

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

Report No.: PIDISDSA20142

Date Prepared/Updated: 01-Nov-2016

I. BASIC INFORMATION

A. Basic Project Data

Country:	Lesotho	Project ID:	P160934
		Parent Project ID (if any):	P151442
Project Name:	Additional Financing to Social Assistance project - CRW funds (P160934)		
Parent Project Name:	Social Assistance Project (P151442)		
Region:	AFRICA		
Estimated Appraisal Date:	03-Oct-2016	Estimated Board Date:	14-Dec-2016
Practice Area (Lead):	Social Protection & Labor	Lending Instrument:	Investment Project Financing
Borrower(s):	Ministry of Finance		
Implementing Agency:	Ministry of Social Development		
Financing (in USD Million)			
	Financing Source		Amount
	International Development Association (IDA)		0.00
	IDA Credit from CRW		20.00
	Total Project Cost		20.00
Environmental Category:	C - Not Required		
Appraisal Review Decision (from Decision Note):	The review did authorize the team to appraise and negotiate		
Other Decision:			
Is this a Repeater project?	No		

B. Introduction and Context

Country Context

Lesotho is a lower middle-income country with per capita gross national income of US\$1,330 . It is a small and largely rural country of about 2 million people, landlocked in South Africa. Lesotho has an open economy, traditionally centered on trade. Its main exports are textiles, water, and diamonds. Lesotho's main trading partners are the United States, South Africa and Belgium. As a member of the Common Monetary Area (CMA), its currency is pegged to the South African Rand. Lesotho is also part of the Southern African Customs Union (SACU), a customs union between Botswana, Lesotho, Namibia, South Africa and Swaziland by which members pool the customs duties and excise taxes they collect and redistribute the funds among the five member states.

The economy grew at an annual rate of 4 percent per capita over the past decade, but is estimated to slow to about 1.7 percent this year; economic growth has not been inclusive, resulting in persistent high levels of poverty and inequality. It is estimated that 57.1 percent of the population lives below the basic needs poverty line of US\$1.9 per day PPP terms, and 75.5 percent of the population is under the poverty line of 3.1 per day PPP terms. Lesotho's poverty is also deep, and this depth has increased over time. The poverty gap in Lesotho is the ninth highest in the world, at 29.5 in FY2010/11; this represents an increase from FY2002/03. Inequality as measured by the Gini coefficient increased from 0.51 to 0.53 between 2003 and 2010 and it is estimated to be at 54.2 in 2015

Human development outcomes are worse than both the rest of Southern Africa and other lower middle income countries. It is ranked 162nd out of 187 countries in the UN's Human Development Index. Lesotho has the world's third highest prevalence of HIV/AIDS (23.4 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 percent of children of relevant age complete lower secondary school, and enrollment in secondary is 33.4 percent. Malnutrition is an acute problem, with a prevalence of stunting of 40 percent.

Lesotho faces considerable fiscal challenges, making efforts to improve the effectiveness of public spending imperative. Lesotho's economy has shifted from an export driven economy to an economy driven by consumption and government investment in the last decade. The wage bill, one of the highest in the world, as a percentage of gross domestic product (GDP), projected to grow further from 18.9 percent in 2012 to 21.8 percent in 2015. Between FY 2011/12 and FY 2014/15 government spending has remained above 60 percent of GDP; general government final consumption expenditure as a percentage of GDP is the second highest in the world, at 37.7 percent. High SACU revenues received in 2012/13-2014/5 masked the underlying deficit, but these are expected to decline to 15.9 percent in 2016/17 and to 17.9 percent of GDP in 2017/18 from 29.2 percent of GDP in 2014/15. The projected fiscal deficit for FY 2016/17 is at 9.5 percent of GDP placing a potential pressure on exchange rate sustainability due to a fast draw down of reserves in the absence of domestic borrowing opportunities. Fiscal pressure is therefore likely to increase even further over the coming years.

Lesotho, like the rest of Southern Africa, is experiencing the impacts of an unprecedented El Nino phenomenon, including two years of consecutive drought and erratic rains. The El Nino drought has affected crop production, water availability to communities and livestock, and exacerbated underlying health vulnerabilities (including HIV/AIDS and malnutrition). The price of maize has

risen 37 percent year on year. More than 30 percent of the population (534,000) is at risk of food insecurity. The situation is set to continue and intensify until at least April 2017.

The Government of Lesotho declared a drought emergency in Lesotho in December 2015. The estimated financial requirements total LsL584 million (US\$40 million) for the short and medium-term Government led interventions. The resource gap for the UN and NGOs to meet current needs is estimated at US\$ 47.2 million. To date, development partners have covered 25% of this gap. 6. The Government of Lesotho and development partners responded to the crisis through two main channels: the establishment of a food subsidy, and provision of cash assistance. This AF will support the crisis response by helping the government finance the latter, as well as by supporting the shock responsive functions of social assistance in the long term.

Sectoral and institutional Context

The World Bank Board of Directors approved the Lesotho Social Assistance Project (SAP) on June 3rd 2016. The development objective of the Project is to support the Government of Lesotho in improving the efficiency and equity of selected social assistance programs, namely Old Age Pension (OAP), Public Assistance (PA), Orphan and Vulnerable Children (OVC) bursary and Child Grants Program (CGP). The OAP is the largest social assistance program in terms of spending (2.39 percent of GDP), it is a universal non-contributory pension for all citizens over 70 years of age, who do not receive a civil service pension. The remaining programs are a combination of poverty alleviation transfers programs (PA), human development linked poverty targeted programs (CGP), and scholarships (OVC).

Evidence shows existing social assistance programs vary in their effectiveness to reach the poor, and coverage of the poorest 40 percent is limited. Efforts to improve coordination and beneficiary targeting and information management are underway through the establishment of a social registry, the National Information System for Social Assistance (NISSA), and the introduction of a modern unconditional cash transfer that supports the most vulnerable households, the Child Grants Program.

Experience from past and current crises in Lesotho shows that existing social assistance mechanisms, and in particular the Child Grant Program, can be an effective means to provide rapid support to the extreme poor populations and safeguard their livelihoods in a time of crisis, as well as to reach those who are not extreme poor but at risk of falling into poverty as a result of shocks. CGP has emerged as a particularly effective vehicle for disaster relief, as it covers vulnerable households in rural areas of the country, which have been most severely hit.

C. Proposed Development Objective(s)

Original Project Development Objective(s) - Parent

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

Proposed Project Development Objective(s) - Additional Financing

The objective of the proposed project is to support the Government of Lesotho in improving the efficiency, equity and shock responsive function of selected social assistance programs and, in the event of an Eligible Crisis or Emergency, to provide immediate and effective response to said Eligible Crisis

Key Results

Key expected results are:

- 1 - Financing of emergency cash transfers to poor and vulnerable households
- 2 - Improvements in the shock responsive capability of social assistance, through the expansion of the basic network under result 2 and technical assistance for improving the shock responsive and resilience aspects of SP
- 5 - Improved response time in the event of future situations where urgent assistance is needed, through the CERC component

D. Project Description

Out of the total US\$20m of Additional Financing, US\$15.5 million would go to Component 1 and US\$4.5 million to Component 2.

Component 1 would be renamed: Component 1: Strengthening administrative efficiency, equity and shock responsive function of the selected social assistance programs. The main changes to Component 1 would be as follows:

A. Addition of a DLI for retroactive financing, supporting the Governments ongoing crisis response efforts through existing social protection systems (US\$7.1 million). Over the course of 2016 the Ministry of Social Development delivered emergency cash assistance to vulnerable families in response to the drought. Emergency assistance consisted of a top-up cash to current beneficiaries of the CGP. The AF would include a new retroactive DLI equivalent to 35% percent of the total project allocation (US\$7.1 million) to support such use of the social assistance system to provide emergency relief through emergency top ups to the Child Grants Program in crisis affected areas. The exact wording of the proposed DLI 21 would be: The Ministry of Social Development has used the existing social assistance system to identify and deliver emergency relief to at least 26,000 poor and vulnerable households.

B. Increasing the amount allocated to some DLIs to support key results under the SAP that are crucial in building a scalable social assistance system (additional resources US\$7 million). A shock-responsive social assistance system requires a solid regular program, which can be then scaled up during crises both in terms of population and in terms of benefit amounts. The SAP supports results on two key building blocks of a solid regular social assistance program, namely the CGP and the NISSA. These have already proved crucial in current as well as past crisis response. During the present drought, the Government and development partners have identified beneficiaries of emergency cash assistance to the poor and vulnerable using the NISSA database. For current CGP beneficiaries, assistance was then channeled as emergency top up transfers. Presently the NISSA registry contains information on households in 38 out of 69 community councils. In the remaining 31 community councils, the Government and development partners do not have a reliable and systematic way to identify either regular or emergency assistance to the poor. Similarly, the CGP currently only reaches 26,000 households in the 38 community councils where NISSA is available. Lack of funding from the Governments budget have delayed the nationwide expansion of both CGP and NISSA, despite their crucial role in enhancing the efficiency, equity and shock responsive function of social assistance. Given the challenges in securing government funding, the AF would increase the allocation to the respective DLIs to raise the incentive for the Government to fast-track their achievement, as follows:

i. Increasing the allocation to DLI 15 on the expansion of coverage of the NISSA registry, so that its achievement can be fast-tracked to December 2017. DLI 15 states that The coverage of NISSA-CBT registry reached at least 75% of community councils in the country. Existing coverage is at 55% of community councils (38 out of 69). With support from the AF, MSD plans to cover an additional 15 community councils over the course of 2017, thus reaching the 75%

target by December 2017. Under the AF, the achievement of this DLI would be fast-tracked from December 2018 to December 2017 and its allocation increased from US\$0.5 million to US\$2 million to support the tightened time frame. The wording of DLI 15 would stay the same.

ii. Increasing the allocation to DLIs 5, 11, 16, and 20, so that their achievement can be fast tracked. Under the parent project the CGP enrollment targets for these four DLIs are: 30,500; 36,500; 42,500; and 48,500 households over the four years of the project, respectively. Under the AF, the targets would increase to 38,000; 50,000; 60,000 and 70,000 over four years to 2020, respectively. The amount allocated to DLIs 5, 11 and 16 would increase by US\$1.5 million each, while that to DLI 20 by US\$1 million. Thus, DLI 5, 11 and 16 would each be worth US\$3 million, and DLI 20 US\$2 million. The expected dates for achievements of the DLIs would remain the same as under the parent project.

C. Increasing the amount allocated to some DLIs to increase the efficiency of social assistance (US\$1.4 million). A key feature of the parent project is the focus on supporting improvements in administrative efficiency of selected social assistance programs. These are estimated to yield considerable savings to the Government, which can help finance the social assistance drought response described above. Given the challenging fiscal situation and high spending on social assistance, the administrative reform agenda is key to the success of the parent project and the AF. Central to this agenda are the results on improvements in the administration of the Old Age Pension (OAP, run by the Ministry of Finance), given this programs large budget and potential for reform. The AF would increase the incentives to achieve efficiency results with regards to the OAP by adding resources to DLIs 8 and 9, as follows:

i. Increasing by US\$0.4 million the allocation for the establishment of a cross-check between Civil Service Pension and OAP and subsequent elimination of duplications. DLI8 states that: 100% of OAP beneficiaries found to be ineligible through the regular cross checks with Civil Service Pensions databases are eliminated from the OAP roster. Retired civil servants are not entitled to receive both a Civil Service and an Old Age Pension; in practice there is no mechanism to detect whether they do. Under the parent project, the establishment of a cross check mechanism between the databases of the two programs is planned for the first year of the project, and first cleaning of the database to eliminate double-dipping for June 2017. From there, cross-matching and elimination should become a regular process. Given the importance of elimination of double dipping for efficiency, the AF would increase the amount allocated to DLI8 from US\$0.4 million to US\$0.8 million to further incentivize its achievement.

ii. Increasing by US\$1 million the allocation for the establishment of a proof of life mechanism that will allow to eliminate ghost beneficiaries. DLI9 states that: 100% of ineligible OAP recipients detected prior to June 30, 2017 are eliminated as a result of the new OAP proof of life verification requirements applied to all current beneficiaries. Currently, there is no systematic proof of live verification by the OAP administration: the program relies on a certificate from the village chief in case the elderly does not collect the payment in person. This practice has led to considerable suspect ghost beneficiaries, estimated at 20-25% of total beneficiaries for a total loss of over M150million (roughly US\$10 million dollars) per year. The introduction of the proof of life mechanism and removal of ghosts is the cornerstone of the efficiency agenda. The AF would increase the allocation to DLI9 from US\$1.3 million to US\$2.3 million to further incentivize its achievement.

Component 2 would be renamed: Component 2: Support for implementation and crisis response, and its allocation will be increased by US\$4.5 million, from US\$5 million to US\$9.5 million to support immediate crisis response and building shock-responsive features of social assistance system. The main additional activities to be financed under Component 2 will be:

i. Directly financing the emergency top ups to the CGP for three quarters: the last quarter of 2016 and the first two quarters of 2017 (U\$3 million). To support beneficiaries through the worst of the crisis, the MSD plans three additional rounds of emergency top ups to the 27,000 households who are current beneficiaries of the CGP: a last payment in 2016 and two payments in 2017. The AF would finance these three rounds. Top ups for the last payment of 2016 would be financed retroactively upon effectiveness of the AF, while the two 2017 payments would be made through advances. Emergency top ups are administered through regular CGP procedures, and thus their beneficiary identification, database control payment, reconciliation processes are the same, are based on country systems and are satisfactory from an FM perspective (see Annex 2 and 3 for further details).

ii. Supporting the expansion of NISSA in terms of coverage and capacity to be used in regular and emergency situations (\$0.5 million). As mentioned above, the NISSA registry only currently contains information on households in 38 community councils. In the remaining 31, the Government and development partners do not have a reliable way to channel assistance to the chronically poor, thus hindering the possibility of channeling emergency assistance to the whole population. NISSA expansion receives financial and technical support by the EU and UNICEF, but the team identified a financing shortfall of \$0.4million to achieve the nationwide expansion. Specifically, the additional resources will be used to carry out the community based consultations and the PMT data collection to cover gap in current and new NISSA community councils. Additionally, this activity will support technical assistance to strengthen the potential to use NISSA information to target during crises. The NISSA targeting approach (Community Based plus PMT) is designed to identify the chronically poor. This group is likely to suffer greatly from any shocks, including natural ones such as the drought, and should therefore be an important target for emergency assistance. However, households that are not chronically poor but are vulnerable might also be in urgent need of assistance during crises. Receipt of such emergency funds might in fact be the only buffer for these vulnerable households from falling into poverty. Knowing who those vulnerable households are during a crisis is a key feature of a scalable social assistance system. This technical assistance will help the Government establish a strategy for building on the NISSA database and a strategy for targeting during emergencies. This technical assistance can also be used to make the necessary adjustments to the existing NISSA software and hardware, to capture new beneficiaries using potentially different methodologies, if appropriate. A team secured a GFDRR Trust Fund resources on building the shock responsive aspects of social assistance in Lesotho and Swaziland to complement these activities.

iii. Supporting resilience-strengthening social protection interventions (\$1 million). The objective of a shock-responsive social protection system should be to effectively and timely respond in times of crisis but also build the resilience of vulnerable households to the effects of these shocks. Component 2B of the SAP supports the MoSD in designing and implementing a pilot of livelihood enhancement activities for vulnerable households. The pilot aims to contribute to bridging the gap between vulnerable households and the existing supply of programs that can help increase productive potential, such as agriculture and forestry programs, access to credit, training, etc. Bridging this gap has proven to be effective in other countries in contributing to poverty reduction and thus graduation from poverty over time. The AF will support the MSD in building into the pilot and testing explicit support for long-term adaptation and resilience strategies, for example: development of training in income diversification strategies and sustainable agricultural practices; special health care, water, sanitation and hygiene promotion; mechanisms for mobilizing community support during crisis, among others. The AF will not finance any agricultural or forestry interventions nor any type of works. In addition to supporting this pilot, the AF will finance technical assistance to the MSD on how to increase the nutritional

aspects of social assistance, given the high level of stunting in Lesotho and the potential for nutrition-sensitive social protection to increasing the resilience of the population to disasters. The WB already provided initial TA in this area through a Rapid Social Response Trust Fund. The technical assistance under the AF would further that dialogue, by supporting the design and testing of specific interventions. A team secured a GFDRR Trust Fund resources on building the shock responsive aspects of social assistance in Lesotho and Swaziland to complement these activities, through necessary analytical work.

D. Inclusion of a Contingent Emergency Response Component (CERC) (US\$0 million): This contingent emergency response component would be included under the project in accordance with OP 10.00, paragraphs 12 and 13, to help improve response times in the event of future situations where urgent assistance is needed. The CERC allows for rapid reallocation of project proceeds in the event of future natural or man-made disaster or crisis that has caused or is likely imminently to cause a major adverse economic and/or social impact. This component will have no funding allocation initially. In the event of a future emergency, it could be used to draw resources from the unallocated expenditure category and/or allow the Government to request the Bank to re-categorize and reallocate financing from other project components to cover emergency response and recovery costs, if approved by the Bank.

The AF and the SAP would have a joint Project Implementation Manual. The existing PIM for the SAP will be modified according to the changes introduced through the AF.

Component Name

Strengthening administrative efficiency, equity and shock responsive function of the selected social assistance programs

Comments (optional)

Component Name

Support for Implementation and Crisis Response

Comments (optional)

Component Name

Contingent Emergency Response Component (CERC)

Comments (optional)

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

F. Environmental and Social Safeguards Specialists

Kisa Mfalila (GEN01)

Kristine Schwebach (GSU07)

II. Implementation

Institutional and Implementation Arrangements

The institutional and implementation arrangements would remain the same as under the parent Social Assistance Project.

III. Safeguard Policies that might apply

Safeguard Policies	Triggered?	Explanation (Optional)
Environmental Assessment OP/BP 4.01	No	Because this project relates to overall management and efficiency of social protection programs at the central level, as well as expansion of certain cash transfer programs, no environmental issues and impacts are foreseen as a result of this project.
Natural Habitats OP/BP 4.04	No	Because this project relates to overall management and efficiency of social protection programs at the central level, as well as expansion of certain cash transfer programs, no impacts are foreseen on natural habitats as a result of this project.
Forests OP/BP 4.36	No	Because this project relates to overall management and efficiency of social protection programs at the central level, as well as expansion of certain cash transfer programs, no impacts are foreseen on forests as a result of this project
Pest Management OP 4.09	No	Because this project relates to overall management and efficiency of social protection programs at the central level, as well as expansion of certain cash transfer programs, no pesticides will be used in this project and no pest management issues are foreseen as a result of this project.
Physical Cultural Resources OP/BP 4.11	No	Because this project relates to overall management and efficiency of social protection programs at the central level, as well as expansion of certain cash transfer programs, no impacts on physical cultural resources are foreseen as a result of this project.
Indigenous Peoples OP/BP 4.10	No	There are no Indigenous Peoples in the project area
Involuntary Resettlement OP/ BP 4.12	No	Because this project relates to overall management and efficiency of social protection programs at the central level, as well as expansion of certain cash transfer programs, no land acquisition leading to involuntary resettlement or restrictions of access to resources and livelihoods is foreseen as a result of this project.
Safety of Dams OP/BP 4.37	No	N/A

Projects on International Waterways OP/BP 7.50	No	N/A
Projects in Disputed Areas OP/BP 7.60	No	N/A

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 known environmental issues and impacts related to this project and none of the safeguards policies have been triggered.
2. Describe any potential indirect and/or long term impacts due to anticipated future activities in the project area:
There are no known potential indirect and/or long term impacts due to anticipated future activities related to this project and none of the safeguards policies have been triggered.
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.
n/a
5. Identify the key stakeholders and describe the mechanisms for consultation and disclosure on safeguard policies, with an emphasis on potentially affected people.
Key stakeholders include: the central and district level staff of the Ministry of Social Development and the Ministry of Finance, who manage the core social assistance programs; and existing and future beneficiaries of transfer programs. During the course of the implementation of the proposed reforms, all stakeholders and the public will be informed about the rationale for the proposed reforms.

B. Disclosure Requirements

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:

C. Compliance Monitoring Indicators at the Corporate Level

The World Bank Policy on Disclosure of Information	
Have relevant safeguard policies documents been sent to the World Bank's Infoshop?	Yes [<input type="checkbox"/>] No [<input type="checkbox"/>] NA [<input checked="" type="checkbox"/>]
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 [<input type="checkbox"/>] No [<input type="checkbox"/>] NA [<input checked="" type="checkbox"/>]

All Safeguard Policies	
Have satisfactory calendar, budget and clear institutional responsibilities been prepared for the implementation of measures related to safeguard policies?	Yes [<input type="checkbox"/>] No [<input type="checkbox"/>] NA [<input type="checkbox"/>]
Have costs related to safeguard policy measures been included in the project cost?	Yes [<input type="checkbox"/>] No [<input type="checkbox"/>] NA [<input type="checkbox"/>]
Does the Monitoring and Evaluation system of the project include the monitoring of safeguard impacts and measures related to safeguard policies?	Yes [<input type="checkbox"/>] No [<input type="checkbox"/>] NA [<input type="checkbox"/>]
Have satisfactory implementation arrangements been agreed with the borrower and the same been adequately reflected in the project legal documents?	Yes [<input type="checkbox"/>] No [<input type="checkbox"/>] NA [<input type="checkbox"/>]

V. Contact point

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VI. For more information contact:

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VII. Approval

Task Team Leader(s):	Name: Lucilla Maria Bruni	
Approved By		
Safeguards Advisor:	Name: Nathalie S. Munzberg (SA)	Date: 18-Oct-2016
Practice Manager/ Manager:	Name: Dena Ringold (PMGR)	Date: 27-Oct-2016
Country Director:	Name: Janet K. Entwistle (CD)	Date: 02-Nov-2016