I. Introduction and Context

Country Context

With a per capita gross national income (GNI) of US$1,500, Lesotho is one of the poorest countries in Southern Africa and one of the most unequal in the world. Lesotho is small and landlocked in the middle of South Africa, with a predominantly mountainous terrain and a population of two million. Over the past decade, Lesotho's economy grew at an annual rate of four percent per capita, comparable to the rest of the Southern African Customs Union (SACU) region, the African continent, and small states. However, this growth has not been inclusive, resulting in persistent high levels of poverty and inequality. Lesotho underwent an important change in the drivers of growth, shifting from an economy dependent on net exports to one driven primarily by government spending. Public spending rose from 44.4 percent of Gross Domestic Product (GDP) in fiscal year
2004-2005 to about 63.1 percent in 2014-2015, one of the highest such ratios in the world. A national headcount poverty rate of 57.1 percent has virtually unchanged based on the household surveys between 2002 and 2010. However, inequality increased from a Gini coefficient of 0.51 to 0.53 over the same period of time. Per capita consumption of the bottom 40 percent of Lesotho's population contracted by 0.4 percent annually over the past five years, one of the world's slowest rates.

Political instability and decreasing exports have been hampering economic growth in the past few years. In 2015, GDP fell to a projected 1.8 percent due mainly to continuing political uncertainties, a slowdown in manufacturing and an under execution of public investment. The agriculture sector contracted because of losses in crop production due to early frost and heavy rains. In the last nine years, Lesotho's manufacturing sector's relative contribution to GDP declined from 20.1 percent in 2004 to 10.8 percent in 2013 as a result of stagnation in the textile and garments sector, due to the global economic crisis and the rapid growth in other sectors, notably mining. The manufacturing sector recently contracted because Philips light bulb factory and three textile firms closed in early 2014, and three major American wholesale buyers canceled their textile orders due to continuing political uncertainties. In addition, the South African economy has slowed down affecting negatively the manufacturing exports, foreign direct investments (FDI) and remittances coming to Lesotho. Due to difficult political situation, there has been an under-execution of public investment so its contribution to GDP this year was smaller than expected.

Unemployment remains high and the fiscal situation continues to deteriorate. Unemployment stood at 24 percent in 2008 and is unlikely to have changed much, even as underemployment and low productivity employment is widespread, especially in rural areas. Driven by public spending increases, the non-SACU fiscal deficit increased from 25.2 percent of GDP in FY2012/13 to 31 percent of GDP in FY2013/14. In FY2014/15, the Non-SACU fiscal deficit is projected to decline to 29 percent of GDP, largely because of low public capital spending.

The country remains vulnerable to the climate change with rising temperatures and rain deficits. Lesotho has declared a National Emergency as a result of prolonged drought experienced during the 2015/2016 planting season induced by the impact of El Nino. Water shortages in Lesotho do not only affect agricultural activities but also industrial production, access to basic services (e.g. health centres and schools) as well as household consumption patterns. Limited water availability is also having an impact on health - a 300 percent increase in diarrhea was reported between November and December 2015. The five remote mountainous districts are the most severely affected and hardest to reach. The food crisis is likely to peak by end 2016/early 2017 (prior to the next viable harvest). Some projections indicate that the number of people affected will surpass the 725,000 figure during the 2012 crisis due to the increasing food prices in the sub region and the unprecedented severity of the drought. As part of response to this, there is a need for proper infrastructure for fast and easy access to health services and delivery of water and food to those affected.

**Sectoral and Institutional Context**

Transport system in Lesotho is dominated by road as the main mode with limited air and rail transport services. Private sector operators predominantly provide road freight services. The Government managed Lesotho Freight and Bus Services Corporation provides local transport service into remote parts of the country that have no viable commercial services. The country has scheduled international air transport service between Maseru and Johannesburg with no scheduled
domestic air service. The international airport in Lesotho has not undergone certification and is not currently compliant with the international standards for safety and security. The only rail service available on a regular basis is a freight line from the Maseru Railway station to Bloemfontein. The rail network in Lesotho consists of a railhead of about 2.5 kilometers with some industrial sidings linked to the Maseru Station rail yard. Two freight trains run every day, carrying mainly cement, maize, fuel, and freight containers, making up about one-third of Lesotho's international trade in bulk goods. The Maseru Container Terminal (Mascon) is a large-scale freight hub connected to Lesotho network of main roads via Moshoeshoe Road in the industrial area of Maseru. The Government is currently exploring opportunities in converting Mascon into a dry port in order to improve the interface of road and rail transport and enhance the turnover time of trucks services. The recent attempts to privatize the operations of the Mascon have not succeeded due to lack of qualified bidders.

Lack of good road network planning/investment constrains growth, especially for the isolated highland areas. In the past 10 years, considerable investments were made to expand the urban and rural road networks and to rehabilitate existing roads for improved access. However, the road network is mostly concentrated in the lowlands and foothills, constituting 25 percent of the country's total area. In the remote highlands a network of bridle paths, footbridges and river crossings provide limited and sometimes difficult access to main roads for the rural population. Arterial roads connect all districts in Lesotho to nine border crossing points with South Africa, but relatively fewer rural roads connect villages and towns within mountain districts of Thaba Tseka, Mokhotlong, Qacha's Nek, and Quthing that constitute the remaining 75 percent of Lesotho's territory. The mining and tourism sectors in the Mokhotlong district offer the best economic potential, but are constrained by the very poor condition of district's road infrastructure, although a few bridges have been built recently. The poor condition of roads leading to the district capitals of Mokhotlong and Thaba-Tseka also constrains the access to urban markets. Access to basic services such as schools and health centers is impeded not only by the mountainous terrain but also soil erosion due to climate change. As a result, the 25 percent of Lesotho's population living in the sparsely populated highlands have limited connectivity to markets and business opportunities. In that regard, the transport sector can contribute to jobs creation not only through improved access and connectivity but also through contracting methods that generate short-term employment.

Majority of Lesotho's unpaved road network remains in poor condition due to inadequate levels of maintenance and limited absorbing capacity of the local contractors. The rugged highland areas covering three-quarters of Lesotho's land area continue to challenge the expansion of road infrastructure, as well as the maintenance of the existing network. The current national road network is in excess of 7,500 km in length. According to the 2014 visual condition surveys, the Roads Directorate (RD) manages 5,864 km of this network, of which only 1,526 km are paved and the rest are gravel (3,036 km), earth (1,170 km), and tracks (132 km). Of the paved roads, only 38 percent are in good condition, and 12 percent are in poor condition. The maintenance of the road network, including routine and periodic, is financed from the Road Fund and the Government budget. Based on the Lesotho Road Management System (LRMS), established under the ITP, the budget includes a rolling three-year priority investment program for the core maintainable road network to eliminate the backlog of deferred periodic maintenance, avoid further deterioration of the poor roads, and preserve the existing road assets. The Road Fund increased road user charges in 2005, and additional revenues were introduced with new toll road collections. However, the current levels of capacity of the contractors are not adequate to undertake maintenance works, resulting in the growing maintenance backlog and in the low absorption of the financial resources allocated for
maintenance. The rehabilitation backlog of the paved roads exceeds the norm by 2 percent and 90 percent of the unpaved roads remains in fair or poor condition. Moreover, the districts with the highest incidence of poverty in Lesotho (Botha-Bothe, Mohale's Hoek and Mafeteng) are characterized by poor road condition with routine maintenance being highly underfunded.

Several years following the reforms to improve road sector management, the road institutions continue to experience institutional capacity constraints. As part of the road sub-sector reforms initiated with support of the Roads Rehabilitation and Maintenance Project (RRMP), a number of institutional improvements were implemented. Among them are the establishment of the Road Fund and Road Board in 1998 and introduction of new practices to move road maintenance management toward private contracting. The reforms were continued with support of the Integrated Transport Project (ITP), under which the responsibilities for managing the national road network were shifted from the Ministry of Public Works and Transport (MoPWT) to a semi-autonomous Roads Directorate set up in 2010 as an arm of the MoPWT, and management of the tertiary and feeder roads was decentralized to Local Authorities. Despite these improvements, the RD requires institutional strengthening to efficiently provide and maintain safe roads with better access and refocus management of road infrastructure for accommodating the impacts of climate change. In addition, the functions of the Road Fund, operational for several years, require a review to update its responsibilities in line with the changing road network requirements.

Lesotho also faces a number of challenges in road safety, with high fatality rates in densely populated districts and high road accident incidence in the mountainous terrains. Road safety problems in Lesotho are of two types: in the lower, more densely populated districts of Maseru and Leribe (where approximately 50 percent of deaths occur) pedestrians suffer unduly; secondly, due to particularly challenging driving conditions in the mountainous terrain and winding roads, the highland parts of the country have a high incidence of road accidents. Though the number of road deaths in Lesotho has been relatively stable in recent years and there was a surprisingly large (26 percent) reduction in 2014. The annual fatalities fluctuated around 300 from 2009 to 2012, a rate of around 15 deaths per 100,000 populations. There was a substantial fall in deaths in 2014 to 222, a rate of 11.4 fatalities per 100,000 populations. This compares with the rate of around 5 in the safest countries in the world. Analysis by age, revealed that for the years 2007 to 2009, between 11 and 26 percent of fatalities were aged 19 or under. Of deaths where gender was recorded, 75 percent were male in the same years. Despite the reported fall in 2014 (which could be due to variations in the extent of reporting), the background trend must still be turned down to achieve the Government's wish to meet the global decade of road safety aim of 50 percent reduction in death and serious injuries on the roads between 2010 and 2020.

Road safety management capacity is weak in Lesotho, and the road safety reform has not been concluded due to lack of political support. At present road safety activities are led by the Road Safety Department (RSD) in the MoPWT. Although not formally defined as such, RSD functions as the lead agency. RSD staff are on the payroll of the ministry, but the great majority of its activities are funded through annual transfers from the Road Fund. This includes purchase of equipment for other stakeholders, such as the police. RSD have a total of around 40 staff, of whom 15-20 are professional. The budget allocation from the Road Fund for FY 2015/16 is almost 5 million Maloti ($375,000). There is no prescribed percentage of the Road Fund's income allocated to road safety; annual allocations thus vary depending on the bid from the Road Safety Department and the Fund's view of priorities. A proposal to establish a National Road Safety Council (NRSC) has been under discussion for several years based on the road safety policy paper written by the MoPWT in 2010.
and approved by the Cabinet in 2011. However, it has not been acted on, mainly due to lack of political support and availability of the nominated members of the NRSC Board. Moreover, drivers' licenses, both for new drivers and renewals, are not currently being issued in Lesotho due to the problems with the previous contractor leading to cancellation of the contract, and driving test pass certificates are temporarily being accepted as driving permits. As a result there is a backlog of around 45,000 pending license issuances, and an increased road safety risk with unqualified drivers using the roads.

**Relationship to CAS**

The proposed project is fully aligned with the new World Bank Group (WBG) Country Partnership Framework (CPF, Number 97823-LS) for the period of FY16-FY19 for Lesotho and the priorities identified under the Systematic Country Diagnostic (SCD, Number 97812, dated June 25, 2015). The proposed Lesotho Transport Infrastructure and Connectivity Project (TICP) will contribute to the first main focus area of the CPF on creation of jobs, through increasing road connectivity to markets and creating short-term employment opportunities in the road construction and maintenance works. The CPF identifies that safe road connectivity is critical to competitiveness and job-creation in Lesotho, as higher returns to export-oriented activities depend on reliable infrastructure, and construction works create short-term employment. The TICP will also support the priority area identified in the SCD for "promoting private sector led, jobs-intensive growth" through interventions aimed to "develop key infrastructure". In addition, the proposed project is expected to contribute to enabling the private sector participation and engagement in the transport industry through assisting the Government of Lesotho (GoL) in identifying the most viable options for converting the MASCON terminal into a dry port, with consideration of a potential for Public Private Partnership schemes to deliver value for money.

The project will also support the priorities outlined in the Lesotho National Strategic Development Plan (NSDP), specifically the development of an integrated transport system, promotion of the private sector and enhancement of country's export competitiveness. In addition, the project will directly assist Lesotho's commitment outlined in the Intended Nationally Determined Contribution (INDC, 2015) report to meet climate mitigation goals through improving vehicle efficiency under the new vehicle inspection and driver licensing system, and achieving national resiliency to climate change by incorporating climate proven design and standards across all infrastructure sectors, including transport.

**II. Proposed Development Objective(s)**

**Proposed Development Objective(s) (From PCN)**

The proposed development objective of the Transport Infrastructure and Connectivity Project is to improve access to markets and promote job creation in targeted areas of Lesotho, whilst supporting improvements in road safety. This is to be realized by: (a) improving road access through application of output and performance based contracts (OPRC) and construction of footbridges; (b) improving road safety management capacity and mitigating road safety risks; and (c) building capacity and strengthening institutions in the transport sector.

**Key Results (From PCN)**

The proposed Project Development Objective indicators are:

- Reduced travel time;
- Reduced transport costs;
- Greater share of the population with access to a paved/all season road or footbridge;
- Reduced number of road traffic fatalities;
- Number of direct construction jobs created, disaggregated by gender.

Examples for intermediate indicators (to be further developed):

- Roads rehabilitated, Non-rural (Kilometers) - (Core)
- Roads in good and fair condition as a share of total classified roads (Percentage) - (Core)
- Roads under routine maintenance, non-rural (Kilometers);
- Number of footbridges constructed;
- Number of accident black spots removed;
- Improved efficiency of road asset management through adoption of OPRC approach;
- Integrated LITIS system with fuel efficient vehicle inspection standards established;
- National Road Safety Council fully operationalized;
- Number of RD and MoPWT staff trained; and
- National Transport Master plan adopted.

Proposed gender, citizen engagement and HIV/AIDS, indicators are:

- Number of citizen engagement consultations carried out on a bi-annual basis with participation from project beneficiaries;
- Grievance redress mechanism (GRM) in place to monitor feedback trends, with monthly reports being prepared;
- Grievances registered that are actually addressed within required terms;
- Road users satisfied with quality of roads, disaggregated by gender;
- Number of women trained in road construction;
- Number of HIV/AIDS awareness raising campaigns carried out in the project areas.

III. Preliminary Description

Concept Description

Component 1: Improving the road infrastructure access. The first component will comprise the physical works for road rehabilitation and maintenance to improve road connections of population to social services and markets and to ensure sustainability of road assets:

a) Component 1(a): The introduction of output and performance based contracts (OPRC) for rehabilitation and maintenance on the small network of priority secondary gravel roads in high agricultural production and tourism growth areas. The project envisions supporting the Road Directorate to implement OPRC approach for road maintenance for the first time in the country, taking into account international best practice, as well as regulatory and competitive concerns, and to set the stage for rolling out this approach across the country. This is a new concept for Lesotho, which would make "Road maintenance" a more attractive business for private sector contractors and provide an opportunity for a more cost-efficient use of public spending in road sector by shifting some of the risks and responsibility for the quality of infrastructure provision to the private sector. This sub-component is intended to promote both short-term (during rehabilitation) and longer-term (during maintenance phase) employment opportunities in road construction industry. The bidding documents and contracts will be designed to include specifications for the contractor to employ the local population in the road works, specifically encouraging women to apply, and provide sufficient
training to allow those that are unskilled to have an equal chance;

b) Component 1(b): The construction of footbridges to provide the needed all-weather connection over a river or challenging terrain access to education, health services and markets, to the settlements, currently cut off from the nearest road connections, women in particular. The component provisionally proposes to construct 19 footbridges; and

c) Component 1(c): Treatment of accident blackspots on selected priority locations with highest road accident risk. This sub-component will be included if funding permits.

This component also includes the cost of the following studies and services:

a) Consulting services for an assessment study for introduction of Output and Performance-based contracting on a selected number of secondary road networks;
b) Consulting services to prepare design and Environmental and Social Impact Assessment of the selected footbridges (including the preparation of Resettlement Action Plan if required);
c) Consulting Services for monitoring/supervision of the OPRC-contracts; and

d) Consulting services to carry out identification and design of accident blackspots.

Component 2: Improving road safety. This component will address road safety in a more integrated manner in order to achieve the Government's objective to meet the global decade of road safety aim of halving road deaths between 2010 and 2020. The following activities will be supported under this component:

a) Component 2(a): Support for capacity building and institutional strengthening of the Road Safety Department of MoPWT and operationalization of NRSC. The Road Safety Department is effectively the lead agency for road safety in Lesotho, and provides equipment and support to the traffic police and other government departments. Following the planned launch of the National Road Safety Council (NRSC), establishment of which was recommended under the ITP, this Department will become its secretariat. This sub-component will potentially support the RSD and NRSC, contingent on the full operationalization of the latter and completion of road safety reforms initiated under ITP. It will also support establishment of GIS-enabled system for road accident reporting across the road network;

b) Component 2(b): Establishment of an integrated system for licensing drivers and vehicles, including enforcement records. Whilst principally offering improvement to the management and revenue collection procedures for these services, there will also be road safety benefits from improved driver licensing and vehicle inspection. This sub-component will include support with the implementation of the new Integrated Vehicle Registration and Drivers' Licensing System together with a Traffic Management Information System entitled the Lesotho Integrated Transport Information System (LITIS), under which vehicle inspections are expected to be contracted out to the private sector. Currently, this responsibility lies with the Ministry of Public Works and Transport through its Department of Traffic and Transport (DTT). Under the ITP, an assessment of vehicle inspection and driver licensing system recommended that the process be privatized (SweRoad, 2014), however, no progress has been made since towards it. The proposed project will address this issue, should the government decide to move forward with this recommendation.

This component also includes the cost of the following studies and services:
a) Needs assessment and system specification for establishing LITIS.

Component 3: Implementation support and capacity building. This component will include the necessary project implementation support, including implementation of citizen engagement mechanisms, HIV/AIDS and gender targeted activities, and capacity building support to the RD and MoPWT to effectively roll out, administer and monitor OPRC contracts and mitigate road safety risks:

a) Consulting services to prepare the Environmental and Social Management Framework (ESMF) and Resettlement Policy Framework (RPF) for the project;
b) Consulting services to assist the MoPWT in preparation of the National Transport Master Plan (NTMP);
c) Project implementation support to the MoPWT and Roads Directorate, including implementation of citizen engagement mechanisms and HIV/AIDS and gender targeted activities;
d) Independent technical audits of the civil works implemented under the project; and
e) Capacity building and training to the staff of RD, RF, and MoPWT in OPRC contract management and road safety measures, including accident blackspots.

Component 4: Contingency Emergency Response Component (CERC) (with an initial zero dollar allocation. In case this component is activated, it will be completed financed with IDA funds). This component is being proposed for incorporation into the project with zero allocation, given that Lesotho remains vulnerable to climate change with rising temperatures and rain deficits. Lesotho has declared a National Emergency as a result of prolonged drought experienced during the 2015/2016 planting season induced by the impact of El Nino. This component allows for the possibility to access resources for eligible expenditures in cases of emergency.

IV. Safeguard Policies that might apply

<table>
<thead>
<tr>
<th>Safeguard Policies Triggered by the Project</th>
<th>Yes</th>
<th>No</th>
<th>TBD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Environmental Assessment OP/BP 4.01</td>
<td>✗</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Natural Habitats OP/BP 4.04</td>
<td></td>
<td>✗</td>
<td></td>
</tr>
<tr>
<td>Forests OP/BP 4.36</td>
<td></td>
<td>✗</td>
<td></td>
</tr>
<tr>
<td>Pest Management OP 4.09</td>
<td></td>
<td>✗</td>
<td></td>
</tr>
<tr>
<td>Physical Cultural Resources OP/BP 4.11</td>
<td>✗</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Indigenous Peoples OP/BP 4.10</td>
<td></td>
<td>✗</td>
<td></td>
</tr>
<tr>
<td>Involuntary Resettlement OP/BP 4.12</td>
<td>✗</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Safety of Dams OP/BP 4.37</td>
<td></td>
<td>✗</td>
<td></td>
</tr>
<tr>
<td>Projects on International Waterways OP/BP 7.50</td>
<td>✗</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Projects in Disputed Areas OP/BP 7.60</td>
<td></td>
<td>✗</td>
<td></td>
</tr>
</tbody>
</table>

V. Financing (in USD Million)
VI. Contact point

World Bank
Contact: Sevara Melibaeva
Title: Senior Transport Economist
Tel: 473-1868
Email: smelibaeva@worldbank.org

Borrower/Client/Recipient
Name: The Kingdom of Lesotho
Contact: Mapalesa Rapapa
Title: Permanent Secretary, Ministry of Finance
Tel: 26658916035
Email: mrapapa2003@yahoo.co.uk

Implementing Agencies
Name: Ministry of Public Works and Transport
Contact: 'Malerato Khoeli
Title: Principal Secretary
Tel: 26622327310
Email: khoelimalerato@gmail.com

Name: Roads Directorate of the MoPWT
Contact: Mr. Sydney Matsepe
Title: Acting Director General
Tel: 26658871466
Email: sydneytsiu@gmail.com

VII. For more information contact:
The InfoShop
The World Bank
1818 H Street, NW
Washington, D.C. 20433
Telephone: (202) 458-4500
Fax: (202) 522-1500
Web: http://www.worldbank.org/infoshop