Country Assistance Strategy

1. This is a good document, and presents a comprehensive picture of Lesotho’s development challenges. I am pleased to see in sections III and IV that the Bank’s strategy is grounded in Lesotho’s own development agenda, with poverty reduction at its centre. The CAS is also well informed by the 1991 and 1993 poverty studies, and by the 1996 Poverty Action Plan, which the Bank supported.

2. But in supporting this CAS, I would like to draw attention to a few areas where more focus is needed, to ensure that this CAS is successfully implemented:

**Poverty Focus:** The CAS rightly emphasises poverty reduction as Lesotho’s major development priority. The proposed Social Fund Project is welcome, but care must be taken in defining the criteria for disbursements from the Fund to ensure that it is genuinely poverty focused and responsive. The CAS is disappointingly silent on the issue of targeting vulnerable groups within the poor.

**Gender:** The CAS focuses on gender bias in the legal, educational and financial spheres. But, given the importance of women in the economy, it would have been useful to see a fuller discussion of gender, perhaps in an annex.

**Public Expenditure:** There is much room for improvement in the quality of public expenditure. Spending in the social sectors in Lesotho is already relatively high, so improving the efficiency of existing expenditure will be key to achieving the CAS’s aims. In this context, proposed lending to the health sector ($20 M.) looks very high. And there is also room for redistribution within the budget - away from defence and civil service wages. Will quality, expenditure prioritisation and budget management be targeted in the public expenditure review planned for 1999?

**Donor Co-ordination:** Attachment V and para 34 give a useful summary of the activities of other donors, but the CAS should present a more
strategic analysis of donor co-ordination - and apply this in the field.

3. In conclusion, and to answer the questions posed in para x on page vii of the Executive Summary, I agree with the overall priorities and instruments proposed by the CAS, and think the base case is ambitious but achievable, and the triggers are sensible. However, implementation of the CAS should take account of the cross cutting issues listed above, as well as the implementation capacity of the Lesotho authorities.

Lesotho Highlands Water Project - Phase 1B

4. I support this proposal, and commend the task manager and his team for the efforts they have put into informing the Board of developments under LHWP, and fielding the many questions EDs offices have put to them.

5. This is a complex investment, and will require close monitoring to ensure that adverse social and environmental impacts are minimized and problems are dealt with as soon as possible. (DFID has offered to help the Lesotho Highlands Development Authority in carrying out this monitoring, and we hope this offer will be accepted). The project document gives a good account of how resettlement and environmental management will be handled, and I think that sufficient precautions have been taken to avoid unnecessary harm.

6. As with any project of this size and nature, the LHWP has attracted a good deal of interest from NGOs and others in the development community. Organisations such as the International Rivers Network (IRN) have raised some important development and technical issues. These concerns are valid, and I am pleased to see that the project document addresses some of these. However, I would be grateful for confirmation from Staff that all of the technical issues raised by the IRN have been answered, and that these answers will be shared with Directors.