

**PROJECT INFORMATION DOCUMENT (PID)  
APPRAISAL STAGE**

Report No.: PIDA26296

<b>Project Name</b>	Social Assistance Project (P151442)
<b>Region</b>	AFRICA
<b>Country</b>	Lesotho
<b>Sector(s)</b>	Other social services (100%)
<b>Theme(s)</b>	Poverty strategy, analysis and monitoring (10%), Social Safety Nets/Social Assistance & Social Care Services (30%), Social Protection and Labor Policy & Systems (60%)
<b>Lending Instrument</b>	Investment Project Financing
<b>Project ID</b>	P151442
<b>Borrower(s)</b>	Government of Kingdom of Lesotho
<b>Implementing Agency</b>	Ministry of Development Planning
<b>Environmental Category</b>	C-Not Required
<b>Date PID Prepared/Updated</b>	11-May-2015
<b>Date PID Approved/Disclosed</b>	02-Jun-2015
<b>Estimated Date of Appraisal Completion</b>	05-Jun-2015
<b>Estimated Date of Board Approval</b>	29-Sep-2015
<b>Appraisal Review Decision (from Decision Note)</b>	

## I. Project Context

### Country Context

1. Lesotho is a lower middle-income country with per capita gross national income of US \$1,550 . It is a small and largely rural country of about 2 million people, landlocked in South Africa. Lesotho has an open economy, traditionally centered on trade. Its main exports are textiles, water, and diamonds. Lesotho's main trading partners are the United States and South Africa. As a member of the Common Monetary Area (CMA), its currency is pegged to the South African Rand. Lesotho is also part of the Southern African Customs Union (SACU), a union between Botswana, Lesotho, Namibia, South Africa and Swaziland by which members pool the customs duties and excise taxes they collect and redistribute the funds among the five member states.

2. The economy grew at an annual rate of 4 percent per capita over the past decade; while moderately high, economic growth has not been inclusive, resulting in persistent high levels of poverty and inequality. It is estimated that 57.1 percent of the population lives below the basic needs poverty line of US\$1.08 per day, and 84% of the population is vulnerable to poverty. This level of poverty is very high for its income level: Lesotho ranks as the 13th poorest country in the

world, while its GNI per capita ranks as the 30th poorest. Lesotho's poverty is also deep, and this depth has increased over time. The poverty gap in Lesotho is the ninth highest in the world, at 29.5 in FY2010/11; this represents an increase from FY2002/03. Inequality as measured by the Gini coefficient increased from 0.51 to 0.53 between 2003 and 2010.

3. Human development outcomes are worse than both the rest of Southern Africa and other lower middle income countries. It is ranked 162nd out of 187 countries in the UN's Human Development Index. Lesotho has the world's second highest prevalence of HIV/AIDS (22.9 percent). Life expectancy is 49 years and under-five mortality is at 98 per 1,000 live births; both these levels represent a worsening compared to the level held in the late 1990s. Only 41% of children of relevant age complete lower secondary school, and enrollment in secondary is 33.4%. Malnutrition is an acute problem, with a prevalence of stunting of 40 percent.

4. Lesotho is facing fiscal challenges, making efforts to improve the effectiveness of public spending imperative. Since FY2011/12, public spending has remained above 62.5 percent of GDP; general government final consumption expenditure as a percentage of GDP is the second highest in the world, at 37.7%. Lesotho's finance are highly dependent on SACU revenues, which averaged around 30 percent of GDP in recent years and have at times exceeded 40 percent. 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, it is projected to decline to 29 percent of GDP. Fiscal revenues, which are heavily dependent on the SACU, are highly volatile. Furthermore, a revision to the SACU revenue sharing formula planned for 2016 is expected to lead to a decrease in SACU revenues of up to 30 percent, further threatening the fiscal situation.

### Sectoral and institutional Context

5. The Government of Lesotho (GoL) spends around 4.5% of GDP on social assistance programs, nearly three times the Sub-Saharan Africa and twice the middle income average. Spending on social assistance averages about 1.7 % of GDP in Sub-Saharan Africa and 2.7 for middle income countries. The two largest programs in terms of spending, Old Age Pension (OAP) and School Feeding, represent 2.39% and 1.05% of GDP, respectively, and make up 76% of total spending on social assistance. The OAP is a universal non-contributory pension for all citizens over 70 years of age, who do not receive a civil service pension. The School Feeding provides school meals to all children attending public primary schools in the country. The remaining programs are a combination of poverty alleviation transfers programs (Public Assistance -PA), human development linked poverty targeted programs (Child Grants Program-CGP), scholarships (Orphan Vulnerable Children Bursary Program-OVC- and OVC Post Primary Bursary), and public works (Integrated Watershed Management program). Spending on the main programs has generally increased at faster pace than inflation over the past five years.

Table 1: Lesotho's main social assistance programs

Program (in thousand Maloti)	Number of Beneficiaries* %	Target group	Implementing Ministry	Budget ** GDP***
Old Age Pension (OAP)	85,087	Universal to all above 70	Finance	540.00 2.39
Child Grants Program (CGP)	24,500 (hh)	Poor households with children under 18	Social Development	50.40 0.22
OVC Bursary Program(OVC)	13,172	Orphan/vulnerable children under 18 enrolled in secondary school	Social Development	41.40 0.18

Public Assistance (PA)	11,800	Destitute under 70	Social Development	40.40	0.18
School Feeding	389,000	All primary children attending primary school	Education	236.00	1.05
OVC Post Primary Bursary	N/A	Orphan or vulnerable children with proven academic achievement	Economic and Development Planning	N/A	N/A
Integrated Watershed Management		Public Works	115,000	Able bodied rural people	
Forestry	112.00				0.50
Total	1,020.20				4.52

Source: Own calculation based on information from World Bank (2013) and other sources.

\* Latest available year

\*\* Actual for latest available year

\*\*GDP data from WDI – GDP in Current Local Country Currency

6. Overall, the social protection system is characterized by multiple actors, lack of overall vision, weak capacity and fragmentation and inefficient delivery systems. The six main programs are implemented by four different ministries. Until recently, no single Ministry was in charge of the social protection agenda, and the sector had no vision or framework. Programs are still implemented by a large number of ministries, some with mandates outside of social protection, such as the Ministry of Finance who runs the OAP. Poverty targeting mechanisms are unclear or highly discretionary. There are some important duplication of programs, such as the OVC run by the MSD and the Post Primary OVC bursary, run by the Ministry of Economic Planning. For categorical programs, particularly the OAP, eligibility verification processes are prone to fraud and error due to lack of cross checks and verification mechanisms; programs have no mechanism to determine whether their beneficiaries are alive or their eligibility has changed. Beneficiary records are paper based, and often unavailable. Payments are generally cash based and rely on expensive processes (including the use of armed forces for security and logistic), and reconciliation processes are weak. Systems for M&E and handling case management are either weak or non-existing. The CGP is the only exception to these characteristics: it uses an objective poverty targeted methodology (combination of proxy means test –PMT- and community validation) linked to an electronic database of beneficiaries; while payments are cash based it has a relatively solid reconciliation process; the CGP is also the only program whose impact been rigorously evaluated.

7. Evidence shows programs vary in their effectiveness to reach the poor, and coverage of the poorest 40% is limited. Recent data from the Continuous Multipurpose Survey (CMS) of 2013/14 suggest that the CGP is the most effective program at reaching the poor, with 65% of its beneficiaries belonging to the bottom two quintiles. Targeting outcomes of the other two main programs designed for the destitute, the PA and the OVC, are weaker than the CGP, with 56% and 51%, respectively. Roughly 50% of households in the bottom two quintiles report receiving no social assistance program at all.

8. Since 2012 the GoL has taken some important steps in improving the performance of the sector, creating a Ministry of Social Development (MSD) in charge of social protection, and adopting a National Social Protection Strategy (NSPS). The newly MSD was previously the Social Welfare Department within the Ministry of Health. It runs three of the six main programs, CGP, OVC and PA. The MSD was in charge of the elaboration of the NSPS, which was endorsed by Cabinet in December 2014 and officially launched in February 2015.

9. The adoption of the NSPS is a fundamental stride towards developing a modern social protection system in Lesotho. NSPS follows a life-course approach, to address the underlying causes of vulnerability during life's four crucial stages: pregnancy and early childhood; school age and youth; working age; and old age. The main proposals of NSPS are: (i) establishing coherent and

progressive social protection synergies by ensuring strong positive linkages with other Ministries and key stakeholders; (ii) integrating and harmonizing operational systems for the effective implementation of social protection programs; and (iii) strengthening the implementation of a core social protection programs aimed at reducing vulnerabilities throughout the life-course.

10. The establishment of coherent and progressive social protection synergies will start from strengthening the coordination and management of social protection programs. Under MSD's current structure, social assistance programs are divided into different directorates, with different program staff, creating little opportunities for synergies and savings. MSD's strategic plan for 2014-17 includes a new structure which would provide better coordination and increased administrative efficiency. Furthermore, the NSPS envisages new coordination mechanisms for the various ministries implementing social protection through the creation of a Social Protection Policy Committee and six technical social assistance subcommittees articulated around different stages of the life course.

11. The integration and harmonization of operational systems for the effective implementation of social protection programs will start with improving the existing administrative arrangements for selected social protection programs, namely CGP, OVC, PA, and OAP. Various assessments have found that due to multiple implementing agencies, program-specific delivery systems and especially antiquate delivery and implementation arrangements, the group of programs lacks coherence, is prone to duplication, error and fraud, and has high administration costs. In particular, delivery systems duplicate each other and rely on inadequate systems for managing information. Information is not properly recorded and managed, resulting in low accountability and control, as well as failure to accurately identify even categorically eligible beneficiaries, such as the elderly. Payment systems are manual, control mechanisms loose, contributing to high administrative costs and opportunities for error and fraud. The MSD is testing the harmonization of delivery mechanisms of its programs through the Integrated Social Safety Nets pilot (ISSN), with support from EU and UNICEF. This pilot seeks to test out the integration of MSD social assistance programs, through the use of common operational tools (Management Information System –MIS-, targeting, case management, payment, etc.), based on the assumption that such harmonized response would reduce operational costs and create better synergies among the MSD programs to respond to poor and vulnerable. The Ministry of Finance (MoF), who implements the OAP, also plans to overhaul its administration, by introducing solid eligibility verification mechanisms, regular proof of life requirements as well as electronic payments and financial management procedures.

12. At the basis of harmonization of program delivery is the National Information System for Social Assistance (NISSA), which the NSPS identifies as the back bone of the social protection system. NISSA, housed in MSD, is a social registry that contains social-economic information on households and a targeting tool for identifying poor households. NISSA was launched in tandem with the CGP, and currently has socio economic information for around 100,000 households in the country (roughly a quarter of the population), representing the basis for targeting of the CGP. The World Bank and EU/UNICEF, carried out reviews of the NISSA, which provide evidence of the quality of the targeting tool and describes the potential of the NISSA as the basis for a harmonized mechanism for selecting poor households for all social assistance programs. Based on the recommendations of the most recent NISSA review, MSD is revisiting the strategy of community-based targeting to strengthen its importance in the beneficiary selection process. MSD plans a nationwide expansion of the NISSA by 2018.

13. Finally, strengthening of the core set of social protection programs starts with improvements to the poverty targeting and expansion of selected existing social assistance programs. The CGP currently only covers about one third of the country. From a strategic standpoint, the geographic expansion of the CGP to cover all community councils in the country is

a top priority for the GoL, as it is the only program which relies on an objective poverty targeting methodology that has been found to have positive impacts on beneficiary welfare through a rigorous impact evaluation. Additionally, the MSD vision is to expand the use of a poverty targeting methodology by NISSA for all its social assistance programs, not just the CGP, in line with the NSPS goal for the OVC and PA to adopt a solid and harmonized poverty targeting.

14. The GoL has sought World Bank support in the reform process ahead. The GoL recognizes that considerable fiscal space is already devoted to social protection. In this context, the key feature of the reform plans is to achieve fiscal savings by improving the efficiency of social assistance interventions, starting from selected social assistance programs: the CGP, OVC, PA and OAP, as well as focusing on key coordination and harmonization mechanisms. Savings can be used to increase the coverage of poverty targeted programs, thus improving the overall targeting accuracy of social protection spending. (See Economic Analysis section for further details on the fiscal impacts of the reform). It should be noted that the GoL chose the selected four programs as priority given their relative size, readiness of the respective ministry to carry out the reforms, as well as the political supportability of changes to their parameters or eligibility criteria and verification methods.

## II. Proposed Development Objectives

The objective of the proposed project is to support the Government of Lesotho in improving the efficiency and equity of selected social assistance programs.

## III. Project Description

### Component Name

Component 1: Strengthening the efficiency and equity of selected social assistance programs

### Comments (optional)

26. The objective of this component is to support the results of implementation of improvements in efficiency and equity of selected social assistance programs, in line with the NSPS and its implementation framework.

27. The results supported under this component are organized around two areas:

- (a) Result area 1: Improved administrative efficiency of social assistance programs
- (b) Result area 2: Improved equity of social assistance programs

28. The underlying architecture of this component relies on the estimation that the achievements under result area two in terms of efficiency will generate more than the necessary fiscal savings to finance the results supported under area 2, especially in terms of expansion of coverage.

### Component Name

Component 2: Implementation Support

### Comments (optional)

42. The objective of this component is to support the investment necessary to overcome the main constraints in terms of capacity, implementation, monitoring and evaluation of results supported by Component 1.

43. The technical assistance and investment financing activities supported by this component have been selected by the GoL and the World Bank team on the basis of: their strategic importance to achieve the DLIs; absence of support by other development partners, and existence of the World Bank's comparative advantage and international experience on supervising the implementation of those activities.

## IV. Financing (*in USD Million*)

Total Project Cost:	20.00	Total Bank Financing:	20.00
Financing Gap:	0.00		
<b>For Loans/Credits/Others</b>			<b>Amount</b>
BORROWER/RECIPIENT			0.00
International Development Association (IDA)			20.00
IDA recommitted as a Credit			0.00
Total			20.00

## V. Implementation

65. The MSD would be the overall coordinator of the proposed Project. MSD led the development of the approved Government's National Social Protection Strategy, and would coordinate its implementation. The MSD, created in June 2012 as part of a growing emphasis on social protection in Lesotho, is responsible for the implementation of Child Grant Program (CGP), Public Assistance Program (PA) and Orphan and Vulnerable Children Program (OVC). The MSD is also responsible for the implementation of the National Information System for Social Assistance (NISSA). The project would also involve the participation of the Ministry of Finance (MoF), who implements the Old Age Pension Program (OAP).

66. For fiduciary management of Component 2, since MSD has no previous experience in implementing Bank-financed projects, a Project Implementation Unit (PIU) will be created under the Policy Planning and M&E Directorate of the MSD for handling the additional and specialized work generated by the Project. The PIU would also be responsible for the implementation of activities related to the OAP under the MOF. Coordination will be ensured through the recruitment of expert consultants as part of the PIU but housed within MOF's Pensions Unit, and at policy level through regular meetings of the Social Protection Policy and Technical Committees.

67. Fiduciary management of Component 1 relies on Lesotho's public financial management system (PFM). The financial management arrangements of the Proposed Project are within the responsibility of the MSD to manage the disbursement requests according to achievement of the DLIs.

## VI. Safeguard Policies (including public consultation)

<b>Safeguard Policies Triggered by the Project</b>	<b>Yes</b>	<b>No</b>
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

**Comments (optional)**

## **VII. Contact point**

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