

# PROJECT INFORMATION DOCUMENT (PID) CONCEPT STAGE

Report No.: PIDC17732

<b>Project Name</b>	Social Protection Project (P151442)
<b>Region</b>	AFRICA
<b>Country</b>	Lesotho
<b>Sector(s)</b>	Public administration- Other social services (90%), Compulsory pension and unemployment insurance (10%)
<b>Theme(s)</b>	Poverty strategy, analysis and monitoring (10%), Social Safety Nets/Social Assistance & Social Care Services (60%), Improving labor markets (20%), Income Support for Old Age, Disability & Survivorship (10%)
<b>Lending Instrument</b>	Investment Project Financing
<b>Project ID</b>	P151442
<b>Borrower(s)</b>	Ministry of Social Development
<b>Implementing Agency</b>	Ministry of Development Planning
<b>Environmental Category</b>	C-Not Required
<b>Date PID Prepared/ Updated</b>	26-Mar-2015
<b>Date PID Approved/ Disclosed</b>	26-Mar-2015
<b>Estimated Date of Appraisal Completion</b>	29-May-2015
<b>Estimated Date of Board Approval</b>	01-Sep-2015
<b>Concept Review Decision</b>	Track II - The review did authorize the preparation to continue

## I. Introduction and Context

### Country Context

1. Despite relatively lower middle income status (with a GDP per capita of US\$1,550) and moderately high growth levels, poverty and inequality in Lesotho have remained high over the past decade. At 57.1 percent, the poverty level is one of the highest of the world, and the highest in Southern Africa. Inequality as measured by the Gini coefficient increased from 0.51 to 0.53 between 2003 and 2010. Human development outcomes are worse than both the rest of Sub Saharan Africa and other lower middle income countries. Lesotho has the world's third highest prevalence of HIV/AIDS (23.1 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.

2. Lesotho is currently facing fiscal challenges, and inefficiency of public spending has become an area of concern for the government and development partners. Since FY2011/12, public spending has remained above 62.5 percent of GDP. Fiscal revenues are heavily dependent on the Southern Africa Customs Union (SACU), which are highly volatile. The deficit from other fiscal sources is deteriorating. Within this context, there is limited scope for stepping up government investment to support inclusive growth, and efforts to improve the effectiveness of public spending become imperative.

3. Recent political uncertainties can further complicate the challenging fiscal situation, as the need for increased security and anticipated elections imply further fiscal pressure. Over the past few months the political context in the country has been very tense, with political clashes within the coalition government and violent altercations between the police and the military. Thanks to the mediation of the Southern African Development Community (SADC) and the government of South Africa, relations between the executive and the military have now normalized and anticipated elections are expected in February 2015.

### **Sectoral and Institutional Context**

4. The Government of Lesotho (GoL) spends around 9% of GDP on social protection programs, a relatively high share in the African context (see Annex 5). It has at least ten programs implemented by six different ministries or government agencies (see Annex 3). The three largest programs in terms of budget, Tertiary Bursary, School Feeding and Old Age Pension, represent over 90% of the total spending on social protection, and are not poverty targeted. The remaining programs are a combination of poverty alleviation transfers programs (Child Grants Program, Public Assistance and OVC Bursary) and agricultural support through subsidies, fairs and public works – for a total of roughly 2 percent of GDP. The limited available evidence suggests that a negligible proportion of the poor is receives transfers.

5. The Government of Lesotho has taken considerable steps in improving its social protection interventions. Most notable progress include the creation of a standalone Ministry of Social Development (MSD), the elaboration of a draft National Social Protection Strategy (NSPS), the introduction of a modern cash transfer program, (Child Grant Program -CGP) and the establishment of a National Information System for Social Assistance (NISSA).

6. The CGP is a poverty targeted unconditional cash transfer program for children under 18 years of age introduced in 2009. It currently covers 25,000 beneficiary households – roughly one eighth of the population. A recent rigorous impact evaluation has found that it had significant positive effects on expenditure on children and food security among poor households. On the basis of this evaluation, the MSD is piloting a conditional arm to the CGP and considering an expansion of the program's coverage.

7. NISSA, launched in tandem with the CGP, is a system that contains social-economic information of households and a targeting tool for identifying poor households based on Proxy Means Targeting formula, and that provides the basis for a unified registry of beneficiaries of all social protection programs. NISSA currently has socio economic information for around 100,000 households in the country (roughly a quarter of the population), provides targeting information for the CGP, but is limited in use to the latter only. The World Bank as well as the EU/UNICEF carried our reviews of the NISSA, that provides evidence of the quality of the targeting tool and describe the potential of the NISSA for improving the SP system in Lesotho.

8. Despite recent progress, much ground remains to be covered for the social protection sector in Lesotho to be an effective means for poverty reduction. Except for the CGP, the current set of transfers is not targeted towards the poor; it lacks coherence, is prone to duplication and has high administration costs due to multiple implementing agencies, program-specific delivery systems and

lack of coordination.

9. The GoL recognizes such challenges, and has sought World Bank support in reforming the sector. The GoL recognizes that NISSA and CGP are a good step towards increased efficiency and effectiveness. However, since the country currently has adequate fiscal space for SP, increases in coverage could be achieved by increasing coordination and harmonization of delivery mechanisms, avoiding duplication and ensuring that those in need receive adequate and timely assistance.

### **Relationship to CAS**

8. This operation is fully aligned with the World Bank Country Assistance Strategy 2010-2014. The latter recognizes that developing a social protection strategy and putting in place effective social safety nets should be a key priority for Lesotho. It states that the Bank will support Lesotho's effort to better protect poor and vulnerable groups of population through analysis of social protection expenditures, social safety net targeting and coverage, efficiency, and institutional arrangements. A new Systematic Country Diagnostic Report (SCD), currently being finalized, also recognizes social protection as a key instrument to achieve these goals, as well as the fact that social protection interventions in Lesotho need to be strengthened to have an impact on poverty alleviation by increasing the predictability of transfers, improving targeting and coordination, and moving towards a unified national program.

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

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

11. The objective of the proposed project is to support the Government of Lesotho in establishing an efficient and effective national social protection system to reach the poorest and help them improve their livelihoods.

### **Key Results (From PCN)**

12. To achieve the PDO above, the operation will focus on achieving results in three areas:

i. Harmonizing transfer programs to increase the coherence and efficiency of the sector, and strengthening and harmonizing delivery systems to enhance transparency and reliability.

Preliminary indicators to monitor this result are:

- a. Number of programs using the NISSA
- b. Percentage of payments made through the common payment system
  - c. Total administrative cost of transfer programs
- ii. Expanding the coverage of poverty targeted programs to promote a more comprehensive and equitable coverage. Preliminary indicators to monitor this result are:
  - a. Number of beneficiaries of the CGP
  - b. Number of extreme poor beneficiaries of the CGP
- iii. Enhancing the human development and productive aspects of safety nets. Preliminary indicators to monitor this result are:
  - a. Number of CGP beneficiaries whose school enrollment is being monitored
  - b. Number of CGP beneficiaries whose growth is being monitored and who receive accompanying nutritional support
  - c. Number of CGP beneficiaries whose immunization status is being monitored
    - d. Number of poor beneficiaries as identified through the NISSA participating in productive activities (to be refined during preparation).

## **III. Preliminary Description**

## Concept Description

14. To address key sector challenges and support the achievement of the PDO, the proposed instrument is a USD\$10 million, four-year Investment Project Financing (IPF). This IPF would consist of two components, each with a different type of disbursement: one linked to a set of Disbursement Linked Indicators (DLIs), the other linked to Technical Assistance activities.

15. The choice of structuring the project around DLIs with a Technical Assistance package is based on the existing plans of the GoL to reform the social protection sector, and stems from the relatively high fiscal space already devoted to social protection and the need to focus the attention on results towards improving the effectiveness and efficiency of social protection. It is envisaged that the approach will help generate momentum for key policy reform actions to take place. This structure also allows building on the support provided by other development partners that are very active in social protection, as result areas can be related to areas of technical or financial support by other development partners.

16. Both components will focus on supporting government programs in the key areas described below. During the preparation phase the team will discuss with GoL the specific DLIs, a possible timeline for their realization and the necessary chain of prior actions to achieve such results, given the underlying government budget plans and projections. On the basis of the plans for financing those prior actions, the team and the government will elaborate a plan for the technical assistance needs to be filled through component 2 of the project.

Component 1 – Strengthening the efficiency and effectiveness of social assistance programs (USD 8 million). This component will provide support to the Government of Lesotho to increase the efficiency and effectiveness of safety net interventions in line with the Social Protection Strategy. This component will partially reimburse the Government expenditures on specific social protection programs, conditional on the achievement of a set of Disbursement Linked Indicators (DLIs) in key areas of reform, described in sections A and B below.

A. Improving the efficiency of safety net interventions, along three sets of actions:

i. Harmonization of existing social protection programs. The project would support ongoing efforts by the GoL in harmonizing Social Protection programs through the following activities:

a. Strengthening the National Information System for Social Assistance (NISSA). NISSA is a key element in building a SP system in Lesotho. The project would support the GoL's plans to strengthen NISSA in the following areas: (i) increasing number of households with socioeconomic information in NISSA to roughly 400,000 households, initiating with those households that actually receive transfer from programs other than CGP; (ii) expanding the use of NISSA as a mechanism to target poor households for an additional number of programs, especially those implemented by the MSD (Public Assistance, OVC Bursary and Old Age Grant); (iii) include existing beneficiaries of SP Programs in the NISSA single registry of beneficiaries.

b. Improving the targeting mechanisms for social protection transfer programs. An extensive review of the current poverty targeting mechanism of the Child Grants Program has recently been carried out. The actual targeting method for CGP combines a PMT formula and a community based screening. A modified PMT model based on the household survey data would be used to screen out the country's richest households, to mitigate the inclusion errors. The project would support the government's move towards this improved targeting system, as well as its progressive adoption by other programs (Public Assistance, OVC Bursary, and agricultural interventions targeted at poor farmers).

c. Standardizing delivery processes of social protection transfer programs. The project would support the GoL's plans to establish common delivery mechanisms for social protection transfer programs, including a single system for payments, a common grievance and redress, a coordinated

implementation strategy at local level, among other aspects. Some of the key results under this area would be informed by the results of the current pilot of “Integrated Social Safety Net” by the MSD (this pilot seeks to explore the harmonization of registry, targeting approach, and payment system across three social assistance transfers - CGP, Public Assistance and OVC Bursary).

d. Harmonizing programs with overlapping goals and target groups. The project would support actions by the GoL aimed at harmonizing programs that have similar mandate. The GoL currently runs two very similar OVC Bursary programs: the OVC Bursary Scheme implemented by the MSD, and the OVC Post Primary Bursary program, run by the Manpower Planning Secretariat in the Ministry of Development Planning. These two could reducing administrative costs and allowing for greater budget space for the latter.

ii. Rationalization of the administration of the Old Age Grant. At the specific request of the GoL, the project would support actions aimed at improving the administrative efficiency of the Old Age Grant, the second largest transfer program in the country. The OAG currently operates with a paper-based information system and has weak monitoring system; cash is delivered manually across the country. Actions to support the rationalization of administration of the Old Age Grant would include: a) re-registration of all beneficiaries, b) adoption of the biometric unique national ID as a requirement to be enrolled in the program; c) periodic requirements of proof of life through biometric verification; d) adoption of a the common delivery systems described above (see 1.i.c).

iii. Improving the institutional coordination for social protection. Effective coordination among the Ministries implementing the various safety net programs would be critical in order to define an action plan to work on harmonization and implementing the social protection strategy. The project would support results in the implementation of institutional arrangements to support coordination, as identified in the Social Protection strategy. In particular this would supporting plans in the as set out in the NSPS to set-up of an SP policy committee, as well as a set of focused committees for the different stages of the life cycle. The project can also support the capacity building of MDP and MSD to play their respective roles as coordinator and main implementer of social programs.

B. Expansion of the coverage of the Child Grant Program. The CGP has the potential to become the flagship program to alleviate poverty and increase the investment in health and education of children from poor families in Lesotho. The project would support the government plans for the CGP through results in the geographic expansion of the CGP to progressively cover all the poorest areas in the country.

Component 2 – Technical Assistance (USD 2 million). This component will finance technical support to overcome the main constrains in term of design, implementation, monitoring and evaluation of results supported by Component 1. The specific areas of technical assistance will be determined once the key areas of result are finalized, on the basis of an assessment of technical assistance needs to achieve such results.

A preliminary assessment suggests that technical assistance through this component might be required in the areas of:

- harmonization of programs;
- rationalization of the Old Age Grant; and
- elaboration of ways to strengthen the nutrition and productive aspects of safety nets
- Further conversations and assessment during preparation will help identify areas of technical assistance needs further.

#### IV. Safeguard Policies that might apply

Safeguard Policies Triggered by the Project	Yes	No	TBD
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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	

## V. Financing (in USD Million)

Total Project Cost:	10.00	Total Bank Financing:	10.00
Financing Gap:	0.00		
<b>Financing Source</b>			<b>Amount</b>
BORROWER/RECIPIENT			0.00
IDA Grant			10.00
Total			10.00

## VI. Contact point

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