

ANNEX 1

of the Commission Decision on the Annual Action Programme 2014 in favour of the Kingdom of Lesotho to be financed from the European Development Fund Bridging Facility

Action Document for Strengthening the Governance of Social Protection in Lesotho

1. IDENTIFICATION

Title/Number	Strengthening Governance of Social Protection in Lesotho: Building an Integrated Social Protection System CRIS N° FED/2013/025-008		
Total cost	Total estimated cost EUR 8 000 000 Total amount of EDF Contribution EUR 8 000 000 CSP/NIP – EDF Bridging Facility		
Aid method management mode	Project approach – indirect management with UNICEF		
DAC code	16010	Sector	Social/Welfare Services

2. RATIONALE AND CONTEXT

2.1 Summary of the action and its objectives

By strengthening a comprehensive and sustainable Social Protection system, the programme has the overall objective of contributing to the goals of Lesotho's long-term vision (Vision 2020) and National Strategic Development Plan (NSDP) of preventing and reducing the economic and social vulnerabilities of the most disadvantaged segments of the society. The intervention will increase the efficiency and cost-effectiveness of the government's measures for social protection and will ensure equitable treatment and universal coverage of Lesotho's most vulnerable segments of society. One of the crucial factors of success will be the integration of at least three existing social assistance programmes into one unified system. The aim will be to maximise the beneficial impact of all social protection measures carried out by Government, its developing partners and civil society organisations.

2.2 Context

2.2.1 Country context

2.2.1.1 Economic and social situation and poverty analysis

Average economic growth in Lesotho over the period 2011 – 2013 exceeded the National Strategic Development Plan 2012/13 – 2016/17 (NSDP) targets of 5 % per year. Between 2008/09 and 2012/13 real gross domestic product (GDP) grew at an average of 5.5 %, largely as a result of an expansion in mining, manufacturing, financial intermediation and construction, including the completion of Metolong Dam and associated water supply projects as well as the implementation of the second phase of the Lesotho Highlands Water Project. In the medium-term, growth is expected to slow due to regional and global economic uncertainties and apprehension for the future of the textile and garment industries linked to concerns surrounding the future of African Growth and Opportunity Act (AGOA) trade preferences beyond 2015. Despite a commitment to fiscal consolidation, the government is

still challenged by the high public sector wage bill, which underlines the need for greater focus on public sector reforms. In the medium term, the government's fiscal effort will focus on eliminating unproductive expenditures, improving capital budget execution, broadening the tax base and enhancing domestic revenue mobilisation.

Although the per capita income of US\$ 2,040 places the country on the cusp of middle income status, the global crisis of 2008/09 and the ensuing recession affected the country through its negative impacts on revenues from the Southern African Customs Union (SACU), on the local textile industry, and on employment opportunities for Basotho in South Africa. The prospect of a consequent decline in revenue could threaten the government's ability to create conditions that are conducive to increased private sector growth, both through reforming the regulatory environment and through investment in economic infrastructure and services.

Unemployment, especially among the youth, is critical: according to the 2008 Labour Force Survey, joblessness amongst those in the 15-24 years age bracket stood at 45.1 %. The country's present economic growth pattern, largely based on capital-intensive sectors such as mining, has also resulted in increasing inequality and social exclusion. Limited agricultural potential due to a scarcity of good quality arable land and a relatively high cost of introducing advanced technologies such as irrigation, combined with a lack of policies supporting the transformation of farming, have translated into a poor performance of agriculture. In addition, declining job opportunities for low-skilled Basotho in South Africa have affected remittances to families in Lesotho, which historically have provided an important safety net for a significant part of the population. This, in turn, has led to a significant portion of the population becoming increasingly vulnerable to food insecurity.

The formal-informal split represents the most distinctive feature of the labour market in Africa. The informal economy remains an ever-expanding sector where most people are employed. In fact, in countries where data are available, it is estimated that only 5-10 % of new entrants into the labour market can be absorbed by the formal economy, with the bulk of new jobs being generated by the informal economy. While the key issue in the formal sector is unemployment, the main problem in the informal sector is low productivity, low earnings and high poverty among its workers. There are two basic reasons for this: (1) informal sector workers generally live and work under harsh conditions that are more commonly associated with shocks such as illness, loss of assets, and loss of income; and (2) workers have little or no access to formal risk-coping mechanisms such as insurance, pensions and social assistance, and they generally lack resources to pay for proper housing, health care services and education.¹

Despite substantial progress towards the Millennium Development Goals (MDGs) related to primary education, gender and women's empowerment, poverty continues to present a serious challenge. With an estimated 43 % of the population living on less than \$1.25 per day and with a Gini-Coefficient of 0.525, poverty in Lesotho is mainly driven by income inequality. It is exacerbated by the dual threat of HIV and AIDS and persistent food insecurity: 23 % of persons in the 15 – 49 years age group are HIV seropositive; and approximately 12 % of the population regularly experience a food deficit of 6 - 8 % of the standard requirement. Lesotho also suffers from very high levels of malnutrition for a country at its income level, with 39.2% of children stunted (and 14.8% severely stunted), which has lifelong effects on health, educational achievement, productivity, well-being and future income. It also increases the likelihood of obesity (and associated "life-style diseases" such as diabetes and hyper-tension)

¹ <http://elibrary.worldbank.org/doi/pdf/10.1596/9781464801075>

in later life: already 50% of Basotho over the age of 15 are overweight or obese. The government has to address wealth distribution – through social protection in the face of the challenge of informality.

2.2.1.2 National Development Policy

The Government of Lesotho's "*Vision 2020*" has the goal of the country being firmly established as a mature democracy and a prosperous middle income nation by the end of the current decade. Vision 2020's overarching goals have been prioritised in a succession of national development frameworks, of which the most recent is the National Strategic Development Plan (NSDP) 2012/13 – 2016/17 adopted in 2012. NSDP strategic goals over the period are: employment creating economic growth; development of key economic infrastructure; enhancement of the national labour force's skills profile; adoption of technology as a foundation for innovation; improved health with particular reference to combatting and reducing vulnerability; reversal of the current environmental degradation and development of measures for adapting to climate change; and promotion of peace, democratic governance and the building of effective institutions. The NSDP includes a significant emphasis on the reduction of vulnerability through social protection, proposing a "focus on consolidating social protection programmes and improving their efficiency and coverage".

2.2.2 Sector context: policies and strategies

In addition to threatening the prospects for economic growth, the possibility of declining government revenue could have negative consequences for the government's capacity to deliver equitable access to social services. The outcome of such a scenario would be that the gap between rich and poor would widen, with the latter getting poorer and even more vulnerable. In this challenging situation coping strategies for vulnerable children include early marriages, domestic work, herding, living and working on the streets, commercial sex work, and substance abuse. These coping strategies exacerbate further the risks for this already vulnerable group. To mitigate these vulnerabilities, an inclusive and comprehensive life-cycle social protection system focusing on protection, prevention and transformation is the solution. The Government of Lesotho and development partners are committed to strengthening social protection. Amongst the measures foreseen is the integration of the existing social assistance programmes into a sustainable unified social protection system to address the country's high level of poverty and vulnerability.

In 2012, the Ministry of Social Development commenced implementation of the national social protection vision defined in the National Strategic Development Plan 2012/13 – 2016/17 and in the National Policy on Social Development (NPSD), adopted in December 2014. The NPSD envisages a "transformation from welfare to social development", and sets out a mission "to improve the quality of life of all Basotho through interventions that address poverty, deprivation, vulnerability and inequality in a comprehensive and holistic manner". This is further elaborated in the National Social Protection Strategy, which sets out a life-course approach to "provide comprehensive inclusive social protection that reduces poverty, vulnerability and inequality, increases resilience to risks and shocks, promotes access to services and to the labour market, and stimulates economic growth and social stability".

Since 2012, the Child Grants Programme (CGP) has been rolled out from 5 to all 10 districts of Lesotho. In 2013/14 it has assumed fiscal responsibility for 100 % of the beneficiary costs and approximately 70 % of operational costs. Based on evidence from the "Review of Social Safety Nets in Lesotho - 2012" and the "CGP Rapid Assessment Study – 2011", the Government is moving towards a unified and integrated system of social assistance, addressing vulnerabilities through the life-course, with a focus on the poorest and most vulnerable. The CGP represents a key component of an integrated life-course social

assistance, while the National Information System for Social Assistance (or a similar unified database) can act as a single national registry for all social assistance programmes.

In acknowledgement of the potential for alleviating child poverty, the EU, with the technical assistance of UNICEF, has provided substantial EDF funding for expanding the CGP and has contributed to the organisational development of the newly established Ministry of Social Development. However, despite the government of Lesotho's commitment, weak institutional capacity remains an issue that needs to be addressed if the sustainability of social protection interventions is to be assured.

2.3 Lessons Learnt

The experience of the Child Grants Programme (CGP) implementation and the evidence of several studies and recent research together with the CGP Mid-Term Review held in August 2013 highlight a number of lessons that can be learnt from Phase I and Phase II of the EU-supported programme:

- i. Strong leadership and ownership of the Government of Lesotho both at central and at district level has contributed to the success of the CGP to-date. National Information System for Social Assistance (NISSA) coverage has expanded to 103,000 Households (a quarter of Lesotho population), while CGP coverage has increased from 10,000 HH to 20,000 HH in 2014;
- ii. The weak capacity of the Ministry of Social Development could affect the sustainability of the programme. Phase I (2007-2011) and Phase II (2012-2014) of the EU support invested significant efforts and resources on capacity building both at central and district level, but gaps need to be filled, particularly in terms of management of social protection programmes and capacity to coordinate inter-ministerial efforts;
- iii. Regularity and predictability of cash transfers are essential to ensure impact on poverty;
- iv. Lessons learnt from the 2012 food crisis emergency response show the potential of NISSA or a single registry for targeting vulnerable population. However, to be effectively utilised, the single registry has to expand its coverage. Only then, can it address issues of equity and equality between Basotho, streamline the quality of data collected/stored, as well as improve the targeting tools used by the system;
- v. Greater involvement of community-based stakeholders is important for improving the targeting and impact of social protection programmes. Expansion of CGP coverage to all community councils in the ten districts of Lesotho, particularly the hard to reach areas in the highlands, will be essential if Lesotho is to meet its objective of fair and equitable treatment of the most vulnerable members of the population.

2.4 Complementary actions

Capacity building actions both at central and district level will be part of Government's broader strategies for improving public service delivery. In particular, the project will be complemented by the implementation of activities under the 10th EDF Poverty Reduction Budget Support Programme. It also complements capacity building activities of districts and community councils under the Deepening Decentralisation Programme. In addition, the proposed project will be complemented by the support to social protection planned by the World Bank. The Steering Committee of the current project is monitoring closely in the pilot Conditional Cash Transfer (CCT) the implication on other sectors, in particular education and health. Lines Ministries have signed a Memorandum of Understanding with the Ministry of Social Development on their engagement. As regards future initiatives the project will

complement 11th EDF support for Water and Energy Sector Reform Contracts, strengthening governance at the levels of central government and parliament; support to civil society organisations, strengthening the Justice sector; and assisting Lesotho in its Climate Change Response Strategy.

2.5 Donor Coordination

The number of donors active in grant aid to Lesotho has decreased in recent years. Of those remaining, few have funds available for technical assistance and longer-term programmes. In order to optimise the benefits accruing to donor support from both grant and loan-funded cooperation, the Government has established two functional entities. At the broader level the Development Partners Consultative Forum (DPCF) provides the framework for dialogue between donors and Government. The DPCF has contributed to better donor coordination, alignment and harmonisation in line with the Paris Declaration, the Accra Agenda for Action and the Busan Agreement.

A Department for Aid Coordination has been established within the Ministry of Development Planning. To facilitate and strengthen the government's capacity for ensuring that donor policies and interventions are harmonised with its own, the Department for Aid Coordination, with assistance from UNDP, is developing a capability for capturing information on current and prospective donor supported activities. The Department is also taking a lead in developing and implementing Lesotho's "Partnership Policy for Aid Effectiveness."

At the sector level, coordination and complementarity will be pursued with other development partners through the proposed social protection policy committee, responsible for approval and delivery of the National Social Protection Strategy (NSPS), through its six technical social assistance working sub-committees (one responsible for each stage of the life-course), and through the existing National Orphans and Vulnerable Children Coordination Committee (NOCC). This will contribute to build synergies with other programmes, particularly those supported by United States Agency for International Development (USAID), the Global Fund, as well as international and local NGOs. The pilot Core Diagnostic Instrument has also strengthened close coordination between the main partners in the sector, including World Bank, Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) and International Labour Organization (ILO).

3. DETAILED DESCRIPTION

3.1 Objectives

The overall objective of the proposed project is to assist the government to prevent and reduce the economic and social vulnerabilities of the most disadvantaged and socially excluded segments of the society.

As iterated in the National Strategic Development Plan 2012/13 – 2016/17 and the EU-Lesotho 11th EDF National Indicative Programme 2014 – 2020, the specific objective of the project is to establish a social protection system that ensures the most economic and socially vulnerable segments of Lesotho's population are provided with a level of protection that is sustainable and addresses poverty, deprivation, vulnerability and inequality throughout the life course in a comprehensive and holistic manner.

3.2 Expected results and main activities

The expected results are:

1. The Ministry of Social Development at all levels leads, manages and implements a comprehensive and integrated social protection system. In spite of the progress made to put in place the key building blocks for a comprehensive social protection system, the newly established Ministry of Social Development still needs support, both at institutional and organisational level if it is to fulfil its role in the national vision for reducing poverty and social vulnerability.
2. A single national registry (currently called NISSA) is institutionalised and used for management and monitoring of social assistance. The extension of a single registry using a Management Information Systems (MIS), which unites different social protection interventions, will create conditions for improved targeting of the poorest and most vulnerable households. It will further reduce operational costs, simplify case management, reduce response time and minimise duplications of support.
3. An integrated community development approach is established to support the local management system of social protection.

The following main activities will be implemented to achieve the results identified above:

Result area 1: EDF bridging facility will pursue and support capacity development of the Ministry of Social Development to: (i) lead and coordinate the social protection agenda, (ii) effectively manage and implement social protection interventions at central and district levels, and (iii) complete, document and operationalize lessons from the Integrated Social Safety Net (ISSN) and Conditional Cash Transfers (CCT) pilots.

The capacity building for the social protection system will not only be focused on the Department of Social Protection Services but will cover all other relevant departments within the Ministry involved in implementing this vision both at central and local levels (particularly Department of Planning, Department of Operation, Department in charge of vulnerable children and in charge of administration and finance and procurement).

Result area 2: EDF bridging facility support will pursue the extension of a single registry (currently NISSA) ensuring that: (i) the Ministry of Social Development and other relevant stakeholders (Bureau of Statistics, Ministry of Home Affairs) are enabled to manage the single registry and its continuous updates, (ii) the single registry is expanded to national coverage using evidence-based mechanisms, which promote impact and sustainability and (iii) the single registry/NISSA is used for improved targeting, planning and policy analysis by other government entities.

Result area 3: an integrated community development approach is established to support the local management system of social protection so that (i) community-based structures are enabled to support the integrated system of social protection, (ii) an integrated community development model, which links communities benefitting from social assistance interventions to a wider range of social and economic services is piloted and expanded; and (iii) a referral mechanism, which functions through decentralised structures is piloted and expanded.

3.3 Risks and assumptions

The main assumption is that present improvement in the global economy and its impact on Lesotho, together with the implementation of the policies and strategies contained in the National Strategic Development Plan 2012/13 – 2016/17 (NSDP), will result in levels of economic growth sufficient for Government of Lesotho to continue with its commitment of pursuing the expansion of social protection and making payments to beneficiaries in a regular manner.

The following table illustrates potential risks and mitigating measures to address them:

Potential Risk	Mitigating Measure
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Potential Risk	Mitigating Measure
Political and security situation in the country is not stable.	The EU is following the developments in Lesotho closely and is ready to cooperate with SADC and with the Government of Lesotho to support the implementation of the agreements reached through the brokerage of SADC
Social security and the protection of vulnerable elements of Lesotho society are not a priority for government policies and budgets.	Since 2013, the Government of Lesotho has already taken over all benefit costs of the Child Grants Programme (CGP) and has demonstrated the willingness to build a comprehensive and integrated social protection system in Lesotho, in particular through the development of a National Social Protection Strategy.
Social Development Policy and Social Protection Strategic Plan are not approved by the Cabinet	The Ministry of Social Development together with the Ministry of Labour have already presented both the Policy and the Social Protection Strategy at the informal Cabinet, and it has been approved. It was subsequently submitted and adopted at the formal Cabinet meeting in December 2014.
Lack of collaboration and weak coordination with line ministries can be a significant risk that will adversely affect effectiveness and efficiency of National Information System for Social Assistance (NISSA) and its use as single registry. It can also affect the ownership of NISSA and the ability of line ministries to support the integration of social assistance programmes.	Intense efforts have been deployed in terms of coordination, advocacy and communication to involve all relevant line ministries at the early stage of expansion. The current review of the targeting mechanism (Proxy Means Test), data collection approach and tools of NISSA, will provide further evidences on responsibilities of the different ministries, and the way in which these can be linked to the national identity system.
Weak leadership capacity of the newly established Ministry of Social Development can be a high risk to establish NISSA as a single registry and to build an integrated social protection system. In this Phase III of the EUs support to social protection, leadership will be critical to bring and direct all Relevant stakeholders sharing a common vision	The project's strategy, focusing on building the capacity of Ministry of Social Development to lead the government's vision of building a sustainable and integrated social protection system, will be an important asset to address this risk. In addition, the current formulation of a social protection strategy will clarify the Government of Lesotho's vision on social Protection in the medium term and will help the ministry to lead and coordinate its implementation.

3.4 Cross-cutting Issues

Cross cutting issues such as human rights, gender and good governance are an integral part of this project. The experiences of the first two phases demonstrated that by focussing on children's needs the activities undertaken yielded positive results in terms of meeting the rights of the child. However, the voice of children was considered to be missing as there were no established mechanisms that enabled them to inform activities of the programme. This support will make the voice of the children heard. The Child Grants Programme (CGP) is helping households to meet a range of practical gender issues, since although women are not explicitly targeted in the programme, there is a general acknowledgement that women are the main care takers for vulnerable children. As a matter of fact, in about 2 of 3 beneficiary households the transfer is collected by a woman. In 75 % of cases, decisions on expenditure of social protection transfers are taken by the household head, who is a woman in 45 % of households.

The planned support to community councils will provide an opportunity to promote a better representation of women in those structures. To improve effectiveness in terms of participation and accountability the EDF bridging facility project will contribute to enhanced community participation and ownership and should strengthen collaboration between government and local communities over a broad spectrum of concerns, including management of the environment of local development. Participation of civil society organisations will be promoted through the collaboration between Ministry of Social Development and international, national and local Civil Society Organisations, to exploit their specific value added in all areas related to the promotion of local development, promotion of children's rights and the development of referral systems.

3.5 Stakeholders

At the government level, the main stakeholder is the Ministry of Social Development for whom the programme is a significant step in the implementation of the National Policy on Social Development and the National Social Protection Strategy. Through their close involvement in carrying out the programme, both at central and district level, the Departments of Social Protection Services and of Planning will develop the institutional capacities needed for such a complex process as the integration of social assistance programmes covering disadvantaged and vulnerable persons. The Old Age Pension scheme, initially foreseen in the plans of an integrated social assistance programme, will not be included for now because of some resistance from the Ministry of Finance which is presently managing the programme. The involvement of the Ministry of Finance as well as Ministries currently responsible for the other life-course social assistance interventions will be secured.

At the decentralised level of government, the stakeholders will be the district officials and community councils whose involvement will enhance their capacity to target vulnerable households and provide support to case management. The ultimate stakeholders and beneficiaries of the programme will be the disadvantaged sections of Basotho society and, in particular, those households that consist primarily of vulnerable children and their care takers.

4. IMPLEMENTATION ISSUES

4.1 Financing Agreement

In order to implement this action, it is foreseen to conclude a Financing Agreement with the partner country referred to in Article 17 of Annex IV to the Cotonou Agreement.

4.2 Indicative operational implementation period

The indicative operational implementation period of this action, during which the activities described in sections 3.2 and 4.3 will be carried out, is **48 months** from the date of entry into force of the Financing Agreement or, where none is concluded, from the adoption of this Action Document, subject to modifications to be agreed by the responsible authorising officer in the relevant agreements. The relevant Committee shall be informed of the extension of the operational implementation period within one month of that extension being granted.

4.3 Implementation components and modules

4.3.1. Procurement (direct management)

Subject	Type (works, supplies, services)	Indicative number of contracts	Indicative trimester of launch of the procedure
Mid-term and/or ex ante evaluation	Services	2	1st Tri of 2017 1st Tri of 2019

4.3.2. Indirect management with UNICEF

This action with the objective of implementing the Government of Lesotho's National Policy on Social Development and National Social Protection Strategy may be implemented in indirect management with the United Nations Children's Fund (UNICEF) in accordance with Article 58(1)(c) of Regulation (EU, Euratom) No 966/2012.

This implementation is justified because of the organisation's long history of close cooperation with the Government of Lesotho in providing support and capacity building in respect of the Lesotho public service and civil society not being able to meet the challenges of inequality, the HIV and AIDS pandemic and poverty. The entrusted entity would provide programme management support, including technical assistance and financial management. The entity (UNICEF) would provide capacity development training to relevant Government ministries and department, to District and Community Councils and to community and village level structures.

The entrusted entity is currently undergoing the ex-ante assessment in accordance with Article 61(1) of Regulation (EU, Euratom) No 966/2012 applicable by virtue of Article 17 of the Annex to Regulation (EU) No 567/2014. In anticipation of the final results of this review, the responsible authorising officer deems that, based on a preliminary evaluation and on the long-standing and problem-free cooperation with this entity, it can be entrusted with budget-implementation tasks under indirect management.

4.4 Scope of geographical eligibility for procurement and grants

The geographical eligibility in terms of place of establishment for participating in procurement and grant award procedures and in terms of origin of supplies purchased as established in the basic act shall apply.

4.5 Indicative Budget

Module	Amount in EUR
4.3.2. Indirect Management Delegation Agreement with UNICEF (including the provisions for Communication and Visibility)	7 800 000
4.3.1. Evaluation and audit	150 000
Contingencies	50 000
Total	8 000 000

4.6 Performance monitoring

The monitoring system will be jointly agreed by the EU, UNICEF and the Ministry of Social Development.

4.7 Evaluation and audit

The EU shall appoint, in accordance with European Commission procurement rules, reputable external auditors/accountants (i.e. international firms, members of an internationally recognised auditing body). Their role shall include conducting those audits deemed necessary during or after the operational implementation period of the Financing Agreement. The decision to launch an audit will be based on a risk assessment and/or made in accordance with the annual audit plan of the Commission.

4.8 Communication and visibility

Communication and visibility of the EU is a legal obligation for all external actions funded by the EU. This action shall contain communication and visibility measures which shall be based on a specific Communication and Visibility Plan of the Action, to be elaborated before the start of implementation and supported with the budget indicated in section 4.5 above.

The measures shall be implemented either (a) by the Commission, and/or (b) by the partner country, contractors, grant beneficiaries and entrusted entities. Appropriate contractual obligations shall be included in, respectively, financing agreements, procurement and grant contracts, and delegation agreements. The Communication and Visibility Manual for European Union External Action shall be used to establish the Communication and Visibility Plan of the Action and the appropriate contractual obligations.