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IDA/R2017-0044/2

March 29, 2017

FROM: Vice President and Corporate Secretary

Lesotho

Second Private Sector Competitiveness and Economic Diversification Project

Additional Financing and Restructuring

Corrigendum

Due to an inadvertent error, the President's Memorandum and Recommendation and Project Paper on a proposed additional financing (credit) and restructuring to Lesotho for the Second Private Sector Competitiveness and Economic Diversification Project (IDA/R2017-0044) was distributed with an incorrect closing date of March 22. The correct closing date is **Friday, March 24, 2017.**

Distribution:

Executive Directors and Alternates
President
Bank Group Senior Management
Vice Presidents, Bank, IFC and MIGA
Directors and Department Heads, Bank, IFC and MIGA

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IDA/R2017-0044/1

March 7, 2017

**Closing Date: Wednesday, March 22, 2017
at 6 p.m.**

FROM: Vice President and Corporate Secretary

Lesotho - Second Private Sector Competitiveness and Economic Diversification

Additional Financing and Restructuring

Project Paper

Attached is the Project Paper regarding a proposed additional credit and restructuring to Lesotho for a Second Private Sector Competitiveness and Economic Diversification (IDA/R2017-0044), which is being processed on an absence-of-objection basis.

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Document of
The World Bank

FOR OFFICIAL USE ONLY

Report No: PAD2007

INTERNATIONAL DEVELOPMENT ASSOCIATION

PROJECT DOCUMENT

ON A

PROPOSED RESTRUCTURING AND ADDITIONAL CREDIT

IN THE AMOUNT OF SDR 10 MILLION
(US\$13.4 MILLION EQUIVALENT)

TO THE

KINGDOM OF LESOTHO

FOR THE

SECOND PRIVATE SECTOR COMPETITIVENESS AND ECONOMIC DIVERSIFICATION
PROJECT

March 7, 2017

Trade & Competitiveness Global Practice
Africa Region

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CURRENCY EQUIVALENTS

(Exchange Rate Effective as of December 30, 2016)

Currency Unit	=	Maloti (M)
M 13.61	=	US\$1
SDR 0.74386497	=	US\$1

LESOTHO GOVERNMENT FISCAL YEAR

April 1 – March 31

ABBREVIATIONS AND ACRONYMS

AF	Additional Financing
AGOA	African Growth and Opportunity Act
AfDB	African Development Bank
ASYCUDA	Automated System for Customs Data
CBL	Central Bank of Lesotho
CIB	Credit Information Bureau
CPF	Country Partnership Framework
ESMF	Environmental and Social Management Framework
ESMP	Environmental and Social Management Plan
ESW	Electronic Single Window
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GoL	Government of Lesotho
ICT	Information, Communication, and Technology
IDA	International Development Association
IFC	International Finance Corporation
IPF	Investment Project Financing
LEAP	Lesotho Enterprise Assistance Program
LICP	Lesotho Investment Climate Program
LNDC	Lesotho National Development Corporation
LRA	Lesotho Revenue Authority
LTDC	Lesotho Tourism Development Corporation
M&E	Monitoring and Evaluation
MAFS	Ministry of Agriculture and Food Security
MCC	Maseru City Council
MDP	Ministry of Development Planning
MFRSC	Ministry of Forestry, Range and Soil Conservation
MoF	Ministry of Finance
MTEC	Ministry of Tourism, Environment and Culture
MTI	Ministry of Trade and Industry
NBFIs	Non- Bank Financial Institutions
NSDP	National Strategic Development Plan
PDO	Project Development Objective

OBFC	One Stop Business Facilitation Center
OPC	Office of Parliamentary Counsel
PIM	Project Implementation Manual
PMU	Project Management Unit
PSCEDP-I	First Private Sector Competitiveness and Economic Diversification Project
PSCEDP-II	Second Private Sector Competitiveness and Economic Diversification Project
SACU	Southern African Customs Union
SADC	Southern African Development Community
SADP	Smallholder Agricultural Development Project
SMEs	Small and Medium Enterprises
TB	Tuberculosis
TFA	Trade Facilitation Agreement
WBG	World Bank Group
WTO	World Trade Organization

Regional Vice President:	Makhtar Diop
Country Director:	Paul Noumba Um
Senior Global Practice Director:	Anabel Gonzalez
Practice Manager:	David Bridgman
Team Leaders:	Maria Paulina Mogollon Kobina Daniel

LESOTHO
SECOND PRIVATE SECTOR COMPETITIVENESS AND ECONOMIC
DIVERSIFICATION

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ADDITIONAL FINANCING DATA SHEET

Lesotho

Second Private Sector Competitiveness and Economic Diversification - AF (P160964)

AFRICA

Trade & Competitiveness Global Practice

Basic Information – Parent									
Parent Project ID:	P144933	Original EA Category: B - Partial Assessment							
Current Closing Date:	30-Apr-2019								
Basic Information – Additional Financing (AF)									
Project ID:	P160964	Additional Financing Type (from AUS):		Cost Overrun, Scale Up					
Regional Vice President:	Makhtar Diop	Proposed EA Category:		B – Partial Assessment					
Country Director:	Paul Noumba Um	Expected Effectiveness Date:		01-Jul-2017					
Senior Global Practice Director:	Anabel Gonzalez	Expected Closing Date:		30-Jun-2022					
Practice Manager/Manager:	David Bridgman	Report No:		PAD2007					
Team Leader(s):	Maria Paulina Mogollon Kobina Egyir Daniel								
Borrower									
Organization Name	Contact	Title	Telephone	Email					
Ministry of Finance	Tom Mpeta	Principal Secretary	+266-2232-3703	tommpeta@yahoo.com					
Project Financing Data - Parent (Second Private Sector Competitiveness and Economic Diversification Project-P144933) (in US\$ Million)									
Key Dates									
Project	Ln/Cr/TF	Status	Approval Date	Signing Date	Effectiveness Date	Original Closing Date	Revised Closing Date		
P144933	IDA-53090	Effective	31-Oct-2013	21-Nov-2013	09-Jan-2014	30-Apr-2019	30-Apr-2019		
Disbursements									
Project	Ln/Cr/TF	Status	Currency	Original	Revised	Cancelled	Disbursed	Undisbursed	% Disbursed
P144933	IDA-53090	Effective	SDR	8.70	8.70	0.00	5.95	2.75	68.38

Project Financing Data - Additional Financing Second Private Sector Competitiveness & Economic Diversification - AF (P160964) (in US\$ Million)					
<input type="checkbox"/>	Loan	<input type="checkbox"/>	Grant	<input type="checkbox"/>	IDA Grant
<input checked="" type="checkbox"/>	Credit	<input type="checkbox"/>	Guarantee	<input type="checkbox"/>	Other
Total Project Cost:		13.40		Total Bank Financing: 13.40	
Financing Gap:		0.00			
Financing Source – Additional Financing (AF)					Amount
International Development Association (IDA)					13.40
Total					13.40
Policy Waivers					
Does the project depart from the CPF in content or in other significant respects?					No
Explanation					
Does the project require any policy waiver(s)?					No
Explanation					
Team Composition					
Bank Staff					
Name	Role	Title	Specialization	Unit	
Maria Paulina Mogollon	Team Leader (ADM Responsible)	Senior Private Sector Specialist		GTC01	
Kobina Egyir Daniel	Team Leader	Senior Private Sector Specialist		GTCA2	
Chitambala John Sikazwe	Procurement Specialist (ADM Responsible)	Senior Procurement Specialist		GGO01	
Tandile Gugu Zizile Msiwa	Financial Management Specialist	Sr Financial Management Specialist		GGO26	
Edith Ruguru Mwenda	Counsel	Senior Counsel		LEGAM	
Kisa Mfalila	Safeguards Specialist	Senior Environmental Specialist		GEN01	
Nneka Okereke	Safeguards Specialist	Communications Officer		OPSPF	
Paula F. Lytle	Safeguards Specialist	Senior Social Development Specialist		GSU07	

Locations					
Country	First Administrative Division	Location	Planned	Actual	Comments
Institutional Data					
Parent (Second Private Sector Competitiveness and Economic Diversification Project-P144933)					
Practice Area (Lead)					
Trade & Competitiveness					
Contributing Practice Areas					
Additional Financing Second Private Sector Competitiveness & Economic Diversification - AF (P160964)					
Practice Area (Lead)					
Trade & Competitiveness					
Contributing Practice Areas					
Agriculture, Finance and Markets					

I. Introduction

1. **This project document seeks the approval of the Executive Directors for a restructuring and additional credit in the amount of SDR 10 million to the Lesotho Second Private Sector Competitiveness and Economic Diversification Project (PSCEDP-II) (P144933-IDA Credit 53090-LSO).** It also seeks approval for a change in the closing date of the project from April 30, 2019 to June 30, 2022, and in the project development objectives (PDO) and associated indicators so that they more appropriately reflect project activities. This would be the first closing date extension requested for the project, for 38 months. By this extension the total life of the project would be less than 10 years.
2. **The restructuring and additional credit would help finance the costs associated with the scale up of select activities under the current project, expand the scope of successfully implemented activities and consolidate their impact.** It would also help cover a financing gap created by the depreciation of the SDR vis-a-vis the U.S. dollar and the severe drought of the 2015-2016 growing season.
3. **The project supports the Government of Lesotho (GoL) to sustain its efforts in diversifying the economy and improving the business environment.** The restructuring and additional financing (AF) would seek to support the GoL's objectives in terms of: (i) legislation supported by the project is approved and implemented; (ii) automated systems supported by the project are widely used; (iii) institutional changes supported by the project are completed and institutional entities 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 support authorities' efforts to strengthen trade facilitation and logistics given its importance to the economy in general and to commercial horticulture in particular.
4. **The expected benefits of the restructuring and AF to existing and future firms and individuals are:** (i) a better business environment, including easier access to finance, simpler trading across borders, and streamlined, accessible, and efficient government to business services; (ii) a more functional investment promotion and property management agency that can more effectively market Lesotho to the world and attract investment; (iii) a tourism information center that serves as a reference point and retail center for tourists and locals; and (iv) a commercial fruit tree sector that exports fresh produce, attracts investors, and provides significant local employment and business opportunities.

II. Background and Rationale for Restructuring and Additional Financing in the Amount of SDR 10 Million

5. **Lesotho is a lower middle income country in Southern Africa that is faced with one of the highest income inequality rates in the world.** The country, which generates income mainly by exporting textiles, water, and diamonds, is currently facing large fiscal and current account deficits. The signs of economic fragility are exacerbated by other vulnerabilities, such as political instability, climatic vulnerability, and high rates of HIV/AIDS, tuberculosis (TB), and maternal and infant mortality.
6. **The parent project, the Second Private Sector Competitiveness and Economic Diversification Project (P144933) worth SDR 8.7 million of World Bank financing) was approved by the Board on October 31, 2013, and became effective on January 9, 2014.** Its current closing date is April 30, 2019. The project has been restructured once, in March 2016,

after the Midterm Review. The purpose of the restructuring was to: (i) update the targets in the Results Framework to reflect Lesotho's changing economic and political circumstances; (ii) clarify the wording and descriptions of the indicators; and (iii) better capture the expected impact of project activities.

7. **The PDO is to contribute to the development of select non-textile sectors, resulting in increased private sector investment, firm growth, and job creation.** The project comprises three components, namely: 1) improving the business environment, 2) supporting economic diversification, and 3) project implementation support. Project components and sub-components are listed in Table 1, and a detailed account of status and results achieved by component is in Annex 2.

Table 1: PSCEDP-II Components and Subcomponents	
Number	Title
<i>Component 1</i>	<i>Improving the Business Environment</i>
1A	Business Regulation, industrial licensing and construction permit reform
1B	Improving access to finance (includes establishing a credit information bureau and a movable assets collateral registry, fostering the leasing industry, and supporting insolvency reform)
<i>Component 2</i>	<i>Supporting Economic Diversification</i>
2A	Supporting investment promotion and increasing linkages to the local economy
2B	Supporting the tourism sector (includes improving tourism statistics, implementing a star grading system, fostering the handicrafts sector, and building a tourism information center)
2C	Expanding commercial horticulture
2D	Lesotho Enterprise Assistance Program (LEAP)
<i>Component 3</i>	<i>Project Implementation Support</i>
3A	Project Management Unit (PMU)

8. **Since effectiveness, a “satisfactory” rating has been accorded to progress towards project development objectives, implementation progress, environmental compliance, and to each of the project’s individual components.** “Moderately Satisfactory” or higher has been accorded to financial management and procurement. With regards to progress on the project’s three PDO indicators, the number of investment projects facilitated (PDO Indicator #1) and the number of domestic enterprises registered and operational (#3), are on track for completion. The number of jobs in select non-textile sectors (#2) has declined with the deteriorating economy, with layoffs and closures in a few large factories that sell into South Africa.
9. **IDA credit disbursements stood at 68.38 percent of IDA funds as of February 23, 2017 and 35 percent of GoL funds as of February 2, 2017.** There is SDR 2.75 million of IDA funds left in the project. The project is being implemented by the Ministry of Trade and Industry through a Project Management Unit (PMU).
10. **The restructuring and AF is based on a request from the GoL, conveyed during consultations for the FY16-FY20 Country Partnership Framework (CPF) in April-May**

2016. As outlined in the CPF, limited job opportunities in the private sector have exacerbated poverty and inequality in Lesotho, and the country faces an unemployment rate of 28 percent and a youth unemployment rate of 43.2 percent. In light of the above, and given that Lesotho ranks relatively low on the Doing Business Index (place 100th in the latest 2017 rankings), promoting private sector job creation is central to the CPF and forms the basis of Pillar Three: *Enhanced Competitiveness and Diversification*. The restructuring and AF, with its continued focus on private sector growth through improvement of Lesotho's business environment and diversification of the economy through increased investor attraction, will remain aligned with these priorities along with the World Bank's twin goals of ending extreme poverty and promoting shared prosperity. The goals of the restructuring and AF are consistent also with the Government of Lesotho's National Strategic Development Plan (NSDP) 2013-2017, which among other things, seeks to create 50,000 private-sector jobs, mainly in agriculture, manufacturing, and tourism.

11. **The main lessons from the implementation of the 2010-2015 Country Assistance Strategy are that World Bank Group (WBG) interventions in Lesotho need to recognize low government capacity to absorb and implement new ideas and reform initiatives, and the program needs to adapt to changing circumstances more proactively and rapidly.** The restructuring and AF seeks therefore to meet the need for sustained support to address the Government's limited implementation capacity, to bridge the fiscal constraints facing the country and to sustain the successful implementation trajectory of the current project.
12. **The technical considerations for preparation of the restructuring and AF seek to respond to the needs identified in the Country Partnership Framework (FY16-FY20) (Report number 97823), "To break out of the poverty trap and eradicate extreme poverty, Lesotho must build a vibrant private sector and resilient middle class. Achieving this will require an export-led model driven by the growth of the private sector. This will require an improved business environment, diversification away from the textile sector, renewed enthusiasm for entrepreneurship, and stronger public-private sector dialogue."**
13. **The scope of the restructuring and AF has been shaped by two complementary projects in Lesotho:** the IFC Advisory Services' Lesotho Investment Climate Program (LICP 601519) and the African Development Bank's (AfDB) Lesotho Economic Diversification Support Project (P-LS-KF0-002 in the amount of US\$10M).
14. **The LICP (US\$800,000 secured, US\$1.6M pending fundraising) is a WBG-executed TF-supported engagement which aims to (i) improve the business environment by addressing key policy, legal, regulatory and administrative barriers; (ii) enhance cross-border trade and World Trade Organization (WTO) compliance; and, (iii) promote foreign direct investment (FDI) by removing barriers to entry, streamlining administrative procedures, enhancing the investment incentives regime, and ensuring investor retention.** The LICP will enable the WBG to deploy in-house subject matter expertise to actively oversee and provide handholding support to implement reforms. An example of in-built complementarity with the AF is the area of trade facilitation and logistics, where the LICP would provide technical assistance while the AF would primarily fund hard infrastructure investments.
15. **The AfDB project would be implemented by the PSCED-II PMU and its focus would be on (i) improving entrepreneurial skills, access to finance, and access to markets for firms in select sectors (tourism, textile and apparel, and leather and footwear); (ii) deepening mechanisms for public-private dialogue; and (iii) strengthening industrial policy planning, monitoring & evaluation, and capacity for product standards and certification.** Regarding

entrepreneurship, the WBG will explore ways to provide support to AfDB on the design and implementation of their activities, potentially through LICP.

Rationale for Additional Financing

16. **The main argument for restructuring and seeking additional financing is to support the GoL to deepen and sustain its efforts in diversifying the economy and improving the business environment.** Given current budgetary pressures across the Government and the uncertain economic and political environment, continued WBG support is critical.
17. **Improving the Business Environment (Component 1) in a meaningful way requires sustained efforts to ensure reforms are seen through to completion and entrenched in the day to day activities of businesses.** Progress has been made in the reform areas supported by this component, including the Business Licensing and Registration Bill, the Security Interest in Movable Property Bill, and the Insolvency Reform Bill. Although these bills are likely to be enacted by the end of the current project, it is unlikely that they will have been fully implemented by then. Full implementation will require widespread public education campaigns, capacity building in key implementing institutions, and continued efforts to ensure benefits for firms are realized. The sustained support envisioned under the restructuring and AF will mitigate the implementation risks related to fiscal and capacity constraints within the GoL.
18. **Systems that improve access to finance and streamline business processes (Component 1) require additional investment to expand their reach beyond the firms located in Maseru.** These include the construction permitting system, the electronic payments system at the One Stop Business Facilitation Center (OBFC), the collateral registry, and the credit bureau, which is already operational. To entrench their use across the country, investment in public access sites in major urban areas, combined with public education campaigns, and capacity building for key user groups is necessary. Equally, if not more importantly, the institutions in which these systems are embedded must themselves function efficiently. This is particularly important for the OBFC, where the lack of an adequate legal framework, appropriate technology and properly streamlined processes undermine day-to-day operations. The GoL has underlined the importance of OBFC's operational efficiency and has requested it be part of the restructuring and AF.
19. **Support from the World Bank Group for Lesotho's economic diversification agenda by strengthening the Lesotho National Development Corporation (LNDC) will enable this institution to increase its economic impact (Component 2).** Supporting the latter in a meaningful way requires well-functioning public and private institutions, high-level commitment, and strong linkages between large and small, foreign and local businesses. At the request of the Minister of Trade and Industry, an organizational review of the Lesotho National Development Corporation (LNDC) is being undertaken to enable it to better deliver on its mandates, which include property management, investment promotion, management of an equity portfolio, and promotion of access to finance for local businesses. By the end of the current project it is expected that recommendations for a new organizational structure will be made, that the Government will select amongst the options presented, and that implementation of the preferred organizational structure will begin. Given the importance of LNDC to the development and diversification of Lesotho's economy, continued support from a neutral, respected party such as the World Bank Group is critical. Support for LNDC and its post-reorganization structure is thus proposed in the restructuring and AF. Relatedly, and in order to create strong linkages between large and small as well as foreign and local businesses, a linkages program will soon be piloted

by the project. If proven successful, continued support under the restructuring and AF would be warranted.

20. **While most activities relating to the tourism and handicrafts sectors (Subcomponent 2B) are expected to be completed and funded as planned, the construction of the Tourism Information Center requires additional time and resources.** As per the PSCED-II PAD, most of the construction for the Center was to be funded by the GoL, but given severe current and future fiscal constraints, this is not realistic. To ensure that this initiative can become fully operational, it was agreed the restructuring and AF would support the construction of the Center.
21. **The project has sought to prove that commercial production of deciduous fruit is economically viable and sustainable, and to develop its value chain so that fruits can be supplied to international markets (Component 2C).** Under the project, production was scaled up – 41.5 hectares are under cultivation and GLOBALG.A.P. certified – and pilot sales of fresh produce to domestic and foreign retailers were successfully conducted. Although significant progress is expected by the end of the project, the severe drought during the 2015-2016 growing season was a setback. Over half of the seedlings planted died, and the size and volumes of fruit harvested were small. Support to this subcomponent under the restructuring and AF is merited to cover the financing gap created by the drought and to increase efforts to ensure the sector's continued development, financial viability, attractiveness to investors, and overall sustainability.
22. **The Lesotho Enterprise Assistance Program (LEAP - Subcomponent 2D), which provides matching grants to firms and associations for business development services, is widely commended despite relatively low disbursement.** While the IDA credit funds program administration, GoL counterpart funds cover the grants themselves. Feedback from the private sector primarily reflects requests to include equipment and machinery in LEAP. This is worthy of support under the restructuring and AF given the benefits of combining technical assistance with efforts to upgrade technology. IDA would primarily cover program administration while GoL would fund the grant. The GoL contribution need not be increased as significant funds remain from the original amount set aside. It is worth keeping LEAP management inside the PMU to ensure continued support to firms is merit-based and objective.
23. **Support for trade facilitation and logistics is proposed as a new subcomponent under the restructuring and AF (Component 1.3).** Large and small companies alike complain about Lesotho's border posts, which are clogged by long lines of trucks and a lack of automation and integration among border agencies. Incorporating this component into the restructuring and AF makes sense for three reasons: (i) addressing trade facilitation and logistics issues would significantly improve the business environment; (ii) the IDA credit would primarily fund hard investments, while technical assistance would be provided by a complementary WBG-executed advisory program (LICP); and (iii) the beneficiary agency, the Lesotho Revenue Authority, is a strong institution committed to this agenda and capable of driving it forward. Given the GoL's fiscal constraints, trade logistics and facilitation issues would likely not be addressed without the support of the IDA credit.
24. **The restructuring and AF would have no impact on fiduciary, safeguards or implementation arrangements currently in place for the project.**

III. Proposed Changes

Summary of Proposed Changes	
The PDO and associated indicators are being revised to more closely reflect project activities. The closing date of the original credit is being extended such that funds under the original credit and the new credit amount can be co-mingled without regard for the closing date of one or the other. The disbursement estimates are being updated to incorporate the funds from the AF. Most components are being scaled up, and a subcomponent on trade facilitation and logistics is being added. Some risks are being revised to reflect new circumstances regarding Institutional Capacity for Implementation and Sustainability.	
Change in Implementing Agency	Yes [<input type="checkbox"/>] No [<input checked="" type="checkbox"/>]
Change in Project's Development Objectives	Yes [<input checked="" type="checkbox"/>] No [<input type="checkbox"/>]
Change in Results Framework	Yes [<input checked="" type="checkbox"/>] No [<input type="checkbox"/>]
Change in Safeguard Policies Triggered	Yes [<input type="checkbox"/>] No [<input checked="" type="checkbox"/>]
Change of EA category	Yes [<input type="checkbox"/>] No [<input checked="" type="checkbox"/>]
Other Changes to Safeguards	Yes [<input type="checkbox"/>] No [<input checked="" type="checkbox"/>]
Change in Legal Covenants	Yes [<input type="checkbox"/>] No [<input checked="" type="checkbox"/>]
Change in Loan Closing Date(s)	Yes [<input checked="" type="checkbox"/>] No [<input type="checkbox"/>]
Cancellations Proposed	Yes [<input type="checkbox"/>] No [<input checked="" type="checkbox"/>]
Change in Disbursement Arrangements	Yes [<input type="checkbox"/>] No [<input checked="" type="checkbox"/>]
Reallocation between Disbursement Categories	Yes [<input type="checkbox"/>] No [<input checked="" type="checkbox"/>]
Change in Disbursement Estimates	Yes [<input checked="" type="checkbox"/>] No [<input type="checkbox"/>]
Change to Components and Cost	Yes [<input checked="" type="checkbox"/>] No [<input type="checkbox"/>]
Change in Institutional Arrangements	Yes [<input type="checkbox"/>] No [<input checked="" type="checkbox"/>]
Change in Financial Management	Yes [<input type="checkbox"/>] No [<input checked="" type="checkbox"/>]
Change in Procurement	Yes [<input type="checkbox"/>] No [<input checked="" type="checkbox"/>]
Change in Implementation Schedule	Yes [<input checked="" type="checkbox"/>] No [<input type="checkbox"/>]
Other Change(s)	Yes [<input type="checkbox"/>] No [<input checked="" type="checkbox"/>]
Development Objective/Results	
Project's Development Objectives	
Original PDO	
The development objective of the project is to contribute to the development of selected non-textile sectors resulting in increased private sector investment, firm growth and job creation.	
Change in Project's Development Objectives	

Explanation:

The PDO is being revised to more closely reflect project activities, and less closely track the macroeconomic environment, which has changed significantly since the project was designed. The new PDO is more directly linked to specific project activities, and based on a stronger theory of change.

The new PDO would be “to improve the business environment for firms, strengthen select government institutions, and further diversify the economy.” It would have three parts described below and depicted graphically in Annex 1:

The first part on improving the business environment for firms would be supported by the activities proposed in subcomponents 1A, 1B, 1C, 1D. The latter support the drafting of laws and regulations and the improvement of systems and processes (including automation where possible) across the areas of business registration, licensing, inspection, construction permits, trade logistics, and access to finance (covering collateral registry, leasing, credit bureau, and insolvency). Efforts in these areas would directly contribute to high-impact reforms in five of the Doing Business indicators: starting a business, obtaining construction permits, getting credit, resolving insolvency, and trading across borders. Activities in subcomponents 1A, 1B, 1D, and 2A would also help improve the business environment for firms through efforts to build capacity for the provision of government to business services at the One Stop Business Facilitation Center, the Maseru City Council (which manages the construction permits system), customs, and LNDC.

The second part of the PDO on strengthening select government institutions would be supported by the activities in subcomponents 1A, 1B, 1C, 1D, and 2A. As previously mentioned, the latter seek to build capacity at the One Stop Business Facilitation Center, the Maseru City Council (which manages the construction permits system), the Office of the Parliamentary Counsel, customs, and LNDC, among others. Progress towards these efforts would be measured through client satisfaction with selected government-to-business services, using a survey instrument. Activities in subcomponents 1A, 1B, 1C, 1D would also help strengthen select government institutions through efforts to draft laws and regulations and improve systems and processes (including automation where possible) in the areas of business registration, licensing, inspection, construction permits, trade logistics, and access to finance.

The third part of the PDO on increasing economic diversification would be supported by the activities under Component 2. The latter seek to (i) improve investment promotion, retention, and aftercare (by supporting LNDC – Subcomponent 2A); (ii) strengthen specific sectors (tourism, handicrafts and horticulture – Subcomponent 2B and 2C); and (iii) help develop stronger, more robust firms (by linking large and small, foreign and local businesses, and providing support for business development services and equipment through the Lesotho Enterprise Assistance Program – Subcomponent 2A and 2D). Ideally this work will help diversify Lesotho’s economy, which is focused on a narrow subset of products, exported to a single market. Progress towards economic diversification would be measured by the number of jobs in the horticulture and handicraft sectors.

Proposed New PDO - Additional Financing (AF)

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

Change in Results Framework

Explanation:

The Results Framework requires revisions in order to better capture the expected impact of project activities. The proposed changes are detailed below. Baseline and targets have been established for all

indicators but PDO Indicator # 2, “Client satisfaction with government-to-business services.” A survey that is to be conducted by August 2017 will serve to establish these targets.

PDO-LEVEL INDICATORS:

1. “Implemented reforms supporting private sector development.”

A new indicator, “implemented reforms supporting private sector development,” seeks to measure efforts and likely impact on private sector development, and directly reflects (and depends on) project activities. Only reforms in reform topic areas reported on in the Doing Business report will be considered, and reforms are expected to particularly impact five Doing Business indicators: starting a business, obtaining construction permits, getting credit, resolving insolvency, and trading across borders.

2. “Client satisfaction with selected government-to-business services.”

A new indicator, “client satisfaction with selected government-to-businesses services,” is intended to capture improvements in constituent satisfaction with key government-to-business services, which include the One Stop Business Facilitation Center (OBFC) and the Lesotho Revenue Authority (LRA).

3. “Jobs in the horticulture and handicrafts sectors.”

This indicator would change from, “jobs in selected non-textile sectors” to “jobs in the horticulture and handicraft sectors.” The revised indicator reflects the project’s significant investment in horticulture and handicrafts. Jobs created will include people directly employed by the project (not consultants, not PMU, but everybody else), and jobs in new foreign and domestic horticulture and handicraft firms. Jobs in tourism will not be included, given the outsized influence the macroeconomic and political environment have on the number of visitors to the country.

ADDITIONAL CORE INDICATORS

1. “Direct project beneficiaries.”

The methodology underpinning the sub-indicator, “of which female,” will be changed to more accurately assess the percentage of female project beneficiaries. Given that the Credit Bureau has had difficulty disaggregating loan records by gender (and credit bureau beneficiaries constitute ~ 85 percent of total project beneficiaries), the PMU will use the percentage of commercial bank loans obtained by women (~20 percent) as a proxy for the percentage of female credit bureau beneficiaries.

INTERMEDIATE INDICATORS (COMPONENT 1)

1. “Agencies connected to the Trade Automation system.”

This is a new intermediate indicator intended to capture progress on the trade facilitation & logistics activities. Data will be collected from the LRA.

INTERMEDIATE INDICATORS (COMPONENT 2)

1. “Amount of funds disbursed to businesses through LEAP.”

This indicator would change from, “increase in sales of LEAP supported firms” to “amount of funds

disbursed to businesses through LEAP.” Given ongoing concerns regarding a low disbursement rate and a relatively modest grant size per application (US\$1,035), the revised indicator will allow for more attentive monitoring of disbursements. Moreover, the new indicator is more closely tied to actual project activities, given that sales of LEAP-supported firms are affected by a wide range of macroeconomic and firm-specific factors beyond the project’s control.

Risk									
Risk Category						Rating (H, S, M, L)			
1. Political and Governance						High			
2. Macroeconomic						High			
3. Sector Strategies and Policies						Low			
4. Technical Design of Project or Program						Low			
5. Institutional Capacity for Implementation and Sustainability						Moderate			
6. Fiduciary						Low			
7. Environment and Social						Low			
8. Stakeholders						Moderate			
9. Other						-			
OVERALL						Substantial			
Finance									
Loan Closing Date - Additional Financing (Second Private Sector Competitiveness and Economic Diversification - AF - P1609 64)									
Source of Funds					Proposed Additional Financing Loan Closing Date				
International Development Association (IDA)					30-Jun-2022				
Loan Closing Date(s) - Parent (Second Private Sector Competitiveness and Economic Diversification Project - P144933)									
Explanation:									
The closing date of the original credit is being extended through 2022 to match the closing date of the AF credit. While the original credit will continue to be funded through the current Designated Account, a new Designated Account would be opened for the AF.									
Ln/Cr/TF	Status	Original Closing Date	Current Closing Date	Proposed Closing Date	Previous Closing Date(s)				
IDA-53090	Effective	30-Apr-2019	30-Apr-2019	30-Jun-2022					
Change in Disbursement Estimates (including all sources of Financing)									
Explanation:									
The expected disbursements estimates need to be adjusted to take into account the additional financing being sought.									
Expected Disbursements – Additional Financing (in US\$ Million) (including all Sources of Financing)									
Fiscal Year	2014	2015	2016	2017	2018	2019	2020	2021	2022

Annual	0.00	0.00	0.00	0.00	1.61	1.61	3.40	3.40	3.40
Cumulative	0.00	0.00	0.00	0.00	1.61	3.22	6.62	10.02	13.42
Allocations - Additional Financing (Second Private Sector Competitiveness and Economic Diversification - AF - P160964)									
Source of Fund	Currency	Category of Expenditure	Allocation		Disbursement %(Type Total)				
			Proposed		Proposed				
IDA	US\$	(1) Goods, works, non-consulting services, and consultants' services, Training and Operating Costs for the Project (other than Part 2(D) of the Project).	12,900,000		100%				
IDA	US\$	(2) LEAP Grants for goods, consultants' services, and training under Part 2(D) of the Project.	500,000		100%				
		Total:	13,400,000						
Components									
Change to Components and Cost									
Explanation:									
<p>The restructuring and 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 restructuring and 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.</p> <p>Component 1:</p> <p>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. <i>Subcomponent 1A</i> 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.</p> <p>In <i>Subcomponent 1A</i>, support would continue under the restructuring and 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 Center (OBFC). The restructuring and AF</p>									

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 restructuring and AF would additionally support the implementation of an e-payment system, and system support and maintenance.

In *Subcomponent 1C* (formerly 1B), support would continue under the restructuring and AF for access to finance activities. With regards to the establishment of the credit information bureau (CIB), the restructuring and 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 restructuring and 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 restructuring and AF would support technical assistance on financial leasing for credit providers.

With regards to insolvency reform, the restructuring and 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 information, communication, and technology (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 restructuring and 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\$1.3 million, Subcomponent 1B (formerly part of 1A) would be US\$0.03 million, Subcomponent 1C (formerly 1B) would be US\$1.6 million, and Subcomponent 1D would be US\$2.2 million.

Component 2:

This component will continue to support economic diversification activities.

In *Subcomponent 2A*, support would continue for investment promotion and fostering increased linkages to the local economy under the restructuring and AF. The latter 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 restructuring and AF, support would be provided for: (i) the construction and management of the Tourism and 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 restructuring and 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, wholesale/retail sales requirements, 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 international 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 the development of an investment promotion program including specific investment opportunities and potential incentives, roles and responsibilities of investors and the GoL, and a detailed profile of the comparative advantage available in the deciduous fruit sector in Lesotho. This would include support for road shows in selected target markets, including South Africa and Kenya, among others.

(vii) Support for post-harvest trade logistics, including a feasibility study for a packhouse, among others. LICP is embarking on an in-depth agricultural trade 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 restructuring and 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 restructuring and 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\$1.3 million, Subcomponent 2B would be US\$1.6 million, Subcomponent 2C would be US\$2.3 million, and Subcomponent 2D would be US\$0.5 million.

Component 3:

This component will continue supporting the costs of the PMU, including the Monitoring and Evaluation system, and the management and implementation of the Environment and Social Management Framework and Plan (ESMF/ESMP). To accommodate the larger scope of the PSCED-II Project under the restructuring and 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.







To summarize, the restructuring and AF is motivated by a variety of factors, including (i) scale-ups of existing activities; (ii) the demonstrated need for new activities, many of which are natural continuations of existing activities supported by the project; (iii) financing gaps created by GoL budgetary pressures; and (iv) cost overruns in certain activities. The table below provides an activity-level view of key motivations for Additional Financing support:

Table 2: Additional Financing Rationale by Activity

Component	Subcomponent	Activity	AF Rationale
1: Improving the business environment	1A: Business Registration, Licensing, and Inspection Reform	Business Registration and Licensing Reform	Scale-up
		Business Inspections Reform	New activity

	1B: Construction Permit Reform	Construction Permit Reform	Scale-up
	1C: Improving Access to Finance	Secured Transactions and Collateral Registry	Scale-up
		Financial Leasing	Scale-up
		Credit Bureau	Scale-up
		Insolvency Reform	Scale-up
		Strengthening of the Office of the Parliamentary Counsel	New activity
	1D: Trade Facilitation and Logistics	Improve, upgrade, and extend customs	New activity
		Development of an electronic single window	New activity
2: Supporting Economic Diversification	2A: Supporting Investment Promotion and Increasing Linkages to the Local Economy	Reorganization of LNDC	Scale-up
		Increasing Linkages to the Domestic Economy	Scale-up
	2B: Tourism	Build tourism & handicraft information center	Financing gap
		Improving Lesotho's crafts sector competitiveness	Scale-up
	2C: Expanding Commercial Horticulture	Support to existing commercial orchards	Cost overrun + scale-up
		Establish a training and research center	New activity
		Standards and certification	New activity
		Sector financing	New activity
		Investment attraction	New activity
		Alignment between country irrigation plans and horticulture suitability maps	New activity
	2D: Lesotho Enterprise Assistance Program	Matching Grant Assistance	Cost overrun + financing gap
		Administration of LEAP	Cost overrun + financing gap
3: Project Implementation Support	3: Project Implementation Support	Project management unit	Scale-up

Two exogenous shocks negatively affecting the project's finances merit particular discussion. The first is the depreciation of the SDR: since Effectiveness on January 9th, 2014, the SDR has fallen ~12.3 percent against the U.S. Dollar – a significant decline that has added some level of cost pressure to all activities relative to initial estimates. The second is the severe drought of the 2015-2016 growing season, affecting primarily Subcomponent 2C: Expanding Commercial Horticulture. Though the replacement of lost seedlings was relatively inexpensive, the resulting delay in fruit production has pushed out the initiative's breakeven date by at least a year – significantly adding to the total cost of the operation.

Current Component Name	Proposed Component Name	Current Cost (US\$M)	Proposed Cost (US\$M)	Action						
Improving the Business Environment	Improving the Business Environment	3.56	5.13	Revised						
Supporting Economic Diversification	Supporting Economic Diversification	8.95	5.69	Revised						
Project Implementation	Project Implementation	2.04	2.58	Revised						
	Total:	14.55	13.40							
Other Change(s)										
Change in Procurement										
Explanation: There will be no changes in procurement. An exception from the New Procurement Framework has been granted.										
Change in Implementation Schedule										
Explanation: The restructuring and AF includes a request to extend the closing date of the project to June 30 th , 2022.										
Action Plan:										
Component	Subcomponent	Activity	Years of Implementation (20__)							
			14	15	16	17	18	19	20	21
1: Improving the business environment	1A: Business Registration, Licensing, and Inspection Reform	Business Registration and Licensing Reform								
		Business Inspections Reform								
	1B: Construction Permit Reform	Construction Permit Reform								
	1C: Improving Access to Finance	Secured Transactions and Collateral Registry								
		Financial Leasing								
		Credit Bureau								

		Insolvency Reform	→	
		Strengthening of the Office of the Parliamentary Counsel		→
	1D: Trade Facilitation and Logistics	Improve, upgrade, and extend customs		→
		Development of an electronic single window		→
2: Supporting Economic Diversification	2A: Supporting Investment Promotion and Increasing Linkages to the Local Economy	Reorganization of LNDC	→	
		Increasing Linkages to the Domestic Economy	→	
	2B: Tourism	Build tourism & handicraft information center		→
		Improving Lesotho's crafts sector competitiveness	→	
	2C: Expanding Commercial Horticulture	Support to existing commercial orchards	→	
		Establish a training and research center		→
		Standards and certification		→
		Sector financing		→
		Investment attraction		→
		Alignment between country irrigation plans and horticulture suitability maps		→
	2D: Lesotho Enterprise Assistance Program	Matching Grant Assistance	→	
		Administration of LEAP	→	
3: Project Implementation Support	3: Project Implementation Support	Project management unit	→	

Appraisal Summary
Economic and Financial Analysis
<p>Explanation:</p> <p>Since the restructuring and AF is scaling up most of the activities under the original project, the same economic rationale applies to the restructuring and AF. The main change to the economic and financial analysis of the original PAD is the addition of the trade facilitation and logistics activities.</p> <p>Implementation of trade facilitation and logistics reform will yield significant payoff in terms of a more effective, efficient, transparent and accountable border administration. This will facilitate trade and increase compliance, while improving Lesotho's business environment and competitiveness. Some benefits, such as the reductions in costs to trade as a result of faster cargo clearance, are measurable, while others such as the economic impact of improved transparency are difficult to quantify. While increased revenue is not a specific objective of the proposed activities, experience suggests that improved border clearance procedures and practices, along with more effective use of automation (and other reforms like risk management) could contribute to revenue increases.</p> <p>Concretely, the project is expected to benefit Lesotho in three ways: (i) lower administrative costs for customs and border services; (ii) reduced compliance costs for users of the customs services; and (iii) shorter clearance times. The statistical basis with which to quantify the economic benefits of these for Lesotho is not well developed. During implementation, the team will seek to further specify the expected time frame for results, and gather the data needed to conduct a preliminary quantitative economic analysis to complement the evidence from similar investments.</p> <p>Importantly, given the recent economic downturn in Lesotho and South Africa, there are significant downside risks to the project's overall economic and financial internal rates of return as initially calculated in the PAD. In addition, the break-even point for the commercial horticulture subcomponent has been delayed by the drought, thus decreasing the internal rate of return for this activity.</p>
Technical Analysis
<p>Explanation:</p> <p>Despite improvements this year, Lesotho still ranks low on key Doing Business Indicators such as dealing with construction permits (#171 out of 190), getting electricity (#150), resolving insolvency (#121), and starting a business (#117). Difficulties in these areas constrain firm creation and expansion in the country. Interventions under the restructuring and AF therefore focus on a combination of activities aimed at improving the business environment (streamlining business registration, licensing and inspection; ensuring OBFC efficiently delivers services to businesses, including e-payments; and automating the construction permit system); increasing access to finance (broadening the coverage of the credit bureau; developing the collateral registry; reforming the insolvency regime; and ensuring the ensuing systems are used widely); improving trade logistics (ensuring customs is always up and running and connected to other government agencies), and supporting economic diversification by attracting local and foreign investors (reorganizing LNDC; fostering linkages among firms; developing commercial horticulture; and providing firms subsidized access to the knowhow and tools with which to grow). Ultimately, these efforts will lead to increased private sector investment, firm growth, and job creation. Given current budgetary pressures across the Government and the uncertain economic and political environment in Lesotho, support from the World Bank Group on these fronts is critical.</p> <p>Support for trade facilitation and logistics issues is a new activity proposed under the restructuring and AF. According to an overview of the World Bank's trade logistics and facilitation portfolio, "Trade</p>

Facilitation is pivotal to development. It enhances countries' competitiveness by allowing them to trade goods and services on a timely basis with lower transaction costs." Although Lesotho ranks well in the Doing Business indicator on trading across borders (#39 out of 190), its trade related procedures, processes, and practices, along with its interagency coordination require improvement to meet international obligations (i.e. WTO Trade Facilitation Agreement (TFA) alignment) and support the competitiveness agenda.

Support for trade facilitation and logistics issues was included under the restructuring and AF following an assessment of the implementation levels of the customs processing system (ASYCUDAWorld), which sought to identify gaps and challenges that could be supported through the LICP technical assistance project and potentially through the restructuring and AF. Two issues were flagged for the latter:

(i) The Customs IT system (ASYCUDAWorld) as operated today in Lesotho is not updated, and several key modules have not been implemented. In addition, it has no back-up server and no disaster recovery site. Headquarters, where the main servers are located, has no stand-by generator. Lesotho customs does not charge a computer fee for declarations, and as such, the LRA has no budget to upgrade and maintain its computer system.

(ii) Under the WTO TFA to which Lesotho is a signatory, members are encouraged to develop and maintain an Electronic Single Window (ESW) for traders to submit applications to various other government agencies, leveraging information technology. Initial discussions on implementing a Single Window have taken place in Lesotho, but concrete plans have not been developed. In the OBFC, only one or two of the services provided are relevant to import and export trade flows, and none of its various services are connected to ASYCUDAWorld. For firms trading in Lesotho, the implication is that in order to get all the documentation in place to import and export, they have to submit trade documentation separately to various agencies at significant cost and expense. As such, Lesotho should conduct a preparatory exercise for the Electronic Single Window and design a system based on the requirements identified through this exercise.

Social Analysis

Explanation:

No changes to the social sections of the appraisal summary of the parent project. The Tourism Information and 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. The ESMP was disclosed by the Government on December 22, 2016.

In addition, and as part of the revision of the results framework, the team has added an indicator that will report on citizen engagement.

Environmental Analysis

Explanation:

Environmental safeguard arrangements will follow the arrangements that are already in place for the parent project. Activities to be carried out under the Additional Financing (establishment of nurseries and a research center) are derived from continuity of the current project, and therefore the restructuring and AF will not trigger additional safeguards policy.

The restructuring and AF project will maintain the Category B classification for environmental and social risks and will not generate environment and social impacts that were not covered in the current project. Potential minor to moderate adverse impacts are being managed through GLOBALG.A.P. certification for the horticulture sub-component, and through the provisions of the Environmental and Social Management Framework (ESMF) prepared for the horticulture sub-component. The ESMF was prepared in anticipation that the project will scale up horticulture production in Lesotho, and therefore was designed for the GoL 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. The ESMF was disclosed by the Government on December 22, 2016.

Risk

Explanation:

The overall risk assessment of the original project and the restructuring and AF remains Substantial. The political and governance risk as well as the macroeconomic risk for the project remain High. The government coalition continues to be under pressure internally and externally to take decisive political action, rendering the political environment unstable and volatile. The Principal Secretary in the Ministry of Trade & Industry has changed four times in the last seventeen months. Given the Principal Secretary is the public official formally in charge of the project, frequent change hinders continuity. This risk is mitigated by a strong relationship with the Minister, a strong PMU, and briefings by the project and the World Bank to each new Principal Secretary. On the macroeconomic side, growth is expected to hover around 2.5 percent per year, attributable to the unstable political situation, the decline of SACU revenues, the recent disinvestments in manufacturing, the severe drought of the 2015-2016 growing season, and the slowdown of growth in South Africa. To mitigate this, it is proposed that the PDO and associated indicators be modified to depend less on the strength of Lesotho's economy and more on the results directly attributable to project activities.

The risk associated with the Institutional Capacity for Implementation and Sustainability would remain Moderate under the restructuring and AF. Despite very successful implementation to date, the risk continues to be moderate due to (i) the increased scope of the AF project, (ii) the added complication of the AfDB project, which is to be implemented through the same PMU; and (iii) the high reliance on the competency, hard work, experience, and political neutrality of the Project Manager. To mitigate this, it is proposed that PMU staff be provided with regular leadership and management training.

V. World Bank Grievance Redress

Communities and individuals who believe that they are adversely affected by a World Bank (WB) supported project may submit complaints to existing project-level grievance redress mechanisms or the WB's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address project-related concerns. Project affected communities and individuals may submit their complaint to the WB's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of WB non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate Grievance Redress Service (GRS), please visit <http://www.worldbank.org/GRS>. For information on how to submit complaints to the World Bank Inspection Panel, please visit www.inspectionpanel.org.

Results and Monitoring Framework

LESOTHO: SECOND PRIVATE SECTOR COMPETITIVENESS AND ECONOMIC DIVERSIFICATION PROJECT

Project Development Objective (PDO): To improve the business environment for firms, strengthen select government institutions, and further diversify the economy.													
PDO Level Results Indicators*	Core	Unit of Measure	Baseline	Cumulative Values (thru Dec.31)									
				Actual Targeted				Targeted					
				YR 1 (2014)	YR 2 (2015)	YR 2.5 (June 2016)	YR 3 (2016)	YR 4 (2017)	YR 5 (2018)	YR 6 (2019)	YR 7 (2020)	YR 8 (2021)	YR 9 (2022)*
New Indicator One (previous indicator dropped): Implemented reforms supporting private sector development (dropped indicator was “non-textile investment projects facilitated over the 5-year project duration”)	<input checked="" type="checkbox"/>	Number	0	0	1		2			3		5	N/A
New Indicator Two (previous indicator dropped): Client satisfaction with selected government-to-business services (dropped indicator was “increase in domestic enterprises registered and operational in non-textile sectors”)	<input type="checkbox"/>	Percentage	TBD										TBD
Replacement for Indicator Three: Jobs in the horticulture and handicraft sectors (replacement for, “jobs in selected non-textile sectors”)	<input type="checkbox"/>	Number	1160				1160			1203			1315
Additional Core Indicator One: Direct project beneficiaries	<input checked="" type="checkbox"/>	Number	0	5,105	119,809	141,595	110,189 [†]		145,000			180,000	220,000
<i>Of which female</i>	<input checked="" type="checkbox"/>	Percentage	0	20%	22%	21%	24%						22%

* Through June 30th, 2022, the project’s expected closing date.

[†] Decrease in 2016 value is due to an improvement of methodology; project beneficiaries from the credit bureau now reflects the number of people covered, rather than number of loans/accounts.

PDO Level Results Indicators*	Core	Unit of Measure	Baseline	Cumulative Values (thru Dec.31)									
				Actual Targeted				Targeted					
				YR 1 (2014)	YR 2 (2015)	YR 2.5 (June 2016)	YR 3 (2016)	YR 4 (2017)	YR 5 (2018)	YR 6 (2019)	YR 7 (2020)	YR 8 (2021)	YR 9 (2022)†
Intermediate Result Indicator One: Days required to obtain a construction permit from the Maseru City Council	<input type="checkbox"/>	Number	106	106	106	106	106		60			30	N/A
Intermediate Result Indicator Two: Adult population covered by the Credit Bureau	<input type="checkbox"/>	Percentage	0%	0%	1.4%	1.4%	7.1%		9%		11%	13%	N/A
Intermediate Result Indicator Three: Agencies connected to the Trade Automation system	<input type="checkbox"/>	Number	0	0	0	0	0		0		3		4
Intermediate Result Indicator Four: Registered lodging operations under the star grading system	<input type="checkbox"/>	Number	7	12	14	14	14		20		30		40
Intermediate Result Indicator Five: Tourism information center established and operational	<input type="checkbox"/>	Yes/No	No	No	No	No	No	No	No	No	No	Yes	Yes
Intermediate Result Indicator Six: Revenue generated by commercial horticulture farms (maloti)	<input type="checkbox"/>	Maloti	38,606	122,935	79,264	-	-§	1,000,000	1,520,659	1,819,533	1,938,605	1,948,748	N/A
Replacement for Intermediate Result Indicator Seven: Amount of funds disbursed to businesses through LEAP (replacement for, “increase in sales of LEAP supported firms”)	<input type="checkbox"/>	Maloti	56,422**	571,190	420,751	-	745,230	\	1,326,485	1,326,485	1,326,485	1,326,485	663,242

† Through June 30th, 2022, the project’s expected closing date.

§ Data not yet available given 2016-2017 growing season is still ongoing.

** Represents support provided by the GoL in the window between PSCED-I closing (June 30, 2013) and PSCED-II effectiveness (January 9, 2014).

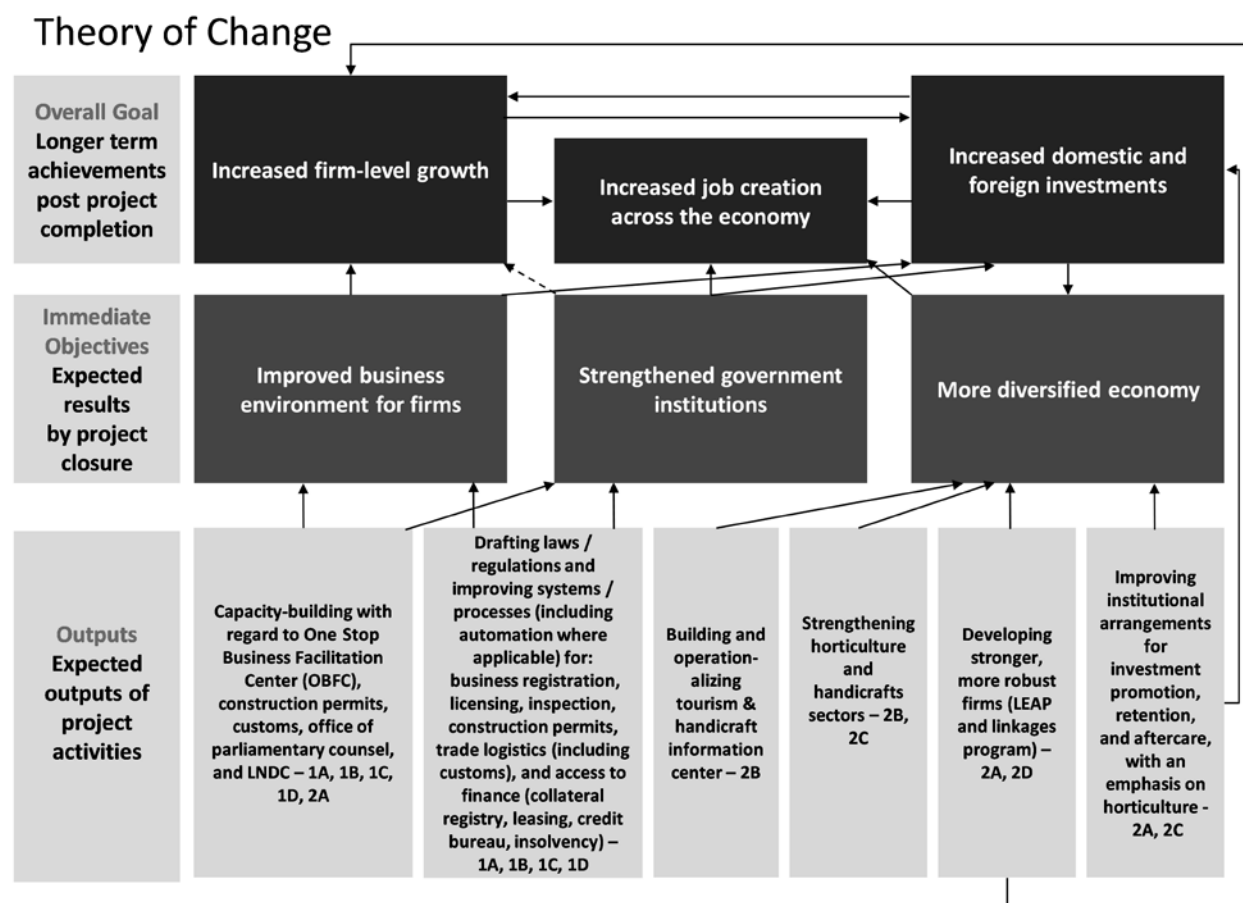
Indicators Description

Project Development Objective (PDO): To improve the business environment for firms, strengthen select government institutions, and further diversify the economy.						
PDO Level Results Indicators*	<u>Core</u>	Unit of Measure	Frequency	Data Source/ Methodology	Responsibility for Data Collection	Description (indicator definition, etc.)
New Indicator One (previous indicator dropped): Implemented reforms supporting private sector development (dropped indicator was “non-textile investment projects facilitated over the 5-year project duration”)	<input checked="" type="checkbox"/>	Number	Annually	Doing Business / PMU	PMU	Only reforms in the reform topic areas that are reported on in the Doing Business report will be counted; these reforms will be validated against the Doing Business annual report. Reforms are expected to particularly impact five Doing Business indicators: starting a business, obtaining construction permits, getting credit, resolving insolvency, and trading across borders.
New Indicator Two (previous indicator dropped): Client satisfaction with selected government-to-business services (dropped indicator was “increase in domestic enterprises registered and operational in non-textile sectors”)	<input type="checkbox"/>	Percentage	Annually	PMU + other implementing agencies	PMU	Selected government-to-business services include the One Stop Business Facilitation Center (OBFC) and the Lesotho Revenue Authority (LRA).
Replacement for Indicator Three: Jobs in the horticulture and handicraft sectors (replacement for, “jobs in selected non-textile sectors”)	<input type="checkbox"/>	Number	Annually	District officers	PMU	For the purposes of this indicator, “horticulture” encompasses only the production of deciduous fruits. Jobs will be defined as full-time, part time and seasonal workers. This will include people directly employed by the project (not consultants, not PMU, but everybody else), jobs created in new foreign and domestic horticulture and handicraft firms, and jobs created under the horticulture and handicraft activities.
Additional Core Indicator One: Direct project beneficiaries	<input checked="" type="checkbox"/>	Number	Annually	OBFC, CBL, LNDC, MTEC, Project M&E.	PMU	This will include people directly employed by the project (not consultants, not PMU, but everybody else), all the enterprises that benefit from streamlined business regulations, SMEs (manager and firm employees) that are able to access loans with movable collateral, individuals that are covered under the credit bureau, artisans, hotel establishments benefiting from the tourism sub-component and the small holder farmers benefiting under commercial horticulture, and beneficiaries of LEAP, the OBFC, public access sites for government-to-business services, and activities under the project’s new trade facilitation & logistics subcomponent. Given the number of complementary project activities, beneficiaries may be counted more than once.
<i>Of which female</i>	<input checked="" type="checkbox"/>	Percentage				This measures the total percentage of project beneficiaries who are female. To determine female beneficiaries of the Credit Bureau portion of the project, a proxy of 20% of individuals covered by the Credit Bureau will be used, which is the proportion of commercial bank loans that are obtained by women.

PDO Level Results Indicators*	Core	Unit of Measure	Frequency	Data Source/ Methodology	Responsibility for Data Collection	Description (indicator definition, etc.)
Intermediate Result Indicator One: Days required to obtain a construction permit from the Maseru City Council	<input type="checkbox"/>	Number	Twice during project implementation	Doing Business Report, MCC, Project M&E	PMU	This indicator includes all procedures in the Doing Business “dealing with construction permits” methodology for which the Maseru City Council (MCC) is listed as the relevant agency: (i) submit building plans and diagrams and obtain approval; (ii) request and obtain building permit from the MCC; (iii) request and receive final inspection from Maseru City Council; and (iv) obtain certificate of use for warehouse from the MCC.
Intermediate Result Indicator Two: Adult population covered by the Credit Bureau	<input type="checkbox"/>	Percentage	Twice during project implementation	Doing Business Report, CBL, Project M&E	PMU	As per Doing Business methodology.
Intermediate Result Indicator Three: Agencies connected to the Trade Automation system	<input type="checkbox"/>	Number	Annually	LRA	LRA/PMU	Connectivity is defined as the agency being connected to the Customs computer system so as to enable it to meet its trade transaction-related objective and functionality.
Intermediate Result Indicator Four: Registered lodging operations under the star grading system	<input type="checkbox"/>	Number	Twice during project implementation	LTDC, LHAA, Project M&E	PMU	This indicator measures the fact that registered lodging operations will be adhering to the Star Grading System of accommodations that will be rolled out during the project.
Intermediate Result Indicator Five: Tourism information center established and operational	<input type="checkbox"/>	Yes/No	Post Yr3 of Project Implementation	MTEC, PMU	PMU	
Intermediate Result Indicator Six: Revenue generated by commercial horticulture farms	<input type="checkbox"/>	Maloti	Annually	Field reporting and data collection system	PMU (Horticulture Manager) w/Farm Management Company	This indicator is measured in nominal terms and not real terms. It covers specifically the area under the Likhothola Fruit Farm Company. Baseline revenue is derived from the sale of maize from the equivalent total area. Year 1 of the harvest refers to the 2014-2015 season, Year 2 to 2015-2016, Year 3 to 2016-2017, etc. Year 8 refers to 2021-2022, which will be the last season reported.
Replacement for Intermediate Result Indicator Seven: Amount of funds disbursed to businesses through LEAP (replacement for, “increase in sales of LEAP supported firms”)	<input type="checkbox"/>	Maloti	Annually	LEAP Unit	PMU	This indicator is measured by the actual amount of funds disbursed in Maloti to LEAP beneficiaries in a given year.

Annex 1: Theory of Change

1. The new PDO would be “to improve the business environment for firms, strengthen select government institutions, and further diversify the economy.” It would have three parts, which can be seen graphically in the figure below:



2. The first part on improving the business environment for firms would be supported by the activities proposed in subcomponents 1A, 1B, 1C, 1D. The latter support the drafting of laws and regulations and the improvement of systems and processes (including automation where possible) across the areas of business registration, licensing, inspection, construction permits, trade logistics, and access to finance (covering collateral registry, leasing, credit bureau, and insolvency). Efforts in these areas would directly contribute to high-impact reforms in five of the Doing Business indicators: starting a business, obtaining construction permits, getting credit, resolving insolvency, and trading across borders. Activities in subcomponents 1A, 1B, 1D, and 2A would also help improve the business environment for firms through efforts to build capacity for the provision of the Government to business services at the One Stop Business Facilitation Center, the Maseru City Council (which manages the construction permits system), customs, and LNDC.

3. The second part of the PDO on strengthening select government institutions would be supported by the activities in subcomponents 1A, 1B, 1C, 1D, and 2A. As previously mentioned, the latter seek to build capacity at the One Stop Business Facilitation Center, the Maseru City Council (which manages the construction permits system), the Office of the Parliamentary Counsel, customs, and LNDC, among

others. Progress towards these efforts would be measured through client satisfaction with selected government-to-business services, using a survey instrument. Activities in subcomponents 1A, 1B, 1C, 1D would also help strengthen select government institutions through efforts to draft laws and regulations and improve systems and processes (including automation where possible) in the areas of business registration, licensing, inspection, construction permits, trade logistics, and access to finance.

4. The third part of the PDO on increasing economic diversification would be supported by the activities under Component 2. The latter seek to (i) improve investment promotion, retention, and aftercare (by supporting LNDC – Subcomponent 2A); (ii) strengthen specific sectors (tourism, handicrafts and horticulture – Subcomponent 2B and 2C); and (iii) help develop stronger, more robust firms (by linking large and small, foreign and local businesses, and providing support for business development services and equipment through the Lesotho Enterprise Assistance Program – Subcomponent 2A and 2D). Ideally this work will help diversify Lesotho's economy, which is focused on a narrow subset of products, exported to a single market. Progress towards economic diversification would be measured by the number of jobs in the horticulture and handicraft sectors.

Annex 2: Implementation Status and Results Achieved by Component

From the Implementation Status Report approved November 8, 2016

1. An IDA Implementation Support and additional financing identification mission was conducted September 2016 to review the implementation progress of each component and subcomponent, conduct identification activities for a restructuring and AF, and collaborate with the African Development Bank (AfDB) on their private sector development project to ensure synergies. This review is based on the outcomes of that mission.
2. The mission assessed implementation of project activities to be satisfactory, with some activities experiencing faster progress than others. Progress towards the project Development Objective (PDO) was assessed to be satisfactory, despite layoffs and plant closures in select sectors that sell into South Africa and are impacted by the weaknesses of its economy. Given the project has no activities in the footwear sector and in many of the sectors measured by the jobs indicator, it was agreed that as part of the Additional Financing, the PDO and associated indicators would be revised to more closely reflect project activities.
3. The project comprises three components, namely:
 - Improving the business climate
 - Supporting economic diversification
 - Project implementation support

COMPONENT 1: IMPROVING THE BUSINESS CLIMATE

4. Component 1 supports policy measures intended to facilitate business entry and improve access to finance. Activities under this component contribute to increases in the number of registered and operational enterprises in Lesotho (PDO indicator # 3) by improving the business environment in which firms operate and facilitating business entry. They also partially contribute to increases in jobs (PDO indicator # 2) by making it easier for firms to grow and expand their operations through better access finance and faster issuance of construction permits. Progress on the activities in this component includes:
5. Under business regulation, industrial licensing and construction permit reform:
 - (i) On business regulation and licensing, in 2014 the Industrial Licensing Bill was published and its regulations gazetted. The Business Licensing and Registration Bill was submitted to the Attorney General for clearance; the current draft bill simplifies the existing trade licensing regime by prescribing a risk based framework for trade licensing. To operationalize these new licensing regimes, the online business registration system that launched in December 2014 enables potential business owners to apply for business registration. The Government has agreed to pilot e-payments on it and fully automate it as an electronic portal for licenses.
 - (ii) On construction permit reform, various operational forms have been redesigned and are being used. Moreover, the risk based approach is currently being tested by the Maseru City Council (MCC). In addition, the MCC Planning Department has relocated to a new

building, which has provided additional space to accommodate a better workflow as well as the computerization of the construction permit process. To accommodate new procedures for construction permits, a team of legal experts has reached consensus to amend Town and Country Planning Regulations with regard to new forms and also to amend Building Control Regulations. Work is underway by the Department of Environment to streamline regulatory requirements and procedures associated with conducting environmental impact assessments. To update the zoning maps (master plan) and have them serve as a reliable source of reference for public officials, a costed proposal to develop a national urban policy and master plan for Maseru and all secondary towns was completed, and will be submitted to donors for consideration.

6. Under access to finance:

(i) One credit bureau has been operational since December 2014. As of August 2016, the Bureau had collected data from 19 credit providers on more than 90,000 borrowers, with an average of 4000 queries recorded per quarter. Progress was reflected in the 2017 Doing Business rankings, where Lesotho's rank in the "getting credit" indicator jumped from #152 to #82 (out of 190 economies), and Lesotho's overall rank jumped by 12 points to #100. Lesotho's credit bureau coverage now extends to 7.1 percent of the adult population. The credit bureau has made progress in disaggregating loan records by gender, which has increased the share of overall female beneficiaries in the project from 3 percent to 7 percent.

(ii) On collateral registry, a draft of the Security Interest in Movable Property Bill has been presented for review to a Technical Working Group led by the Central Bank. A beta version of the Collateral Registry system has also been presented to the Group, and is expected to be refined pending finalization of the bill and its implementing regulations to ensure consistency between the system and the associated legal framework.

(iii) On leasing, in spite of a best practice law and considerable effort to create and galvanize a leasing market, capacity issues and other market failures have deterred its development. A leasing market survey was completed in June 2016 which provided an overview of the state of leasing in Lesotho, including information on the market trends, existing leasing opportunities and recommendations on the way forward. In May 2016, an introduction to leasing training was conducted for 35 leasing stakeholders and representatives of banks and non-bank institutions, in partnership with the Central Bank of Lesotho.

(iv) On insolvency reform, the Master of the High Court's Office has completed the drafting of the Cabinet Memorandum outlining the primary policy questions that need to be approved for incorporation in the revised insolvency law. A first draft of the Insolvency Bill has been completed by the Parliamentary Council and has been reviewed by WBG subject matter experts. Comments presented to the Office of Parliamentary Counsel shall guide revisions to the draft.

COMPONENT 2: SUPPORTING ECONOMIC DIVERSIFICATION

7. Component 2 supports policy measures intended to strengthen the competitiveness of new growth sectors with the aim of decreasing Lesotho's reliance on textile exports as the main engine of growth. Activities under this component contribute to increases in the number of investment projects facilitated (PDO indicator # 1) by supporting the investment promotion efforts of the Lesotho National Development Corporation (LNDC) and helping it better manage (and eventually commercialize) the industrial estates, where largest investors settle. Efforts to strengthen and build the tourism and horticulture sectors may also result in attracting new investment projects.

8. Activities under Component 2 also contribute to increases in jobs (PDO indicator # 2). They do this by facilitating new investment projects (which result in additional jobs), by increasing linkages to the local economy (which result in added demand for local firms, and thus jobs), by strengthening the demand for (and the quality of) local handicrafts (which may result in jobs), by supporting tourism lodging operations to increase their quality (which may result in additional tourists, and thus additional jobs), by building up the commercial horticulture sector (which directly employs people), and by helping firms increase sales through the Lesotho Enterprise Assistance Program (which may result in additional jobs).

9. Activities under Component 2 may also partially contribute to increases in the number of registered and operational enterprises in Lesotho (PDO indicator # 2). By demonstrating the viability of the handicraft, tourism, and horticulture sectors, potential entrepreneurs may be encouraged to set up their own companies in these sectors.

10. Progress on the activities in Component 2 include the following:

- Under supporting investment promotion and increasing linkages to the local economy, capacity building workshops were held on investor aftercare and retention, and on the investment law. Two value chain mini-studies (footwear and automotive) were finalized. Analyses of investment incentives to attract and retain investment in targeted sectors is ongoing, and capacity at the Ministry is being strengthened to support the development of strategies and capabilities with regards to investment promotion, linkages, and economic diversification. A review of the various mandates and organisational structure of LNDC has begun.

- Under tourism, the online tourism statistics database is live, and surveys on tourism employment and domestic tourism are completed. Data is being collected on international arrivals at the border posts. Work with the private sector has commenced to better understand their challenges and to provide them with indicators to help them make investment decisions. On star grading, efforts to revise the grading criteria and make them more appropriate for the Lesotho context are progressing. Revised criteria have been discussed with stakeholders and submitted to the Lesotho Tourism Development Corporation (LTDC). Concurrently, work is underway to align licensing and grading category definitions and minimum requirements for all four accommodations categories.

Handicrafts continue to attract international buyers, and to date, US\$35,000 in handicrafts have been purchased from 16 companies. A comprehensive market-based training program for the handicrafts sector is being implemented through the Creative Industries Empowerment Program (CIEP). For the Tourism Information and Handicraft Center, an open competition for the high-level design of the Center was held and proposals are currently being evaluated.

- Under horticulture, the Likhothola Fruit Farm Company (LFFC) is fully operational as a commercial block farm with a long-term land lease and corporate members. The pilot sites and the LFFC are all GLOBALG.A.P. certified. New seedlings have been planted to replace those that died during the recent drought. A detailed assessment of the economics of horticulture is underway, and the process to design a pilot nursery has begun. An official visit was conducted with financial sector representatives and various PS-level government officials to the Swaziland Water and Agricultural Development Enterprise (SWADE). These enabled stakeholders to better understand how agribusiness was supported across the value chain, including through bank financing.

- Under the Lesotho Enterprise Assistance Program (LEAP), 125 grants (to 112 companies and 13 associations) have been approved and are on their way to successful completion. The average approved grant size was US\$1,035 per application. This represents a slight decrease in average grant size given fluctuations in the exchange rate and the fact that 15 applicants failed to implement their approved activities due to non-compliance with LEAP requirements and procedures, financial constraints, or other considerations.

COMPONENT 3: PROJECT IMPLEMENTATION SUPPORT

11. Component 3 supports the costs of the Project Management Unit (PMU), including the Monitoring and Evaluation (M&E) system, and the management and implementation of the Environment and Social Management Plans. The PMU is fully staffed and has been instrumental in facilitating the implementation of the project with various implementing agencies. There have been six Project Steering Committee meetings since effectiveness, and presentations are regularly made to representatives of the private sector regarding the progress of the project. The AfDB's proposed private sector development project is expected to be implemented by the same PMU.