL to receive funds from IDA. Local project expenditures will be paid from the normal treasury bank accounts, through normal IFMIS-supported processes and reimbursed by transfers from the DA. Foreign currency project expenditures will be paid directly from the DA at the CBL.

9. **Funds flow arrangements.** Upon effectiveness of the financing agreement and submission of a withdrawal application, the Bank will disburse an initial amount, not exceeding US$200,000, based on the work plan for three months. Subsequent disbursements will be made based on withdrawal applications and statements of expenditures.

10. **The project will also have the option of using**: (a) the direct payment disbursement method, involving direct payments from the loan account on behalf of the government to the suppliers of goods and services that have a value above a set threshold; and (b) the reimbursement disbursement method, whereby the government makes payments for eligible expenditures and submits withdrawal application for reimbursement.

Procurement

11. **The key issues identified regarding procurement for project implementation are** (a) the need for the PFM Reform Secretariat to hire a new procurement officer; (b) limited capacity of new project staff to construct, procure, and manage several procurement contracts and adhere to the Bank's Procurement and Consultant Guidelines.

12. **Proposed corrective measures to mitigate the overall risks include** (a) the PFM Reform Secretariat hiring a procurement officer; (b) training of project staff on Bank procurement and consultant selection methods and procedures; and (c) selected contracts to be subject to prior review and development of a Procurement Manual. An acceptable Procurement Plan covering the first 18 months of the project and a Procurement Manual has been prepared.

13. **The risk assessment** is rated as Moderate, taking into account the mitigation measures proposed above.

14. **Risk mitigation action plan.** Table 3.1 lists the actions required to mitigate the procurement risk and facilitate the implementation of the project.

Table 3.1. Procurement Risk Assessment and Mitigation

Risk	Mitigation/Action	Responsibility	Due Date
Procurement officer not in place leading to inability to manage major procurements and consultant selections	The PFM Reform Secretariat hires an additional procurement officer	Project staff	Within three month from the effectiveness date
Limited capacity for project staff to assure adherence to the Bank's Procurement and Consultant Guidelines	(a) In-country training of project staff on Bank procurement and consultant selection methods and procedures. (b) Selected contracts to be subject to prior review (c) Development of Procurement Manual	Bank/project staff	(a) By the effectiveness date (b) n.a. (c) Completed

15. **All procurement to be financed under the proposed project** will be carried out in accordance with the Bank's 'Guidelines: Procurement of Goods, Works, and Non-Consulting Services under IBRD Loans and IDA Credits & Grants by World Bank Borrowers', dated January 2011 and revised July 1, 2014, and 'Guidelines: Selection and Employment of Consultants under

IBRD Loans and IDA Credits & Grants by World Bank Borrowers', dated January 2011 and revised July 1, 2014, as well as the provisions stipulated in the Legal Agreement. For ICB and NCB, all procurement of goods, works, and non-consultant services will be done using the Bank's SBDs. All consultant selection undertaken for firms will be done using the Bank's Standard Requests for Proposals. The project will carry out implementation in accordance with the 'Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants', dated October 15, 2006 and revised in January 2011 (the Anticorruption Guidelines).

16. **A Country Procurement Assessment Report (CPAR) for Lesotho was conducted in 2008.** Public procurement in Lesotho is regulated by the 2007 PPR. The CPAR noted the considerable progress made in adopting a modern legislation to regulate public procurement. The CPAR also noted areas requiring improvement including (a) allowing for the use of different procurement procedures for projects financed by development partners; (b) harmonizing the conflict between the 2007 PPR and the 2007 Local Government Act; (c) reviewing the provision for domestic preference so that it relates to the content of the goods being provided and not to the nationality of the provider; and (d) developing a Procurement Manual and accompanying bidding documents.

17. **The 2008 CPAR further highlighted limited capacity** of the regulator—the Procurement Policy Advisory Division (PPAD)—under the MOF, and of the procurement units at central and district levels. Lack of specific training and experience in public procurement and weak contract management capacity were noted. The private sector reported to perceive public procurement as having limited competition, inadequate information, and lengthy payment arrangements and viewed public procurement practices as detrimental to its interest and prone to corruption. Robust procurement oversight systems are still being developed with the 2008 Public Procurement Regulations (PPR) providing for a dispute resolution process managed by an Appeals Panel appointed by the PPAD which may limit its independence.

18. **The GoL has started implementing some of the CPAR recommendations:** the redrafting of the 2007 PPR; the finalization of the Procurement Manual and the SBDs; a review of the current Chartered Institute of Purchasing and Supplies to consider the introduction of a public procurement module; the recent introduction of the procurement tribunal under the PFMA Act to handle procurement disputes; and the implementation of the IFMIS. Other matters still remain to be addressed.

19. **NCB shall follow the GoL's procurement procedures provided that the following provisions apply:** (a) use of the Bank's SBDs; (b) registration/classification of bidders by the PPAD, ministry of Public Works and Transport or any other body shall not be used as a condition of bidding; (c) preferences will not be granted based on citizens degree of ownership and local content; (d) bracketing to provide for the rejection of bids which are in excess of 15 percent of the cost estimate will not be used; (e) award of contract must be made to the lowest evaluated tender; and (f) award of contracts shall be publicly disclosed in the media for wide circulation.

Procurement of Goods and Non-consulting Services

20. **Goods and non-consulting services to be procured under the project** are estimated in aggregate at not more than US$50,000 for the first 18 months. These will include office equipment for the PFM secretariat.

Procurement of Services (other than consultants' services)

21. **Services (other than consultants' services) to be procured under the project are estimated in aggregate at not more than US$5.5 million for the first 18 months.** It will include services related to TA for fiscal and HR management as well as support for the BOS.

Selection of Consultants

22. **Consultant services required from firms and individuals are estimated in aggregate at not more than US$5.5 million for the first 18 months** to cover consultancies for the above-mentioned areas.

Other

23. **Training.** This category will cover all costs related to the carrying out of study tours, training courses, and workshops, that is, hiring of venues and related expenses, stationery, and resources required to deliver the workshops as well as costs associated with financing the participation of community organization in short courses, seminars, and conferences including associated per diem and travel costs. The procurement plan dated February 9, 2016 includes training programs, and will be updated during the AWP and annual budget preparation, if needed. Prior review of training plans, including proposed budget, agenda, participants, location of training, and other relevant details, will be required only on an annual basis.

24. **Operating costs.** Incremental operating costs related to the project implementation services will be provided by the PFM Reform Secretariat to the project. These will be procured using the borrower's administrative procedures, acceptable to the Bank.

25. **Procurement Manual.** The procurement procedures and SBDs to be used for Bank-funded procurement will be presented in the Procurement Manual to be developed in line with the guidelines of the Bank. The Procurement Manual will include component descriptions, institutional arrangements, regulatory framework for procurement, approval systems, activities to be financed, procurement and selection methods, thresholds, prior review and post review arrangements and provisions, filing and data management, and the Procurement Plan for the first 18 months for all project components. The Procurement Manual, once developed, will be updated from time to time by the PFM Reform Secretariat.

26. **Assessment of the PFM Reform Secretariat capacity to implement procurement.** A full-time procurement officer, with relevant experience in GoL and Bank procurement, will be assigned to the PFM Reform Secretariat.

27. **As per the PPR of Lesotho (2007), procurement has been decentralized to procuring entities and all procurement decisions will therefore be made at the MOF level.** Delays in obtaining procurement clearances are therefore not envisaged.

28. **Procurement supervision.** Given the country context and the project risk indicated above, an annual post procurement review will be conducted in addition to the semiannual supervision missions by the Bank. The annual post procurement review will be carried out either by the Bank or Bank-appointed consultants. The frequency of procurement supervision missions will be once every six months and special procurement supervision for post procurement reviews will be carried out at least once every twelve months.

29. **To enhance the transparency of the procurement process, the recipient shall publish the award of contracts procured under NCB procedures or selected under the Quality- and Cost-Based Selection (QCBS) method,** generally within two weeks of receiving the Bank 'no objection' to the recommendation of award of contract, in accordance with the Procurement and Consultant Guidelines. Additional procedures, as elaborated in the Procurement Manual, will govern the disclosure under other procurement and selection methods.

30. **Procurement Plan.** The borrower has developed a draft Procurement Plan for project implementation. The Procurement Plan will be updated annually or as required to reflect the actual project implementation needs and improvements in institutional capacity.

Goods and Non-consulting Services

31. **Prior review threshold.** Table 3.3 outlines procurement decisions that are subject to prior review by the Bank (as stated in appendix 1 of the Procurement Guidelines)

Table 3.2. Maximum Prior Review Thresholds under Competitive Procurement and the Consultants Selection Process

Type of Procurement		High Risk Implementing Agency (US$, millions)	Substantial Risk (US$, millions)	Moderate Risk (US$, millions)	Low Risk Implementing Agency (US$, millions)
Works		5	10	15	20
Goods		0.5	1	3	5
IT Systems and Non-Consultant Services		0.5	1	3	5
Consulting Services	Firms	0.2	0.5	1	2
	Individual Consultants	0.1	0.2	0.3	0.5

Table 3. 3. Prior Review Threshold for Moderate Risk Goods and Non-consulting Services

	Procurement Method	Procurement Method Threshold (US$)	Prior Review Threshold (US$)
Goods and Non-Consulting Services (excluding Consultants Services)			
1.	ICB	>$1,000,000	>$3,000,000
2.	NCB	$100,000 to $1,000,000	>$3,000,000
3.	Shopping	<$100,000	None
4.	Direct Contracting	n.a.	All

32. **Procurement packages subject to Bank prior and post review.** Table. 3.4 outlines the procurement packages for supply and installation contracts and non-consulting services that will be subject to Bank prior review and post review.

Table 3.4. Procurement Packages for Supply and Installation Contracts and Non-Consulting Services

Ref No.	Contract (Description)	Estimated Cost (US$)	Procurement Method	Review by Bank (Prior/ Post)	Expected Bid-Opening Date	Comments
1	Office equipment for PFM secretariat	21,000	Shopping	Post	March 15, 2016	PPA

Selection of Consultants

33. **Prior review threshold.** Table 3.5 outlines consultant selection decisions subject to prior review by the Bank (as stated in appendix 1 to the Consultant Guidelines) -

Table 3. 5. Prior Review Threshold: Consultants

	Selection Method	Selection Method Prior Review Threshold (US$)	Prior Review Threshold (US$)
1.	QCBS	≥, =$300,000	First 2 assignments then ≥,=1,000,000
2.	FBS, QBS, LCS , CQS and QBS	<$300,000	≥,=1,000,000
3.	Single source (Firms)	n.a.	All
4.	Individual consultants	n.a.	First 3 assignments then ≥,=300,000
5.	Single source (individual consultants)	n.a	All

Note: QCBS = Quality- and Cost-Based Selection (Section II of the Consultants' Guidelines)
LCS = Least Cost Selection (Paragraph 3.6, of the Guidelines)
CQS = Selection based on Consultants' Qualifications (Paragraph 3.7 of the Guidelines)
FBS= Fixed Budget Selection (Paragraph 3.5 of the Guidelines)
QBS = Quality Based Selection (Paragraph 3.2 of the Guidelines)

34. **Short list comprising entirely of national consultants.** The short list of consultants for services, estimated to cost less than US$100,000 equivalent per contract, may comprise entirely of national consultants in accordance with the provisions of paragraph 2.7 of the Consultant

Guidelines. All terms of reference, irrespective of the value of the consultancy assignment, are subject to prior review.

35. **Consultant procurement packages.** Table 3.6 outlines the procurement packages for consulting services that will be subject to Bank prior and post review.

Table 3. 6. Procurement Packages - Consultancy Assignments

Ref. No.	Description of Assignment	Estimated Cost (US$)	Selection Method	Review by Bank Prior/Post	Expected Proposals Submission Date	Comments
1.1	Review of NSDP-1	150,000	CQS	Post	March 1, 2016	PPA
1.2	TA for strategic planning/NSDP processes, PIM and institutional strengthening of MDP	650,000	QCBS	Prior	August 1, 2016	For 3 years
1.3	TA for strategic phase of budget preparation (PER, wage bill modeling)	200,000	IC	Post	October 1. 2016	For 3 years
1.4	TA for expenditure planning and management in MOH and MOET	1,000,000	QCBS	Prior	July 1, 2016	For 4 years
2.1	TA for preparatory work for biometric census	50,000	IC	Post	March 15, 2016	PPA
2.2	Biometric census and data reconciliation	1,500,000	QCBS	Prior	May 1, 2016	For 2 years
2.3	TA for strengthening HR practices and control	1,000,000	QCBS	Post	October 1, 2016	For 4 years
2.4	TA for strengthening HRM in MOH and MOET	500,000	QCBS	Post	January 1, 2017	For 2 years
3.1	International expert for developing quarterly GDP	150,000	IC	Post	June 1, 2016	For 3 years
3.2	Local expert for developing quarterly GDP	40,000	IC	Post	June 1, 2016	For 3 years
3.3	International expert for designing the business statistics database	70,000	IC	Post	June 1, 2016	For 2 years
3.4	Local information technology consultant for developing the business statistics database	20,000	IC	Post	January 1, 2017	For 2 years
3.5	First household survey	750,000	QCBS	Post	June 1, 2016	
4.1	Capacity-building program for PMO	100,000	IC	Post	June 1, 2016	For 2 years
4.2	TA for IRSC (development of public sector reform strategy, coaching of high officials)	100,000	IC	Post	June 1, 2016	For 4 years
4.3	Independent annual project performance review	40,000	IC	Post	March 1, 2017	
4.4	Deputy project coordinator	174,000	IC	Prior	March 1, 2016	For 4 years (PPA for 6 months)
4.5	Procurement specialist	144,000	IC	Prior	March 1, 2016	For 4 years (PPA for 6 months)

4.6	M&E specialist	144,000	IC	Prior	March 1, 2016	For 4 years (PPA for 6 months)

Note: IC= Individual Consultants.

Environmental and Social (including safeguards)

36. **The project is classified as Category C.** The proposed project does not trigger any of the Bank's safeguards policies. Because the project will primarily focus on building institutional capacity through TA and advisory support, the project will not require any social and environmental assessment. Some civil servants identified through project-provided TA might lose their jobs and salary payments due to their irregular and/or illegal HR cases. It is expected that improved HR and payroll management will allow use of public resources for identified intended purposes.

Monitoring & Evaluation

37. **With support from the project coordinator, M&E of outcomes and results under the proposed project will be the responsibility of the implementing ministries and agencies.** Key outcome indicators will be monitored primarily on the basis of data gathered as part of regular government activities (for example, data on budget submissions and budget execution; civil service statistics available through the HRIS and payroll database). Progress will be measured with reference to baselines established before negotiations. It is proposed that terms of reference for consulting work under project activities should include the requirement of reporting on relevant interim outcome indicators.

38. **The project coordinator will be responsible for the regular monitoring of the results framework.** The PCU will regularly report to RTC, progress on PDO indicators, and intermediate outcome indicators in cooperation with the relevant implementing ministries and agencies.

Annex 4: Implementation Support Plan

LESOTHO: Public Sector Modernisation Project

Strategy and Approach for Implementation Support

1. **The implementation support plan for the project has been developed based on the multi-sectoral nature of assistance activities, the existing capacity of the government counterparts and the project's risk profile in accordance with the Systematic Operations Risk- rating Tool.** The implementation support plan aims to enhance the client's quality delivery of the proposed project interventions and address critical issues that may affect project implementation. The implementation support will specifically focus on (a) strengthening the technical and fiduciary capacity of the respective government counterparts at the beginning of the project; and (b) regular provision of implementation support through three Bank Implementation Support Missions (ISM) per year, including technical, institutional, M&E, and fiduciary aspects.

2. **The project team will comprise an adequate skill mix of qualified staff and consultants.** Some skills will be needed on a regular basis, while others will be required on a need basis. It is therefore proposed to establish a core implementation support team that will include expertise on HR and fiscal management, statistics, FM, procurement, and M&E. The core implementation support team will include the following: senior public sector specialist (task team leader), public sector specialist, HRM specialist (consultant), lead FM specialist, senior fiscal management specialist (consultant), senior poverty economist, senior operations officer, FM specialist, and procurement specialist. Other staff will be brought in periodically, as necessary.

3. **Formal ISMs and field visits will be carried out twice a year.** Frequency of ISMs will however be flexibly augmented on a need basis. The ISM will aim to provide hands-on support to clients, supervise implementation progress, help identify implementation bottlenecks, and propose remedial actions. The country-based staff may be considered to build close working relationships with the client and other main development partners.

4. **The Bank ISMs**, including field visits will concentrate in the following areas:

   (a) **Technical.** The project will require intensive technical support, given the complex nature of the activities to be financed and relatively limited in country experience with some of the main approaches. Hands-on technical support at all levels will be therefore provided throughout the implementation period. In particular, the project team will provide TA in HRM and practices, strategic budget preparation, development of a national development strategy that is consistent with projected resources availability and a robust monitoring mechanism, PIM, and statistics, by bringing international experiences and lessons learned. Support will be provided by the Bank, in collaboration with other experts, to ensure that activities are implemented in a cost-effective fashion, in accordance with the PDOs, and that they are fully aligned with national priorities. The Bank team will also facilitate exchange of knowledge with other countries involved in the concerned areas as well as mobilize appropriate global expertise.

(b) **M&E.** A team will (a) provide regular TA and oversight of data collection for the results framework; (b) ensure effective flow of data between the multiple government counterparts involved in the concerned areas; and (c) ensure effective use of data by the counterpart to inform ongoing progress of activities and take appropriate action as needed.

(c) **Client relations.** The task team leader will (a) coordinate Bank implementation support to ensure consistent project implementation, as specified in the legal documents; and (b) lead policy dialogue with the high-level authorities to gauge project progress in achieving the PDO and address implementation bottlenecks, as they arise. In addition, the task team leader will ensure regular exchanges of information with other key donors who are supporting activities related to CSR, fiscal management, and statistics.

(d) **FM.** FM implementation support will take place twice a year to (a) ensure the capacity of staff to manage flow of funds and accounting procedures; (b) review audit reports and IFRs; (c) ensure effective FM support functions of the performance purchasing agencies. The project will be supervised at least twice a year and may be adjusted when the need arises. An ISM will be carried out before effectiveness to ensure the project readiness.

(e) **Procurement.** The Bank will support procurement staff involved in the project to effectively carry out the procurement activities, in accordance with Bank guidelines and procedures as well as with the Project Implementation Manual. In this regard, the procurement specialist based in Pretoria will provide, when necessary, training, and mentoring in areas such as roles and responsibilities of key actors in the procurement chain, internal governance processes, and monitoring of contract compliance. The procurement specialist will undertake on-site visits and desk reviews of procurement documents. Intensive Bank support will be provided during the first year to ensure timely delivery and distribution of goods and services. With regard to procurement supervision, in addition to the prior review supervision from Pretoria, the Bank will carry out annual supervision missions to conduct post review of procurement actions and contracts under prior review thresholds based on a sample of about 20 percent of contracts within review period. To the extent possible, mixed on-site supervision missions will be undertaken with procurement and FM staff.

Implementation Support Plan

5. **The implementation support will be provided by direct support from the Bank team and additional consultants to provide TA as needed.** During the first year of the project, it is foreseen that regular TA missions will take place in essential areas to support the client in initiating activities given the multi-sectoral nature of the project. Technical experts on the Bank team are mostly based in Pretoria and Washington, D.C. and will provide ongoing implementation support. The Bank team will conduct ISMs on a regular basis but will also provide additional hands-on support in distance by videoconference, audio, Skype, and email. The volume of support is expected to be particularly high in the first two years of the project implementation. An

implementation support plan for the first year of the project, as well as the following years is provided in table 4.1, including the required skills mix.

Table 4.1. Implementation Support Plan

Timeline	Focus	Required skills
First 12 months	Support for establishing the RTC, strengthening the PCU, preparation of terms of references for the first activities and initiating procurement process, and establishing an M&E mechanism and data collection	As per skills mix required in table 4.2
12–48 months	Supporting (a) implementation of project activities of all components and (b) data collection and its analysis	As per skills mix required in table 4.2

Table 4.2. Staffing

Specialist	Number of staff weeks per FY	Number of trips per FY	Location
Senior public sector specialist/Task team leader	20	3	Washington, D.C.
Public sector specialist	12	2	Washington, D.C.
HRM specialist (STC)	16	6	Pretoria
Senior fiscal management specialist (STC)	8	2	Oxford/UK
Lead FM specialist	4	3	Pretoria
Senior poverty economist	4	2	Washington, D.C.
Senior health specialist	4	1	Washington, D.C.
Senior education specialist	4	1	Washington, D.C.
Senior operations officer (M&E)	6	2	Washington, D.C.
FM specialist	4	2	Pretoria
Procurement specialist	4	2	Pretoria
Legal counsel	2	-	Washington, D.C.
Team assistant	4	-	Washington, D.C.
Team assistant	4	-	Maseru

Note: STC = Short-term Consultants.