COMBINED PROJECT INFORMATION DOCUMENTS / INTEGRATED SAFEGUARDS DATA SHEET (PID/ISDS) ADDITIONAL FINANCING

Report No.: PIDISDSA20600

Date Prepared/Updated: 23-Dec-2016

I. BASIC INFORMATION

A. Basic Project Data

Country:	Lesotho	Project ID:	P160964	
		Parent	P144933	
		Project ID		
		(if any):		
Project Name:	Second Private Sector Competitiveness & Economic Diversification - AF (P160964)			
Parent Project	Second Private Sector Competit	iveness and Eco	nomic Diversification Prj	
Name:	(P144933)			
Region:	AFRICA			
Estimated	16-Jan-2017	Estimated	30-Mar-2017	
Appraisal Date:		Board Date:		
Practice Area	Trade & Competitiveness	Lending	Investment Project Financing	
(Lead):		Instrument:		
Borrower(s):	Ministry of Development Planning			
Implementing	Ministry of Trade and Industry			
Agency:				
Financing (in US	SD Million)			
Financing Sou	rce		Amount	
International De	evelopment Association (IDA)		13.40	
Total Project Co	ost		13.40	
Environmental	B - Partial Assessment	•		
Category:				
Appraisal	The review did authorize the team to appraise and negotiate			
Review				
Decision (from				
Decision Note):				
Other Decision:				
Is this a	No			
Repeater				
project?				

B. Introduction and Context

Country Context

The Kingdom of Lesotho is a small, landlocked, lower-middle-income country with a per capita GNI of US\$1,350. Lesotho is one of the poorest countries in Southern Africa, and has one of the highest income inequality in the world. Home to about 2 million people, Lesotho is surrounded by South Africa, the second largest and most industrialized economy in Africa. Lesotho generates income mainly by exporting textiles, water, and diamonds, and is a member of the Southern African Customs Union (SACU), the Southern African Development Community (SADC), and the Common Monetary Area (CMA). The national currency (the loti (is pegged to the South African rand. Lesotho (s main trading partners are South Africa and the United States.

Several factors are concerning for Lesotho (s fiscal and economic outlook: in the short term, a projected sharp decline in SACU revenues and higher food prices caused by drought; in the medium term, insecurity in textile manufacturing given uncertainty of continued renewal of the African Growth and Opportunity Act, and risks caused by the Trans-Pacific Partnership. Lesotho now faces large fiscal and current account deficits, which will require substantial fiscal adjustment to restore macroeconomic stability and avert erosion of the exchange rate peg to the South African rand.

The signs of fragility are exacerbated by other vulnerabilities, such as political instability, climatic vulnerability, including El Niño, and high rates of HIV/AIDS, tuberculosis (TB), and maternal and infant mortality. The 2015/16 El Niño induced drought prompted authorities to declare a state of emergency in December 2015, with a high share of the rural population now expected to be food insecure through the March 2017 harvest. For Lesotho►(s small and highly dependent subsistence farming economy, El Niño related stress factors risks further depressing household incomes, which had already dropped due to declining migrant remittances from South Africa►(s mining sector. Lesotho►(s poor historical record in addressing climatic vulnerabilities adds to the capacity risks. The burden of disease is disproportionately higher among HIV/AIDS affected households.

Sectoral and institutional Context

Several factors hinder Lesotho (s private-sector growth, affecting both Foreign Direct Investment (FDI) and the growth of the local micro, small and medium enterprises (MSMEs). The Trans-Pacific partnership could cause FDI in textile manufacturing to fall over the medium term. All quantitative measures (including the Global Trade Reports, Doing Business Indicators, and Enterprise Surveys (suggest that business regulations seriously constrain growth. Despite making progress in streamlining business and property registration and in establishing and operating a credit bureau, Lesotho ranks low on key Doing Business Indicators (such as dealing with construction permits, accessing finance, and the cost of capital. These are constraints on domestic entrepreneurship, suggesting that the domestic private sector remains dependent on the state and non-tradable sectors. Over the last two decades, Lesotho shifted its growth drivers from export-led development towards dependency on government spending.

Increased public spending has further crowded out private sector investment. Limited job opportunities in the private sector have exacerbated poverty and inequality and led to a situation in which the public sector has become a de facto social safety by absorbing employment which has led to a bloated public sector and oversized public spending. This has led to a vicious cycle that simultaneously crowds out investment in the country.

C. Proposed Development Objective(s)

Original Project Development Objective(s) - Parent

The development objective of the proposed project is to contribute to the development of selected non-textile sectors resulting in increased private sector investment, firm growth and job creation.

Proposed Project Development Objective(s) - Additional Financing

To improve the business environment for firms, strengthen select government institutions, and further diversify the economy.

Key Results

The Additional Financing (AF) would seek to ensure that: (i) legislation supported by the Project is passed and implemented, (ii) automated systems supported by the Project are widely used, (iii) institutional changes supported by the Project are completed and institutional entities are fully operational, and (iv) deciduous fruit production, piloted by the Project, is supported by an enabling environment that facilitates investment in the sector. A new activity would include support for issues of trade facilitation and logistics given their cross-cutting importance to the economy.

D. Project Description

The AF will provide additional support to the three original components, as well as support a new subcomponent on trade facilitation and logistics. Activities have been chosen for the following reasons: (i) those which can be completed during the time available for implementation of the AF; (ii) those with overall positive results during the current project; (iii) those where implementation needs to continue in order for benefits for firms to be realized and sustained; (iv) those with significant stakeholder buy-in and clear alignment with the country (s economic needs and policies, including the Vision 2020 and the NSDP for 2012 (2017; and (v) those complementary with other private sector development projects.

Component 1:

Project activities under this component will continue to support efforts to reduce the time and cost associated with doing business, and increase access to finance. Subcomponent 1A would be divided into two subcomponents, in order to properly reflect anticipated results against Doing Business indicators. A new subcomponent on trade facilitation and logistics aims to make trading across borders faster and cheaper for firms.

In Subcomponent 1A, support would continue under the AF for the enactment of the business registration and licensing bill, and the implementation of automated business licensing and e-payment gateway services at the One Stop Business Facilitation Centre (OBFC). The AF would additionally support:

(i) Strengthening of the OBFC, which would include developing OBFC►(s legal framework; integrating the Business Registration system with LRA►(s system to issue tax identifier numbers; supporting OBFC management; designing and implementing a capacity building program; completing necessary technology upgrades; developing and deploying a reform communication strategy; and creating public access sites in various districts for OBFC and other

government-to-business services.

(ii) Improving business inspections reform, through a careful review of the legal and regulatory framework, the training of inspectors, and the development of a business inspections policy and associated manuals, risk-assessment tools, and training modules for its implementation.

In Subcomponent 1B (formerly part of 1A) support would continue for the automation of the construction permit system. The AF would additionally support the implementation of an epayment system, and system support and maintenance for two years.

In Subcomponent 1C (formerly 1B), support would continue under the AF for access to finance activities.

With regards to the establishment of the credit information bureau (CIB), the AF would additionally support:

- (i) Expanding CIB coverage to include businesses, which would require legal reforms since the current law only allows for collection of consumer (individual) data.
- (ii) Training to enable credit providers associations and microfinance institutions to upgrade systems and processes and use various new credit information tools being developed by the project.

With regards to the establishment of a movable assets collateral registry, the AF would additionally support: (i) extensive campaigns to raise public awareness; (ii) development of a mobile application; (iii) development and implementation of a capacity building program for credit providers; (iv) continuous alignment and harmonization of associated laws.

With regards to the establishment of a leasing industry, the AF would support technical assistance on financial leasing for credit providers.

With regards to insolvency reform, the AF would additionally support: (i) extensive campaigns to raise public awareness; (ii) intensive training to prepare for the implementation of the new Bill, focused on the Office of the Master of the High Court, the judiciary, and insolvency practitioners; and (iii) the design and implementation of ICT systems to ensure efficiency in insolvency proceedings and for the Master of the High Court.

Finally, in order to ensure the sustainability of ongoing reforms and to entrench capacity within Lesotho to generate further reforms as needed, an institutional assessment of the Office of Parliamentary Counsel (OPC) will be undertaken under the AF in the areas of technology, skills, and human resources, and a training and capacity building plan will be developed and deployed.

Subcomponent 1D would be new, and it would support two trade facilitation and logistics activities. Importantly, the majority of the related technical assistance and training would be funded by the LICP.

(i) Support for Customs operations. This would cover the upgrading of ASYCUDAWorld, including additional modules, and the provision of redundancy for the system: a disaster recovery site to secure and sustain the customs operation, a back-up server, a stand by generator and other equipment as required.

(ii) Support for preparing and developing a single window that would connect selected government agencies involved in trade. This would enable Lesotho to move towards a paperless environment for import/export related procedures and processes.

This component would finance technical assistance, training, goods, works, and equipment. Indicatively, Subcomponent 1A would be US\$ 1.3M, Subcomponent 1B (formerly part of 1A) would be US\$ 0.03M, Subcomponent 1C (formerly 1B) would be US\$ 1.7M, and Subcomponent 1D would be US\$ 2.3M.

Component 2:

This component will continue to support economic diversification activities.

In Subcomponent 2A, support would continue under the AF for investment promotion and fostering increased linkages to the local economy. The AF would additionally support: (i) the reorganization of the LNDC, including implementation support for the resulting entity(ies); (ii) the development of a Private Sector Development Strategy; and (iii) the scaling up of a linkages program currently being piloted, including capacity building in the government to sustain the program.

Subcomponent 2B will continue supporting the tourism sector, albeit in a different capacity given the complementarity with the AFDB project. Under the AF, support would be provided for: (i) the construction and management of the Tourism & Handicraft Information Center, which would provide information to tourists, offer retail space for fashion accessories and home decor products, and offer leisure and entertainment; and (ii) the development and implementation of a business plan for the handicrafts sector.

Subcomponent 2C will continue supporting commercial horticulture by building out the value chain for fresh fruit produce and leveraging the private sector to scale-up production. The AF would additionally support:

(i) Support for the existing commercial horticulture plots in order to render them commercially sustainable.

This includes upgrading the irrigation system; and developing and implementing a marketing and distribution strategy; among others.

- (ii) Development of a research and training center, to conduct applied research, including variety testing, and yield and performance monitoring, and to provide training on good farm practices, retail standards, and business skills to farmers in Lesotho. If adequately funded and governed, the research and training Center could take over many horticulture- related activities, currently managed by the PMU, when the Project ends.
- (iii) Development and implementation of a capacity building program for quality and standards, directed at farmers, trainers, auditors and GoL Officials.
- (iv) Integrate horticulture suitability maps with the master irrigation plans that are being developed for Lesotho.

- (v) Support for financial institutions, to strengthen their capacity to effectively assess business plans, conduct due diligence, and gauge risks in the fresh fruit sector. After the initial assessment, support could be provided through LEAP.
- (vi) Support for a targeted investor attraction program, that clarifies at which levels of the value chain investors may seek to engage or invest, what the GoL expects from investors, and what potential investors can expect in return. This would include support for road shows in selected target markets, including South Africa and Kenya, among others.
- (vii) Support for agri-logistics, including a feasibility study for a packhouse, among others. LICP is embarking on an in-depth agri-logistics survey to identify technical and regulatory constraints from the field to domestic and international retailers, with a special emphasis on cross-border logistics and cold chains (storage and transport). The AF would consider supporting some of the recommendations, subject to financing availability.

Subcomponent 2D will continue to support the management of the Lesotho Enterprise Assistance Program (LEAP) Program. A review of the systems and processes of LEAP will be carried out under the current project such that under the AF, the scope of the LEAP matching grants program can be expanded to include machinery and equipment.

This component would primarily finance technical assistance, training, goods and works. Indicatively, Subcomponent 2A would be US\$ 1.4M, Subcomponent 2B would be US\$ 1.7M, Subcomponent 2C would be US\$ 2.4M, and Subcomponent 2D would be US\$ 0.5M.

Component 3:

This component will continue supporting the costs of the Project Management Unit, including the Monitoring and Evaluation system, and the management and implementation of the Environment and Social Management Plans (ESMP). To accommodate the larger scope of the PSCED-II Project under the AF, it is proposed that the PMU hire a Horticulture Coordinator, an Investment Climate / Business Environment officer, and a Communications Specialist. While the first of these is contemplated under the current project but has never been filled, the latter two positions would be new. A review of salaries is proposed to ensure PMU staff are paid competitively and according to their experience and performance.

Component Name

Improving the Business Environment Comments (optional)

Component Name

Supporting Economic Diversification Comments (optional)

Component Name

Project Implementation

Comments (optional)

E. Project location and salient physical characteristics relevant to the safeguard analysis (if known)

Under Component 2, the construction of a Tourism Handicraft Centre will take place in Maseru, while horticulture related activities will be implemented in Mahobong and Likhetlane in the Leribe District located approximately 215km from Maseru.

F. Environmental and Social Safeguards Specialists

Kisa Mfalila (GEN01) Nneka Okereke (OPSPF) Paula F. Lytle (GSU07)

II. Implementation

Institutional and Implementation Arrangements

Reflecting the multi-sector nature of the project, implementation arrangements are intended to offer a balance between the effective overall supervision and monitoring of the activities at the project level, as well as reinforcing the management and institutional responsibilities of individual subcomponents.

Project Steering Committee (PSC): The PSC consists of members representing the agencies responsible for the project implementation i.e. the principal secretaries from the MTICM, MTEC, MAFS, MFLR, MoF, MDP, Deputy Governor of the Central Bank, Town Clerk of the MCC, the Parliamentary Counsel, Master of High Court and the CEOs from LNDC and LTDC. The committee meets every semester to monitor the implementation progress of the project and help to resolve technical and implementation problems affecting project progress. Meetings are chaired by the Principal Secretary of MTICM.

Project Management Unit (PMU): The day-to-day operations of the project are overseen by a Project Management Unit that is headed by a qualified Project Manager. In addition, the PMU includes a Financial Manager and a Procurement Manager who oversee the Financial Management and Procurement issues respectively. The PMU provides for overall fiduciary management, monitoring and evaluation, project oversight, and coordination. The role and functions of the PMU have been detailed in the Project Implementation Manual (PIM). The Project Manager is responsible for: (i) overall day-today management of the project, including coordination of procurement, financial management and M&E; (ii) coordination with all the implementing agencies responsible for the implementation of the various sub-components; and (iii) coordination with other donors and relevant programs/projects. The Project Manager reports to the Project Steering Committee chaired by the Principal Secretary, MTICM. The project covers the operating costs of the PMU, necessary equipment purchase, training of staff and the costs of annual audits of project accounts.

III. Safeguard Policies that might apply

Safeguard Policies	Triggered?	Explanation (Optional)
	00	

Environmental Assessment OP/BP 4.01	Yes	The Additional Financing to the Second Private Sector Competitiveness & Economic Diversification Project will maintain the Category B classification of the original loan. The environmental impacts of the AF are expected to derive mainly from the horticulture activities and the small-scale construction works related to the Tourism Handicraft Center which were assessed in the original loan. Potential minor to moderate adverse impacts are being managed and monitored through Global GAP certification for the horticulture sub-component, and through the provisions of the Environmental and Social Management Framework (ESMF) prepared for the horticulture sub-component and the Environmental and Social Management Plan (ESMP). Both instruments where prepared in anticipation that the project will scale up horticulture production in Lesotho, and was therefore designed for the Government of Lesotho to use post PSCED-II Project. Given the nature and scale of the project, the environmental impacts are expected to be generally limited to the sites and can be addressed with known mitigation measures included in the ESMF Environmental safeguard implementation arrangements will follow the arrangements that are
		already in place for the parent project. Activities to be carried out under the proposed Additional Financing (establishment of nurseries and a research center) are derived from continuity of the current project, and therefore the Additional Financing will not trigger additional safeguards policy.
Natural Habitats OP/BP 4.04	No	The project will not support activities that will affect natural or critical habitats.
Forests OP/BP 4.36	No	The projects will not support activities located within forested areas or plantations as defined under OP 4.36.
Pest Management OP 4.09	Yes	While the total land under the project is not substantial (only 30-35 hectares) and the risk of pesticides is minor to moderate due to the small amounts of pesticides being used, the ESMF incorporates an integrated pest management plan (IPMP). The application of fertilizers and pesticides will consider soil type and slope to ensure protection of watershed and groundwater. Application of pesticides and fertilizers will follow sustainable

		approaches described in the Integrated Pest Management Plan (IPMP) for the parent project and monitored under the Global Gap framework. The subscription to Global Gap ensures that the project is compliant with international norms in the use and handling of agrochemicals. The horticulture coordinator will monitor erosion, water quality and soil nutrition, but with the Global Gap the project has enhanced inspection with an independent monitoring regime.	
Physical Cultural Resources OP/BP 4.11	No	While the project will finance minor construction works related to the Tourism Handicraft Center that will provide information on tourism sites, including physical cultural resources, the AF will not have direct impacts on physical cultural resources.	
Indigenous Peoples OP/BP 4.10	No	There are no Indigenous Peoples identified in the project areas.	
Involuntary Resettlement OP/BP 4.12	No	The Tourism Information & Handicraft Center will be built on land on which there are no encroachers or squatters. A shortlist of potential sites has been developed for the tourism center and all shortlisted sites are held by public entities. Activities under the project will avoid any potential involuntary resettlement impacts and will ensure that if land acquisition is necessary, it will be carried out in a fully voluntary nature. Given that risk of involuntary resettlement impacts is low, the ESMP will include land acquisition screening criteria in order to ensure that involuntary resettlement impacts are avoided.	
Safety of Dams OP/BP 4.37	No	The project will not finance construction or rehabilitation of dams, nor will it rely on the performance of an existing dam or a dam under construction, as defined in the policy.	
Projects on International Waterways OP/BP 7.50	No	The project will not affect international waterways.	
Projects in Disputed Areas OP/BP 7.60	No	The project will not finance any activities located in any known areas under territorial dispute as defined in OP 7.60.	

IV. Key Safeguard Policy Issues and Their Management

A. Summary of Key Safeguard Issues

1. Describe any safeguard issues and impacts associated with the proposed project. Identify and describe any potential large scale, significant and/or irreversible impacts:

There are no large scale, significant and/or irreversible impacts anticipated from the project since the project will mainly be providing technical assistance to the GoL in Maseru, and only subcomponents 2B and 2C will support the tourism sector and horticulture, respectively. Potential

minor to moderate potential adverse impacts are being managed through Global GAP certification for the horticulture subcomponent, and through the provisions of the ESMP and ESMF prepared for the sub-components, respectively.

2. Describe any potential indirect and/or long term impacts due to anticipated future activities in the project area:

There are no potential indirect and/or long term impacts envisaged in the project area.

3. Describe any project alternatives (if relevant) considered to help avoid or minimize adverse impacts.

N/A

4. Describe measures taken by the borrower to address safeguard policy issues. Provide an assessment of borrower capacity to plan and implement the measures described.

The AF will benefit from the institutional arrangements established under PSCED II Project. In anticipation of potential adverse impacts that could arise from construction of the Tourism Handicraft Centre, an ESMP has been prepared, and for implementation of the horticulture subcomponent, an ESMF has been prepared.

All institutions that will be involved have implemented bank projects previously or are currently involved in implementation of other programs. As such they are familiar with World Bank safeguards and have gained experience in the implementation and oversight of Bank projects.

5. Identify the key stakeholders and describe the mechanisms for consultation and disclosure on safeguard policies, with an emphasis on potentially affected people.

The key stakeholders include: (i) the Ministry of Trade and Industry, which provides guidance to the PMU; (ii) The Ministry of Agriculture and Food Security, which provides support to the Ministry of Trade and Industry; (iii) The Ministry of Forestry, which provides guidance to the project on matters related to technical on-farm activities; (iv) The Project Steering Committee, which consists of the principal secretaries from the MTICM, MTEC, MAFS, MFLS, the Central Bank, Registrar General and CEOs from LNDC and LTDC; (v) The National Environmental Secretariat (NES), the environmental agency responsible for reviewing and clearing all safeguards documentation for the project; (vi) operators in the handicraft sector in Lesotho who were consulted during the preparation of the ESMP for the Tourism Handicraft Center to be constructed in Maseru; (vii) the current participating farmers in the horticulture industry who have been consulted during the preparation of PSCEDP II as well as ESMF preparation; and (viii) the Lesotho Revenue Authority (LRA), which will be the beneficiary of activities relating to the Project's new trade facilitation & logistics subcomponent.

B. Disclosure Requirements

Environmental Assessment/Audit/Management Plan/Other			
Date of receipt by the Bank 20-Dec-2016			
Date of submission to InfoShop	23-Dec-2016		
For category A projects, date of distributing the Executive Summary of the EA to the Executive Directors			
"In country" Disclosure			
Lesotho 22-Dec-2016			
Comments: Disclosed here: http://www.psc.org.ls/viewNewsletter.aspx			

Pest Management Plan			
Was the document disclosed prior to appraisal?	Yes		
Date of receipt by the Bank	20-Dec-2016		
Date of submission to InfoShop 23-Dec-2016			
"In country" Disclosure			
Lesotho 22-Dec-2016			
Comments: Disclosed here, as part of the ESMF http://v	vww.psc.org.ls/viewNewsletter.aspx		
If the project triggers the Pest Management and/or Physical Cultural Resources policies, the respective issues are to be addressed and disclosed as part of the Environmental Assessment/Audit/or EMP.			
If in-country disclosure of any of the above documents is not expected, please explain why:			
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C. Compliance Monitoring Indicators at the Corporate Level

OP/BP/GP 4.01 - Environment Assessment			
Does the project require a stand-alone EA (including EMP) report?	Yes [×]	No []	NA[]
If yes, then did the Regional Environment Unit or Practice Manager (PM) review and approve the EA report?	Yes [×]	No []	NA[]
Are the cost and the accountabilities for the EMP incorporated in the credit/loan?	Yes [×]	No []	NA[]
OP 4.09 - Pest Management			
Does the EA adequately address the pest management issues?	Yes [×]	No []	NA[]
Is a separate PMP required?	Yes []	No [×]	NA[]
If yes, has the PMP been reviewed and approved by a safeguards specialist or PM? Are PMP requirements included in project design? If yes, does the project team include a Pest Management Specialist?	Yes []	No []	NA [×]
The World Bank Policy on Disclosure of Information			
Have relevant safeguard policies documents been sent to the World Bank's Infoshop?	Yes [×]	No []	NA []
Have relevant documents been disclosed in-country in a public place in a form and language that are understandable and accessible to project-affected groups and local NGOs?	Yes [×]	No []	NA[]
All Safeguard Policies			
Have satisfactory calendar, budget and clear institutional responsibilities been prepared for the implementation of measures related to safeguard policies?	Yes [×]	No []	NA[]
Have costs related to safeguard policy measures been included in the project cost?		No []	NA []
Does the Monitoring and Evaluation system of the project		No []	NA[]

include the monitoring of safeguard impacts and measures related to safeguard policies?					
Have satisfactory implementation arrangements been agreed		No []	NA []
with the borrower and the same been adequately reflected in					
the project legal documents?					

V. Contact point

World Bank

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Borrower/Client/Recipient

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Implementing Agencies

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VI. For more information contact:

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VII. Approval

Task Team Leader(s):	Name: Maria Paulina Mogollon			
Approved By				
Safeguards Advisor:	Name: Nathalie S. Munzberg (SA)	Date: 23-Dec-2016		
Practice Manager/	Name: David Bridgman (PMGR)	Date: 27-Dec-2016		
Manager:				
Country Director:	Name: Ivan Velev (CD)	Date: 29-Dec-2016		