



KINGDOM OF LESOTHO

Poverty Reduction Strategy Paper—Joint Staff Advisory Note

December 2012

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KINGDOM OF LESOTHO

Joint Staff Advisory Note on the National Strategic Development Plan

Prepared by the Staffs of the International Development Association (IDA)
and the International Monetary Fund (IMF)¹

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I. OVERVIEW

1. **Lesotho's National Strategic Development Plan (NSDP) 2012/13-2016/17 serves as an implementation strategy for the National Vision 2020.** The NSDP serves as the Poverty Reduction Strategy Paper (PRSP) and is the second PRSP that the Government of Lesotho has produced. The National Vision document states these broad goals: "By the year 2020, Lesotho shall be a stable democracy, a united and prosperous nation at peace with itself and its neighbors. It shall have a healthy and well-developed human resource base. Its economy will be strong, its environment well managed, and its technology well established." To achieve these ends, the NSDP seeks to: (a) pursue economic growth that is high, shared, and employment creating; (b) develop priority infrastructure; (c) enhance the country's skills base, technology adoption, and foundations for innovation; (d) improve health, combat HIV and AIDS, and reduce (social) vulnerability; (d) reverse environmental degradation and adapt to climate change; and (e) promote peace and democratic governance, and build effective institutions.

2. **The NSDP recognizes the significant challenges Lesotho faces in reducing poverty and making growth more broad-based.** It takes explicit note of the role high inequality and slow employment growth have played in making growth less inclusive and the inability of recent growth drivers (mining and construction) to noticeably change the situation. The plan also identifies the major non-economic sources of vulnerability: the spread of HIV/AIDS and climate change/natural disasters. The diagnostics and recommended growth generators (agriculture,

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manufacturing, tourism, and improving the investment climate) are consistent with the recommendations made in the Bank's Poverty, Gender and Social Assessment report (2010). To achieve the greatest poverty reduction, the report recommended the adoption of the following measures: (a) support labor-intensive and export-oriented manufacturing by improving the investment climate; (b) commercialize agriculture and promote rural development; and (c) support the migration to urban areas, where more jobs are and where public services can be provided more easily.

3. **The NSDP was prepared in a participatory way.** The Ministry of Finance and Development Planning (MFDP) prepared the report with assistance from line ministries and development partners. Civil society contributed mainly through cluster groups configured around the NSDP's strategic pillars. The clusters reviewed the work of the MFDP and the technical teams of the line ministries. The NSDP secretariat consolidated the inputs of the clusters and other stakeholders and prepared a revised document that was adopted by the Cabinet. Thereafter, the Government held consultations at the district level. Lesotho's development partners were supportive throughout the process, providing technical and financial support. The NSDP reflects the major issues that were raised during the participation process. Development Partners' support, under strong Government leadership, will be very important for the successful implementation of the NSDP. In this context NSDP's aim to finalize an aid policy and strengthen the institutional framework to operationalize aid and development effectiveness principles will be important as a means to bring about greater harmonization and reduced fragmentation of programs, which currently is an issue of concern.

4. **Overall, the NSDP presents a coherent analysis and offers an appropriate path forward to sustained poverty reduction and sustainable economic growth.** The NSDP recognizes the need to establish preconditions for high and sustainable private sector-led economic growth. The challenge, however, will be in implementation, which requires key structural reforms, strengthening the Government's institutional capacity, and extensive inter-ministerial coordination. In addition, it is necessary to significantly improve the quality of the household survey data.

II. POVERTY ANALYSIS

5. **Poverty analysis is hampered by the lack of quality data disaggregated by household demographics, assets, livelihoods, earnings and income, deaths or other major life events, access to services, and social indicators.** As a result, the impacts of growth and public policy are hard to identify. Lesotho published its first national Poverty Reduction Strategy (PRS) in 2005, based on inconsistent and inconclusive data. Since then, the National Bureau of Statistics released two data sets: the Household Budget Survey (HBS) of 2002/03 and the Demographic and Health Survey of 2004. The Poverty Assessment (2010) used these data sets and concluded that they, too, suffered from the same quality and comparability issues.

6. **The NSDP presents an overview of the extent and distribution of poverty in the country.** The analysis is based on the HBS of 2002/03, the 2006 Census, the 2009 Lesotho Demographic and Health Survey, and the Poverty Assessment (2010). The analysis indicates that

the national poverty line recorded an average national poverty head count of 54 percent (58 percent in rural areas and 40 percent in urban areas) in the 2002/03 HBS. In addition, the plan mentions that 27.5 percent of the population and 21.4 percent of the households are at risk of multi-dimensional poverty. However, poverty trends could not be estimated since household data is not comparable across different years.

7. **Staffs recommend further work to strengthen the poverty analysis.** A new Household Budget Survey was conducted in 2011, and, depending on its quality and consistency, it could be used to strengthen the analysis and better identify policy actions that benefit the poor. The Bank and other development partners have provided technical assistance to the Bureau of Statistics to strengthen its poverty monitoring in recent years.

III. MACRO FRAMEWORK AND GROWTH STRATEGY

8. **Staffs welcome the NSDP's emphasis on achieving sustained and broad-based economic growth as an effective route for poverty reduction.** Highlighting the impacts of key structural reforms, the NSDP explores various GDP growth scenarios for 2012/13–2016/17, projecting averages of 1.5 percent under the low-growth scenario, 5.8 percent under the moderate scenario, and 6.7 percent under the NSDP scenario. The growth strategy centers on an ambitious objective to create 50,000 new jobs by the end of 2016/17—equal to 23 percent of total employment as of end-2010/11. Reaching this objective will necessitate deliberate and carefully sequenced policy reforms. The exchange rate peg to the South African Rand is expected to keep Lesotho's inflation low and stable, anchored to South Africa's inflation. The NSDP also recognizes the downside risks that may arise from exogenous shocks, such as natural disasters, high global oil and food prices, uncertainty in the global economic outlook, and volatility in SACU revenue.

9. **Staffs recognize that the growth targets under the NSDP scenario are highly ambitious but achievable through enhanced structural reforms. Meanwhile, the medium-term economic outlook is clouded with downside risks.** The targets exceed both historical growth levels and projections under the IMF Extended Credit Facility (ECF) supported program. However, staffs recognize that the targets are achievable with stepped-up, effective implementation of structural reforms in broad areas, such as improving the investment climate and promoting financial intermediation. In this regard, it is important to articulate the reform details, with time-bound action plans and sources of financing. In light of Lesotho's vulnerability to exogenous shocks, staffs also encourage authorities to closely monitor economic developments (particularly those risks stemming from exogenous shocks) and explore an alternative policy framework for a specific risk scenario.

10. **The NSDP fiscal framework rightly acknowledges the importance of promoting fiscal consolidation.** Staffs endorse efforts to contain spending by keeping the public sector wage bill under control and improving the quality of spending. On the revenue side, the NSDP rightly acknowledges heavy reliance on volatile SACU revenue and outlines a strategy to improve the efficiency of tax collection and revenue administration while ensuring fairness of the system. With these fiscal consolidation efforts under the NSDP scenario, the overall fiscal

surplus is projected at an annual average of 1.2 percent of GDP during the NSDP period. Should these efforts be stepped up as envisaged, they would help preserve macroeconomic and external stability, while protecting spending for vulnerable groups and some priority infrastructure.

11. **In light of the ambitious growth and employment targets, the NSDP calls for structural reforms to promote private-sector developments and enhance efficiency and effectiveness of the public sector.** Recognizing the private sector as the engine of growth, the NSDP focuses on enhancing access to credit and improving the business environment through a package of reforms and interventions designed to make laws and regulations more business friendly.

12. **To enhance efficiency and effectiveness of the public sector, reforms identified in public financial management (PFM) in the NSDP call for (a) fully implementing the medium-term expenditure framework (MTEF) approach; (b) improving functionality of the Integrated Financial Management Information System (IFMIS); and (c) increasing staff training for the use of the PFM-related systems, and (d) improving aid management.**

13. **On the financial sector, key strategic objectives include improving financial stability and soundness, improving access to financial services, and improving efficiency of the financial sector.** Staffs expect an upcoming financial sector strategy to elaborate the detailed reform plans to achieve these objectives.

14. **The Government will benefit from developing a comprehensive financing plan.** The NSDP does not describe the donor commitments to the programs, the projected flows of resources, and any reallocation of public resources to priority activities. A detailed financing plan could be integrated into the medium-term expenditure framework (MTEF) and the upcoming Public Sector Investment and Development Program. It could also explore the implication for debt sustainability.

IV. STRATEGIC PILLARS AND CROSS CUTTING ISSUES

15. **The NSDP recognizes the need to transform the economy.** The document has an impressive list of potential reform areas: however, it provides no timeline prioritization of these reforms. Implementation could be strengthened by: (a) specifying the short-term vs. medium to long-term priority actions that need to be taken; (b) developing a time-bound implementation matrix that highlights the measurable indicators for each reform area; and (c) assigning clear roles and responsibilities for the reform agenda.

Pillar 1. Create High, Shared, and Employment-Generating Growth

16. **The focus on creating opportunities for employment is relevant and critical to Lesotho's development.** Most manufacturing employment has been due to foreign direct investment (FDI) in the textiles and garments sector, suggesting the need to focus on prioritizing opportunities in the domestic economy and building linkages between foreign and local firms. Staffs recommend that the NSDP includes a strategy to build the linkages between existing

foreign firms and the domestic economy. In the short term, the realistic opportunities for increasing linkages lie in the services sector – even simple services like catering, recycling, and logistics are significantly under exploited. More advanced services like accounting, business services, training; human resources related services are almost untouched. In terms of products, emphasis should be on inputs in clusters where scale exists (at the moment, this is the case only in apparels) and products that can cut across sectors, like packaging, basic chemicals, and printing. The overall NSDP target is to create 50,000 sustainable jobs, approximately 10,000 per year. It would be useful to outline the trend in jobs created over the past 10 years and create detailed proposals on how 10,000 jobs would be created every year. Further, it would be important to clearly outline how the statistics on job creation will be monitored.

Investment climate

17. **Staffs concur with the NSDP’s investment climate reform agenda.** The investment climate reform agenda highlights the critical issues and proposed interventions. However, the plan does not cover some of the recent reforms—for example, elimination of the pre-inspection for businesses not considered risky (a provision of the recent amendments of the trading enterprise regulations). Staffs urge continued implementation of these recent reforms during the implementation phase of the NSDP. The implementation of this reform agenda will require timelines, prioritization, and good coordination among the different agencies involved in the implementation of the reforms. In addition, it will be critical to strengthen the institutional capacity of the One Stop Business Facility Center (OBFC).

Agriculture

18. **Staffs welcome the NSDP’s focus on farm-level productivity and access to markets.** The agriculture sector is one of the main sources of employment, especially in rural areas. The Government proposes a three-pronged strategy to develop the sector: (a) ensuring sustainable commercialization, diversification, and the development of integrated value chains; (b) building effective agricultural support institutions; and (c) improving risk management and reducing stock theft. The proposals are designed to boost growth and employment in the sector and to create an ambitious program to address sector issues: (a) access to finance; (b) promotion of high value crops and livestock products; (c) improvement of quality livestock breeding, seed production capacity, and access to farm machinery and marketing systems; (d) development of water harvesting infrastructure and irrigation capacity; (e) promotion of agro-industry and agri-business; (f) transformation of agricultural institutions, including extension services and training programs; (g) promotion of household food security programs; and (h) reduction of vulnerability to climate change.

19. **Staffs concur with the NSDP’s focus on commercialization and diversification of the agriculture sector.** To this end, the NSDP suggests actions to improve farming techniques, access to machinery and quality inputs, livestock breeding and disease control, water management, and improved market access. It is worth highlighting the success of the pilot sites supported by the Bank’s Private Sector Competitiveness and Economic Diversification (PSCED) project with a view to increase economic diversification. It has demonstrated that Lesotho’s climate and soil allow Basotho farmers to grow fruit for export to South Africa ahead of that

country's harvest cycle, leading to potentially high mark ups on the prices they receive. Staffs recommend that the authorities undertake well-structured analyses of the state of competition in the sector, logistical constraints, and cost structures of domestic value chains to identify the most critical binding constraints and prioritize the reforms and investments needed. In particular, access to land and land tenure security, access to working capital, and the overall business environment will need to be taken into consideration. Staffs also recommend careful identification of the activities that would directly benefit from the Government's involvement and those that could be devolved to the private sector. Lessons from past investments in the sector, like block farming, should be carefully taken into consideration while moving forward on the suggested program. Moving forward with implementation of the 2010 Land Act would also greatly contribute to the NSDP agricultural agenda. To succeed with the ambitious NSDP program, it will be critical to continuously monitor and evaluate the impacts of the chosen reform path to allow corrections along the way.

20. **In addition, staffs recommend a careful prioritization of the suggested actions and assuring that actions in one area do not negatively impact progress on other priorities.** The authorities could conduct a careful review of whether increases in maize production will be the most cost effective way to boost production of food crops. Lesotho's comparative advantages for specific crops could be established prior to engaging in promotional activities. Such analysis could also consider impacts on the environment, soil erosion, and climate change.

21. **Staffs concur with the NSDP's focus on strengthening the capacity of farmers through improved agricultural institutions, effective training, and the transformation of extension services.** To this end, it is critical to properly equip the government institutions supporting this vision so they can accomplish their missions, particularly the delivery of extension services. Current budget allocation to these services is not sufficient. Staffs recommend carefully reviewing training and capacity-building plans of the involved institutions to assure that needed skills are being enhanced. In addition, the NSDP program will require close cooperation of the ministries with a role in developing and enhancing farmers' capacity. Programs of these ministries will have to be carefully integrated to assure a common approach.

Manufacturing

22. **Since Lesotho's manufacturing sector is dominated by foreign-owned firms, the greatest potential source of diversification and growth comes from South Africa and other regional markets.** Expansion of new investments has been inhibited by a limited industrial infrastructure, especially a shortage of industrial estates with adequate effluent treatment facilities. Staffs suggest that the NSDP could detail Government plans for a more focused strategy that concentrates on three vital elements: (a) reallocate public spending to accelerate FDI inflow by making Lesotho more attractive as a destination, especially by increasing the supply of factory space in a short time; (b) making use of the bargaining power generated by public spending to implement a more selective FDI policy that puts more emphasis on potential spillovers to the domestic economy than direct job creation; (c) providing explicit incentives to foreign direct investors and domestic firms to encourage the transfer and absorption of skills and technology.

23. **The NSDP also envisions encouraging private investment in factory shells through reforms linked to the Land Act that would enable direct foreign ownership in factory shells.** However, it is unclear how the subsidized factory rental rates provided by Lesotho National Development Corporation (LNDC) can be prevented from crowding out these private investments. Staffs recommend revising rents for LNDC properties. Current rents for LNDC industrial tenants run between M7 and M10 per square meter, whereas an economic return to cover the initial capital costs and ongoing maintenance is estimated at M30 – M35 per square meter. In addition, there are opportunities for public and private partnership (PPP) deals in developing and managing infrastructure as well as direct lease of land to foreign investors to build and operate their own factories. Staffs recommend that during the implementation of the NSDP to consider reforming the mandate of LNDC to allow PPP deals.

Pillar 2. Develop Key Infrastructure

Water

24. **Water is central to Lesotho’s long term economic security.** The NSDP acknowledges that the abundance of water, coupled with altitude and strategic location, provide unique opportunities for sustainable forms of exports and a greener economy. The NSDP further acknowledges the important role of Phase 2 of the Lesotho Highlands Water Project (LHWP2) and the Metolong Dam and Water Supply Program (MDWSP) in boosting investments and providing employment opportunities during the construction period. However, these relatively short term benefits will not in themselves contribute to the longer term goal of shared and sustainable growth. Staffs recommend that during the implementation phase of the NSDP Government seek an appropriate balance between export-oriented infrastructure, such as the LHWP2, and investments needed to secure improved access and sustained industrial development, such as under the MDWSP, within the limited fiscal space going forward.

Transport

25. **Staffs concur with the NSDP’s focus on an integrated and more inclusive transport system.** Lesotho’s transport infrastructure development program has largely concentrated on the lowland strip that borders South Africa, neglecting the basic access needs of populations in the mountains and other remote regions. This social exclusion has been identified as an important contributor to the structure of inequality in the country today.

26. **In developing an integrated transport system, the Government should focus on forging a policy framework (e.g., the Integrated National Transport Master Plan) and creating a business environment that encourages private investment in the transport sector.** The NSDP recognizes that transport services are predominantly provided by private sector operators and that the over-arching strategic goal is to develop an integrated transport system. In addition, the plan recognizes the need to promote private participation in water transport. However, the NSDP does not highlight the need to promote private participation in the development of an integrated transport system.

Pillar 3. Enhance Skills Base, Technology Adoption, and the Foundation for Innovation

27. **The NSDP recognizes that improving the skills of the labor force is essential for economic diversification and growth.** The NSDP highlights the related challenges, stressing in particular skills shortages and mismatches in the labor market. Recent household and employer surveys carried out by the World Bank and the Ministry of Education point to several important aspects of this mismatch: (a) the formal sector has not been able to absorb the increasing number of school leavers, particularly those with secondary school training; (b) employers are concerned about the quality of education provided; and (c) employers' main concern seems related to lack of commitment, honesty, and other personal qualifications. The challenge of education and training in Lesotho, therefore, requires a broad based approach; i.e., concomitant development of basic, soft, technical and analytical skills. In addition, Lesotho is a net exporter of human capital. As of 2010, twenty-nine percent of its population lived abroad, so the challenge is retaining skills in Lesotho.

28. **The NSDP envisions a comprehensive approach to education and training, embodied in a rather ambitious agenda that requires strong political, social, and financial commitment.** Issues of overall quality and equity, and improvements in the quality, appropriateness, and efficiency of the various education and training levels are welcome, as is reform of the financing of higher education, particularly the bursary scheme. However, political economy challenges require closer attention in reform design and implementation. The plan points out that Lesotho's labor productivity is high relative to wage costs in the region. This is an important fact that needs to be established (or rejected) with data. The plan focuses on increasing training at firms, especially in the textile sector. It would be useful to highlight specific measures that would incentivize firms to train. The plan does not provide sufficient detail about the existing Technical and Vocational Education and Training (TVET) system, but it does propose developing a TVET financing strategy that promotes employer and financial sector participation. Strengthened public financing, together with private provision, may be a better bet for achieving immediate results.

Technology and innovation

29. **The NSDP recognizes the role that industry-relevant research plays in Lesotho's development agenda.** The country should use its proximity to South Africa which has a large R&D base, to increase local capacity for industrial research. While developing its national R&D agenda, staffs recommend highlighting how it would tap into regional R&D capacities.

Pillar 4. Improve Health, Combat HIV and AIDS, and Reduce Vulnerability

Health

30. **The NSDP's health and HIV/AIDS sections are comprehensive, demonstrating a commitment at the Ministry of Health and Social Welfare (MOHSW) to improving health outcomes.** The focus is on improving health-related Millennium Development Goals (MDGs) (improvement of maternal and child health and combating HIV/AIDS) and health systems strengthening. The NSDP emphasizes that controlling the spread of HIV/AIDS remains a top

priority for Lesotho. In addition, the public/private partnership for the national referral hospital and its three filter clinics is an example of the Government's openness to innovative approaches to increase access and improve the quality of services.

31. **While the plan is comprehensive, it will benefit from prioritizing the proposed interventions based on the burden of disease and cost-effectiveness.** The goal should be making better use of limited resources.

32. **The NSDP recognizes the need to upgrade the Health Management Information Systems (HMIS) and produce national health accounts.** Staffs suggest the authorities to focus on strengthening systematic data collection, consolidating data useful for monitoring, and utilizing data for strategic decision-making. This would involve developing standard indicators for the national and district levels for reporting in the Annual Joint Reviews, properly defining catchment population per health facility, and recruiting monitoring and evaluation (M&E) personnel at the central level to ensure the HMIS is fully functional.

33. **Staffs concur with the NSDP focus on improved access to emergency obstetric care (EmOC) in order to reduce the maternal mortality rate.** This task will involve training personnel on EmONC procedures and equipping health centers and hospitals. Furthermore, the plan could consider including post-natal care and removal of financial barriers to maternal health/reproductive health services.

34. **Staffs concur with the NSDP focus on improving skills through capacity building and providing appropriate incentives to retain skilled health professionals.** The primary focus in addressing Human Resources for Health (HRH) issues should be increasing productivity, retention, and distribution. The proposal to establish a medical school in the country would not be the most cost-effective solution to addressing Lesotho's HRH challenges.

35. **Staff concurs with the NSDP focus on improving institutional effectiveness and coordination under the HIV/AIDS Strategy.** It is important that the Government agree on a long-term institutional set-up to improve coordination. This will require clearer terms of reference and organizational structures as well as long-term stability in the new HIV/AIDS coordination entity that will implement the National HIV/AIDS Strategic Plan.

Social protection

36. **Staffs strongly support the Government's commitment to consolidate and improve the efficiency of the social protection system and enhance coverage of selected interventions.** Existing social protection programs are fragmented and poorly targeted, with significant potential for greater efficiency and operational effectiveness. However, it will be important for the Government to carefully consider which interventions should be expanded and which groups should be given priority for social protection programs in general and social safety net programs in particular. Efficiency and prioritization are especially important in a country where widespread needs to support the poor and vulnerable run up against limited fiscal resources.

37. **The NSDP proposes various measures to improve efficiency of the social protection sector, but it does not specify how these measures will be applied and implemented.** For example, one proposed measure would establish a central registry for social assistance to facilitate consolidation and enhance coordination. A national registry could indeed make beneficiary identification more efficient and improve harmonization of interventions, but there is a need to develop a roadmap for how the system will be scaled up. Food and cash for work programs are designed to increase the capacity of able-bodied persons to deal with vulnerability, but it is not clear how this will be done and by whom. There is also a need to consider how the social safety net could be strengthened to better respond in a counter-cyclical way to crises, supporting poor and vulnerable when the need is greatest. The Government would benefit from developing a social protection policy and a clear strategy for how to implement it, including roles and responsibilities.

Pillar 5. Reverse Environmental Degradation and Adapt to Climate Change

38. **Staffs commend the NSDP's focus on climate change and climate proofing of the agriculture sector.** It will be important that during the implementation of the plan, to integrate climate considerations in all of the envisaged agricultural programs, as it will be critical for sustainability and risk reduction in the sector.

39. **Staffs concur with the NSDP's vision to reverse environmental degradation and adapt to climate change.** However, an integrated and inter-ministerial approach will be needed to address the main causes of environmental degradation, such as cultivation on slopes and marginal lands, overgrazing of rangelands, and unregulated encroachment of human settlements onto agricultural lands. Capacity-building, land ownership and promotion in agriculture will have to consider degradation issues and integrate more sustainable production measures. Staffs support the NSDP's emphasis on improved rangeland management, protection of critical habitats and water sources, and improved land management. Ongoing efforts will have to be improved and strengthened to achieve the ambitious goals set in the NSDP.

Pillar 6. Promote Peace, Democratic Governance, and Effective Institutions

40. **Staffs commend the NSDP's focus on good governance and building effective institutions.** However, the implementation of the plan can build upon previous and on-going efforts such as the Public Sector Improvement and Reform Program, Vision 2020, establishment of the Directorate on Corruption and Economic Offences, enactment of the Local Government Act, and implementation of the Public Financial Management and Accountability Act.

41. **Effective decentralization has been recognized as a critical cross-cutting agenda and, if carried out effectively within sound expenditure management and accountability mechanisms, will substantially improve efficiency in public-sector governance and service delivery.** However, during the implementation phase of the NSDP, persistent efforts will be required to build capacity at the local level. In particular, it will require central guidance, investment in human capital, and substantial inputs from local populations via media openness.

Cross Cutting Issues

42. **Staffs welcome the inclusion of gender as a cross-cutting theme.** The plan lays out key strategic actions to implement the Legal Capacity of Married Persons Act 2006 and the gender policy framework. The Poverty Assessment (2010) recognizes that the Legal Capacity of Married Persons Act 2006 was a crucial advancement in women's legal position in terms of recognition of their majority status, legal capacity, and social and economic rights. Staffs recommend prioritizing the reforms and the strategic actions to ensure an effective implementation of the gender policy framework.

V. MONITORING, EVALUATION AND IMPLEMENTATION CAPACITY

43. **The NSDP recognizes the need for a functioning Monitoring and Evaluation Framework, which staffs understand is being prepared.** The Poverty Assessment (2010) highlighted the weaknesses in the existing M&E system, which remains a constraint to the effective management of government programs. In particular, there is the need to have good quality data to monitor the results of the governments program. The capacity of the National Planning Advisory Board (NPAB) to monitor and report on the results achieved during NSDP implementation is critical to meeting its strategic objectives.

44. **Staffs urge the Government to focus on time-bound and measurable targets to ensure successful NSDP implementation.** Among those is the implementation of the National Strategy for the Development of Statistics. In addition, staffs encourage developing a results matrix that includes measurable targets and indicators.

45. **Building the M&E capacity within the Government will be critical during NSDP implementation.** Staffs will work with Government to address this issue.

46. **Capacity-building efforts are fundamental for successful implementation of the NSDP.** The staffs recommend that, in addition to improvements in the M&E capacity, the authorities also assess other institutional capacity constraints likely to undermine the implementation of the NSDP. The assessment could usefully focus on resources needed, incentives, organizational competencies, and individual skills needed to achieve specific results. More effective inter-ministerial coordination to implement programs specified in the NSDP would be an important element of capacity building.

VI. CONCLUSIONS AND RISKS

47. **Staffs find that the NSDP adequately outlines Lesotho's poverty reduction strategy, but a well-designed implementation and monitoring framework is necessary.** The report has a list of policy reforms that will help transform Lesotho's economy, but there is throughout a clear need to prioritize the policy reforms, to develop a comprehensive financing plan, and to develop a realistic performance indicator matrix that could be measured periodically by NPAB. While the NSDP identifies clearly the sources of growth and its bottlenecks, quality household

data are needed to estimate the impact of public policy on economic growth and poverty reduction during the period of plan implementation.

48. **The NSDP highlights risks to growth and poverty reduction resulting from Lesotho's vulnerability to external shocks.** An analysis of other endogenous risks such as lack of capacity to steer reforms within the sectors and weak implementation capacity warrants attention in the NSDP. Elaborations of key mitigation measures to address these risks would benefit the NSDP.

49. **Implementation of the NSDP will be a key challenge.** The list of potential reform areas lacks a timeline and prioritization. Staffs recommend having an implementation strategy that: i) identifies short term versus medium to long term priorities for the economy; ii) includes an implementation matrix that highlights the measurable indicator for each reform area; and, iii) identifies the clear roles and responsibilities for the reform agenda. In addition, there is a need to develop a comprehensive financing plan.

50. **Staffs concur with the NSDP on the implementation of key structural reforms.** Eight structural reform areas in particular appear critical to achieve higher and inclusive growth: (i) fiscal management reform, which includes moderation of the wage bill, improvement in the quality of expenditures and prudent management of SACU revenues; (ii) public financial management reform; (iii) investment climate reform; (iv) financial stability and development; (v) development of key infrastructure; (vi) social safety net reform; (vii) health reform, which includes the implementation of the HIV/AIDs strategy; and (viii) education and vocational training reform.

51. **Staffs will continue to engage with the Government in its implementation of the NSDP.** Bank support will be provided through reform measures supported by its PRSC series, coupled with ongoing sector investment projects and planned operations linked to the NSDP pillars. Fund support will continue through policy advice and financing under the current ECF arrangement, complemented by targeted technical assistance to further strengthen the authorities' capacity in macroeconomic management and statistics.

52. **In considering the NSDP and associated JSAN, Executive Directors may wish to focus on the following issues:**

- Do the Executive Directors concur with the areas identified by staffs as key implementation risks?
- Do Directors concur with the areas identified by staffs as priorities for strengthening the implementation of the NSDP?