

PROJECT INFORMATION DOCUMENT (PID) CONCEPT STAGE

Report No.: PIDC25875

Project Name	Public Sector Strengthening Project (P152398)
Region	AFRICA
Country	Lesotho
Sector(s)	General public administration sector (70%), Sub-national government administration (30%)
Theme(s)	Economic statistics, modeling and forecasting (10%), Administrative and civil service reform (40%), Public expenditure, financial management and procurement (35%), Managing for development results (15%)
Lending Instrument	Investment Project Financing
Project ID	P152398
Borrower(s)	KINGDOM OF LESOTHO
Implementing Agency	Ministry of Development Planning, Ministry of Public Service
Environmental Category	C-Not Required
Date PID Prepared/ Updated	19-May-2015
Date PID Approved/ Disclosed	20-May-2015
Estimated Date of Appraisal Completion	09-Oct-2015
Estimated Date of Board Approval	21-Dec-2015
Concept Review Decision	Track II - The review did authorize the preparation to continue

I. Introduction and Context

Country Context

Lesotho is a lower-middle income country, surrounded by the Republic of South Africa. Lesotho's per capita gross national income is about US\$1,550, and the annual economic growth rate was about 4 percent per capita over the past decade, which is comparable to the rest of the South Africa Customs Union (SACU) while slower than the African continent. Economic growth has not been inclusive, resulting in high concentration of poverty in rural areas, persistent high levels of inequality, and widespread unemployment. Lesotho's poverty rate is 57 percent, its Gini coefficient is 0.53, and about 34% of the population is below the food poverty line (extreme poverty). This indicates that substantial growth that is both geographically and globally inclusive would be needed to lift a majority of the poor out of poverty.

Government spending rose from 45 percent of GDP in FY2004/05 to about 63 percent in FY2013/14. Large inflows were absorbed mostly by government consumption, particularly employee compensation, and the public sector wage bill reached about 23 percent of GDP. These figures are among the highest in the world and represent a significant challenge to fiscal consolidation efforts. Government revenue generally demonstrates high dependency on SACU receipts, which are highly volatile. General government revenue rebounded in 2012/13 but is projected to decline in the coming years.

High spending in the public sector has not resulted in better human development outcomes, with health and education results far below those of other countries at Lesotho's level of income. Lesotho has the world's second highest HIV/AIDS prevalence, and a level of maternal mortality that is among the highest in Sub-Saharan Africa.

Lesotho's situation calls for a simultaneous focus on redefining the role of the state, invigorating the domestic private sector across a more diversified range of economic activities and improving access to and quality of social service delivery. The government provides a clear vision for economic development and social transformation through increased efficiency and effectiveness of the public sector in the National Strategic Development Plan (NSDP) 2012/13-2016/17. The NSDP focuses on high, shared and employment-creating economic growth, social inclusion, promotion of peace and democratic governance and rebuilding effective institutions. To these ends, the NSDP calls for optimal use of public resources.

Sectoral and Institutional Context

Lesotho's public sector is the largest employer and service provider in the country. Lesotho's wage bill increased by 56 percent in real terms over the period 2010-2014, reaching 44 percent of total expenditures in 2013/14. Negligible private sector job creation and high unemployment rates overall led public employment to become a de facto social safety net. The number of civil servants is approximately 35,000-40,000 employees, but there are no consistent or reliable numbers on how many employees exist, and payroll estimates fluctuate greatly. The recurrent irregularities persist in Human Resource Management (HRM), such as ghost workers, those who receive multiple salaries and those who are retired but remain in the system. The vacancy rate appears to be high, but the reliability of the establishment list itself is questionable. Despite commitment from the government to strengthen control over the wage bill and regularize HRM, unplanned hiring and significant wage increases have been observed in recent years.

The Government has recently taken critical steps for civil service reform. The Ministry of Public Service has been conducting a payroll audit in the health sector, reviewing the remuneration regime and developing an integrated HR management system to include both payroll and HR records. In 2013, the administration implemented a new grading system with 13 grades and a set of 6 steps within each grade, moving from the old system that had 12 non-overlapping grades with 6-13 steps (increments) within each grade. Performance management has been piloted at high levels since 2013, with contracts drawn up between Ministers and their Principal Secretaries. However, this initiative had limited success. In light of persistent and recurrent structural problems, the current civil service would benefit from an overall institutional review. Such a review could serve to identify functional gaps and skills gaps that are barriers to better service delivery, identify irregularities among civil servants and capture all employees into the integrated HR system, and identify opportunities to strengthen internal control over the wage bill and HRM at various levels.

Improving the quality of public spending will require strengthened fiscal management, given the very weak relationship between policy priorities and spending patterns. In addition to the lack of fiscal control over the wage bill, challenges remain in linking planning and budgeting to allow for strategic use of the scarce capital budget. Despite some recent progress such as the introduction of a new public investment project appraisal system and reorganization of the Public Sector Investment Committee (PSIC), structural, organizational, procedural and functional weaknesses persist in the management of public investment projects. The capacity to conduct technical appraisal in order to adequately assess projects before approval is generally weak and many projects, even large-scale ones, still do not go through a rigorous appraisal and assessment process.

A major challenge to improved service delivery outcomes in alignment with NSDP is the absence of an M&E system, and absence of effective monitoring tools. In 2013, Cabinet approved an initial M&E policy, with the goal of developing a government-wide M&E system. In 2014, the NSDP included a plan for a national M&E system, but it has not been operationalized. In April 2015, a front-line service-delivery unit was created in the Deputy Prime Minister's Office with the mandate of coordinating enhanced monitoring of service-delivery. However, M&E capacity overall suffers from fragmented and uncoordinated reporting mechanisms, limited alignment of individual programs with government goals and limited linkages between planning and budgeting. In addition, poor availability, quality and timeliness of data, and weak incentives to use M&E findings for evidence-based decision-making make M&E efforts difficult. In particular, there is an absence of tools available for M&E departments to use participatory monitoring methods to collect targeted data on specific program outcomes. It would be key to develop tools for monitoring service delivery, particularly by engaging citizens in the process.

Relationship to CAS

The Project is aligned with the Country Assistance Strategy (CAS) 2010-2014. The project is being prepared building on the analysis in the Systematic Country Diagnostic (SCD) assessing the priority issues of the country in a holistic approach. The SCD calls for addressing structural weaknesses in public institutions and particularly highlights the importance of taking the following actions: fiscal consolidation; strengthening management of SACU receipts; regularizing human resource management; improving the effectiveness and efficiency of public spending; improving public investment management and putting in place systematic and meaningful processes for monitoring and accountability. As the new Country Partnership Framework (CPF) will be simultaneously prepared with this project, the project will ensure a full alignment with the new CPF as well as with relevant sector interventions.

II. Proposed Development Objective(s)

Proposed Development Objective(s) (From PCN)

The Project Development Objective (PDO) is to improve the use of public resources by increasing the efficiency and effectiveness of fiscal and civil service management systems and M&E in targeted ministries.

Key Results (From PCN)

Key results identified for this project are:

1. Reduced irregularities in the wage bill management
2. Increased budget execution rate in selected social sectors
3. Establishment of an integrated HRM system to monitor performance of civil servants

4. Increased alignment of annual budget with MTEF projections
5. Establishment of a government-wide M&E system to monitor the NSDP

III. Preliminary Description

Concept Description

Component 1: Sound Fiscal Planning and Management

The objective of this component is to improve wage bill management and control, strengthen the efficient and effective use of capital budget through the public investment projects at both central ministries and social sector ministries.

Component 2: Strengthening of Civil Service Management its Performance

This component will focus on addressing irregularities and on strengthening basic HRM systems and capacity. The component will address three major issues: (1) to reduce fiscal irregularities and discrepancies among different HR systems, and strengthen control in the wage bill and HR management; (2) to establish a basic system and capacity for HRM; and (3) to increase capacity of civil servants to deliver better services at the central level and in key targeted line ministries.

Component 3: Strengthening the Monitoring & Evaluation of Public Service

Component 3 will provide support to develop M&E tools in key sectors and strengthen statistical capacities, in order to help contribute to more evidence-based policymaking and implementation.

Component 4: Project Implementation Support

Implementation support will be provided in a strategic and sustainable way. The project will provide technical, financial and logistical support for effective and smooth project implementation.

IV. Safeguard Policies that might apply

Safeguard Policies Triggered by the Project	Yes	No	TBD
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		
Financing Source		Amount	
BORROWER/RECIPIENT		0.00	

International Development Association (IDA)	10.00
Total	10.00

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