

A/CONF.191/CP/34

**THIRD UNITED NATIONS CONFERENCE ON THE
LEAST DEVELOPED COUNTRIES**

Brussels, 14-20 May 2001

Country presentation

by

THE GOVERNMENT OF LESOTHO

NOTE

The views expressed in this document are those of the Government concerned. The document is reproduced in the form and language in which it has been received. The designations employed and the presentation of the material do not imply expression of any opinion whatsoever on the part of the Secretariat of the United Nations concerning the legal status of any country, territory, city or area, or its authorities, or concerning the delimitation of its frontiers or boundaries.

A/CONF.191/CP/34

3 December 2000

**THIRD UNITED NATIONS CONFERENCE ON THE LEAST
DEVELOPED COUNTRIES
Brussels, 2001**

**ACTION PROGRAMME FOR DEVELOPMENT OF
LESOTHO 2001-2010**

FINAL REPORT 3 December 2000

D.R. Phororo
and
National Preparatory Committee

**Ministry of Development Planning
Maseru, Lesotho
in
Collaboration with European Union, Maseru**

CONTENTS

	Paragraph	Page
ABBREVIATIONS		v-vi
<i>Preface</i>		vii
EXECUTIVE SUMMARY		ix-xxi
CHAPTER I: INTRODUCTION		
	1-4	1
I.A Background		
I.B Overview of Lesotho's Constraints and Potentials		
Socio-Economic Setting	5-9	2
Relevance to Paris Declaration	10-12	3
I.C Programme of Action	13-14	4
 <i>PART I</i>		
CHAPTER II: SOCIO-ECONOMIC PERFORMANCE IN 1990s	5	5
II.A Indicators	16-19	5
II.B Macro-economic Performance		
Economic Growth	20-24	6
Economic Recession	25-26	7
Regional and International Trading	27-29	7
II.C Progress in the Social Sector		
Health	30-35	8
Water Supply and Sanitation	36	9
Education	37-42	9
II.D Agriculture, Food Security and Environment	43-50	10
II.E Poverty Reduction and Gender	51-56	12
II.F Good Governance		
Democracy and Decentralisation	57-59	14
Public Sector Reform	60-61	14
Privatisation and Private Sector Development	62-64	15
II.G Success Stories		
 <i>PART II</i>		
CHAPTER III: ASSESSMENT OF PERFORMANCE	65	16
III.A International Fora Decisions	66	16
III.A.1 Follow-up to International Development Initiatives		
III.A.2 Achievements	67	17

III.B. Constraints in Policy Implementation	68	18
III.B.1 Domestic Constraints	69-82	19
III.B2 External Constraints	83-88	21
III.C Potential and Opportunities	89-99	22
III.D Vulnerability to Shocks	100-05	25

PART III

CHAPTER IV: PROGRAMME OF ACTION (2001-2010)

IV.A Challenges	106	26
IV.B Vision		
Mission Statement	107-08	27
Common Vision Mission	109-11	27
Mission Strategic Objectives	112-15	27
IV.C Policies and Strategies	116-18	29
IV.D Implementation Programme in Institutional Context	119	30
IV.D.1 Programme Design Criteria	120	30
IV.D.2 Implementation Inputs for Priority Programmes	121	31
IV.D.2.1 Macro-Economic Stability	122-26	31
IV.D.2.2 Social Stability	127-32	34
IV.D.2.3 Productive Sectors	133-39	36
IV.D.2.4 Natural Resources	140-45	39
IV.D.2.5 Disaster Mitigation and Prevention	146-49	41

CHAPTER V: IMPLEMENTATION FRAMEWORK OF PROGRAMME OF ACTION

V.A	Summary of Implementation Programme	150-52	43
V.B	Expected Programme Outputs	153-61	45
V.C	Programme Implementation Phasing	162-63	47
	Priorities Ranking	164-67	47
	Summarised Phased Programme	168	49
V.D	Financial Requirements	169	51
	Lesotho's Current Budget	170-71	51
	Future Investment Requirements	172-78	52
	Fiscal Implications in Implementing the Programme	179-83	54
V.E	Monitoring and Evaluation	184-88	55

TABLES	1.	Summary of Implementation Programme Priorities	44
	2.	Linking Output with Priority Programmes	47
	3.	Phased Implementation Framework	50
	4.	Recurrent and PSIP Budget (2000/02)	51
	5.	Total PSIP Budget for Priority Programmes	53
ANNEXES	1.	Terms of Reference	56
	2.	Indicators	58
		(a) Working Set of Core Indicators	58
		(b) Poverty-related Indicators and Targets	59
		(c) Comparative Status of Selected Social Indicators in SADC Countries	62
	3.	Economic Indicators	63
		(a) GDP at Factor Cost	63
		(b) Government Budgetary Operations	64
		(d) Balance of Payments	65
	4.	Trends in Trade	66
		(a) Merchandise Trade	66
		(b) Value of Major Exports	67
		(c) Major Destination of Exports and Value	67
5.	Trends in Agricultural Production	68	
	(a) Trends in Crop Production	68	
	(b) Livestock Population	69	
	(c) Wool and Mohair Production and Exports	69	
6.	Status of Public Enterprise Privatization	71	
7.	Success Stories	72	
8.	Key Development Strategies	74	
9.	Detailed Summary of Implementation Programme Priorities	75	
10.	PSIP Budget (2000 /01-2002/03 – Immediate Term) Allocations to top 6 Ministries by Source of Funding	79	
11.	Projected PSIP Budget for Immediate to Long Term (200/01-2009/10)	80	
12.	PSIP Budget Breakdown by Ministries and Phases	81	
13.	References	84	

US\$ = M7.60 [Dec 2000]

ABBREVIATIONS

AIDS	-	Acquired Immune Disease Syndrome
APCB	-	Agriculture Policy and Capacity Building
BFVS	-	Basotho Fruit and Vegetable Canners
CBO	-	Community Based Organization
CDD	-	Control of Diarrhoeal Diseases
CEDAW	-	Convention on the Elimination of all Forms of Discrimination Against Women
CHAL	-	Christian Health Association of Lesotho
CMA	-	Common Monetary Area
DMA	-	Disaster Management Unit
DRWS	-	Department of Rural Water Supply
ECCD	-	Early Childhood Care and Development
EMLS	-	Environment and Land Management Sector
EPI	-	Expanded Programme on Immunization
EU	-	European Union
FAO	-	Food and Agricultural Organization
FDI	-	Foreign Direct Investment
FIDA	-	Federation of Women Lawyers
FPE	-	Free Primary Education
GDP	-	Gross Domestic Products
GFE	-	Global Environment Facility
GNP	-	Gross National Products
GOL	-	Government of Lesotho
GSP	-	Generalized System of Performance
GST	-	Government Sales Tax
IFAD	-	Internal Fund for Agricultural Development
IFTS	-	International Freight and Travel Services
HIV	-	Human Immuno-deficiency Virus
IMF	-	International Monetary Fund
IMR	-	Infant Mortality Rate
LAC	-	Lesotho Airways Corporation
LCCI	-	Lesotho Chamber of Commerce and Industry
LDC	-	Least Development Countries
LEC	-	Lesotho Electricity Corporation
LHRF	-	Lesotho Highlands Revenue Fund
LHWP	-	Lesotho Highlands Water Project
LNDC	-	Lesotho National Development Corporation
LSPP	-	Lands Survey and Physical Planning
LTC	-	Lesotho Telecommunications Corporation
MACLR	-	Ministry of Agriculture Cooperatives and Land Reclamation
MEGYA	-	Ministry of Environment, Gender and Youth Affairs
MDP	-	Ministry of Development Planning
MLG	-	Ministry of Local Government
MMR	-	Maternal Mortality Rate
MNR	-	Ministry of Natural Resources
MOE	-	Ministry of Education
MOHA	-	Ministry of Home Affairs

MOHSW	-	Ministry of Health and Social Welfare
MOW	-	Ministry of Public Works and Transport
MITM	-	Ministry of Industry, Trade and Marketing
NAP	-	National AIDS Prevention
NGO	-	Non-Governmental Organization
NRSP	-	National Rural Sanitation Programme
NUL	-	National University of Lesotho
ODA	-	Official Development Assistance
PHC	-	Primary Health Care
PRSP	-	Poverty Reduction Strategy Paper
PU	-	Privatization Unit
RMA	-	Range Management Area
RSA	-	Republic of South Africa
RTC	-	Round Table Conference
SACU	-	Southern African Customs Union
SADC	-	Southern African Development Community
SAP	-	Structural Adjustment Programme
SHD	-	Sustainable Human Development
SNPA	-	Substantial New Programme of Action
STI	-	Sexually Transmitted Infections
TB	-	Tuberculosis
UN	-	United Nations
UNCTAD	-	United Nations Conference on Trade and Development
UNICEF	-	United Nations Children's Fund
UNFPA	-	United Nations Family Planning Association
UNDP	-	United Nations Development Programme
UNIDO	-	United Nations Industrial Development Programme
USA	-	United States of America
USIT	-	Urban Sanitation Improvement Programme
US\$	-	United States Dollar
VAM	-	Vulnerability Assessment and Mapping
VIP	-	Ventilated Improved Pit
WASA	-	Water and Sewerage Authority
WHO	-	World Health Organization
WSSD	-	World Summit for Social Development

Preface

This report was financed from the European Development Fund and is presented by Dr D.R. Phororo for the consideration of the Government of the Kingdom of Lesotho. The views expressed in the Report are those of the Consultant and do not necessarily reflect those of the Lesotho Government or of the Commission of the European Union.

The report has been prepared in collaboration with the National Preparatory Committee and under the responsibility of the Ministry of Development Planning. The National Preparatory Committee is composed of the following representatives:

Ministries/Sectors, Agencies and Civil Society

Ministry of Planning and Development – Coordinator, Chair and Focal Point
Ministry of Finance
Ministry of Trade and Industry, and Marketing, and LNDC
Ministry of Agriculture, Cooperatives and Land Reclamation
Ministry of Environment, Gender and Youth Affairs
Ministry of Education
Ministry of Health
Ministry of Local Government
Ministry of Foreign Affairs
Disaster Management Authority (Prime Minister’s Office)
Central Bank of Lesotho
National University of Lesotho
Lesotho Chamber of Commerce and Industry
Lesotho Council of NGOs
European Union
United Nations Development Programme

Consultants

D.R. Phororo, Team Leader
T. Thokoa, Budget Specialist
K.S. Phafane, Economist

EXECUTIVE SUMMARY

	Page
INTRODUCTION	ix
PERFORMANCE AND ASSESSMENT	ix
Achievements	x
Disappointments	xii
Potential and Opportunities	xiii
Threats and Shocks	xiv
PROGRAMME OF ACTION	xv
Rationale	xv
Challenges	xv
Vision and Policy Strategies	xvi
Programme of Action Priorities	xvii
Implementation Framework and Financial Requirements	xix
Assumptions and Fiscal Implications	xxi
CONCLUSIONS	xxi

INTRODUCTION

1. Lesotho's Programme of Action (2001-2010) is a response to the United Nations Assembly's invitation to the 42 Least Developed Countries (LDCs) to review progress made in implementing decisions of the Second UN Conference on LDCs (LDC II), held in Paris in 1990, and map a way forward for the new decade (2001-2010). The review and the Programme of Action will be the theme of the Third UN Conference (LDC III) to be convened by UNCTAD and hosted by the European Union (EU) in May 2001 in Brussels.

2. Noting that the LDCs, such as Lesotho, are not well equipped to develop their domestic economies which are vulnerable to external shocks, despite major policy changes and reform and support by the development partners in the area of aid, debt and trade, the LDC III will consider the formulation of appropriate national and international policies. The objective will be to mobilize resources to implement commitments that can bring about tangible results; in particular, the reduction of poverty which is the fundamental problem underlying the LDC's underdevelopment.

3. Since poverty is multi-dimensional and cross-sectoral, involving the various stakeholders, the Government of Lesotho (GOL) initiated the process of LDC II review and formulation of LDC III Programme of Action by establishing a National Preparatory Committee (NPC) in February 2000. Concurrently, GOL had also initiated the formulation of the Interim Poverty Reduction Strategy Paper (I-PRSP), which replaces the Policy Framework Paper (PFP), serving as an enhanced framework for poverty reduction in the country.

4. The two formulation processes – LDC III and I-PRSP - are interlinked for the fact that they address poverty and have common features: country-driven; partnership-based; results-oriented, comprehensive and framed within a phased period. In order to optimize the linkages and enhance the impact of the common features, GOL organised a stakeholders' workshop in November 2000 enabling stakeholders' representatives to make inputs into the processes. This final report is one of the outcomes of the workshop.

5. The report is presented in five chapters: Chapter I gives the background leading to Lesotho's performance in implementing LDC II (Chapter II) and assessment of that performance (Chapter III). The programme of action for LDC III is elaborated in Chapter IV, and the implementation framework, which includes financial requirements, is presented in Chapter V.

PERFORMANCE AND ASSESSMENT

6. There is a strong international consensus that one of the key preconditions for substantial and sustainable improvements in the livelihoods of the poorest is growth and stability in the macroeconomy. Underpinning these preconditions is democratic stability which provides an enabling environment for economic growth and dispersion of its benefits to different strata of Lesotho society.

Achievements

7. The 1990s can be regarded as a 'policy decade' for Lesotho. Previous development policies were refined and rendered more specific and focused; and new ones, as well as sectoral strategic plans, were formulated to meet challenges and commitments made at

international fora in which Lesotho participated. The Round Table Conferences (RTCS), which were supported by UNDP and provided a mechanism for deepening the content of the country's sector development policies, fostered mutually rewarding consultations with a wide spectrum of development partners.

8. The 1988 Sixth RTC, for example, not only paved the way for the mobilization of funds for the implementation of multibillion Lesotho Highlands Water Project (LHWP) in 1990s, but also stimulated formulation of water and environment development policies of 1990s. Lesotho has comparative advantages in these sectors, especially the water sector

9. The LHWP played a major role in contributing to macroeconomic boom of the first half of the 1990s decade. The project's construction activities boosted custom's revenue receipts resulting from imports of construction materials, and also generated employment on site and later in the second half of the decade, as payment of royalties was beginning to accrue from sale of water to South Africa. The revenues were utilised for funding community employment schemes.

10. Also creating employment were several labour-intensive and income-generating medium and small-scale schemes: Labour Construction Unit employing villagers as labourers and also training them as contractors in access roads construction; Civil Works Section of the Ministry of Local Government focusing on construction of rural clinics and footbridges; afforestation and conservation programmes; and agricultural intensive production projects. NGOs played a vital role in some of these schemes. Some of these projects were funded by the Lesotho Highlands Revenue Fund (now Lesotho Community Development Fund).

11. Second to LHWP in the macroeconomic improvement was the export-oriented manufacturing of apparel and electronics in which direct foreign investment played a major role, and absorbed a significant number of the labour force. This formal employment had an impact on the informal sector; in particular, the services sub-sector which flourished.

12. The above employment developments were facilitated by vibrant economic growth resulting from sound macroeconomic management, spurred by the 1991 Enhanced Structural Adjustment Facility, following the 1988 Structural Adjustment Programme. The key elements of macro-economic management were prudent fiscal policy which generated budget surpluses between 1990 and 1998, cautious monetary policy which kept inflation down, and efficient external debt management. Overall, the annual real GDP growth averaged 12 percent between 1995 and 1999, compared to 3 percent during 1990-1994.

13. Privatisation intent of 1980s was translated into a reality in 1990s. GOL established the Privatisation Unit in the Ministry of Finance in 1995, with the objective of privatizing its parastatals, state companies and some services in order to release resources that would be deployed for addressing core unemployment and poverty problems. To date 32 out of about 50 enterprises, owned and run by Government directly or under Lesotho National Development Corporation (LNDC), have either been sold (13), are in the process of liquidation, or have secured a strategic investor. The most critical institutions, in terms of investment promotion and economic growth,

that have been or are being privatised, are the electricity, telecommunications, and water and sewerage parastatals.

14. Privatisation was executed alongside private sector development. Through various projects supported by the World Bank and multilateral donor agencies, institutional capacity building in the Ministry of Industry, Trade and Marketing and training of trade attachés were embarked upon. In order to create an enabling environment for increased indigenous private sector participation, with the objective of reducing poverty by improving employment opportunities, skills upgrading programme was strengthened. Capacity building was achieved through provision of training, access to industrial buildings, loans and equity finance.

15. The productivity of the existing and potential labour force, and its orientation towards self-employment and self-reliance, was promoted by provision of education and health services. Considerable strides were made in the provision of social infrastructure (health clinics, schools, water supplies and sanitation) with a focus in the remote mountain areas. Literacy programmes were mounted by NGOs, while mechanisms of collaboration were initiated between the Government and the Christian Health Association of Lesotho (CHAL), through a Memorandum of Understanding, towards the design of an efficient integrated health care delivery system.

16. With the recent policy of Free Primary Education (FPE), introduced in January 2000, the Government is committed to providing basic education for all by 2006. Concerned that the gains made in education (high adult literacy) and health (high life expectancy rate) could be reversed by HIV/AIDS, GOL formulated the National HIV/AIDS Strategic Plan aimed at controlling the spread of the disease, as well as mitigating its impact on vulnerable groups, individuals, families and communities.

17. In the area of governance, democratic elections were held in 1993 and the following ones in 1998, but the results were challenged by the opposition parties. The emerging political impasse was resolved by the establishment of the Interim Political Authority (IPA), with the assistance of a troika of SADC heads of state, and constituted by all political parties which were charged with the task of preparing for fresh elections.

18. In the meantime, three measures were taken by GOL to achieve political stability and poverty reduction. Firstly, decentralization of governance was initiated by passing relevant legislation and proceeding with decentralization plans, undertaking consultations, conducting awareness and training campaigns at central and local levels. Secondly, the military retraining programme was launched to maintain stability within the internal security forces of the country. Thirdly, a Commission of Enquiry was instituted to investigate the events that led to the 1998 socio-economic unrest, with the objective of preventing recurrence of the events.

19. Achievements in the agriculture, environment and tourism sectors were limited to institutional and policy restructuring initiatives. However, Lesotho being the coordinator of two SADC sectors – Environment and Land Management Sector and Water Sector – the role of natural resources in poverty reduction was given a regional context and focus.

20. Given the prevailing gender disparities, which are especially pronounced in agriculture and environment sectors and thus posing a critical poverty problem, GOL undertook two corrective measures which are however not addressing gender problems exclusively in the two sectors: (i) the establishment of the Law Reform Commission in 1997 and the Land Policy Review Commission in 2000 which were expected to make recommendations, among others, to eliminate discrimination of women in land matters; (ii) policies and procedures have been revised to ensure that socio-economic activities that were male-dominated are accessible to women.

Disappointments

21. The successes that were achieved did not significantly contribute to poverty reduction. Based on income levels, half of the population was estimated poor at the beginning of 1990s, it is now 68 percent. It has been found that 49 percent of all households fall in the destitute category. Notwithstanding the uncertain reliability and validity of poverty measurement standards, the miracle of the macro-economic boom did not filter down to masses of people. Poverty is spreading in urban areas where it is claimed to be underestimated; it is worse in the mountain region where it is more intense.

22. The civil and political unrest of 1998 caused a significant turnaround in the performance of the economy as a result of widespread looting and burning of businesses, work stoppages and eventual income losses, and reduced investor confidence. Compared to 1997, domestic output contracted by 4.6 percent against a growth rate of about 8 percent in 1997, and net private investment inflows dropped by about 50 percent.

23. The winding down of Phase IA of LHWP during the last quarter of the decade, when the project was nearing completion, resulted in the reduction of workers who were employed in construction activities. The job losses could not be compensated by the traditional alternative mine work in South Africa as retrenchments were also taking place in that country (125,000 Basotho mine workers in 1989, and 69,000 in 1999). Despite efforts made to generate employment, unemployment rate has remained high at 40.5 percent. About 25,000 youths enter the work force every year, but only 9,000 find employment.

24. Government finances weakened and a deficit of 13.4 percent was registered for the financial year 1999/00. This was mainly attributed to recapitalisation of the old Lesotho Bank, before its privatization, as well as the early repayment of the domestic loans on behalf of the LHWP Muela Hydropower Plant. The balance of payments situation deteriorated and also the country's foreign reserves declined from import coverage of 9.8 months in 1998 to 8.9 months in 1999. Disappointing was also the decline of Official Development Assistance (ODA) which contracted by 25 percent over the period 1993-96, compared with the peak in 1993.

25. The combination of declining waged employment – due primarily to the retrenchment of mineworkers – and the unavoidable increases in public service and private sector salaries, contributed to Lesotho having one of the highest levels of income inequality in the Southern and Eastern Africa (45 % of total national income

flows to the richest 10 percent of the population, compared to less than 1 percent for the poorest 10 per cent).

26. Good governance suffered a setback when IPA constituent political parties could not reach consensus on electoral model and an equitable parliamentary representation, and as they failed to meet the deadline of May 2000 for holding the general elections. The public service reform programme also progressed at a very slow pace.

27. In the social sector, geographic disparities still exist. Many remote parts of the mountain region have no access to basic services – water supply, readily accessible health centres and schools, road, bridges and communications.

28. A major disappointment is related to the spread of HIV/AIDS infection. Although the lack of reliable and accurate data on the status and spread of the virus exists, reported full-blown AIDS cases exceeded 7000 in 1998 while the first case was reported in 1986.

29. Despite the achievements in expanding educational infrastructure, the overall enrolment levels in the primary school system did not improve during the decade. One of the factors associated with this problems was the prohibitive fee structure that disadvantaged poor families.

30. The farming sector continued its downward trend, with no prospect of improved food security or better incomes from agriculture over the past ten years, while the number of landless rural people was increasing. Efforts to revitalize tourism sector, especially eco-tourism, were not adequate to exploit its full potential.

31. Environmental degradation contributed to the bleak agricultural picture, as soil erosion and range degradation caused by overgrazing progressed unabated. Overharvesting of woodland and other biomass emphasized the poverty suffered by the rural communities, who could not afford fuel from fossil energy sources; and the burden fell on women. Lack of capacity to deal effectively with waste water pollution undermined industrial growth and was thus an obstacle to expanding employment opportunities.

Potential and Opportunities

32. The success of structural adjustment programmes has demonstrated the potential of Lesotho to improve its macroeconomic performance markedly. Buttressed by sustainable prudent fiscal management and diversified economic activity, the multiplier effects can be generated to enhance employment opportunities and reduce poverty.

33. The greatest assets of Lesotho are its human and natural resources. There is a potential in mobilizing the human capital into the development stream through explicit distributive policies targeted to equity in incomes, political and development decision making at local level, and geographic spread of economic and social services. These potentials can be enhanced by creating secure and sustainable political stability for foreign and local investment.

34. Sustained water and land development offer a potential in tackling rural development and employment problems. The trade-offs are revenues generated by sale of water and electricity, as well as access of these resources to a wider section of the population, and commercialization of agriculture.

35. At international level, recent trade instruments provide Lesotho with opportunities to enter the global market: SADC Free Trade Area Protocol (regional/international); ACP-EU Cotonou Agreement; American Growth and Opportunities Act; Smart Partnership International Dialogue for Economic Recovery; and Commonwealth Partnership Technological Management.

36. Although the concept of globalisation offers opportunities to share the benefits of universal economic growth, the economic disparities between developed and developing nations, especially those of the LDCs, require skilful negotiations that do not compromise national endeavours to tackle poverty. On its part, and to benefit from globalisation, Lesotho must improve its competitiveness through quality production and services.

Threats and Shocks

37. Threats and shocks confronting Lesotho in its efforts to enhance the country's economic growth are economic, institutional, socio-political and natural.

- The SADC Free Trade Area Protocol, which obliges Lesotho to remove import restrictions over a period of 8 years, will result in a 17 percent reduction in customs revenues. The recent EU/South Africa Free Trade Area will further erode customs revenues.
- Continued restructuring of the South African mining industry will result in increasing retrenchment of Basotho migrant mine workers, with a negative impact on rural households income.
- Institutionally, the multiple and often parallel development initiatives ('bubble bath' scenario) is not only a constraint in coordinated planning of programmes and allocation of resources, but also a threat to cohesive implementation of poverty reduction strategies. Rampant and increasing stock theft is an institutional threat to rural livelihoods.
- The spread of HIV/AIDS poses a threat and shock to progress made in improving life expectancy, estimated to drop to 45 years by 2010, compared to projected 66 years without the disease.
- The socio-economic disturbances caused by the 1998 riots represent a national shock which will damage the economy if they are allowed to recur.
- The El Nino phenomenon, which has been characterised by severe droughts, is a threat to the already ailing agriculture sector and rural livelihoods, and improved macroeconomic performance.

PROGRAMME OF ACTION

Rationale

38. In the context of poverty reduction in Lesotho, the foregoing review has highlighted the critical role of macroeconomic and socio-political stability which, in

turn, are both a cause and effect of a growing economy. It is a growth fuelled by the productive sectors that generate employment through improved human productivity, which can further be enhanced by various investment partnership arrangements.

39. While macroeconomic and socio-political environment and employment can be created, environmental resources cannot be created – they are given. At the same time, they are a part of development choices worth pursuing and optimizing for simple and complex reasons. Simply, majority of poor people in Lesotho derive their livelihoods from environmental resources – land, water and natural vegetation. In terms of complexity, the critical challenge is to improve natural resource productivity and its integration in the country's economy so that the resource contributes to economic growth and betterment of the livelihoods of its users. This is necessary given the slow pace of job creation in the rural areas.

40. The inward-looking initiatives of improving performance of the economy are as critical as outward-looking strategies, and can be mutually reinforcing. Concerted regional integration initiatives do not only play an essential role in accelerating Lesotho's sustainable development, they also provide a window of entry into the global markets.

Challenges

41. Implicit in the above three categories of development pathways are challenges that confront Lesotho. Responses must necessarily take account of achievements made in the past decade and previously, the constraints that hindered progress, and the potentials and opportunities which remained unexploited or partly taken advantage of.

42. The greatest challenge is to move from the 'first generation' stabilisation programmes to the 'second generation' consolidated and cohesive development effort. The transition, which underlies the programme of action in the first 2000 decade, is based on the capacity of Lesotho to meet the following associated challenges:

- Intensification of development agenda that hastens the pace of employment generation through export-led growth, skilled productive and healthy labour force, diversified economic activity, and commercialized production. Economic infrastructure that is efficiently operated is of vital importance.
- Striving for participatory, socially secure and economically equitable and environmentally sustainable growth. One of the common denominators in all these challenges is the spread of AIDS/HIV.
- Strengthening reforms in the banking and financial sectors to diversify revenue base and enhance accountability.
- Introducing flexible and restrained wage policies and privatization measures that will encourage and attract investment by local and foreign business people.
- Forging business partnerships regionally and globally while adding value to Lesotho's products to enhance their competitiveness.

Vision and Policy Strategies

43. Effective transition from the ‘first generation’ to the ‘second generation’ programmes will be facilitated by a national vision that will enable Lesotho citizens to focus their collective energies towards a prosperous Lesotho. While GOL has initiated the process of evolving the Vision 2020, the Programme of Action has tentatively addressed the issue, as required for the LDC III Conference.

44. The quantified strategic objectives, with set targets, have been presented for the immediate term (2000/01-2002/03), medium term (2003/04-2005/06), and long term (2006/07-2010/11). The targets can be regarded as indicative, pending a further elaboration and refinement during the formulation of the fully-fledged Poverty Reduction Strategy Paper.

45. National policies and strategies for Lesotho’s development, that are sector specific, are already in place. Pervasive constraints have been the implementation capacity and inadequate financial resources. The current policies hinge on the theme of sustainable human development, and thus the theme also serves as a basis for the Action Programme.

46. Since poverty is the most critical constraint to human development in the country, all policies and strategies converge to the issue of poverty reduction. The policies accord a high priority to employment creation and are premised on the realization that productive employment is a vehicle not only for stimulating economic development and growth, but also for reducing poverty.

47. The structure of Lesotho’s policies and strategies are summarized as follows:

National Goal: Sustainable Human Development

<u>National Policy Objectives</u>	<u>Key Strategies</u>
Poverty Reduction	- Target Resources to the Poor - Set up social funds and employment schemes
Employment Creation	- Direct investment to high employment content sectors - Promote privatization and out sourcing of services - Encourage local preference in procurements while recognizing the need for competitiveness
Social Integration	- Improve governance and build service delivery capacity - Ensure political and macroeconomic stability - Improve financial and macroeconomic stability - Release public resources and eliminate public sector wastage
Conservation of the	

- Land Base protection measures
- Lay down framework for environmental and management
 - Introduce rangeland overgrazing control and zone areas for environmental protection and recovery

Programme of Action Priorities

48. Given the fact that Lesotho has pronounced its development priorities in the successive National Development Plans, no new inventions have been improvised to unfold a programme of action that can steer the country to sustainable development. What has been done is to build on the past and present (draft Seventh National Development Plan) development frameworks.

49. Furthermore, the programme of action and the priorities are not necessarily definitive, in view of the incomplete, but ongoing, preparation of nationally important three exercises – 7th National Development Plan, PRSP and Vision 2020. Neither are the details of programme projects given at this stage, as they need to be developed in the context of the Development Plan which serves as a benchmark for the 10-year action Programme.

50. Taking into account the above considerations, the Programme of Action focuses on five priorities (and relevant inputs), which are also consistent with the broad spectrum of LDC’s priority issues expected to be addressed by the LDC III conference:

- Macro-Economic Stability Programme Inputs: The objective of the programme is to create a favourable environment for sustained economic growth and the long-term development of Lesotho’s economy. The programme should provide the basis to overcome the structural bottlenecks of the economy, lead to their transformation, and contribute to the eradication of poverty eventually.

The three major components of the macro-economic stability programme requiring local and external resources are: manpower and services, infrastructure, and regional integration. The lead implementing ministries are the Ministry of Finance (MOF) and the Ministry of Development Planning (MDP), including the Central Bank of Lesotho. In its coordinating role, MDP ensures that the necessary economic infrastructure, provided by the sectoral ministries charged with the responsibility, is in place and that the objectives of regional integration are pursued. Manpower is required to provide efficient services for the development of the economic infrastructure and utility sectors, and implementation of monetary and fiscal policies.

- Social Stability Programme Inputs: The objective of the programme is to create social environment that is conducive to releasing full energies and potential of Lesotho human capital for developing and widening the productive base and hence the attainment of sustained development. The objective underpins two key requirements: the full involvement, integration and participation of all social groups, especially women and youth, in the development process; and the strengthening of human capital through access to social services.

The three major components of the social stability programme requiring local and foreign financial support are the enabling democratic and security environment, developing the human resource, and infrastructure. The lead implementing government sectoral ministries are Law, Ministry of Defense; Constitutional and Parliamentary Affairs; Justice and Human Rights; Home Affairs; and Local Government; Lesotho Council of NGOs (LCN), bona fide NGOs and community-based organizations. It is important to promote measures aimed at increasing the motivation and the opportunities of all social and economic actors by improving institutional capacities and efficiency in public administration, ensuring an optimal balance between the public and private sectors, and supporting these measures will stimulate shared responsibility in reducing poverty.

- **Productive Sector Programme Inputs:** The objective of the component is two-fold: firstly, to expand the productive potential in line with dynamic comparative advantages of Lesotho, available resources, internal and external market prospects, and diversification of productive base; secondly, to improve income distribution patterns and broaden income opportunities at the national level so as to strengthen the purchasing power of the low-income strata of the population, and thereby increase the national demand for the goods.

The productive sectors in Lesotho consist of trade and industry, agriculture, tourism and mining. Although trade and industry tend to be concentrated in the urban centers, all the productive sectors have in common a significant rural content and are predominated by an informal sector in which women play a major role. Through its marketing function, the Ministry of Trade, Industry and Marketing, provides a vital linkage to the other productive sectors, and thus enhances cross-sectoral opportunities for employment and poverty reduction.

While each production sector has its own characteristic components and thereby requiring specific assistance inputs, there are common cross-sectoral components which should be given priority attention. The key such components are the services dimension, science and technology, rural development and infrastructure. Supporting these components will promote the achievement of the productive sector objectives, reduce dependence on narrowly based traditional commodities and enhance the export orientation of domestic economy.

- **Natural Resources Programme Inputs:** The objective of the programme is to tackle the twin-problem of poverty and environmental degradation in order to provide a basis for long-term sustained growth and sustainable development, which are essential to enable Lesotho to protect the environment.

The natural resource programme seeks to achieve an optimum balance between human demands and the natural resource base for future generations, as well as for the present generation, and at the same time to maximize the ability of the environment to meet these demands. Institutionally, the utilization, management and protection of natural resources in Lesotho is vested in five main ministries; namely, Agriculture, Home Affairs, Local Government, Natural Resources, and Environment, Gender and Youth Affairs. The four components of the natural resource programme requiring support are awareness

programmes, improving productivity through management and protection, infrastructure, and regional integration.

- Disaster Mitigation and Prevention Programme Inputs: The objective of the programme is to improve and increase the capacity of Lesotho to identify disaster scenarios, to establish appropriate protective measures and contingency plans, and to ensure that local community leaders and the population in general know how and when to apply these measures.

The components of disaster mitigation and prevention programme requiring support are disaster preparedness, immediate mitigation measures and long-term preventive measures. The responsibility of dealing with disasters is entrusted to the Disaster Management Authority (DMA) in the Prime Minister's Office. The Authority coordinates all disaster activities by mobilizing participation of all ministries, NGOs (the main one is Red Cross) and CBOs, donor agencies, private sector and community authorities. The Ministries of Natural Resources (Department of Meteorology Services), Transport and Communications, MEGYA, Agriculture and Home Affairs provide information on the status of weather, agriculture, roads and the level of deprivation.

Implementation Framework and Financial Requirements

51. In each of the five priority programmes are sub-programmes and projects that are ongoing, while some are new. The ongoing projects will require consolidation and expansion in the medium and long term. Institutionally and over a phased period, the Ministries of Trade, Industry and Marketing; Agriculture and Local Government feature in almost all the programmes, while the Ministries of Natural Resources and Environment, Gender and Youth Affairs are critical in natural resources and disaster programmes. The main role players in macroeconomic and social stability are respectively the Ministries of Finance and of Development Planning, Works and Transport, Home Affairs and Local Government, Education, and Health and Social Welfare.

52. In order for the ten-year programme, to be coherently implemented, targeted to reducing poverty and unemployment, and for efficiently coordinating local and foreign resources, it is essential that the programme implementation phases coincide with the three-year development plans.

53. The investment requirements for the five priority programmes have taken account of Lesotho's domestic resources in terms of financial capability and implementation capacity. The latter is important since a Public sector Investment (PSIP) has already been prepared for the 7th Development Plan, indicating donor commitments. Thus the plan covers most of the requirements for the proposed immediate phase of the Action Programme.

54. In the subsequent years, the Ministry of Works continues to receive the highest capital budget allocation because of the importance of economic and social infrastructure in the economy. Whereas together with LHWP, the two sectors' capital expenditures top the list (average 34 % LHWP, 20 % works) in the first two years, Works has 60 percent in the third year, while Education ranks fourth to Trade and

Industry. The funding of PSIP in the medium and long term will follow the above pattern, and may mean increased expenditure from GOL sources, which is unlikely to have a significant impact on poverty reduction unless donor funding is provided. Overall, some 40 percent of the total 10-year budget (M11 billion) is estimated as a gap between the ministries' needs and resource availability.

55. The projections methodology employed was the application of simple averages: growth of 10 percent (7% inflation and 3% real growth) was applied from the immediate to the medium phase; and 15 percent (10% inflation and 5 % real growth) from the immediate to the long term phase.

56. Over the ten-year period, the percentages of budget allocations by programme are as follows:

	Percent
Macroeconomic Stability	2.5
Social Sectors	17.6
Productive Sectors	13.8
Natural Resources	65.2
Disaster Mitigation	0.9

The highest level of resources (65%) is in the natural resources sector, thus highlighting the need to prioritize programmes in areas in which Lesotho has comparative advantages (e.g. water), but which are also areas of poverty concentration (e.g. unsustainable use of land resources). While sale of water to South Africa will generate revenues for funding poverty reduction programmes, water development for domestic and industrial purposes is critical for sustainable growth. The comparatively low financial allocation to the productive sectors is based on the expectation that private investment will play a major role. On the other hand, social and economic infrastructure is of paramount importance and the financial requirements are in-built in the programme.

Assumptions and Fiscal Implications

57. The budgetary projections are based on two major assumptions: (i) stimulation of growth of critical sectors is already built into the framework of the immediate phase of PSIP. Any re-prioritization of activities would be done by adjusting allocations with the overall annual provisions; (ii) the present allocative shares in the immediate phase would be maintained throughout the ten years, with the engine of growth being manufacturing, construction (including Phase IB of LHWP), and human capital development.

58. Although the budget deficit of 13.4 percent was registered in 1999/00, GOL is determined to contain the deficit to about 3.6 percent of GNP. Financing the deficit by borrowing from bank or non-bank sectors, or by reducing government deposits with the Central Bank of Lesotho, may have a negative impact on the monetary base and supply or limit availability of resources to the private sector.

59. In the light of these implications, GOL is committed to attracting foreign direct investment, as well as anticipating the country's international development partners to provide a higher proportion of grants and concessionary loans than commercial

funding to finance its priority programmes, in order to achieve the objectives of poverty reduction strategy.

CONCLUSIONS

60. The Programme of Action that Lesotho is presenting to the LDC III Conference is driven by its commitment to reduce poverty which appears to have resisted past interventions. In resolving to redouble its efforts, along with the entire Lesotho society, and with the support of its development partners in the international community, the Government has highlighted key issues for the country's economic growth and sustainable development that warrant financial support:

- Employment generation, with its economically multi-faceted and institutionally multi-sectoral linkages.
- Development of Lesotho's abundant water resources that will optimize the potential in enhancing industrial and agricultural production, and provide socio-economic multiplier effects for employment creation in the rural and urban areas.
- Management and control of spread of HIV/AIDS in order to maintain the threatened nation's status of health which, in turn is a major constraint to human productivity in all fields of development.
- Social and economic integration which calls for secure and stable economic and political environment, enabling the citizens to participate in the country's development programme in partnership with international investors.

CHAPTER I: INTRODUCTION

I.A. Background

1. With its population of 2.2 million, Lesotho is included amongst 42 least developed countries (LDCs) with a total population of 440 million. The group of LDCs constitutes the weakest segment of the international community. Like all the LDCs, Lesotho is particularly ill-equipped to develop its domestic economy and to ensure an adequate standard of living for its population. Thus the economic and social development of LDCs represents a major challenge for themselves as well as for their development partners.

2. Recognising the challenges in an interdependent world and the serious seeds of tension contained in the maintenance or deepening of the gap between the rich and the poor nations, the United Nations General Assembly decided to convene the Third UN Conference on Least Developed Countries (LCD III). The Assembly accepted the offer of the European Union to host the Conference in Brussels, scheduled to take place in May 2001. In order to improve upon the experiences of past UN LDCs Conferences and get better results in the implementation of the outcomes, it was decided that the preparations for LDC III should be based on country-level ownership by involving all national stakeholders.

3. In view of a concurrent process of preparing an Interim Poverty Reduction Strategy Paper (PRSP), a joint two-day LDC III/PRSP workshop was held (22-23 November, 2000) in Maseru. The workshop attended by 151 representatives from government ministries national assembly and civil society organizations, was also aimed at providing the stakeholders participating in poverty reduction initiatives an opportunity to examine the LDC III report, with a view to improving the final product.

4. It was acknowledged that a comprehensive national country-level preparatory process requires, *inter alia*, the establishment of a National Inter-Ministerial Preparatory Committee (NPC) which includes representatives of civil society. In Lesotho the committee is coordinated by the Ministry of Development Planning (MDP), which had been designated by the Government of Lesotho (GOL) as the Focal Point for the Conference and Chair of NPC. The committee was assisted by local resource person and interacted with the Local Development Partner's Forum (DPF) consisting of bilateral and multilateral agencies resident in Lesotho. The composition of NPC is shown in Annex 11. The task of the NPC and the DPF is to review progress made in implementing the commitments embodied in the 1990 Paris Declaration on the Programme of Action for LDCs (1991-2000), as well as participating in the formulation of a new programme (2001-2010) based on national-level assessment of constraints, priorities and opportunities that would enhance the progressive integration of Lesotho into the world economy in the new century.

I.B. Overview of Lesotho's Constraints and Potentials

Socio-Economic Setting

5. The physiography, socio-political, and economic environment underpin Lesotho's development potential and constraints. The Kingdom of Lesotho is a mountainous

country with a total land area of 30,355 km² and completely landlocked by the Republic of South Africa. The country's land area rises from 1,388 metres to over 3,000 metres above sea level and is characterized by perennial river systems originating from the highlands, a population density of 65 people per km² spread in four ecological zones, namely, mountains, foothills, lowlands and the Senqu (Orange River Valley). The climate is temperate with variable annual rainfall (600mm – 1600mm) and temperatures ranging between a maximum of 32 °Centigrade to –6 ° Centigrade during the winter months (May – September) when snow is of common occurrence in the mountain zone.

6. Population density is highest in the lowlands and foothills due to increasing population growth (2.6 % per annum). This increase has resulted in rising landlessness (55% in 1990s compared to 22% in 1980s). Human and livestock population pressure on limited land areas has also contributed to soil erosion and overgrazing which are the most serious form of land degradation. According to the land tenure system, all land is vested in the nation, with the King being the trustee for all rights of land holding, and individuals having user rights only in the rural land in particular. On the other hand there is tenure flexibility with respect to urban land which permits titled ownership of residential and commercial land. While the communal land tenure system and usufruct arable land system have equity advantages, both systems are a constraint in land conservation and management and often hinders commercial land development in rural and, sometimes, in urban areas.

7. Despite the above constraints, a feature of Lesotho with a development potential is the fact that the country has only one ethnic group, the Basotho, and one language, Sesotho; thus ethnic and racial tensions are rare. The nation is knitted together by a constitutional monarchy. The monarch exercises his powers through an elected Prime Minister and his Cabinet and a National Assembly consisting of an elected Parliament, and the Senate. The 24 Senators are in the National Assembly by virtue of being Principal Chiefs of the 10 Districts and 14 Wards, and in addition there are 11 Senators nominated by the King. There are 18 political parties, and Lesotho Congress for Democracy is presently in power.

8. Completely surrounded by the Republic of South Africa (RSA) Lesotho's ability to achieve its development objectives have been closely linked to the evolving economic and political relationship with its larger neighbour, from where 95 percent of its imports come and to which 40 percent of its exports go. Lesotho is part of the monetary Rand zone; its currency Loti is tied to the South African Rand at a fixed exchange rate of 1:1. It is a member of South African Customs Union through which RSA collects trade taxes on behalf of Lesotho. But most important is Lesotho's export of human capital to RSA mines and, together with migrant workers in other industries, about 40 percent of male labour force is employed in South Africa. Data on female and other categories of migrant workers is unreliable.

9. Associated with the above advantages, there are also risks. Although the remittances account for a third of Lesotho's GNP, the restrictive mine labour recruitment policies followed in South Africa up to early 1990s have had devastating effects on family structure in recruitment areas of Lesotho. As can be expected, Lesotho's economy is highly vulnerable to changes in South Africa. Domestic imbalances in that country, such as inflation, hikes in oil products and any fluctuations

in the value of the Rand always have an impact on Lesotho's economy. The need for a balanced macroeconomic stability between the two countries was underscored by the signing in 1986 of the Treaty which started the implementation of the first phase of the Lesotho Highlands Water Project¹. The project envisages exploitation of potential in Lesotho's abundant water supplies for the country's economic development.

Relevance to Paris Declaration

10. The structure of Lesotho's economy influenced the degree of implementing the Paris Declaration commitments. The economy of Lesotho was heavily government-led up to 1980s and economic policies were not clearly defined. This deficiency represented a major constraint in achieving the objectives of the Programme of Action for LDCs. The structural adjustment programme, which was implemented from 1988 to 1992 and which brought about substantial fiscal improvements, only addressed the economic challenges facing the country partly.

11. Other major structural reforms in the economic and social setting and prioritization of development issues were given greater attention in the 1990s. These issues included structural reforms in governance covering a wide sectoral spectrum, such as empowering private sector through privatization initiatives and development of the sector, decentralization efforts, deregulation of markets, and optimizing the country's environmental resources especially water resources. All these initiatives, as well as improvement in health and education, were aimed at enhancing effective participation of the people in economic and political management and, ultimately, at achieving two major goals, namely, poverty reduction and economic growth.

12. A number of constraints have been encountered in the implementation of the 1990 Paris Programme of Action and which have hampered Lesotho in optimizing its development potentials. While democratization was restored in 1993, political instability and insecurity have been prevalent. Consequent lack of investment confidence occurred at a time when donor flows were declining. The deterioration in gold trading had a negative impact on mine employment and Lesotho's economy as a result of retrenchment of Basotho mine workers in South Africa. The remittances of these workers play a significant role in the country's economy and their return exacerbated the high 45 percent unemployment situation. Although efforts were made to improve revenue collection from various sources, substantial amounts were lost through fraud, unimplemented improved accounting systems and weaknesses in the tax administration departments. Natural factors such as repeated drought cycles depressed further the already progressive deterioration of agricultural production.

¹ The Lesotho Highlands Water Project is a large infrastructure project exporting potable water from the mountains of Lesotho to the industrial heartland of South Africa and generating electricity for domestic consumption. Before then almost all the country's electricity requirements were supplied by RSA. The project's phase costed about US\$ 2.5 billion at 1990 prices. Full scale construction began in 1990, and exports of water started in 1998, estimated to yield revenues of about US\$ 55 million annually. The second phase commenced in 1997 and completion is expected in 2003 at a cost of US\$ 0.9 billion.

I.C. Programme of Action

13. Against the above background of Lesotho's economic potentials and constraints, an assessment of the country's performance in implementing the Paris Declaration and Programme of Action for the Least Developed Countries for the 1990s is presented in the next five chapters. The Paris Programme of Action encompasses five priority areas:

- Macro-economic policy framework primarily targeted to the most vulnerable groups of the population.
- Developing human resources by applying effective population, health, education, training and employment policies as well as respecting human rights and social justice.
- Reversing environmental degradation through management and sustainable utilization of natural resources and reinforcing action to deal with disasters.
- Promoting food production, enhancing rural income and expanding the non-agricultural sector.
- Diversifying the productive sectors based on private initiative, efficient public enterprises, regional cooperation and international action in the field of commodities.

14. Guided by the terms of reference (Annex 1) and the report outline provided (UNCTAD, 1999), the assessment of Lesotho's performance will highlight factors that have facilitated or constrained Lesotho's development in the five areas outlined above. Based on the constraints and potentials, programme of action for the decade (2001-2010) will be elaborated indicating objectives, corresponding policies and implementation arrangements, and total resource requirements.

PART 1

CHAPTER II: SOCIO-ECONOMIC PERFORMANCE IN 1990s

15. There is a strong international consensus that one of the key preconditions for substantial and sustainable improvements in the livelihoods of the poorest, mainly found in LDCs such as Lesotho, is growth and stability in the macro-economy. However, though economic growth is critical for poverty reduction, it is not *per se* a sufficient condition to bring about overall improvements in the livelihoods of the poor. Despite the macro-economic boom which Lesotho experienced in the late 1980s, a vast majority of Basotho is still overwhelmed by poverty which has been increasing in 1990s.

II.A. Indicators

16. Indicators are the useful yardstick to monitor socio-economic performance of a country. Having identified its priorities, Lesotho set its targets for improvement of its social and economic development more explicitly in 1990s than in the previous decades. But even then targets were not clearly defined in some sectors (Sixth National Development Plan, 1996/97-1998/99). The targets were guided by various international indicators shown in Annex 2 (a) which had been established in respective international conferences, and their Lesotho's follow-up is assessed in para 66-67.

17. Besides emphasizing the inclusion of measurable commitments and targets for resource flows, Basic Principle 4 of the Paris Declaration also stressed the need for criteria and performance indicators for policies at the national and international levels. Recognising the importance of tackling poverty as a core issue, embodied in the globally agreed objectives, and in creating a domestic economic environment which is conducive to sustained growth, sustainable development and growth-oriented macroeconomic framework, Lesotho focused its development efforts on poverty reduction. The first step was a Poverty Mapping Exercise undertaken in 1991 which identified poverty indicators. The exercise was updated in 1994 and 1999.

18. A serious effort to analyse the targets of international conferences, including LDC II of 1990, so as to derive appropriate national goals and to monitor their implementation, was made mainly through the mechanism of government/donor Round Table Conferences (RTCs) facilitated by UNDP. At the 1995 Seventh RTC on *Strategic Issues Confronting Lesotho's Development*, poverty figured prominently in the debate on how economic performance and achievement of development goals could be accelerated in the wake of Lesotho's transition to democratic government. Of prominence was also the challenge for improving social, economic and environmental indicators. The decisions of the RTC were translated into the 1997 Eighth RTC theme of *Poverty Reduction Within the Context of Good Governance*.

19. Cognisant of the fact that a number of indicators suggested a worsening of the poverty situation, Government of Lesotho (GOL) decided to focus on its growth-oriented macro-economic approaches by clearly defining its poverty reduction indicators and targets. These were included in the documentation for the Eighth RTC and focused on four areas: good governance, health and nutrition, water and

sanitation, and environment. These monitoring parameters are broadened in Annex 2 (b) and are expected to be further refined by the Poverty Reduction Strategy Paper², currently in the process of preparation. Annex 2(c) shows that Lesotho fares better than its regional neighbours on some social indicators.

II.B. Macro-Economic Performance

Economic Growth

20. The Government of Lesotho has been pursuing poverty alleviation as its main development objective, with emphasis on employment creation and sustainable development. The country achieved significant improvement in its major economic indicators since 1994/95, compared to the earlier decade period. Four major factors accounted for accelerated economic growth, namely, (i) the IMF/World Bank Structural Adjustment Programme which the government adopted in 1988, followed by Enhanced Structural Adjustment Facility in 1991; (ii) a related cautious fiscal policy; (iii) high levels of private foreign investment in the Lesotho Highlands Water Project (LHWP); and (iv) the impetus from export-oriented manufacturing (textiles, garments, footwear and consumer electronics).

21. As a result of these measures, between 1995 and 1999 the annual real GDP growth averaged 12 percent compared to 3 percent during 1990-1994. The real GNP rate of growth annually was 4.7 percent and the GDP grew by 8.8 percent during the five-year period ending December 1999. This performance compares favourably with an average annual real GNP and GDP growth of 2.9 percent and 5.7 percent respectively in the previous five-year period. Inflation declined from 17.9 percent in 1991 to 9.1 percent in 1996, and further to 8.4 percent in 1998. Gross national savings increased from 48 percent of GNP in 1993 to 51 percent of GNP in 1996/97, and to 53.7 percent of GNP in 1997/98.

22. With regard to balance of payments and fiscal performance, the balance of payments improved, especially from 1994 to 1999, with gross official international reserves increasing to M3,041 million from M2671 million. The overall fiscal balance moved from a deficit of 10.3 percent of GNP in 1987/88 to a surplus of 3.5 percent of GNP in 1997/98, compared with the adjustment programme's targeted surplus of 1.6 percent of GNP, and the current account deficit narrowed from 22.7 percent of GNP in 1994/95 to around 7 percent in 1998/99.

23. The improvement in the economic indicators, especially contributed by export-oriented manufacturing and LHWP³ construction activities, generated employment. During the past decade, 1800 jobs have been created by the manufacturing sector, and 7222 jobs by LHWP. The overall enhancement of economic activity also resulted in

² The objective of Poverty Reduction Strategy Paper (PRSP) is to promote poverty reduction strategies that are country-driven, partnership-based, results-oriented, comprehensive, and framed within a medium term macro-economic strategy. PRSP will serve as an enhanced framework for poverty reduction and also as the basis for access to the Poverty Reduction and Growth Facility which has replaced the Enhanced Structural Adjustment Facility of IMF. It will also provide the context for a Country Assistance Strategy under the World Bank's International Development Assistance. The Interim PRSP was completed in August 2000 and the final Paper is expected by September 2001.

³ The mobilization of funding for the project was facilitated by the Sixth 1988 RTC.

the growth of the informal micro enterprise sector which created 220,000 jobs, up from 161,282 in 1990.

24. The economic upsurge was experienced despite the negative impact of the continuing retrenchment of Basotho miners in South Africa which significantly reduced migrant remittances. The number of migrant workers almost halved to 65,000 in 1999 from 127,000 in 1990. The periodic droughts and progressive environmental degradation compromised the effectiveness of the adjustment efforts in impacting positively on poverty reduction. The macro-economic trends are reflected in Annex 3.

Economic Recession

25. The accelerated economic growth gains that were made in the decade up to 1997 were reversed in the following two years. In 1998/99, Lesotho's economy went into a recession. The country's GNP declined by a staggering 7.7 percent, and this trend continued. Lesotho's balance of payments position also took a turn for the worse during 1999/00. For the first time in more than ten years, the country resorted to using its previously accumulated savings of foreign exchange earnings to pay for imports. As a result, the foreign reserves had declined by some US \$70 million in December of 1999/00 financial year. Gross reserves were the equivalent of about 6 months imports of goods in the medium term.

26. Key among the internal factors, is the unfortunate September 1998 civil disturbance which led to massive destruction of property, items for sale in the retail enterprises and, most importantly, the negative investor perception that followed. The reduced investor confidence, which is documented, resulted in the net private inflows dropping by 50 percent compared to 1997. The political events and their economic impact not only led to substantial outflow of capital when some investors left the country, but also to a massive increase of imports as the ruined businesses sought to restock their items.

Regional and International Trading

27. In the regional context, additional to cooperative water trading between Lesotho and South Africa, the Southern African Customs Union (SACU), the Common Monetary Area (CMA), the Southern African Development Community (SADC), also have contributed to and influenced macro-economic performance of Lesotho. SACU is an economic trading protocol between Lesotho, Botswana, Namibia, Swaziland and South Africa. The Union absorbs around 49 percent of Lesotho's merchandise exports to Africa, with the Republic of South Africa (RSA) accounting for about 50 percent of that amount. At the same time, over 80 percent of imports are from SACU countries. Customs receipts, primarily from SACU, have been the principal sources of government revenue for Lesotho (more than 40%) over the past four decades.

28. Owing to SACU countries being members of CMA (except Botswana), financial and monetary developments in RSA, which reflect international confidence in that country's management of its fiscal affairs, have had direct and immediate consequence for Lesotho. The continued depreciation in the value of the Rand (and hence the Loti) which may be linked to volatility in gold trading, together with any increases in the Bank rate in RSA, have affected foreign trade and payments as well

as the cost of living and inflation in Lesotho over the past five years. Lesotho's membership in SADC has not only enabled the country to participate in regional development programmes, but SADC played a role in restoring stability following the 1998 political unrest which damaged Lesotho's economy.

29. Lesotho's exports to international markets have traditionally depended on wool and mohair exports which have been declining. Since the commodity-related shortfalls in export earnings of LDCs are an important obstacle to their development efforts, Lesotho benefited considerably from EEC STABEX compensatory mechanism which was targeted to wool and mohair production covering the period from late 1980s to 1998. In order to diversify its narrow export base, Lesotho embarked on asparagus, apparel and electronics production in 1980s. Although Lesotho's products were given preferential access to international markets, consistent with the articles of the Global System of Trade Preferential Agreements, the quota system was initially restrictive but resolved at a later stage in 1990s. Trade Trends are shown in Annex 4 (b), Value of Exports Trends in Annex 4 (b), and Destination of Exports and Value in Annex 4 (c).

II.C. Progress in the Social Sector⁴

Health

30. GOL formally adopted the concept of Primary Health Care (PHC) as early as in 1979 as the strategy for achieving universal health coverage, equity, and social justice by collaborating with the Church and NGOs in providing health services. Since the adoption of PHC, Lesotho has made impressive gains in the improvement of the health status of its people by increasing access to health services through a network of hospitals and health centres.

31. In the age group of 5 years and below, the Infant Mortality Rate (IMR) dropped from 85/1000 in 1986 to 74/1000 live birth in 1996. This was accounted for by the implementation of the Expanded Programme on Immunization (EPI), the Programme on the Control of Diarrhoeal Diseases (CDD) and better nutrition programmes. The coverage of polio immunization achieved in 1998 was 84 percent, and the percentage of children below 80 percent of the internationally accepted weight for age dropped to 13.4 percent in 1991 from 22.8 percent in 1987.

32. In adults Sexually Transmitted Infections (STIs) and Tuberculosis (TB) are the main health problems, with TB being one of the leading causes of mortality. TB has climbed steadily from 159/100,000 (1991), 249/100,000 (1995), and to 297/100,000 (1997). Since the TB programme ensures regular supply of drugs, the steady increase in TB patients must be attributable in part to an increasing prevalence of HIV/AIDS.

33. The first case of the disease in Lesotho was reported in 1986. By the end of 1998 the cumulative number of reported full-blown AIDS cases exceeded 7000 which represented 0.3 percent of population, but has increased to 25 percent in 2000. Although at first glance the number appears relatively small, the distinct lack of reliable and consistent data renders the status of the virus and its spread inaccurate.

⁴ The major donor agencies which assisted Lesotho expand its social infrastructure and related services in health and education include: the World Bank, EU, Irish Aid, British Assistance, WHO, UNICEF, World Food Programme.

The rate of HIV infection in the country is, in fact, high with figures showing that 92,000 cases in the 15-49 age groups were HIV positive in 1998. This represents 9.8 percent of adult population. According to sentinel surveillance studies, the rate of HIV infection in pregnant women has risen from 3.9 percent in 1992 to 26 percent in 1996 and 35 percent in 1999. The higher rate of infection in younger women is indicative of an urgent need to overcome any traditional obstacles to gender equality.

34. Recognising the disastrous social and economic consequences of HIV/AIDS, GOL has mobilized all stakeholders, public and civil society sectors, to contribute towards the fight against HIV/AIDS through a multi-sectoral approach. Their activities and responses are coordinated through the National AIDS Strategic Plan which is implemented by the National AIDS Committee. The committee is chaired by the Deputy Prime Minister and answerable to the Cabinet. It consists of all government ministers, representatives of selected NGOs, private sector, donor agencies, and individuals selected in their own private capacity.

35. It is estimated that without HIV/AIDS, the life expectancy would have been 66 years, compared to 54 years in 1987 and 55 years in 1999. However, the Maternal Mortality Ratio (MMR) is high at 738/100,000 in Lesotho. The high MMR is a reflection of poor obstetric services, while the indiscriminate use of modern contraceptives is opposed by some churches. Although total fertility rates have dropped from 5.74 percent in the 1970s to 5.00 percent in the early 1990s, Lesotho's rates are high by sub-regional standards.

Water Supply and Sanitation

36. Inadequacy of potable water supply and sanitation, expressed in high incidence of water-borne diseases and intestinal infections, account for 20 percent of hospital patients aged one to four years. These types of infections are among the top three causes of infant and child morbidity. In collaboration with the Ministry of Natural Resources, Village Water Supply and Water and Sewerage Authority (WASA) expanded their programme, since 1992 to supply 58 percent and 55 percent of urban and rural households respectively with clean water. The Department of Rural Water Supply (DRWS) exceeded its own targets and reached 75,000 to 80,000 people a year. However, an estimated 500,000 Basotho do not have access to adequate sanitation. Out of a total of about 371,000 households, 50 percent and 38 percent of households in urban and rural areas have access to sanitation facilities respectively. WHO has provided assistance to implement the National Rural Sanitation Programme, as well as Maseru City Council urban programme.

Education

37. During the 25 years of post-independence period, Lesotho made remarkable strides in raising the country's educational and literacy standards. However, in the past decade there has been a gradual decline in both qualitative and quantitative levels of education. Church organizations own around 95 percent and 90 percent of primary and secondary schools respectively and government pays teacher salaries. The balance of schools are owned by government, public and private institutions. In 1996 Lesotho had a total of 1,249 primary schools and 203 secondary schools, an increase of 6 percent and 24 percent respectively since 1990.

38. At tertiary level, the administration of National Teacher's Training College and Lerotholi Polytechnic falls directly under the Ministry of Education (MOE), while the National University of Lesotho (NUL) is autonomous. In order to address the problem of relevance of education, skills training centers were established and are operated by the Ministry of Education, Churches, LHWP and NGOs.

39. Efforts to strengthen educational system have centered around two general priority areas. The first area is the provision of quality basic education for all, and in pursuance of this goal, set by the Jomtien World Declaration on Education for All, the government took a bold step in introducing Free Primary Education from January 2000 which is to be fully implemented by year 2006. The second priority area was to expand and improve vocational training and technical education, hence support of skills centers. The objective is to increase skilled manpower for the private sector and stem growing unemployment.

40. Around 370,000 or 60 percent of children 6-12 years (the official primary school age) were in attendance in 1997, compared to 75 percent in 1990. Generally primary school enrolment rates are higher for girls than for boys primarily because the latter traditionally herd livestock. The attendant problem is the high drop out and repetition rates. As a result only about 30 percent of primary school graduates enter the secondary school system.

41. By increasing the MOE budget, the Government increased the number of teachers from 7,428 in 1994 to 7,898 in 1996, thus the total enrolment rose from 366,569 in 1994 to 374,628 in 1996. Despite these gains, the number of new entrants in primary schools and the net enrolment is declining. A large classroom construction programme which started in 1992/93 was completed in 1996/97. The number of primary school classrooms increased from 4,464 in 1994 to 4,947 in 1996.

42. The official languages of Lesotho are Sesotho and English. When measured by the former, the adult literacy rate is 82 percent, which is among the highest in the region. However, when measured in terms of English, the literacy rate is almost halved to 42 percent for men and 37 percent for women. Efforts have been made during the past decade to provide literacy programmes to the youth and the adults. NGOs such as Lesotho adult Non-Formal education, women's NGOs and many development projects have mounted long distance teaching programmes aimed at outreaching the most disadvantaged members of society especially in the rural areas, for example herdboys.

II.D. Agriculture, Food Security and Environment⁵

43 The agricultural sector in Lesotho is dominated by subsistence farming while commercial farming is minimal. The two types of farming are characterized by extensive and intensive production respectively. Crop production is extensively carried out on 350,000 hectares and involves cultivation of staple maize crop (60% of arable land), wheat (10%) and sorghum (20%), beans and peas (8%), and vegetables

⁵ The major donors in the agriculture and environment sectors include: UNDP/FAO, EU, USAID (up to 1996), Irish Aid, WFP, Japan, SIDA, Danish Develop Assistance, German Aid, World Bank, International NGOs.

and fruits (2%). Extensively farmed is also 2 million hectares of rangeland which hold 560,000 cattle, 2 million sheep and goats, and 240,000 horses and donkeys. Intensive farming is limited to irrigated vegetable and dryland fruit production (peaches, apricots, apples, plums) as well as poultry, dairy and pig production.

44. Although the agriculture sector absorbs 80 percent and 45 percent of rural and total labour force respectively, its performance in the past three decades has been moderate to poor. Declining production trends for the major crops over the past two decades are shown in Annex 5 a. The most significant aspect is the alarming decrease in yields. For all of the major crops, yields have halved during the 1975-1995 period and the decline is generally continuing. The decline in livestock productivity has featured decrease of the national herd, particularly sheep and goats (Annex 4 b) and decrease in wool and mohair production and exports (Annex 5 c).

45. The downward production trends in the agricultural sector are reflected in Lesotho's economic performance. The total GDP share of the sector fell from 14 percent in 1991 to 12 percent in 1996 (compare 30% in 1970s). Agricultural exports represented 9 percent of total exports in 1999, down from 24 percent in 1990. During the period from 1990 to 1997, agricultural imports represented a steady figure of 25 percent of total imports.

46. Lesotho is a net importer of its main food requirements. Crop products account for 40 percent of agricultural imports (mainly cereal and cereal products since Lesotho produces only 56 percent of its cereal consumption requirements). Livestock products (dairy products and poultry, meat and meat preparations, and animal feeds) accounted for 32 percent of total agricultural imports. Food security is related to food imports and is complicated by the fact that producers are also net consumers. It is depressed by the decline in mine workers remittances, which are usually utilized for meeting food requirements of miners' families and dependents. Food security situation is exacerbated by collection of cowdung and crop residues, and depletion of tree and shrub resources of the rangelands utilized by poor households as heating and cooking fuel. Households cannot afford fossil fuels, and biomass accounts for 88 percent, while fossil sources account for only 11 percent of total fuel used.

47. Macro-economic and trade policies, employment and social factors have a strong bearing on food security because of their impact on incomes of the rural and urban population. In 1990 agriculture contributed 94 percent of income received by agricultural households, but declined to 53 percent in 1999. The consequence is that the great majority of households must depend on cash income from other sources (mine remittances, regular employment, informal business, gifts and casual labour).

48. In the regional context, Lesotho coordinates two of SADC's key natural resource sectors, namely, the Environment and Land Management Sector (EMLS) and the Water Sector Coordination Unit. Lesotho is also collaborating with RSA on the management of shared ecosystems and natural resources through border parks and LHWP. In its coordinating role of ELMS, Lesotho followed up the agreements of Rio Earth Summit by formulating SADC Policy and Strategy for Sustainable Development in 1996. At local level, the country's performance in implementing Agenda 21 was reviewed in 1996. At the core of the review were achievements and constraints in reducing poverty.

49. In September 1998, GOL established the Ministry of Environment, Gender and Youth Affairs (MEGYA). Notable achievements by MEGYA include the formulation of Environmental Policy and Bill and Environmental Impact Assessment Guidelines, which had been initiated by the National Environment Secretariat. The Ministry also produced the State of Environment and Biodiversity Reports. The reports give a clear picture of the environmental situation, the underlying causes such as poverty and suggest remedial measures; water quality guidelines and industrial effluent standards were prepared as well as undertaking pre-feasibility studies on solid waste management.

50. Lesotho's physical features render it susceptible to natural disasters such as persistent droughts, heavy snowfalls and occasional floods. The Disaster Management Authority (DMA) was established in 1997, by amalgamation of the Drought Relief Implementation Group, the National Early Warning Unit and the Disaster Management Unit, to coordinate activities dealing with disasters in the country. Disaster manual and contingency plans were developed and implemented in collaboration with the relevant government ministries, NGOs and UN agencies. The Authority has provided analytical and operational information not only for defining targeting criteria, but also for identifying food insecure areas and communities as well as appropriate method of relief intervention.

II.E Poverty Reduction and Gender⁶

51. The Government realized in 1995 that the success of implementing the poverty reduction programme required decisive steps to reinvigorate the current activities and programmes, that were being implemented under Agenda 21, in a more focused and systematic manner. With this objective in mind, the period 1995 - 1997 was used to finalise the Poverty Action Plan while at the same time designing a poverty reduction programme, namely Poverty Reduction within the Context of Good Governance, targeted to the five poorest mountain districts. This effort was followed by the preparation of a Poverty Reduction Strategy Paper in 2000.

52. To create non-farm opportunities nationwide, Government focused on activities that would benefit the small business and the industrial sector. They were provided with incentives and access to credit, as well as training opportunities to become efficient entrepreneurs. Anti-poverty development activities, for instance in agriculture, works and the informal sector, have been implemented with financial resources of Lesotho Highlands Revenue Fund (LHRF), renamed Lesotho Fund for Community Development, 98 percent of which has gone to support labour-intensive infrastructure projects, have made a considerable contribution to poverty reduction and incomes of the poor and in kind by the World Food Programme.

53. Since lack of fuel is a major environmental problem facing the rural poor in Lesotho, social forestry programme has empowered communities to plant their own trees as a soil conservation and fuel providing measure, applicable technologies of alternative energy sources have been explored. By networking with international NGOs which have provided financial aid, church organisations played an active role

⁶ Assistance has come from bilateral and multilateral sources.

in supporting anti-poverty activities through their extensive networks of schools and health centres in the rural areas. Significantly, the churches and NGOs have assisted the poor faced with disasters, such as drought, in collaboration with Disaster Management Authority (DMA). External and domestic resources were mobilized for the restoration of livelihoods and improvement of distress which the 1998 political unrest caused.

54. Overall, anti-poverty measures in Lesotho may not have changed significantly in the past ten years. About 49 percent of the population was poor in 1993, up from 2 percent in 1986. About 26 percent of the population was ultra poor in 1993 down from 39 percent in 1986/87. Poverty by gender shows that incidence, depth and severity of poverty is greatest among female headed households (54%) than male headed households (46%). One of the most important factors in explaining high levels of income poverty in Lesotho is the persistently high rate of unemployment, estimated at 40.5 percent. It is estimated that 25,000 youths enter the work force annually, but only 9,000 find employment. Applying education criteria, boys suffer more than girls, partly because even young rural boys (6-15 years) are sent to help tend livestock. Poverty studies undertaken in 1999 show that poverty is increasing.

55. As a follow-up to the Convention on the Elimination of all Forms of Discrimination Against Women (CEDAW), GOL ratified it in August 1995. The country's first CEDAW report is being finalized by the Ministry of Justice and Human Rights in collaboration with the Federation of Woman Lawyers (FIDA). MEGYA is collaborating with the stakeholders' Task Force in revising a Gender Policy.

56. In an attempt to eliminate gender discrimination from the legal statutes, the Law Reform Act was enacted in 1993 and followed by the establishment of the Law Reform Commission in 1997, with the objective of reviewing and revising all laws which discriminate against women, as well as to achieve the incorporation of gender studies into school curricula. The commission has also produced a Draft Married Persons Equality Bill.

II.F. Good Governance⁷

Democracy and Decentralisation

57. Since independence in 1966 Lesotho enjoyed democratic rule during the following five years. Thereafter up to 1993 there was an era of political instability. The second democratic elections were held in 1993 and the third in 1998, bringing into power the present government. GOL has, however, been confronted with episodes of political instability in both post-election periods, and the neighbouring SADC States intervened to restore the democratically elected government. International agencies, for example UNDP, the Commonwealth and others played a facilitating role to resolve the conflicts.

⁷ Major donors include: World Bank, British Assistance, German Aid, UNDP, EU, Danish Development Assistance.

58. The efforts of external agencies and the local civil society, were instrumental in the establishment of the Independent Electoral Commission (IEC) to manage and supervise the 1998 general elections, as well as the Independent Political Authority (IPA) which was formed to prepare for repeat elections in 2000. However, the goal was not achieved, with the postponement of the elections to May 2001.

59. GOL has been implementing local government and decentralisation programmes. Achievements in the preparations for local government include: 1995 stakeholders' workshops for chiefs, representatives of local communities, civil servants, private and parastatal sectors, and NGOs; drafting and enactment of Local Government Act 1997 and Local Government Elections Act 1998; establishment of Inter-ministerial Task Force to elaborate mechanisms of implementing decentralization.

Public Sector Reform

60. Concerned by the large number of public service employees, excessively high cost of the civil service, and its associated low performance, efficiency and productivity, GOL took steps to reform the service. The objective was to rationalise the public service by reducing overlaps and confusing roles between ministries, and between divisions within ministries; and by establishing clear organisational goals, objectives and outputs. Although progress has been slow and the task is ongoing, work has been completed on pay and grading structure, allowances and other fringe benefits; defining job evaluation system; starting implementation of Scarce Skills Study findings; performance appraisal system which is already being introduced.

61. GOL places a high priority on developing the capacity of the community through promotion of cooperative movement which ranges from rural societies, associations and informal groups to urban group formations. The Public Sector Reform and Privatisation Programmes will facilitate servicing of these groups.

Privatisation and Private Sector Development

62. With the World Bank assistance, GOL established the Privatisation Unit in the Ministry of Finance in November 1995 by promulgation of the 1995 Privatisation Act, with the objective of undertaking privatisation of its parastatals, state companies and some services. The government realized that privatisation could release the resources it needed to focus aggressively on activities that address core unemployment and poverty problems.

63. Since the programme started in 1995, 32 out of about 50 enterprises which were owned and run by Government directly or under Lesotho National Development Corporation (LNDC), have either been sold, are in the process of liquidation, or have secured a strategic investor (Annex 8). Transactions were completed concerning five companies, ten are in the divestiture pipeline stage. The Lesotho Agricultural Development Bank (LADB) was closed in 1998. While an investor is being sought for LADB, Lesotho Bank management was improved and followed by privatisation in 1999. A work plan was prepared (1998-99) for developing Capital Market Regulations that would facilitate setting up of a "Holding Company", to hold shares which would be made available to Basotho investors and the public, and a commercial Court was established. Regarding the utility sector, work is under way to privatise the

Lesotho Telecommunications Corporation (LTC) Lesotho Electricity Corporation (LEC) and restructuring of Water and Sewerage Authority (WASA).

64. Private sector development programmes have been undertaken in the 1990s to encourage and enhance employment generation and poverty alleviation. They include two programmes: Small Scale Enterprises project – a credit guarantee facility for accessing loans to these enterprises from Lesotho Bank and the Small and Medium Industry Development and Informal Promotion Programme aimed at strengthening relationships between GOL, private and non-governmental organizations, development of data base on small and micro enterprises. Strengthening institutional capacity was also directed at the LNDC, the Basotho Enterprises Development Corporation and the Lesotho Chamber of Commerce and Industry while a new institution, Business Advisory and Promotion Service, was established to also give specific support to the industrial sector.

II. G. Success Stories

Three examples of success stories are given in Annex 6.

PART II

CHAPTER III: ASSESSMENT OF PERFORMANCE

65. Lesotho's development performance in 1990s was influenced by a combination of domestic and external constraints as well as the country's vulnerability to shocks. The international community assisted GOL to sharpen its generation, formulation and implementation of appropriate sector specific policies aimed at minimizing constraints and optimising opportunities. The assistance was provided through bilateral and multilateral consultations and various international fora.

III.A. International Fora Decisions

66. Generally dialogue, in which Lesotho participated, between developed and developing countries centered on poverty alleviation through economic, social and environmental improvement. Lesotho had already made its policies explicit in the Fifth Five Year Development Plan (1991/92-1995/96) to improve the living standards through increased income, generated by growth in economic indicators and expansion of social services. Coherence of policies was achieved in the formulation of the Sixth National Development Plan (1996/97-1998/99).

III.A.1 Follow-up to International Development Initiatives

(a) **Poverty Alleviation:** The commitments of the 1995 *Copenhagen World Summit for Social Development* (WSSD) addressed the multi-dimensional approaches to poverty reduction. The follow-up to WSSD included policies and strategies elaborated in *Pathways Out of Poverty: An Action Plan for Lesotho* (1996), *Poverty Reduction Within the Context of Good Governance* (1997), and *Poverty Reduction Strategy Paper (PRSP)* for Lesotho conceived in November 1999. Poverty reduction programmes focused on employment and income generation in various sectors.

(b) **Social Development:** (i) *Jomtien (1993)*, *Copenhagen (1995)* and *Beijing (1996)* Conferences stressed the need to achieve universal primary education by 2015. Lesotho reviewed its education policies from 1997/98 with a view to prioritizing support to primary education, and increased the 1999/2000 education budget to finance free primary education introduced in January 2000. (ii) Similarly health policy emphasis and resource allocation were increasingly placed on availability and access to primary health care system for reproductive health services. This was consistent with *Cairo and Beijing* decisions that the infant and child mortality be reduced by three-fourths by 2015 and maternal mortality by two-thirds. (iii) In order to promote gender equality, *Cairo, Beijing and Copenhagen* conferences declared the need for equality and empowerment of women to be demonstrated by eliminating gender disparity in education by 2005. GOL initiated preparation of relevant policy framework in 1996, and a Gender Policy document is being finalized.

(c) **Trade:** *The Uruguay Round Agreement on Services (1994)* commenced formal implementation of GATT (Uruguay 1986) of which Lesotho was a fully fledged member and signed WTO Agreement in 1995 (Marakesh). Reform decisions on trade liberalisation and tariffication were made on manufactures, agricultural commodities, and services. Lesotho has since 1997 liberalised the marketing of its agricultural

products, starting with maize and wheat and also undertook reforms in trade and agriculture sectors. The recent mechanisms provide a favourable environment in the field of trade development and cooperation – *SADC Free Trade Area Protocol (Signed 1996)* *ACP-EU Cotonou Agreement (2000)* *American Growth and Opportunities Act (2000)* *Smart Partnership International Dialogue for Economic Recovery, Commonwealth Partnership Technological Management.*

(d) **Agriculture:** *The Rome Declaration (1996) on World Food Security and World Food Summit Plan of Action* lay foundations for eradication of hunger, with an immediate view to reducing the number of undernourished people to half by 2015. Poverty eradication was one of the key objectives. Since the Summit, Lesotho has been engaged in agricultural reform process, as well as poverty reduction initiatives.

(e) **Environment:** Following the 1992 *Rio Summit* at which Agenda 21 was adopted as the global action plan for environment and sustainable development, GOL made a policy decision to establish the National Environment Secretariat which formulated Environmental Policy and Environmental Legislation. The institution elaborated policy strategies to implement and review Agenda 21, which accorded prominence to poverty alleviation in the context of sustainable utilization of environmental resources, their protection, and combating their degradation from natural and human factors. Lesotho being the coordinator of SADC Environment and Land Management Sector prepared Policy and Strategy document for implementing Agenda 21 by SADC partners.

III.A.2 Achievements

67. Other outstanding policies that were formulated and implemented as a follow-up to international development declarations were the following:

- Fiscal policy was facilitated by the adjustment programme and improved management of public resources. Budget deficits were eliminated since 1992 by rationalization of government expenditures and improved collection of revenues. Foreign exchange reserves increased, and GOL was able to allocate more resources to the social sector.
- Privatisation Policy was established in the Fifth Plan period and implemented in the Sixth Plan. The Privatisation Unit led the drive towards commercialisation and/or privatization of selected state-owned production units, commercial and banking enterprises. The chief objectives were to encourage private sector participation in development, reduce enterprise inefficiencies, and release resources that were subsidizing these enterprises for basic priority needs, e.g. poverty reduction.
- Water Resources Management Policy focused on exploiting Lesotho's abundant water resources. High levels of investment were achieved in LHWP and related developments. This resulted in domestic savings registering rapid growth and as royalties were accruing from the project in the second half of the decade, they provided capital resources for promotion of economic diversification and poverty reduction.
- Transport Policy. Since good road network is vital for economic and social development of Lesotho, the government has been placing a high priority on the roads sector, providing a total network of about 5000 kms. The old roads were rehabilitated and about 2000kms constructed during the 1990s.

Bitumenised roads link the ten districts of Lesotho as well as some rural growth centers, while all-weather gravel roads extend to many parts of the rural areas. This has facilitated access to commercial and social centres.

- Associated with privatization is the agricultural liberalisation/commercialisation policy which will have positive impact on poverty reduction and economic growth through export-oriented production. Modalities of implementation are being worked out. These policies are being implemented in trade and industry sector and have contributed to growth in GDP and GNP.
- While the implementation of above policies has had a marked positive impact on the overall macro-economic performance, poverty at grassroots has been increasing; thus stimulating GOL to embark on a coherent approach embraced in PRSP.
- In the area of governance, there has been marked improvements in the management of sector projects, including improved drive by GOL to ensure accountability and transparency in the use of public funds. In August 1999 the government produced a report alleging corruption involving multinational companies operating in LHWP, and is investigating the matter. A commercial court has been established to expedite processing of commercial cases and strengthen the enforcement of court rulings. A relatively stable political climate was restored, following the opposition parties contesting the outcome of the 1998 general elections and the ensuing social and economic unrest, by agreement between all parties to form the Interim Political Authority entrusted with the preparations for free and fair elections in 2000.
- Outstanding but not yet fully implemented are decentralisation and environment policies. Measures have been initiated to devolve governance power to district and local authorities, as well as implementing environmental protection, rehabilitation and proper management programmes.
- Lesotho's ability to mobilize external donor funding contributed to the achievements in the implementation of its development policies. The Round Table Conferences (RTCs) in which UNDP took a lead role, were significant in the sensitization of donors and their provision of development funds; for example, for LHWP.
- Domestic resource mobilization was achieved through general sales tax, income tax, oil and road levy. The effectiveness of these measures was enhanced by prudent fiscal policy which underpinned matching revenues with expenditures and generation of surpluses. As a result, GOL was not only increasingly managing to finance its capital budget, but it was able to meet its external obligations. The external debt stock stood at M2.3 billion in December 1999, of which 87 percent is on concessionary terms, and the debt service ratio has fallen from 4.7 percent in 1993 to 3.5 percent in 1999.

III.B Constraints in Policy Implementation

68. Despite the favourable economic and financial performances, Lesotho's economic development in general, and poverty alleviation in particular, is constrained by a number of problems: a "bath bubbles" scenario depicted by the November stakeholders workshop which is characterized by multiple, often parallel initiatives which result in duplication, misallocation of human and financial resources and lack of focus in policy implementation; fragile domestic production base; inadequate

administrative capacity in key areas for macro-economic planning and management; extreme vulnerability of the fiscal and external sectors to exogenous shocks; a fiscal system that is excessively dependent on SACU customs receipts; and a financial system that has little room for autonomous policy, particularly in terms of management of the exchange and interest rates. These constraints are exacerbated by natural factors, such as recurring droughts; rising unemployment; and the return of retrenched miners with concomitant decline in miners' remittances.

III. B.1 Domestic Constraints

69. *Macro-Economy*: The structural reforms aimed at eliminating macro-economic imbalances generated a strong supply demand. This resulted in a vibrant growth of the export-oriented manufacturing sector, which attracted significant East Asian investments in textiles and generated employment. However, the sector has weak backward linkages to indigenous business and the informal sector, thereby remaining a fragile enclave within the economy.

70. The public utility sectors, comprising Lesotho Telecommunications corporation (LTC), Lesotho Electricity Corporation (LEC) and Water and Sewerage Authority (WASA) and the banking sector (Lesotho Bank and Lesotho Agricultural Development Bank), had serious operational and management problems. As a result, they required substantial capital subventions from public budget, thereby compromising the effectiveness of the adjustment efforts and draining resources that would have been applied to poverty reduction.

71. The return of miners from RSA, the scaling down of LHWP construction activities in the last quarter of the decade, when the project was nearing completion, and the continuing decline in the agricultural productivity, aggravated the unemployment problem and constrained the level of macro-economic growth that could have been achieved.

72. Overall effect of these constraints has been the reduction of per capita Gross National Disposable Income from annual growth of 3 percent between 1994 and 1997 to 2.6 percent in 1998. Characteristic in this decline, which is a major weakness in the economic growth that has been achieved, is the skewed distribution of income whereby 10 percent of households in the higher income groups receive 44 percent of gross national income, while the bottom 40 percent receive only 8 percent of the income. This disparity represents a critical constraint to poverty reduction.

73. *Governance*: The disparity may partly account for triggering and/or precipitating the already volatile political situation, such as the social and labour unrest of 1994 and the destruction of property and business infrastructure in 1998 riots. Deeper in the political situation has been lack of consensus among political parties concerning the electoral model and an equitable parliamentary representation. As a result the elections have been postponed to 2001. This development has not promoted business confidence among local and foreign investors.

74. Continuous political crises have slowed down decentralization through localization of central government structures, public services reform and privatization programmes. This has a negative impact on delivery of development services, as well

as on involving the civil society to participate directly and fully in democracy and economic development.

75. *Sectoral Constraints*: The financial sector, comprising the banks, insurance companies, brokers and a plethora of farmers' and community credit cooperatives and societies, has features that act as a constraint to effective resource allocation in the economy. The lack of competition and aggressive financial services has tended to produce preference for short-term over longer term finance, large spread between savings and lending interest rates, and little innovativeness in terms of offering a wider variety of financial services to existing or new clientele.

76. In the agriculture and industry sector, the traditional land tenure system has been inhibitive to commercialized development and investment. There have always been problems of acquisition and security for land required for estate development, additional factory shells, or long-term commercial agricultural production which requires substantial capital outlays, such as in irrigated farming.

77. The agriculture and natural resource constraints are attributed to erratic rainfall, poor soils and increasing land degradation through soil erosion and overgrazing of communal rangeland. Poor land and livestock management practices are associated with poverty and lack of supportive credit, resulting in extractive agriculture and environmental over-exploitation, without replacing nutrients and vegetative cover.

78. The constraints in the productive and environment sectors are also due to weak capacity within the public service to implement appropriate policies that have been formulated and to provide the necessary delivery support services. This was more a feature prior to mid-1990s when regulated marketing policies distorted markets and resulted in inefficient allocation of resources, a severely weakened private sector, and risky household food security due to insufficient and unstable availability of food stuffs and other commodities at affordable prices.

79. Like in agriculture and environment, the increasing population growth rate and poverty underlie the constraints in health and education sectors by exceeding the rate at which the respective services can be provided. The topography of the country renders provision of clinics, water supply, sanitation, and schools a costly undertaking in the remote mountain areas where poverty is more intense than in the lowlands.

80. Cultural factors limit the level of health and education improvements. Livestock herding by young boys deprives them of schooling. Prevention of a devastating disease such as HIV/AIDS by use of condoms is resisted by males because of perceptual taboos which deny women's rights in sexual relationships. The lack of reliable data about the levels of infections is also a fundamental problem constraining the effective control of the pandemic.

81. The ultimate consequence of unmanageable HIV/AIDS is depriving the country and the economy of its manpower. This will exacerbate the existing problem of brain-drain of health personnel to RSA. In the education sector, although the proportion of unqualified teachers went down significantly since 1990, it is still high in the mountain region because of inadequate incentives. The costs of these trends to the economy go well beyond the loss and replacement of manpower.

82. The critical constraints in the transport sector include: lack of adequate accessibility to rural mountain areas; lack of consolidation of different road schemes into a single integrated network; too much institutional diversity, resulting in unmaintained roads; and differing systems of road classification, thus complicating maintenance responsibilities. In order to address all these constraining issues, GOL has initiated sector institutional reforms and capacity building.

III.B.2 External Constraints

83. Whereas Lesotho received generous development assistance up to 1980s, the flow of resources started declining during the first half of 1990s. But the country had also inherited international development goals, such as those implying: take care of your GNP as this will take care of poverty. Experience has since shown that it is better to worry about the context of GNP even more than its rate of growth.

84. Even as the human dimension became the uppermost development concern, embodied in UNDP's SHD approach which GOL adopted as the theme of the Sixth Development Plan (1996-99), donor agencies still tended to hold a viewpoint of people seen primarily as human capital or an input into some abstract process of development. This lack of transparent human focus contributed to ineffectiveness of funded poverty reduction programmes.

85. Donor supported development programmes, especially those carried over from 1980s were often designed as independent entities with little coordinated implementation coherence. This placed an extra burden on GOL's capacity in terms of programme/projects management, counterpart financial and manpower resources.

86. Official Development Assistance (ODA) has been a major factor in Lesotho's development. Over the period 1993-1996, average ODA receipts by Lesotho amounted to US\$128.4 million, a decrease of 21.5 percent compared with peak US\$163.5 million in 1993. Disbursements from multilateral and international NGO group declined by 36.5 percent and 24.5 percent respectively. The contraction in ODA occurred at a time when Lesotho was facing critical socio-economic challenges mandated by the need to stabilize its newly earned democracy.

87. A total of M1.5 billion was received in 1998 as Foreign Direct Investment (FDI); out of which almost three quarters accrued from LHWP funding. Net official flows made up M317 million in net private capital flows. It is estimated that net private inflows have dropped by almost 50 percent, compared to 1997, due to reduced investor confidence following the 1998 political unrest. For example, the level of FDI was M120 million in 1996, but had dropped to M32 million in 1999.

88. At international and regional levels, the completion of LHWP has meant reduced employment opportunities which cannot be offset by royalties paid by RSA in the long term. Regionally the decreasing SACU revenues, which have been contributing around 60 percent of fiscal revenue (excluding grants), could decline further depending on the future share formula to be agreed upon with RSA. The 50 percent of GNP, on net factor incomes from abroad (mainly miners remittances), is already having a negative impact on the economy.

III.C Potential and Opportunities

89. *Potential* exists in Lesotho to enhance its development performance. The success of structural programmes has demonstrated the capacity of the country to improve its economic growth markedly. The realization of growth targets hinge on sustainable fiscal position and diversification of economic activity which is spurred by vibrant productive sectors (primarily manufacturing, agriculture and tourism). Targeted to export boomlet, these sectors have great potential to generate wide economic multiplier effects that would reduce poverty and enhance employment opportunities.

90. There are multi-faceted benefits in optimizing Lesotho's natural resource potential. The LHWP does not only generate water revenues for tackling rural development and employment problems, it also makes the country self-sufficient in electricity supply for economic and social development. Rendering the land tenure system investment friendly will facilitate and promote commercialization of agriculture. The extensive but degraded rangeland has high powers of regeneration and can boost increase in livestock production. Natural resource protection and judicious environmental utilization and management can also enhance the potential of eco-tourism.

91. Privatization of state enterprises and services, concomitant with development of indigenous private sector, has the potential to attract foreign and local investment, to promote export-led growth in different fields of trade and industry, and to contribute to the development of entrepreneurship. Similarly decentralization of services will encourage and enhance participation of stakeholders in economic and social activities across gender spectrum.

92. While Lesotho's *opportunities* in sustained economic growth will be determined by the degree of optimization of its potential, global and regional influences are vitally important. The concept of globalization offers opportunities for LDCs like Lesotho to share the benefits of universal economic growth.

93. However, for globalization to yield beneficial results, disparities between developed and developing economics must be eliminated. On its part, Lesotho can enhance its prospects of entering the global economy by expanding the narrow base of its export economy, adding value to its commodities, and improving its competitiveness through quality production and services. However, some risks associated with globalization must not be overlooked:

- Because globalisation is seen as generating resources for LDCs like Lesotho, it may become an alternative view to the meaning of development. And it is in this view that danger may loom.
- People and governments should not be sold concepts, but sold what they can feel is part of their reality; for example, reducing their poverty in ways they perceive are tangible. While transparent and effective development initiatives can fulfill this aspiration, globalisation is too an abstract a concept for the average, but majority, citizens of LDCs.
- The previous development strategies were built very much at an intergovernmental level even though they did not fully reach the reality of

people's lives. They failed to build new mutually rewarding and sustainable alliances, and hence are likely to flounder when confronted by the popular appeal that globalisation will solve the problems experienced in implementing development strategies because of often unfulfilled promises that it will generate massive resources.

- Since today's problems are global – LDC's debt, AIDS/HIV and drug abuse, environment, access to markets – national consensus and participation need to be built and introduced to the debate on globalisation with respect to the critical elements which are at the core of development ethics: to whom is globalisation accountable? How does globalisation address equity?; does globalisation allow for participation and democratic engagement?

94. At regional level, Lesotho has ready access to the relatively sophisticated intermediate inputs and goods market in South Africa. Although the SACU common external tariff maintains prices above competitive world levels, SACU still represents a valuable source of revenue for Lesotho. The country's private sector should be able to combine the inputs outsourced from RSA with relatively lower but competitive labour rates to offset the tariff price disadvantage.

95. A crucial opportunity for private sector investment in Lesotho is the unrestricted access to the wider South African capital and money markets and unrestricted intra-regional ownership of capital. A related benefit is the ability of investors to borrow from the entire monetary area at rates of interest which are simultaneously determined in unified money and capital markets.

96. A key regional advantage to private sector activity in Lesotho is its access to international export markets with preferential treatment in EU, USA and Japan. This has been the major factor behind the relative attractiveness of Lesotho in regional industries location, and the rapid and dynamic growth of export-oriented manufacturing, principally in textiles, led by mobile South African capital and South East Asian investors. As discussed in Section III.A.1, trade protocols, agreements and partnerships offer considerable opportunities for Lesotho.

97. On account of its peculiar location inside RSA, Lesotho attaches considerable importance to regional integration in order to develop and broaden its industrial, export and social welfare base through close economic cooperation with the neighbouring countries. It is envisaged that the ongoing SACU re-negotiation of SACU agreement will ultimately result in a common market or economic union with South Africa and other SADC countries.

98. Regional integration arrangements will create opportunities for Lesotho to forge linkages in various productive and infrastructure sectors to improve its industrial performance, trade and earnings. In this context, Lesotho is fully committed to implementing the recently ratified trade protocol. The country is also studying the implications of the recent South Africa-EU Free Trade agreement.

99. In forging linkages in various sectors, Lesotho participates in other regional projects and programmes of mutual interest and benefit. The Maputo Corridor Transport network will ease congestion at Durban harbour through which Lesotho's international exports enter. The SADC Early Earning and Research programmes are

providing valuable information regarding the anticipated climatic effects on food stocks and, among others, drought resistant crops. Regular exchange of information and participation in SADC environment and water sector projects (coordinated by Lesotho) is ongoing, as well as with respect to issues in the social sector, notably AIDS prevention and control of crime.

III.D Vulnerability to Shocks

100. Whether shocks are of social or natural origin in Lesotho, they always translate to economic shocks. The critical factor in economic shock is income - lack, little, or loss of it, and is linked to poverty. Lack of income is a consequence of ultra-poverty, while the nature of enterprises undertaken by rural and urban poor bring limited returns. Loss of wealth among poor people, such as is caused by retrenchment of income earning member of household or by theft of household property (e.g. livestock – a serious problem in Lesotho), can be devastating. Regional threats will exacerbate these problems:

- Under the SADC Free Trade Area Protocol signed in 1996, Lesotho is obliged to remove import restrictions over a period of 8 years. It is estimated that the Protocol, when fully implemented, will result in a 17 percent reduction in customs revenues.
- Customs revenues are set to be further eroded by the recent EU/South Africa Free Trade Area under which Botswana, Lesotho, Namibia and Swaziland are likely to lose the share of SADC revenues. Lesotho is estimated to lose 30 percent of the revenue rising to 50 percent of protocol items when they eventually become tariff free.

101. With dramatic improvement of water supply and health services during the 1990s, vulnerability to disease shock has been reduced. However, the prevalence of TB and its link to HIV/AIDS are disease factors that generate shock in terms of morbidity and death. Poor families have children who are underweight, their diets are limited and they experience serious food shortages. This health profile translates to economic shock as it reduces the capacity of available and potential labour resource. More serious is the threat of HIV/AIDS to life expectancy which is estimated to be reduced from projected 66 years, without the disease, to 45 years if the spread of AIDS is not effectively controlled.

102. Migration from rural to urban areas has its own shock ramifications; it can either be 'voluntary', as the trend has been over the past ten years involving increasing migration from the rural areas. It can also be unavoidable, as in the case of removal and relocation of settlements which are likely to be inundated by LHWP dams. In both cases there is a social disruption of household life that produces temporary or permanent shock. Although the compensatory measures – better income for the voluntary migrants if a job is found, better prospects for relocated families (e.g. in LHWP) - may alleviate the shocks, the beneficial impact will be realized in the long term in most cases. Future generations are the most likely to reap the benefits, leaving the present generation in a state of social shock.

103. The political environment remains tense after the 1998 riots and it will take a long time and substantial resources for economic recovery to occur, especially

economic infrastructure. The disturbances represented democratic and economic shock. At the same time the public service reform process is a kind of a shock for the civil servants and parastatals employees, who face the perils of adopting and implementing reforms that impact directly on their socio-economic situation.

104. Natural shocks consist of serious drought cycles (El Nino) that occurred in 1990s , (1991/92, 1993/94, 1998/99) recorded as some of the worst in 100 years. The droughts not only had severe impact on the agriculture sector and water resources, but also contributed to the depression of the economy. Snow is a common occurrence, causing human and livestock mortalities. Progressive desertification is a serious environmental shock in Lesotho that has been aggravated by droughts.

105. The response by households to above shocks has basically entailed survival strategies. Positive ones include: informal trading to improve the household income; gifts to the poor by relatives; peri-urban vegetable production; crop sharing and land renting by the poor landholders. Negative responses include: informal but illegal land sales by the poor, begging and prostitution. At government level, employment schemes, food and agricultural input subsidies, old age pensions, and primary free education are measures that have been intended to cushion off the impact of shocks on the poor. These responses will be either restructured or strengthened by PRSP strategies. GOL has passed legislation to specifically deal with rampant stock theft, and the Disaster Management Plan has been prepared as a means of responding to natural shocks, and targeting assistance to the poorest.

PART III

CHAPTER IV: PROGRAMME OF ACTION (2001-2010)

IV.A. Challenges

106. The Programme of Action has taken account of the achievements that Lesotho has made in the past decade and previously, the factors underlying the positive performance, the constraints that hindered progress, and the potentials and opportunities which remained unexploited or partly taken advantage of. The challenges are outlined below.

- To move from ‘first generation’ stabilisation programmes to ‘second generation’ development efforts - consolidating and integrating stabilisation into a more comprehensive longer term development perspectives centered on poverty reduction, with economic reforms that will lead to socially equitable and environmentally sustainable growth and hastening the pace of employment generation. This progression will be possible by coalescing the “bath bubbles” constraint mentioned earlier.
- Intensification of development agenda to promote export-led growth through privatization, diversified and commercialized production and investment promotion in primarily three sectors: trade, agriculture and tourism; and strengthening the manufacturing sub-sector to enhance its capacity to add value to the country’s products.
- Creation of a stable political environment that mobilizes and encourages participation of civil society and private sector in social and economic agenda, and which reassures foreign and local investors that Lesotho is a safe destination for direct investments.
- Reforms in the banking and financial sector to remove institutional constraints to provision of credit to productive sectors, and implementation of prudent financial policies, flexible and restrained wage policies and measures to improve labour productivity.
- Diversification and strengthening of revenue base, transparency and accountability to avoid the phenomenon of unplanned large expenditures to reduce budget deficits, and pursuing a cautious external borrowing policy in order to maintain a low debt service profile.
- Developing and maintaining a skilled and internationally competitive labour force, through effective and relevant education and accessible health services that accord due priority to HIV/AIDS control and prevention, in a context of considerable brain drain to the neighbouring countries.
- Enhanced partnerships and collaboration with donor community to steer economic, social and environmental reforms forward in the mobilization of development resources.
- Pursuance of regional integration and outward-looking perspective, especially concerning mutually beneficial economic union with South Africa and implementation of SADC Trade Protocol, as well as strengthening other sectoral linkages within SADC and with the international community.

IV.B. Vision

Mission Statement

107. Since March 2000, Lesotho has been developing a 20-year comprehensive vision which is planned to be completed in December 2001. For the purposes of this document the central theme of a tentative Vision Statement is: *Lesotho shall strive to be a democratic, peaceful, prosperous, secure and self-reliant nation by the year 2020.*

108. The general consensus is that the ultimate vision must be a result of broad-based popular participation, so as to secure universal ownership of the process. The development of the vision, for it to be realistic, must be based on sound macro-economic and spatial planning framework within the national and regional setting; thus requiring scientific analysis and research. It is for this reason that GOL plans to complete the exercise in a period of two years.

Common Vision Mission

109. Even as the articulation of the National Vision is in its early stages, the Basotho will be committed to the promotion and upholding of the principles of participatory democracy through political tolerance, respect for the rule of law and human rights, timely dispensation of justice, and elected central and local administration. This commitment will be the foundation for attaining and sustaining national security, political stability and peace.

110. The favourable environment thus created will foster collective effort within the nation for the citizens to make their contributions, according to their capabilities, in developing Lesotho's social, economic and natural resource potential. As national capabilities are broadened and deepened through quality education and quality health services, the productive capacity of each citizen will be enhanced to a level that minimizes unemployment and reduces pervasive poverty.

111. Success in aggressively tackling the above two disabling constraints will restore the self-confidence and self-reliance among the Basotho. By cultivating these positive attitudes, national values will be cherished such as family bonds, share alike ethic which upholds distributive principle with respect to wealth, and cooperative endeavours. One essential challenge is the need to foster mutually rewarding partnerships in the economic sphere involving foreign investors.

Mission Strategic Objectives

112. The key central mission strategic objective, which delineates the pathway to the attainment of the vision, is to create national prosperity for Lesotho to be demonstrably visible by year 2020. The salient component strategic objectives that may be developed, as an integral part of the vision during the period 2000-2001 encompass three phases – immediate, medium and long term. The benchmarks are shown in Annex 2(b). The targets given below are indicative, the expectation being that they will be developed in the formulation of the fully fledged PRSP (January 2001-June 2002) by determining criteria and benchmarks.

113. In the Immediate Term (2000/01-2002/03)

- a) Creation of an enabling social and economic environment for growth to be achieved through participatory democracy (general elections in 2001 and local government elections in 2001/2002), participatory local and foreign privatization programme in which all commercially viable enterprises will be privatized and others liquidated, prudent fiscal management to achieve real GDP growth averaging 6 percent.
- b) Enhancing performance of productive sectors and putting in place the necessary economic infrastructure so that exports are increased by 25 percent. Initially the apparel sector will be targeted, while the restructuring of agriculture and tourism sectors will be completed, and thus increase of exports in these two sectors can be expected to be achieved towards the end of the decade.
- c) Developing the natural resources sector; completing feasibility studies of 4 river systems as a preparatory phase for investment in dam construction, in addition to Phase IB of LHWP; increasing ground water supply by 50 percent; introducing competitive electricity tariffs in order to reach 10 percent of households (up from 40,000 urban and 10,000 rural), as well as increasing use of alternative sources of energy by 10 percent; increasing the use of local stone and clay by 50 percent; and rehabilitating the rangeland to improve its productivity by 10 percent, and accelerating afforestation by 30 percent.
- d) Coordinating the above activities through the poverty reduction strategy to achieve 10 percent reduction of poverty at national level (down from 50% poor), mainly targeted to employment generation and social sectors, by reducing unemployment levels from 40.5 percent to 35 percent, increasing access to improved health, water supply and education by an average of 20 percent in particular control of AIDS and TB and free primary education. These challenges can be tackled by implementing Poverty Reduction Strategy.

114. In the Medium Term (2003/04-2005/06)

- a) Strengthening democracy by holding general elections in 2006 and sustaining and increasing real GDP growth to 8 percent through sound fiscal policies, enhancing human productivity by 25 percent in the social sector, and completing privatization of enterprises especially in the agricultural sector.
- b) Consolidating achievements in the productive sectors and embarking on aggressive diversification programme that will raise the level of exports by 40 percent over the previous phase, and reduce unemployment by additional 10 percent.
- c) Completing water resources development programme supported by foreign investment (70%) and local funding (30%), extending the use of electricity and renewable energy to 20 percent of the population, and achieving 20 percent increase in rangeland productivity as well as 40 percent in afforestation. Labour intensive technologies in stone processing will be introduced to contribute 10 percent increase in labour employment.
- d) Based on a comprehensive evaluation of poverty reduction strategy implemented in the first phase of the Action Programme, successes and constraints will be identified with the objective of deepening and broadening

interactions between government sectors and between sectors and the civil society. The outcome will be a multi-prolonged attack on poverty that will enable cumulative achievement of 20 percent poverty reduction at national level.

115. In the Long Term (2006/07-2010/11 and Beyond)

The focus in this phase will be a concerted effort to ensure all-inclusive, coordinated participation of stakeholders in reducing poverty by 20 percent. This is to be achieved by reducing unemployment by 20 percent. The effort will be facilitated by sustained existence of enabling social and economic environment, and good governance that will be soundly in place. The outcome of these achievements, which very much depend on reducing population growth from 2.6 percent to 2.0 percent, will be:

- a) 70 percent access to health, water supply and education facilities so that disabling disease infections such as TB and HIV/AIDS will have been reduced by 60 percent, 95 percent of children will have received primary education, and 80 percent literacy achieved;
- b) broadly based participation in diversified economic activity, resulting in overall decrease of unemployment rate to 20 percent;
- c) a vibrant export economy which produces balance of payments in trade, and aiming at a minimum budget surplus of 5 percent of GNP;
- d) more reliance on the domestic and foreign direct investment for development than on official development assistance (ODA), except in critical areas where supplementary ODA funding may be sought.

IV.C. Policies and Strategies

116. Prior to and up to the 5th Lesotho National Development Plan (1993/94-1995/96), policies and strategies were inward-looking. Emphasis and resources were devoted to the reduction of dependence on RSA which was, at the time governed by a hostile apartheid regime. Policies and strategies that were developed promoted and supported state intervention in the various strategic sectors of the economy. Experience has shown that this approach weakened the private sector considerably, reduced the country's competitiveness, and drained national resources by supported inefficient enterprises nationwide. A change of approach occurred since the formulation of the 6th Development Plan (1996/97-1998/99) when the policies and strategies became outward-looking, but based on internal domestic capacities. This was in line with international recommendations and results of national dialogue on future policies and strategies aimed at reforming and transforming the economy.

117. The policies and strategies are in place (Section III A) in the various sectors although capacity and resources for implementation remain pervasive constraints. The current Lesotho's policies guiding its development endeavour hinge on the theme of sustainable human development (SHD), an internationally adopted concept which derives from a recognition of the universality of life claims. Lesotho made an effort to translate the concept into practical policies in the 6th Development Plan – economic, social, cultural, and governance. The approach was aimed at ensuring that the well-being of the present and future generations are not undermined.

118. In order to implement the above policies, GOL has identified 11 key development strategies which are diagrammatically presented in Annex 7. Deriving from the national policy objectives, these development strategies are closely interdependent and sometimes inseparable, provide cohesiveness for sectoral strategies, and form the basis for the monitoring and evaluation of the Action Programme. Although the eleven strategies all have relevance to poverty reduction, they can be categorized into four components: poverty reduction, employment creation, social integration, and natural resources development and conservation.

IV. D Implementation Programme in Institutional Context

119. Lesotho's Programme of Action evolving from the Paris Declaration needs to take account of the country's development instruments, such as the national Development Plan which details implementation programmes and projects sector by sector. The Programme of Action should be viewed as complementary to the National Plan objectives and strategies and as an essential component of the overall Plan strategy for economic and social progress for Lesotho. Thus the proposed implementation programme highlights and emphasizes priority areas for which resources should be mobilized primarily to tackle poverty and unemployment in accordance with the Poverty Reduction Strategy. Neither are the details of programme projects given at this stage as they can be developed in the context of the Development Plan, which serves as a benchmark for the 10-year Action Programme.

IV.D1. Programme Design Criteria

120. The two major goals that GOL seeks to attain and which underlie all its policies and strategies are reduction of poverty and unemployment. Since the two goals are basic to the achievement of ultimate national prosperity, the design of an implementation programme needs to be guided by specific criteria that embody the content of the goals. Critical among the criteria are the following:

- a) Contributing directly to poverty reduction and employment generation by providing direct benefits to households that are poor and income insecure.
- b) Contributing indirectly to poverty reduction and employment generation through intermediate goods and services that are consumed and utilized by the poor (agricultural and commercial products, health, water supplies and education services).
- c) Characterized by social feasibility and equitability in impact on the poor and sensitivity to gender needs, ensuring financial sustainability at both the beneficiary and government level.
- d) Facilitating and enhancing private sector and civil society participation and promoting ownership of relevant development process, and ensuring capacity building.
- e) Promoting increased production of goods and services on a sustainable basis at individual and household level, and ultimately at national level.
- f) Contributing to the broadening of Lesotho's economic base through diversification of economic activities that take advantage of the country's comparative advantages for production of commodities destined for the local and export market.

- g) Having capacity to minimize development constraints, manage shocks, and promote optimization of potential that exists locally and opportunities available regionally and internationally. Constraints, potential and opportunities, and shocks have already been outlined (Chapter III A, B and C).

IV.D2. *Implementation Inputs for Priority Programmes*

121. The inputs required for the implementation programme are in conformity with the development requirements of the foregoing vision, policies and strategies and are targeted to five priority programme areas, namely, macro-economic stability, social stability, productive sectors, natural resources, and disaster mitigation and prevention. These areas are sector cross-cutting and constitute priority programmes that satisfy many of the above criteria. Overall, the required inputs are intended to enable Lesotho enter the mainstream of globalization which mandates the narrowing of the widening gap between the rich and the poor countries. It is incumbent on the rich members of the international community to provide the necessary development inputs to the poorer members, such as Lesotho.

IV.D2.1 Macro-Economic Stability Programme Inputs

122. The objective of the programme is to create a favourable environment for sustained economic growth and the long-term development of Lesotho's economy. The three major components of the macro-economic stability programme requiring local and external resources are: manpower and services, infrastructure, and regional integration. Manpower is required to provide efficient services for the development of the economic infrastructure and utility sectors, and implementation of monetary and fiscal policies, and ensuring that the objectives of regional integration are pursued.

123. Human resources development component is crucial especially for MOF and MDP and, indeed, for other ministries and civil society organisations. Since entrepreneurial capacity and private capital are scarce in Lesotho, the public sector will still play a significant role in the country's economic development, although as constraints are overcome its role is expected to diminish. Notwithstanding government's disinvestment from commercial undertakings, its regulatory functions in monetary, fiscal and legislative matters cannot be dispensed with. In creating a stable macro-economic environment, efficient manpower is required to design sound economic packages and instruments that promote linkages between different economic activities and the interaction of sectoral reform with broader macro-economic objectives. Manpower is required in the following areas:

- Fully staffed Value Added Tax (VAT) Implementation Unit to oversee the introduction of VAT and drafting legislation, developing and implementing an action plan for tax administration based on a comprehensive study of the relevant problems, staff of the Fiscal Analysis and Policy Unit and strengthening Privatization Unit capacity in the formulation of relevant procedures and legislation, and in monitoring - MOF.
- Assisting ministries in the preparation of targeted poverty reduction packages based on the requirements of Poverty Reduction Strategy Paper, and coordination, monitoring and evaluation of the programme – MDP.

- Being the central point for aid coordination as well as coordination of principal local forums where policies and programme agreements are reached by sectoral and implementation groups (e.g. NGOs), MDP requires strengthening of its economic and technical capacity, particularly in the provision of statistical information which is vital for development planning.
- Strengthening of recently established commercial courts is needed to deal expeditiously with infringement of trade regulations.

124. In addition to the above services, it is necessary to support the essential public enterprises in their pre-privatization phase in order to make them attractive to prospective investors. The privatization Unit (MOF) collaborates with the respective sectors in processing privatization plans. Some of these enterprises play a critical role in a growth-oriented macro-economic programme, and are in the utility, trade and agricultural sectors:

- The three utility service enterprises (LEC, LTC and WASA) are in an advanced stage of restructuring/privatisation. Regulatory framework and drafting of enabling legislation have been completed for LTC. Establishment of Regulatory Authority for LEC and WASA requires funding of consultancy services – Ministries of Natural Resources, Communications, MOF.
- Resources are needed to strengthen the capacity of the Department of Lands, Surveys and Physical Planning (LSPP - Ministries of Home Affairs and Local Government) to make the land tenure system investment friendly by implementing the recommendations made by the Land Policy Review Commission (2000). This will enable LNDC to attract investors in the commercial and industrial sectors.
- Noting that Lesotho's economy was not yet sufficiently developed to support a viable capital market facility, such as the stock exchange, the option found appropriate by GOL is the establishment of Investment Trust Fund system which would enable Basotho participation in the financial market. The Central Bank of Lesotho and Privatization Unit require expertise to introduce and operate the system.

125. Some of the enterprise services shown in Annex 8 also represent the infrastructure complex in the trade and agriculture sectors. The inputs required consist mainly of expertise to assist in the completion of the privatization process and the preparation of feasibility studies and infrastructural construction.

- In the agricultural sector, the Agriculture Policy Capacity Building (APCB) is expected to facilitate the privatization process in collaboration with the Privatization Unit. Local funds are needed for the rehabilitation of irrigation infrastructure prior to privatization and sourcing investment funds for production of export crops – Ministries of Agriculture, Cooperatives and Land Reclamation (MACLR); MOF; Local Government (MLG).
- Additional factory shells will be required either to be constructed by foreign investors when the land tenure issue has been resolved, or through LNDC – the Land Policy Review Commission (2000) has made specific recommendations on rendering the land tenure system investment-friendly and supportive. Additional to infrastructure facilities, increasing and upgrading of marketing centers in the urban and rural growth points are needed to facilitate and promote small to medium scale trading, with a view to mobilizing local

traders into the global market – Municipal and District Councils; MACLR, MLG, Ministries of Industry, Trade and Marketing (MITM).

- Construction of dams to harness Lesotho waters for enhancing macro-economic performance is of two types: LHWP dams (Phase IB in the immediate to long term, and Future Dams in the long term); and dams to supply water to meet domestic and economic demands, and for which pre-investment feasibility studies are required – Ministry of Natural Resources and LHWP.
- The road network needs expansion to facilitate movement of goods and services in order to expand trade, facilitate administration and access to social services. The requirement applies to bitumenised, all-weather gravel and access roads, bridges and footpaths.

126. In the context of regional integration, programme inputs include:

- Funding the construction of an important road in the local and regional context, namely, the Mokhotlong-Sani Pass Road linking the mountain district of Mokhotlong with the Eastern Cape Province of RSA. A development plan has been prepared for funding..
- Capital investment to diversify Moshoeshoe I international airport services so that it becomes a free zone trading facility, capable of handling export cargo from Lesotho and RSA due to congestion in the latter's airports. For Lesotho, the development would stimulate production of export commodities and facilitate their access to markets. An inter-ministerial task force has been established by the MITM and Ministry of Communications to work out details of the transformation.
- Strengthening manpower capacity for Lesotho to efficiently manage the SADC, ELMS and Water Sectors which are coordinated by Lesotho – Ministries of Environment, Gender and Youth Affairs (MEGYA); Natural Resources.
- The livestock registration and marking project has been prepared as a measure to combat domestic and cross-border stock theft and needs funding.
- Expertise is required to implement a competition policy which GOL has formulated in accordance with WTO guidelines. The policy aims at assisting firms to maximize their access to the SADC and other foreign markets by gathering and disseminating information about potential market opportunities – MITM.

IV.D2.2 Social Stability Programme Inputs

127. The objective of the programme is to create social environment that is conducive to releasing full energies and potential of Lesotho human capital for developing and widening the productive base and hence the attainment of sustained development. The objective underpins two key requirements: the full involvement, integration and participation of all social groups, especially women and youth, in the development process; and the strengthening of human capital through access to social services.

128. The three major components of the social stability programme requiring local and foreign financial support are the enabling democratic and security environment, developing the human resource, and infrastructure. The lead implementing

government sectoral ministries are Law, Ministry of Defense; Constitutional and Parliamentary Affairs; Justice and Human Rights; Home Affairs; and Local Government. It is also important to promote and support public and private sectors, as well as Lesotho Council of NGOs (LCN) bona fide NGOs and community-based organizations. These measures will stimulate shared responsibility in reducing poverty.

129. In order to enhance the enabling democratic and security environment component, which also includes good governance, is a prerequisite for encouraging productive capacities of all sectors of Basotho society and their full participation in economic, social and political activities, as well as providing security for all investors, resource inputs required are in the following areas:

- Holding of transparent general and local government elections based on multi-party democracy. Nationwide pre-election education campaigns and election materials need funding.
- The success of decentralization of administrative and development powers to local government is dependent on strengthened local institutions (councils and Chieftainship) that have capacity to mobilize domestic resources, prepare and implement development programmes and projects. At central level, the support that can be provided to accelerate the process of civil service reform will contribute to effective decentralization and delivery of services by the public and private sector.
- Training of security forces and judiciary personnel to ensure maintenance of law and order. This entails upgrading local training facilities and providing advanced overseas training in order to enable personnel to acquire higher professional skills in combating all types of crime. Law reform and political education are important aspects of governance which require funding support.

130. Development of human capacity component is targeted to three areas: management of population growth; health services; education and training.

- Support is needed to launch vigorous, innovative and comprehensive information and education programmes on voluntary family planning to manage population growth; and control HIV/AIDS, TB and STIs. These and programmes entail strengthening and increasing the number of medical personnel, ensuring their security in the remote areas, as well as providing incentives.
- Without profound improvements in the health standards prevailing in Lesotho, other measures of social and economic development will remain to a large extent ineffective. Support is required to strengthen and expand primary health care, for example, ensure proper nutrition of children, implement immunization programmes, control diarrhoeal diseases and to combat AIDS through use of condoms and education programmes. Basic equipment and manpower (doctors, nurses and health workers) should be provided through training and retaining them. The Christian Health Association of Lesotho (CHAL), NGOs and community-based organizations should be supported in their different activities; for instance, health education, the provision of safe drinking water and sanitation and the improvement of maternal and infant care.

- There is a need to train additional counsellors and social workers for both health and education sectors and to strengthen the social welfare programmes.

131. Education and training component empowers people and is a major catalyst in poverty reduction enhancing their capacity to take advantage of employment opportunities. In the light of Lesotho's development objectives which seek to improve the quality, administration and financial management of the educational system, resources are needed to support the following essential sub-programmes:

- Universal, free primary education (FPE) as it contributes to the reduction, and ultimately, the elimination of disparities in education levels between rural and urban areas as well as in schooling levels favouring girls more than boys. However, there are other critical factors which must be taken into account in eliminating disparities – accessibility of services, provision of qualified teachers and proper facilities, and incentives especially for teachers in the rural areas.
- Boosting the quality of vocational and technical training which facilitates and encourages the emergence and expansion of the role played by private initiative.
- The critical requirements for the above two levels, as well as secondary and tertiary levels, are the teaching materials, equipment, and training of teachers.
- As provision of free primary education progresses to reach a high proportion of the young population, and gender-based cultural barriers are broken down, illiteracy in this category will be eliminated especially among herdboys if education becomes compulsory for everyone, bearing in mind that prevailing child labour (herdboys and child domestic workers) will take time to eradicate because of poverty. However, literacy programmes should be supported to cover the adult population, as well as providing specialized education to the disabled. Since Churches own more schools than GOL, they need support to increase their intake of pupils by providing teachers and salaries. NGOs also play a vital role in the two programmes.
- Although the lower levels in the education system should receive priority in financial terms, university education is essential for developing capabilities of manpower resources at a higher level. The resource is required in the public and private sectors for planning and supervising implementation of development programmes. The National University of Lesotho (NUL) should thus be adequately provided with materials, equipment and teachers.

132. Administrative and social infrastructure is essential if democratic institutions and security agencies are to bring about political stability, and the social sector institutions to make services accessible to Lesotho's population. A balance should be established between new investments and the need for maintenance in the infrastructure sector. Assistance should be provided in:

- Decentralized administration will require considerable resources for the provision of housing and office space, especially that expenditure on this set of infrastructure has been concentrated in the capital city. New buildings have to be constructed and/or existing ones expanded for the district, municipal and urban councils as decentralization progresses.

- In order to maintain law and order, law enforcing and justice administering agencies should be supported by provision of proper and adequate facilities. Furthermore, support should be directed to ongoing law enforcing initiatives.
- In the health sector, it is necessary to increase the number of health centers and clinics, and water supply and sanitation particularly in the remote mountain areas where poverty is prevalent. Equipment will be needed by the Ministry of Health and Social Welfare (MOHSW) for water quality testing in collaboration with the National Environmental Secretariat and WASA and the Department of Rural Water Supplies.
- The geographic pattern of infrastructure requirements in the education sector is similar to that of health with respect to provision of schools, water supply and sanitation infrastructure in schools.

IV.D2.3 Productive Sector Programme Inputs

133. The objective of the component is two-fold: firstly, to expand the productive potential in line with dynamic comparative advantages of Lesotho, available resources, internal and external market prospects, and diversification of productive base; secondly, to improve income distribution patterns and broaden income opportunities at the national level so as to strengthen the purchasing power of the low-income strata of the population, and thereby increase the national demand for the goods.

134. The productive sectors in Lesotho consist of trade and industry, agriculture, tourism and mining. Although trade and industry tend to be concentrated in the urban centers, all the productive sectors have in common a significant rural content and are predominated by an informal sector in which women play a major role. Through its marketing function, the Ministry of Trade, Industry and Marketing, provides a vital linkage to the other productive sectors, and thus enhances cross-sectoral opportunities for employment and poverty reduction.

135. While each production sector has its own characteristic components and thereby requiring specific assistance inputs, there are common cross-sectoral components which should be given priority attention. The key such components are the services dimension, science and technology, rural development and infrastructure. Supporting these components will promote the achievement of the productive sector objectives, reduce dependence on narrowly based traditional commodities and enhance the export orientation of domestic economy.

136. In pursuing strategies of economic development, Lesotho will take full advantage of the special role of the service sector in which the informal sector is the key role player in trade, agriculture, tourism and mining. The most important output of support to the informal sector is the emergence of entrepreneurial class of producers. The input requirements of support include:

- Services-development programmes which improve production and marketing information access (e.g. extension in agriculture), statistics, business, and primary products production and trade legislation. The improvements can be brought about by the provision of adequate, trained manpower supported by

local consultants and foreign experts, and operational materials and equipment.

- Establishment and promotion of mutually reinforcing vertical linkages between small scale production and large scale manufacturing/processing as well as marketing facilities. Training of traders and producers of commodities in quality and competitive production is the key input that will require local and external experts.
- One of the major requirements in the informal sector, concentrated in small scale production and micro-enterprises, is availability and access to credit facilities. Credit that is properly delivered, through training programmes such as basic accounting and introducing a clearly defined credit monitoring process, will not only improve the effectiveness of services-development programmes but also the acceleration of transition from informal to formal enterprises. In this regard, particular attention will be given to discriminatory practices and impediments which women suffer, and the development of entrepreneurs.

137. The fundamental role of science and technology in the socio-economic development of Lesotho has been recognized. Although the creation of sound scientific and technological base is consequently a necessary condition for the medium-term and long-term transformation of the productive sectors, development resources in these areas have been scarce. Support is required for:

- Improving the quality and quantity of manpower training for transfer of technological information (including computer technology), linking production with indigenous efforts, and devising appropriate mechanisms for the orientation of programmes that take account of the results of scientific research.
- Finding alternatives to the export of traditional materials by the development of new products and processes, and thus ensure the competitiveness of exportable goods. This calls for the sustained research activities which are undertaken by the Department of Science and Technology (Ministry of Natural Resources), Appropriate Technology Services (Ministry of Local Government), and Department of Research (Ministry of Agriculture/NUL).
- Facilitating the transfer of technology to small and medium-sized enterprises by exploiting the immense economic impact and potential of biotechnologies and other techniques, in particular those relevant to food and agriculture, agro-based industries, communications and data analysis methods.

138. Since about 70-80 percent of Lesotho's population lives in the rural areas, the agriculture is the dominant sector in rural development strategies. Moreover, food production and food security continue to be a priority in the fight against poverty and unemployment. However, the sector development initiatives and corresponding support hinge on optimizing Lesotho's comparative advantages towards export oriented production and adoption of liberalized marketing policies.

- For ensuring cost-effective food security assistance for production of basic staple food crops and livestock products, increased participation of private tractor and ox operators, in support of small producers, need access to credit facilities to obtain agricultural inputs, farm machinery and equipment.

- The long-term Agriculture Sector Development Programme is being given a kick-start by the implementation of two programmes: the Agriculture Policy and Capacity Building Project (multilateral donors); and the Sustainable Mountain Agriculture Development Programme (IFAD/FAO).
- In the trade sector, the Small Scale Enterprise Project (UNDP/UNCDF) is a credit facility which extends loans, guaranteed by the project, from Lesotho Bank to small and micro enterprises and the Small and Medium Industry Development Project, and Informal Sector Promotion Programme (UNIDO) which strengthens institutional relationship between government and private sector organizations and builds a data base on enterprises.
- Through its Rural Development Programme, LHWP can take advantage of some of the above programmes with the objective of off-farm enterprise development. Creation of rural employment opportunities can also be promoted by initiating processing enterprises that use Lesotho's products, e.g. wool and mohair.
- The tourism sector needs assistance to coordinate and improve the quality of products produced in the rural areas. LHWP has an important role to play, for example in developing the fisheries industry, while the Ministry of Tourism can optimize the pony-trekking programme
- The small and medium scale mining sector requires modern technology and equipment to develop the productive capacity of diamond diggers operating in Lesotho

139. The infrastructure addressed in the Macro-economic Stability Inputs Programme includes productive sector infrastructure. However, additional facilities and rehabilitation of production and marketing infrastructure should be provided, either as a public responsibility or an integral part of privatization process.

- The agricultural sector requires additional private investment for the construction of poultry and pig slaughter houses to serve the lowland and foothills areas, and milk collection centers (in the long-term). These programmes are a specific domain of women.
- The sector also needs private support to rehabilitate irrigation infrastructure and at the same time to design practicable and profitable joint venture (with landholders) programme, as well as provision of cost-effective infrastructure for small scale vegetable and fruit production.
- With collaboration between the Ministries of Trade, Industry and Marketing, and Agriculture, assistance is required to rehabilitate the wool and mohair shearing and grading sheds prior to privatization.

IV.D2.4 *Natural Resources Programme Inputs*

140. The objective of the programme is to tackle the twin-problem of poverty and environmental degradation in order to provide a basis for long-term sustained growth and sustainable development, which are essential to enable Lesotho to protect the environment. Institutionally, the utilization, management and protection of natural resources in Lesotho is vested in five main ministries; namely, Agriculture, Home Affairs, Local Government, Natural Resources, and Environment, Gender and Youth Affairs.

141. The four components of the natural resource programme requiring support are awareness programmes, improving productivity through management and protection, infrastructure, and regional integration. The assistance is aimed at tackling problems that are closely linked to a number of complex and interrelated problems: poverty, underdevelopment, poverty-linked population pressure placing further demand on the natural resource base, geographical disadvantages, and regulated but unimplemented legal provisions in industrial and construction operations.

142. Inputs in awareness programmes will be channeled through the Ministry of Environment, Gender and Youth Affairs (MEGYA) which is the lead ministry to undertake campaigns and coordinate the efforts of other ministries:

- Education of the local communities in both urban and rural areas aimed at enhancing awareness of the economic and social benefits of environmental protection. This involves relevant education in primary schools; awareness programmes targeted to all communities and, in particular, shepherds as well as the disabled; disseminating knowledge on basic environmental laws, and publicity of Environmental Bill soon after its enactment; and strengthening the education component in the Range Management Area Programme.
- Development of human resources to deal with natural resource problems, as an important component of capacity building, and facilitating access to and the transfer of environmentally sound technology.

143. Improvement of natural resources through management, conservation and increasing productivity is cross-sectoral:

- Strengthening the capacity of Appropriate Technology Section (Research and Development Division) under the Ministry of Local Government to enable it expand renewable energy technologies and cost-effective production, storage, processing, and energy conservation techniques.
- Incentives to motivate landowners to combat soil erosion by supporting programmes such as Production Through Conservation which combines the short-term and long-term benefits. Among the incentives, are also subsidized costs for individuals/communities who use initiative to carry out conservation works.
- Supporting the comprehensive training component of the Range Management Area (RMA) Programme which mobilizes all livestock owners to participate directly in range development administration and management, thus promoting their accountability in range utilization. Local authorities are also included (Chiefs, Councils).
- Assisting MEGYA with expertise to implement the Environmental Policy and Environmental Legislation which have been formulated in consultation with all sectors of the society. The policy and legislation ensure, *inter alia*, that that land developers take measures to prevent land degradation in their activities.
- Supporting MEGYA youth corps programme, as well as herdboys literacy and technical programmes and other youth NGOs, and activities in land reclamation works. The main requirement is a range of hand operated equipment and tools.
- Providing stone cutters with modern equipment in order to increase their productivity so that they are able to meet the demand.

- Expansion of afforestation and reforestation programmes using environment-friendly species unlike gum-trees which leave the soil bare, development of low-cost alternative fuel sources, in particular new renewable sources which could provide an alternative to the use of fuel wood and cowdung, thus alleviating pressure on the environment. Such sources include bio-gas, solar and wind energy.

144. Inputs in infrastructure development include:

- Soil conservation dams and other structures which require heavy equipment where soil erosion is severe (e.g. in deep gullies and dongas), and expansion of afforestation programme by providing facilities for production of seedlings.
- Facilities associated with RMA programme which include fenced livestock improvement centres, community halls for holding training courses as the RMA programme areas are generally in the remotest places, dip tanks, and livestock marketing facilities.
- Exploitation of groundwater supplies and harnessing water by gravity for small scale irrigation are depended on construction of appropriate structures.
- Provision of infrastructure through private investment which promotes the protection of scenic sites which are presently not perceived to be of any aesthetic value by the resident communities or range users, especially in the LHWP areas and other mountain areas.

145. Regional integration is associated with ecotourism potential in the areas adjoining LHWP and the Drakensberg mountain range along the east-south border between Lesotho and RSA. The LHWP areas harbour some endemic rare species of flora (e.g. spiral aloe and unique species in bogs and sponges) and fauna (e.g. the mountain minnow), and bushman paintings, which are also found in other sites in the interior of the mountain region. The eastern border of the Drakensberg is rich in biodiversity, while the western part accommodates the only natural protected park in Lesotho (Sehlabathebe Park) with nearby streams famous for their trout habitat. With the exception of the park, the biodiversity in all these area is being threatened (some of the species are in the Red Data Book) by overgrazing and human settlements. Transboundary pollution problems such as ‘acid rain’ appear to be caused by coal-based power stations and industries situated in RSA. The ‘rain’ is transported into Lesotho by winds and high oceanic pressure systems and could affect fisheries and contamination of water supplies. Input requirements include:

- Strengthening the capacity of MEGYA’s National Environmental Secretariat needs strengthening to implement the Environmental Policy and Legislation, by applying the environmental protection guidelines in order to ensure the integrity of resources shared with other regional partners (e.g. water and biodiversity).
- Support to Lesotho’s collaboration with RSA on the management of shared ecosystems and natural resources (as in border parks), Drakensberg/Maloti Mountains Conservation Programme, and combating atmospheric pollution. The cooperation will enhance Lesotho’s seizing he touristic opportunities.
- Although Lesotho has a responsibility to combat the effects of climate change that originates within its borders and thus contributing to the global phenomenon, the regional and global effects are beyond its capacity. In the

local context support is required to combat desertification and promote the vegetation sink effect through afforestation and preventing range degradation.

IV.D2.5 Disaster Mitigation and Prevention Programme Inputs

146. The objective of the programme is to improve and increase the capacity of Lesotho to identify disaster scenarios, to establish appropriate protective measures and contingency plans, and to ensure that local community leaders and the population in general know how and when to apply these measures. While there are social and economic shocks that may translate into a disaster (Chapter III.C), natural disasters by far exert the greatest suffering in the community and impact on the natural resources. The disasters are natural-snow, drought, wind, fire, floods, landslides; boundary conflicts; public transport accidents caused by slippery road surface; inappropriate building methods.

147. The components of disaster mitigation and prevention programme requiring support are disaster preparedness, immediate mitigation measures and long-term preventive measures. The responsibility of dealing with disasters is entrusted to the Disaster Management Authority (DMA) in the Prime Minister's Office. The Authority coordinates all disaster activities by mobilizing participation of all ministries, NGOs (the main one is Red Cross) and CBOs, donor agencies, private sector and community authorities. The Ministries of Natural Resources (Department of Meteorology Services), Transport and Communications, MEGYA, Agriculture, Home Affairs and Local Government provide information on the status of weather, agriculture, roads and the level of deprivation.

148. The input requirements for the disaster preparedness and mitigation component are aimed at strengthening the capacity to forecast occurrence of disasters and be able to prepare contingency and future plans:

- While disaster preparedness has been achieved by preparation of Vulnerability Assessment and Mapping (VAM) with the assistance of WFP, manpower resources are needed to update the assessments on a continuing basis, as well as disaster awareness programmes.
- Establishment of Emergency Operations Centres at district level to liaise with the Disaster Management Authority; also a contingency fund needs to be established, as well as a stockpile of food and medical supplies, to enable immediate response to disasters, based on long-term forecasting of weather patterns. Thus the capacity of the relevant forecasting agencies should also be strengthened.
- Since there are often long delays before the required resources are made available, the international community should be responsive to and support the establishment of contingency fund and provision of supplies and assistance with construction of adequate storage facilities in disaster-prone areas.
- While the services of the private sector are engaged in distribution of supplies, DMA needs a minimum fleet of its own emergency vehicles to supplement private sector resources. Since the mountain roads are impassable in snowy conditions, costly through unavoidable relief of flying supplies is often resorted to, thus requiring substantial financial resources.

149. Preventive measures component is aimed at minimizing the long-term predictable effects of natural disasters.

- Support should be provided to Lesotho's efforts to combat desertification, especially in the arid southern districts. MEGYA is implementing the Southern Districts Mountain Biodiversity Project. The project needs to be a long-term one, as well as the Sustainable Mountain Development Programme which is expected to contribute to reducing food insecurity – a common shock in disaster-prone areas.
- Lesotho's contribution to global efforts to prevent climate change can be enhanced by assisting in the improvement of the vegetative sink effect to control the greenhouse gas emissions through judicious management and protection of the country's range resources (RMA Programme), and afforestation and reforestation. Through financial and technical assistance of Global Environment Facility (GEF) and UNEP, Lesotho's vulnerability to climate change is being carried out.
- Managing drought implies water harvesting and conservation by impounding water in dams and exploiting groundwater resources.
- Uncontrolled industrial and domestic pollution with wastes and household products have long-term effects on the environment and disastrous consequences on the health of the population. Assistance should be provided to implement anti-pollution measures.

CHAPTER V: IMPLEMENTATION FRAMEWORK OF PROGRAMME OF ACTION

V.A. Summary of Implementation Programme

150. The implementation of the programme that has been presented takes account of Lesotho's long-term vision in achieving its quantified strategic objectives. The programme is guided by GOL's declared development policies which revolve around the theme of sustainable human development (SHD), thus dictating the strategies to be adopted. All the strategies are targeted to poverty reduction by focusing on employment creation, social integration and security, and natural resources development and conservation, in the local, regional and international context.

151. In adopting the principles and priority areas embodied in the Paris Declaration and Programme of Action for LDCs in 1990s, Lesotho's Programme of Action for the next decade is targeted to five priority areas: (i) macro-economic stability; (ii) social stability; (iii) productive sectors; (iv) natural resources; and (v) disaster mitigation and prevention. These priority areas represent the country's core implementation programme and are in conformity with the Paris Declaration priorities. The programme is designed to minimize and eventually eliminate Lesotho's economic constraints and shocks of all types, optimize its potentials, and take advantage of existing and future regional and global economic opportunities. The implementation to achieve these goals is summarized in Table 1 below. The goals are based on criteria that will enable Lesotho to reduce poverty and unemployment of its people.

Table 1: Summary of Implementation Programme Priorities

Programme	Component Programme Support	Sub-for	Lead Ministry/Agency/Organization
<p>1. MACRO-ECONOMIC STABILITY</p> <p>Objective: Creation of favourable environment for sustained economic growth</p>	<p>1. Manpower</p> <p>2. Privatization and Economic Participation</p> <p>3. Infrastructure</p> <p>4. Regional Integration</p>		<p>Ministries of Finance (MOF) and Development Planning (MDP)</p> <p>MOF, Ministries of Natural Resources (MNR, LEC, WASA) and Communications (LTC), Ministry of Local Government (MLG)</p> <p>Ministry of Works (MOW), MNR/LHWP, Private Sector</p> <p>Ministry of Trade, Industry and Marketing (MTIM), MOF, Labour and Employment (LAE), Foreign</p>
<p>2. SOCIAL STABILITY</p> <p>Objective: Creation of Social environment conducive to development of productive capacity of human resources</p>	<p>1. Enabling democratic and security Environment and upholding human rights</p> <p>2. Human Capacity</p> <p>2.1 Health</p> <p>2.2 Education and Training</p> <p>3. Administrative and Social Infrastructure</p>		<p>Ministry of Law, Const. & Parliamentary Affairs; Justice, Home Affairs (MOHA); MLG; Lesotho Council of NGOs (LCN)</p> <p>Ministry of Health and Social Welfare (MOHSW), Christian Health Ass. of Lesotho (CHAL), NGOs</p> <p>Ministry of Education (MOE), Churches, NGOs</p> <p>MOHA, MOHSW, MOE, CHAL, Churches</p>
<p>3. PRODUCTIVE SECTOR</p> <p>Objective: To expand productive potential based on Lesotho's comparative advantages, thus improving income distribution patterns and broadening income opportunities.</p>	<p>1. Services Sector</p> <p>2. Science and Technology</p> <p>3. Rural Development</p> <p>4. Infrastructure</p>		<p>MTIM, Ministry of Agriculture, Coops and Land Reclamation (MACLR), Min of Tourism (MOT), LAE, MDP, LCCI</p> <p>MNR, MLG, MACLR/NUL, Private Sector</p> <p>MACLR, MOT, NGOs, Banks, MNR (Mining)/LHWP</p> <p>MACLR, MLG, Farmers Organizations</p>
<p>4. NATURAL RESOURCES</p> <p>Objective: To tackle the twin-problem of poverty and environmental degradation for sustained growth and sustainable development</p>	<p>1. Awareness Programme</p> <p>2. Development and Protection of Natural Resources</p> <p>3. Infrastructure</p> <p>4. Regional Integration</p>		<p>MEGYA, MACLR, MLG, NGOs, LHWP/MNR</p> <p>As above</p> <p>As above</p> <p>As above, Foreign</p>
<p>5. DISASTER MITIGATION AND PREVENTION</p> <p>Objective: To improve capacity of Lesotho to identify disaster scenarios, establish appropriate protective measures and contingency plans, and involve local community leaders and the population</p>	<p>1. Disaster Preparedness</p> <p>2. Mitigation Measures</p> <p>3. Preventive Measures</p>		<p>MEGYA, MACLR/MNR, MLG, Disaster Management Authority (DMA), NGOs and Churches</p> <p>As above</p> <p>MOW, Communications, MLG, Foreign</p>

152. A detailed summary of Table 1 appears in Annex 8, showing projects that need support. Majority of these projects are ongoing while some are new. However, the ongoing projects will require expansion in the medium and long term. Annex 8 also gives additional ministries and organizations which are the role players in implementing the priority programmes. As can be expected, the ministries of Trade, Industry and Marketing; Agriculture and Local Government feature in almost all the programmes, while the Ministry of Environment, Gender and Youth Affairs are critical in natural resources and disaster programmes. The main role players in macro-economic and social stability programmes are respectively the Ministries of Finance and Development Planning, and Ministry of Works; and Ministries of Home Affairs and Local Government.

V.B. Expected Programme Outputs

153. The successful implementation of the foregoing five priority programmes, by provision of the required inputs, will enable Lesotho to achieve its strategic objectives. The two major primary expected outputs are incremental reduction of poverty from 50 percent to 30 percent, and unemployment from 40.5 percent to 30 percent. The percentage of poverty reduction is consistent with WSSD target of halving poverty by year 2015. These outputs are linked to six catalytic interrelated outputs, namely, diversified growing economy, good governance, increased capacity of human resources, eliminating gender disparities, environmental sustainability, and efficiently managed infrastructure and utility services.

154. Diversified productive economy, growing at an average of 6 percent GDP during the decade will largely be attributed to two factors. First, efficient fiscal management which generates a surplus in budgetary operations of M200 million by the year 2010, which is above the highest level achieved in 1996/97 (M185 million) during the 1990s. This will require a broad range of expenditure control and revenue raising measures, especially that the deficit stood at about M180 million in 1998/99.

155. The second factor that will contribute to growth in the economy is the enhanced performance in the productive sectors. The aim will be to begin narrowing the 1998 gap between export of merchandise (M1071 million) and imports (M470 million). This is feasible given the fact that the rate of growth of exports has been faster than that of imports (from M439 million and M2839 million in 1993 respectively), more than double for exports and less than double for imports inclusively between 1993 and 1998. Boosting the performance of productive sectors should bring about an average positive change of 20 percent per capita GDP during the decade (17% was achieved in 1996).

156. One of the most important outputs resulting from the implementation of the five programmes is improved capacity of human resources. Support to human capital development has been emphasized in each programme. Civil service reform, promotion of emergence of private entrepreneurial class, and provision of quality education and health services are critical in human capacity development.

157. Democratic and secure development environment are outputs of good governance, which are enhanced by professionally efficient public service and vibrant private sector which establishes synergism with foreign investor sector that ensures

sustained economic growth through full participation of all sectors of the society in poverty reduction and employment.

158. Elimination of gender disparities is an output that recognizes the need to bring about equality across the spectrum of Lesotho society. Although both males and females suffer inequalities (access to education favours girls compared to boys), women suffer the most in cultural, financial and property matters and, in consequence, they bear the brunt of poverty. A significant output will be the implementation of the Law Reform Act with recommendations by the Law Reform Commission to eliminate discrimination against women. Poverty associated with the denial of education to all children, especially the herdboys, will be improved by provision of free primary education and literacy programmes.

159. In the environmental dimension, the output is the sustainably utilized natural resources, covering land and soil (including stone and clay), rangeland with all its vegetation (grass, trees and shrubs) and water. This primary output translates to other related important outputs – improved crop and livestock productivity, increased water supplies for domestic and economic uses, employment and poverty reduction. These outputs will contribute to combating environmental degradation and minimizing the negative effects of disasters such as drought, desertification and climate change. Capacity to be disaster prepared is an output that is linked to disasters arising from natural causes.

160. Well-managed privatized infrastructure and services and publicly owned facilities (roads, offices, and large dams) represent an output that facilitates governance administration, social and economic development. While production and marketing and utility services infrastructure generates improvement in economic performance through enhanced investment, social infrastructure results in increased human productivity. The overall impact of infrastructure is in the areas of poverty reduction and employment generation.

161. The five priority programmes that GOL intends implementing during the current decade are interrelated and mutually reinforcing; thus requiring a cohesive implementation approach. The programme interlinkages in terms of outputs are summarised in Table 2. As stated earlier, the five priority programmes are macro-economic stability, social stability, productive sector, natural resources, and disaster mitigation and prevention.

Table 2: Linking Outputs with Priority Programmes

Output	Major Contributing Programme
1. Diversified Economy 8% GDP growth; M200 mill. surplus; balance of payments; 20% per capita GDP.	Macro-economic stability, productive sector, social stability
2. Improved Capacity of Human Resources - Public Sector manpower - Private and civil society sector manpower	Social stability and all programmes
3. Good Governance Democratic and secure development environment; reformed civil service; privatized public enterprises; all-inclusive participation.	Macro-economic stability, productive sector, social stability
4. Elimination of Gender Disparities Married Persons Equality Act; free primary education for all children; elimination of illiteracy; environmental sustainability	All programmes
5. Natural Resources Protected and sustainably used reduced degradation of natural resources; improved crop and livestock productivity; increased water supplies; improved capacity for natural resources disaster preparedness and prevention.	Natural Resources, Disaster Management and Prevention, and all programmes
6. Well-managed Infrastructure and Services Utility, production and marketing facilities; administrative and social infrastructure	All programmes

The two major outputs resulting from interaction of the above outputs are reduction of poverty and unemployment.

V.C Programme Implementation Phasing

162. As shown in the performance and assessment of development process (Chapter II and III), GOL has been implementing sectoral programmes and projects in the 1990s contained in the five programmes which are presented as priorities requiring financial support in the present decade. Although the planning framework was confined to three-year rolling National Development Plans, the plans represent continuing phases in the implementation of development programme.

163. In order for the ten-year programme to be coherently implemented, targeted to reducing poverty and unemployment, and for efficiently coordinating local and foreign resources, it is essential that the programme implementation phases coincide with the three-year development plans. The implementation process needs to be based on a prioritized framework in the immediate, medium, and long term.

Priorities Ranking

164. The implementation framework can be categorized into three priorities: environment conducive to economic growth which in turn is sustained by the second priority, enhanced productivity. The third category is infrastructure. There are two key components of the first priority, namely, macro-economic efficiency and secure political environment for development. The second priority encompasses three components – increased volume of exports, productive human capital, and sustainably

productive natural resources. The third priority consists of economic and social infrastructure.

165. Priority 1: Macro-economic efficiency and secure investment environment are fundamental and critical for Lesotho's development. This twin-priority will be maintained by GOL in the immediate, medium and long term. In order for the government to distribute the benefits of positive macro-economic performance to Lesotho society, it will operate in a secure democratic environment established in partnership with the entire civil society of Lesotho. This will promote investor confidence and the favourable development will be strengthened, especially just prior to and during elections in the immediate term throughout medium and long term of the ten-year programme.

166 Priority 2: (a) Productivity relates to the two directly productive sectors of trade and industry, and agriculture. Since trade is already recovering and likely to start boosting exports in 2000, it deserves priority support in the immediate term through the development of the private sector. The support would progressively intensify in the medium and long term. While agriculture is associated with poverty and under-employment, the sector is potentially productive and its productivity can be enhance by focusing on exports through diversified crop and livestock production, while at the same time paying attention to food security. Through to medium term and intensification in the long-term phase, agriculture is expected to reinforce achievements in trade and industry sector. Tourism and mining are expected to progress along the same phases as agriculture.

(b) Productivity of the human resource needed in the productive and other sectors is dependent on a healthy and educated workforce for which illiteracy has been eliminated across the gender spectrum. While the momentum of providing health and education services throughout the country will be maintained during the implementation of all the phases, control of HIV/AIDS will be intensified and introduction of free primary education expanded in the immediate term through to medium and long term. Geographically, the mountain areas will be prioritized in the provision of health and education services.

(c) Increasing productivity of natural resource base is essential given its role in poverty syndrome; negatively in terms of over-exploitation of soil and the rangeland, and positively in terms of harnessing Lesotho's water resources for improving the economy. Sustaining production in the water sector to increasing productivity of soil and rangeland can be expected to begin in the medium term through to the long term, along with the agriculture sector development programme based on APCB outcome. While exploring alternative sources of energy is ongoing, it will be intensified, as well as combating desertification and climate change, in the medium to long term. Since disasters are associated with environmental factors, surveillance will be maintained throughout all phases.

167. Priority 3: (a) Economic and social infrastructure represent a third category of priorities for Lesotho's economic development. Infrastructure is basic to sustainable economic growth and development and considerable strides have been made in establishing infrastructural facilities. The immediate requirements are additional estate development facility and factory shells are required, and diversification of

Moshoeshoe I international airport so that it becomes a free trade zone. In the medium to long term, the road network linking the mountain districts is to be completed, and maintenance of the network throughout all phases; while the construction of dams for which feasibility studies have been completed will be achieved through immediate to long term.

(b). The social sector infrastructure is in place especially in the lowland and foothill areas, namely, schools, health centers, water supplies and sanitation. The requirement will be the expansion of these facilities in the immediate to long term to the mountain region. Provision of social infrastructure also includes construction of administrative facilities for the decentralized local government. The task will be undertaken in the immediate term. Given the fact that the decentralization extends from the district to urban and community councils, the aim will be to phase the programme into medium and long term, while plans are prepared in the immediate term. A similar phasing will be undertaken in the construction of courts for administration of justice.

Summarized Phased Programme Implementation Framework

168. The prioritized activities presented above are consistent with and cover the five priority programmes (Table 1) and the phasing is aimed at achieving the outputs outlined in Table 2.

Table 3 gives a summary of the phased implementation framework.

Table 3: Phased Implementation Framework
 = Ongoing Projects = Intensification¹ of Carryover Plus New Projects

Prioritized Programme Activities	Phases		
	Immediate Term 2000/01-2002/03	Medium Term 2003/04-2005/06	Long Term 2006/07-2010/11
No.1: CREATION OF ECONOMIC GROWTH ENVIRONMENT 1.1 Macro-Economic Efficiency - Generating financial surplus - Sound macro-economic policies - Privatization - Civil Service Reform 1.2 Security Stability - Democracy = Elections - Investment (Local and Foreign)			
No.2: ENHANCING PRODUCTIVITY 1.1 Exports - Trade - Agriculture - Tourism and Mining 1.2 Human Capital - Health Services = plus , AIDS = - Education Services = , Primary and Vocational Education = 1.3 Natural Resource - Inventory (incl. feasibility studies) - Water Sector Production (LHWP) - Soil and Rangeland Protection - Energy Production - Combating Desertification and climate change - Mitigation and Prevention of Disasters			
No 3: PROVISION OF INFRASTRUCTURE 3.1 Economic - Roads Construction = , maintenance = - Dam construction - Estate development Factory Shells and diversification of Moshoeshoe I international airport 3.2 Social - Schools, health centers, water supplies and sanitation facilities (mountains = elsewhere =) -Administrative facilities			

¹While intensification is expected throughout all the phases, in the context of this implementation framework, intensification refers to the period during which activities are expected to be completed, some of which are inter-sectorally linked. For example, privatization, public service reform and trade

infrastructures are expected to be completed within a specific timeframe, while intensification of exports will be enhanced when developments in the agriculture and tourism sectors have matured. Although provision of administrative infrastructure is essential and warrants intensification throughout the phases for effective local government, the construction of facilities is expected to progress in line with requirements that will be explicit once the local government elections have been held.

V.D. Financial Requirements

169. The investment requirements for the implementation of the five priority programmes in the present decade must necessarily take account of Lesotho's domestic resources in terms of financial capability and implementation capacity. The latter is important since a Public Sector Investment Programme (PSIP) has already been prepared for the seventh three-year Plan (2001/02-2003/04), indicating donor commitments. Thus the seventh plan covers most of the requirements for the proposed immediate phase under the Paris Declaration. Gaps will be shown below.

Lesotho's Current Budget

170. The total amount budgeted for the 2000/01 financial year PSIP is M755,417,313, while the recurrent expenditure is M2,734,782,570 which exceeds PSIP by over M200 million. The comparative allocation to the top seven sectors/operations is shown in Table 4, and they represent 72.7 and 92.1 percent of the recurrent and capital budget respectively. The highest recurrent allocation (repayments) is obligatory and represents 27.3 percent of the total recurrent budget; it is expected to increase in future years.

Table 4: Recurrent and PSIP budget (2001/02) (Million Maloti Rounded)

Recurrent		PSIP	
1. Principal repayments; interest charges; pensions and gratuities, statutory salaries, subscription to international organizations	439 238 70	1. LHWP	239
2. Education	518	2. Works	199
3. Defense	170	3. Education	113
4. Independent Electoral Commission	139	4. Natural Resources	51
5. Home Affairs	128	5. Agriculture	42
6. Works	115	6. Trade and Industry	31
7. Health	172	7. Planning	21

171. Sectorally, the allocations in the current financial year are consistent with the requirements of the proposed anti-poverty programme. Although the Ministry of Finance does not feature in Table 4 in either recurrent or PSIP allocations, it ranks 9th (M84 million) after Agriculture and Planning (M103 million). Defense, IEC and Home Affairs emphasize the need of creating and sustaining security and democracy. Education is appropriately among the top listed sectors in both the recurrent and PSIP allocations. The total PSIP budget from GOL and Donors for the 7th Plan (immediate phase of the Action programme) amounts to M2,083,829,947. The breakdown of funding sources for the top six financed ministries appears in Annex 10, and shows a progressive decrease of GOL grant, donor grant and loans. This is due to the expected completion of funded projects. It will be noted that donor financing of PSIP represents

69 percent, 65 percent, and 55 percent respectively for the three successive years of PSIP implementation costs.

Future Investment Requirements

172. The immediate term phase is provided for in the 7th Development Plan in accordance with the available financial and manpower resources. However, a gap exists in some areas as shown in Annex 11. It is in the medium and long term that resources will be required. The assumption is that stable macro-economic and democratic environment will be prevailing, as well as capacity to implement development programmes. The momentum gained in the immediate term in reducing poverty will need sustaining in the following two phases.

173. Deriving its direction from the preceding phase, future recurrent and capital investment is based on a strategic perspective of decisively providing a coherent framework targeted to growth and poverty reduction. This entails consolidation of previous achievements in the outward orientation of the economy while distributing the benefits to a wider section of the population, development and effective utilization of human resources to manage and transform the economy through effective participation, and systematic approach to addressing the problems of service delivery and to optimizing infrastructural benefits.

174. While it is anticipated that civil service reform and privatization of parastatals will result in the reduction of recurrent expenditures, the savings will be absorbed by the social sectors where equity in the provision of health and education subsidies will be fostered by targeting the subsidy assistance to the poor beneficiaries. Establishment of decentralized local government, which will bring greater number of poor people into the development process, will mean increases of recurrent budget in the Ministry of Home Affairs. The new projects in the productive sectors should not significantly increase recurrent costs since manpower released by the completed projects will be available and deployed accordingly. In the rural sector (agriculture, natural resources and roads), budgetary provisions will increase for supporting employment schemes.

175. For the capital expenditures, the Ministry of Works will continue to receive priority by ensuring access of roads network to the mountain areas where prevalence of poverty is greatest. Together with LHWP, the two sectors are receiving the highest allocations (LHWP 36% and 31%, Works 19% and 21%) in the first two years of PSIP respectively. In the third year, LHWP has nil because funding is yet to be sourced, and Works has 60.5 percent. Education is the third highest with 10.1 percent, 14.9 percent in the first and second year, and ranks fourth to Trade and Industry (19.1%) in the third year. Agriculture is fourth and fifth in the first and second year, Natural resources fifth, fourth and third in the first, second and third year respectively. Local Government is sixth in the first year, as Health in the third year. The greatest variant among sectors is in the donor financing. The funding of PSIP in the medium and long term will follow the above pattern, and may mean increased expenditure from GOL sources. The deficiency will have a negative impact on poverty reduction unless donor funding is provided.

176. The global estimates of costs for the medium and long term against the background of Table 3 are given in Table 5 below. The details appear in Annex 11

which is derived from Annex 12, showing the breakdown by Ministries and Phases. The projections methodology employed was the application of simple averages: growth of 10 percent (7% inflation and 3% real growth) was applied from the immediate to the medium phase; and 15 percent (10% inflation and 5% real growth) from the immediate to the long term phase. Exogenous and endogenous factors (e.g. 1998 riots) that led to the real negative growth of the economy are stabilizing and will allow growth-oriented and poverty alleviation policies to take effect. On the basis of projections methodology, broad investment costs would be as follows:

**Table 5:
Total PSIP for all Priority Programmes (Million Maloti), as in May/June 2000.**

	Immediate Phase Phase 2000/01-2002/03	Medium Phase 2003/04-2005/06	Long-Term Phase 2006/07-2010/11	
Ministries Needs (Bids)	2,917	4,350	3,729	
PSIP Allocation	2,091	3,128	2,645	
Financing Gap	826	1,222	1,084	
% of PSIP	39.5	39.1	41.0	
Total PSIP by Programme (Details of Gaps in Annex 11)				% of
Total				
1. Macro-Economic Stability	73	110	93	2.5
2. Social Stability	512	768	650	17.6
3. Productive Sectors*	403	601	511	13.8
4. Natural Resources	1,901	2,830	2,444	65.2
5. Disaster Mitigation	28	41	34	0.9
TOTAL	2,917	4,349	3,732	100

* Trade Sector bids are incomplete (M80 million has been identified for 2000/01).

The above totals are derived from individual annual components and designed to induce a stepped up growth averaging 3% per annum yet remaining within the inter-phase growths of 10 percent (immediate to medium) and 15 percent (medium to long term).

177. Overall, some 40 percent is estimated as a gap between the ministries' needs and resource availability. Other gaps emanate from dual budgetary system of preparing recurrent and capital bids and allocations. As a result, some items in the prioritized programme activities for capital expenditure in the immediate term appear in the recurrent allocations. Equally, items in the PSIP cover some 'personnel costs' and some recurrent provisions are included in the 'miscellaneous' bids. This dualism has unavoidably been superimposed on the medium and long term phases. However, recurrent implications of these capital outlays may need to be flagged out.

178. The immediate phase is used to springboard the projections in the medium and long term phases. The projections were based on the assumptions that

- stimulation of growth of critical sectors is already built into the framework of the immediate phase of PSIP. Any re-prioritization of activities would then be done by adjusting allocations with the overall annual provisions;
- the present allocative shares in the immediate phase would be maintained as it still accords the leadership of the engine of growth under manufacturing, construction activities and human capital development;

- the immediate-term PSIP allocations are based on the absorptive capacity of the various ministries/sectors;
- LHWP Phase IB would be completed in the medium and long term phases of the programme as no indications have been made with respect to alternative cheaper sources of water to meet the industrial, agricultural and domestic needs of South Africa.

Fiscal Implications in Implementing the Programme

179. As Lesotho has replaced the IMF staff-monitoring programme under PFP with PRSP, a new arrangement involving a formal structural adjustment programme is likely to be discussed with IMF. This would enable the country to regain access to international donor funding.

180. Although the budget deficit in 1999/2000 is expected to fall to 13 percent of GDP, GOL is determined to contain budget deficit to about 3.6 percent of GNP. In the immediate term, a budget deficit may be financed by borrowing from the domestic banking sector, or by reducing government deposits with the Central Bank. The government may also borrow from the domestic non-bank sector, or source funds from the external sector. Each of these financing methods has its own implications.

181. Government borrowing from the Central Bank directly affects the monetary base and the money supply. Financing its operations through a reduction in government deposits with the Central Bank has similar effects. Borrowing from the commercial banks may also have similar effects, unless the commercial banks are forced to restrict lending to other sectors of the economy.

182. Heavy reliance on any one of the above ways of financing may lead to excessive growth in money supply. This could result in high rates of inflation and, at worst, also in balance of payments problems. On the other hand, commercial bank lending to the government leading to restriction of credit to other borrowers could have a negative impact on private sector development. Reliance on non-bank financing could also limit availability of resources to the private sector.

183. Relying on foreign financing would lead to debt accumulation, and have a bearing on future resources. Therefore, the country's need, and ability to borrow and service its debt will form part of a clearly defined borrowing strategy in order to avoid debt-servicing problems, while at the same time striving to achieve the objectives of poverty reduction strategy. In the light of these implications, GOL is committed to attracting foreign direct investment, as well as anticipating the country's international development partners to provide a higher proportion of grants and concessionary loans than commercial funding to finance its priority programmes in the current decade.

V.E Monitoring and Evaluation

184 A strengthened country review process will continue as the principal means of policy dialogue and coordination of aid efforts made by Lesotho's development partners, as well as the review of the mobilization of the required resources and implementation of development programmes. The leadership of GOL will be central

to this process, assisted by development partners to strengthen the government's capacity to fulfill this role.

185. Mechanisms such as the UNDP supported Round Tables, World Bank Consultative Groups, and resident donor thematic/sectoral consultations, will continue to constitute the backbone of the review process to translate the principles and commitments of the Programme of Action into concrete measures at national level. In order to make the process all-inclusive, GOL will promote participation of the civil society and private sector in sessions forums and reviewing specific programmes of the Programme of Action at various times. The PRSP provides such a mechanism through its Monitoring Unit which is being contemplated to be established.

186. Since Poverty Reduction Strategy will constitute the key implementation mechanism of Lesotho's development programmes, the quantified objectives and targets, benchmarks and indicators contained in the Strategy will form the basis of monitoring and evaluation of implementation progress. The Ministry of Development Planning, as the coordinating agency, will be provided with the economic and technical capacity to prepare documentation for the review meetings. The assistance which has been provided by UNDP and the World Bank in this respect will also be the subject of the review process.

187. The consultative and round-table meetings will be preceded by reviews undertaken by sectoral, subsectoral and implementation-related groups, such as NGOs which, in Lesotho, are dominated by women and youth. The review process will be buttressed by adequate follow-up arrangements, which will include sectoral and other *ad hoc* consultations with resident donors. At national level, the reviews will enable GOL to adjust its policies, priorities and implementation schedules, including in the field of macro-economic planning, for achieving tangible results in poverty reduction.

188. Since poverty reduction in Lesotho has regional interrelationships (trade and communications, employment, water resources, and monetary policies), in-country reviews will be extended to the regional dimension. SADC and United Nations regional commissions, in close collaboration with UNCTAD, represent forums in which experiences in implementing the Action Programme can be shared, thus providing external contribution to Lesotho to enhance local monitoring and evaluation of development progress.

ANNEX 1: TERMS OF REFERENCE

The role of the national resource person (Economic Development Specialist) is assisting the National Preparatory Committee (NPC) in its challenging task of formulation of a country level programme of action for the first decade of the 21st century (Comprehensive New Programme of Action – CNPA). The CNPA needs to be based on the assessment of the Programme of Action for the LDCs for the 1990s and the review of the implementation of the international measures, particularly in the areas of official development assistance, debt, investment and trade. The formulation of the new programme should be based on national level assessment of constraints, priorities and opportunities that would enhance the progressive integration of the country into the world economy in the new century.

Under the general supervision of the National Level Focal point in collaboration with the UN Resident Coordinator and Chair of the DPF, and broad guidance of the Executive Secretary of the Conference at UNCTAD (hereinafter the Conference Secretariat), the Resource Person will:

1. Collect all relevant background documents and data on the development process of the country, including such documents from EU, Bretton Woods institutions and the UN system (e.g. Common Country assessment and UN Development Programme for Africa) and other appropriate sources of such information such as research and planning institutions, as well as studies to be prepared prior to the finalization of the country memorandum by the NPC.
2. Using a set of questions and guidelines provided by the Conference Secretariat assist the NPC to conduct a country level assessment of the implementation of the Programme of Action for the 1990s.
3. On the basis of the above and in accordance with the guidance of the Focal point, NPC and guidelines to be provided by the Conference Secretariat, prepare drafts for the Country memorandum. The final document not exceeding 50 A4 single spaced pages should be cleared by the NPC, be endorsed and be submitted officially by the Government to the Executive Secretary of the Conference at the end of June, 2000.
4. Where necessary, assist the NPC to identify information gaps and commission supplementary sectoral research activities and data collection to generate critical inputs into the formulation of a New Country Level Programme of Action.
5. Participate, at the request of the Focal Point in the meetings of the NPC and provide technical and logistical support to the meetings as might be deemed necessary.
6. Participate, at the request of the Government and the Chair of the DPF, in the NPC and DPF meetings and consultations in “local” thematic meeting or round tables as may be recalled during the preparatory process.
7. Prepare reports and notes of the above meetings with the view of reflecting their conclusions in the Government new Programme of Action, and providing bi-

monthly briefs to the Conference Secretariat on progress made in the preparatory process at country level.

8. Participate, at the invitation of the Conference Secretariat, in the regional expert level meetings and other relevant regional and international meetings organized as part of the preparatory process for the Conference.

ANNEX 2: INDICATORS
Annex 2 (a): Working Set of Core Indicators

MEASURING DEVELOPMENT PROGRESS: A WORKING SET OF CORE INDICATORS		
Goals	Indicators	
<p>Reducing extreme poverty The proportion of people living in extreme poverty in developing countries should be reduced by at least one-half by 2015</p> <p style="text-align: center;">(Copenhagen)</p>	1. Incidence of Extreme Poverty Population Below 51 per day 2. Poverty Gap Ratio: Incidence Times Depth of Poverty 3. Inequality: Poorest Fifth's Share of National Consumption 4. Child Malnutrition: Prevalence of Underweight Under 5s	
Social Development		
<p>Universal primary education There should be universal primary education in all countries by 2015</p> <p style="text-align: center;">(Jomtien, Beijing, Copenhagen)</p>	5. Net Enrolment in Primary Education 6. Completion of 4 th Grade of Primary Education 7. Literacy Rate of 15 to 24 years-olds	
<p>Gender equality Progress towards equality and the empowerment of women should be demonstrated by eliminating gender disparity in primary and secondary education by 2005</p> <p style="text-align: center;">(Cairo, Beijing, Copenhagen)</p>	8. Ratio of Girls to Boys in Primary and Secondary Education 9. Ratio of Literate Females to Males (15 to 24 Year-olds)	
<p style="text-align: center;">Infant and Child Mortality The death rates for infants and children under the age of five years should be reduced in each developing country by two-thirds the 1990 level by 2015.</p> <p style="text-align: center;">(Cairo, Beijing)</p>	10. Infant Mortality Rate 11. Under 5 Mortality Rate	
<p>Maternal Mortality The rate of maternal mortality should be reduced by three-fourths between 1990s and 2015</p>	12. Maternal Mortality Ratio 13. Births Attended by Skilled Health Personnel	
<p>Reproductive Health Access should be available through the primary health care system to reproductive health services for all individuals of appropriate ages, not later than the year 2015.</p> <p style="text-align: center;">(Cairo)</p>	14. Contraceptive Prevalence Rate 15. HIV Prevalence in 15 to 24 Year old Pregnant Women	
Environment sustainable regeneration		
<p>Environment There should be a current national strategy for sustainable development, in the process of implementation, in every country by 2005, so as to ensure that current trends in the loss of environmental resources are effectively reversed at both global and national levels by 2015.</p>	16. Countries with National Sustainable Development Strategies 17. Population with Access to Safe Water 18. Intensity of Freshwater Use 19. Biodiversity: Land Area Protected 20. Energy Efficiency: GDP per Unit of Energy Use 21. Carbon Dioxide Emissions	
General indicators		
<p>Other selected indicators of development</p> <p>For reference: Population</p> <p style="text-align: center;">Gross National Product</p>	GNP per capita Adult literacy rate Total fertility rate Life expectancy at birth Aid as of % of GNP External debt as % of GNP Investment as % of GDP Trade as % of GDP	Saving as % of GDP Services as % of exports of goods and services Debt servicing as % of exports of goods and services FDI inflows as % of GFCF

Source: Based on document Measuring Development Progress, OECD, 199

Annex 2 (b): Poverty-Related Indicators and Targets*

INDICATOR	PROXY FOR/CRITERIA	BENCHMARKS	TARGETS BY YEAR 2010
1. Economic	<u>Macroeconomic Efficiency</u>	Growth Rate (Central Bank of Lesotho)	
1.1 GDP	Economic growth	12.7% in 1996	13.5% (6% average annual growth rate)
GNP	Economic growth	9.8% in 1996	10% (5% average annual growth)
1.2 GDP per capita	Distribution of wealth	9.5% “ “	9.8% (4% “ “)
GDP per capita	“ “ “	9.3% “ “	9.6% (5% “ “)
		The sluggish growth rates take account of substantial recession in 1998	
1.3 Budgetary Operations	Increased surplus revenue/expenditure	Surplus 3.6% of GNP in 1996	5.0% of GNP surplus
1.4 Balance of payments	Increased exports and employment	9% of GNP Current Account deficit 45% unemployment rate in 1996	3.0% of GNP surplus, increased employment by 20%
1.5 Inflation	Reducing hardship impact on the poor	8% in 1996	Maintain at 8%
1.6 Debt service	Managing national development	41.6% of GNP in 1996	50% of GNP due to increase in commercial loans
2. Social	<u>Productive Human Capital</u>		
2.1 <u>Population</u>	Managed growth	1996 census	
- Annual growth	Managed population growth	2.0%	Reduce to 1.8%
- Life expectancy at birth	Productivity in development programmes	59 years	Increase to 65 years
- Total fertility rate	“ “ “	4.1 births/women	Reduce to 3.5 births for women
- Maternal mortality rate	and matching available employment and services	570/100,000 UNFPA	Reduce to 450/100,000
- Infant mortality rate	“ “ “	74/10000	Reduce to 65/1,000
- Crude birth rate	“ “ “	30/1000	“ “ “
- Crude death rate	“ “ “	12.8/1000	“ “ 8/1000
2.2 <u>Health</u>			
- Primary Health Care	Productive human resource	40% Population access to services (MOHSW 2000)	Increase to 65%

<ul style="list-style-type: none"> - Population per Doctor “ “ Health Worker (HW) 	Disease control and treatment “ “ “	12571:1 (MOHSW 2000) 3000:1 Nurses, 1:10,000 HW (MOHSW 2000)	Reduce ratio to 10000:1 Reduce ratio nurses to 1500:1, HW 5000:1
<ul style="list-style-type: none"> - Fully immunized children - Birth-weight <2.5 kg - Underweight for Under 5 years children - Major Adult diseases TB, HIV/AIDS, STDs 	Disease prevention Increased breast feeding and ante-natal care Improved nutrition and control of diseases Control of spread	71% MIC Survey 1996 108.4/1000 “ “ 18.4% MOHSW 2000 TB- 6447 cases, cure rate 79% 1997 HIV- 9.8% of population STDs – cases 7% of population Second to TB MOHSW 1998, Sentinel surveillance	Increase to 95% Reduce to 50/1,000 Reduce to 5% Increase cure rate to 95% Decrease to 2%
2.3 <u>Hygiene</u> <ul style="list-style-type: none"> - Safe Drinking Water - Access to Sanitation 	Reducing infections Covering urban areas Covering rural areas Covering urban areas Covering rural areas	1996 MIC Survey 91% of population 57% “ “ 56% “ “ 35% “ “	Decrease by 25% annually HIV/STDs Increase condom use by 95% Increase to 97% 85% 80% 70%
2.4 <u>Education</u> <ul style="list-style-type: none"> - Average Pupil: Teacher Ratio - Average Pupil: Classroom Ratio 	Productive human resource Increasing efficiency & quality of Educ. “ “ “ “	1997 MOE Statistics 45.6:1 71.2:1	Decrease to 35:1 “ “ 50:1
<ul style="list-style-type: none"> -Net Primary School Enrolment - Net Secondary School Enrolment - Adult Literacy Rate 	Achieving goal of education for all “ “ “ “ Increasing opportunities to participate in development process and self-reliance “ “ “ “	69.9% 28.6% 70% UNDP 1998 Human Development Report (HDR) 4% MOE 1997	Increase to 95% “ “ 65% “ “ 80% “ “ 20%
<ul style="list-style-type: none"> - Disabled Children Access to Education - Access to Vocational Education 	“ “ “ “ “ “ “ “	----%?	
2.5 <u>Human rights</u> Gender equality	Eliminating discrimination Eliminating disparities and abuse	Males 6.9% higher than females in	Reduce disparity to 1%

Children's rights	“ “ “	access to formal credit (HDR 1998) Girls 9.9% higher than boys enrolment in primary school (HDR 1998)	“ “ “ 4%
3. Natural Resources 3.1 Environment - Carbon Dioxide - Soil Erosion - Rangeland Degradation - Deforestation and Energy - Water Households (HH) River system 3.2 Agriculture - GDP - Irrigation - Household Food Security - Dryland Crop Farming - Extensive Livestock Farming	Protection and increased production Sustainability for human health safety and environment/productivity Preventing pollution and green gas emissions Preventing desertification and agricultural unproductivity Preventing desertification and agricultural unproductivity and increasing CO2 'sink' effect “ “ “ “ and providing fuel Intensify water use for economic growth Diversified production Economic growth Increasing exports and employment Gender sensitive diversified production Promoting entrepreneur/landholder partnerships and reclaiming marginal land Developing range management areas and controlling stocking rates	77,927,000 Gg year carbon dioxide MNR 1996 (WHO standard 21,900,000) 37.5 million tons/annum of eroded soil 6 Range Management Ares (State of Environment Report, 1997). Of 10,362 ha woodlots established, 60% deforested State of Environment Report 1997). 106,000 HHs MNR 2000 Prefeasibility study 1 river (MNR) Average share of GDP 12% 20,000 ha irrigable (MACLR 1997) 600ha small scale irrigation, 10% households in commercial intensive livestock production (MACLR, 1997) 5% arable land operated by entrepreneurs Carrying capacity exceeded by 30% MACLR (1997)	Reduce by 30% Reduce by 30% Increase to 12 Replant 60% (6,131 ha) Increase by 50% Dam 1 river, complete prefeasibility studies of 3 rivers Increase to 20% Irrigated 10,000 ha medium scale Increase irrigation to 1000 ha small scale, increase commercial livestock entrepreneurs by 25% Increase to 30% Reduce to 15%

* Provisional estimates pending harmonisation with standards developed by the Interim Poverty Reduction Strategy paper, and subject to review and revision as and when necessary.

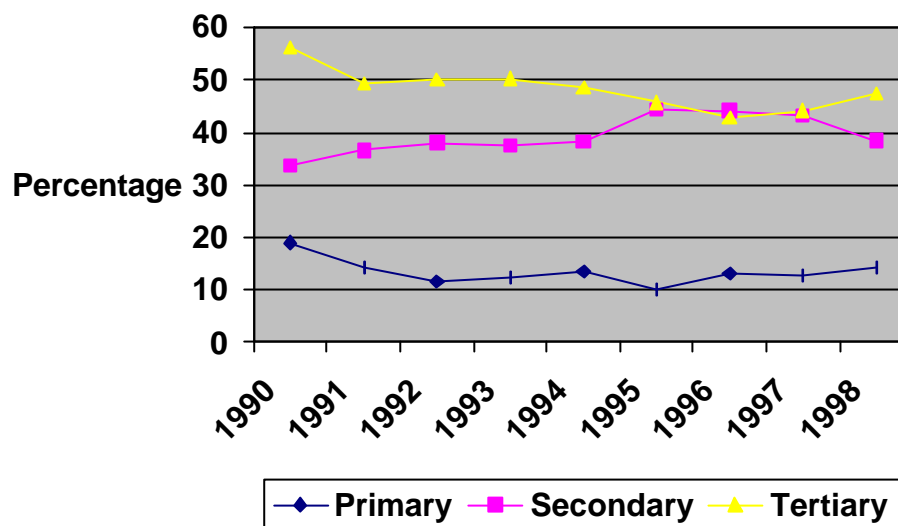
Annex 2 (c): Comparative Status of Selected Social Indicators in SADC Countries

Country	Population	Poverty % of People Living on less than \$1 a day PPP 1981-95	Life Expectancy at birth (year) 1995	Adult Illiteracy	Infant Mortality rate (per 1000 live births)		Prevalence Malnutrition (% under 5) 1989-1995	Contraceptive Prevalence 1989-1995	Total Fertility rate		Maternal Mortality ratio per 100,000 live birth 1989-1995
					1980	1995			1980	1995	
Mozambique	16.2	..	47	60	145	113	..	..	6.5	6.2	1,512 ^a
Tanzania	29.6	16.4	51	32	104	82	28	10	6.7	5.8	748 ^a
Malawi	9.8	..	43	44	169	133	27	13	7.6	6.6	620 ^b
Zambia	9.0	84.6	46	22	90	109	27	15	7.0	5.7	..
Angola	10.8	..	47	..	153	124	50	..	6.9	6.9	..
Zimbabwe	11.0	41.0	57	15	82	55	16	..	6.8	3.8	..
Congo	2.6	..	51	25	89	90	..	..	6.2	6.0	822 ^a
Lesotho	2.0	50.4	61	29	108	76	21	23	5.6	4.6	598 ^a
Namibia	1.5	..	59	..	90	62	..	29	5.9	5.0	518
Botswana	1..5	34.7	68	30	69	56	..	..	6.7	4.4	220 ^a
South Africa	41.5	23.7	64	18	67	50	..	..	4.9	3.9	404 ^a
Mauritius	1.1	..	71	17	32	16	..	75	2.7	2.2	112 ^d
Swaziland											

Source: World Development Report 1997

ANNEX 3: ECONOMIC INDICATORS

**Annex 3 (a): GDP at Factor Cost by Kind of Economic Activity (unadjusted)
Percentage Distribution at constant 1980 prices**



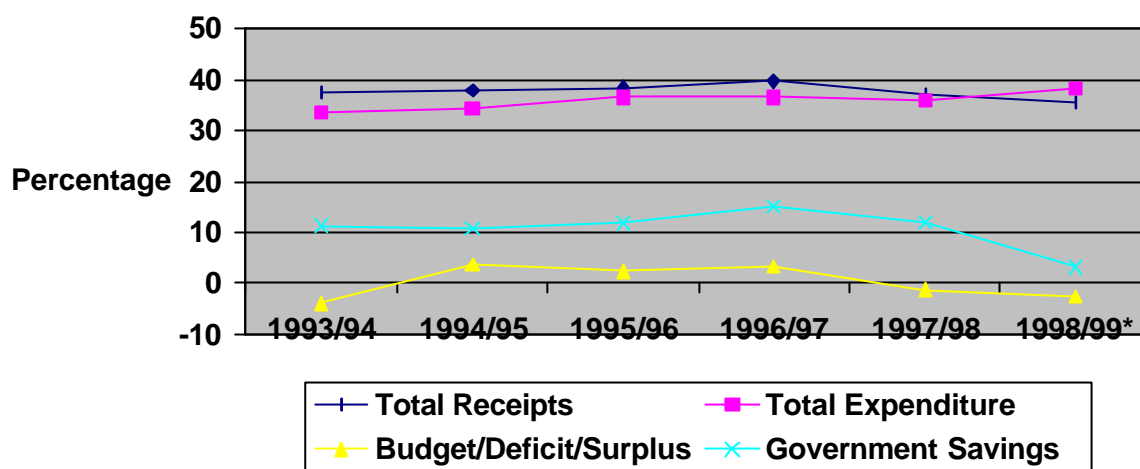
Source: Central Bank of Lesotho, Annual Reports 1990-1998

In the primary sector output, agriculture accounts for about 96 percent, and mining about 4 percent. The highest agricultural performance was in 1990/91. Output decreased by 24 percent in 1995 and declined to 9.5 percent as a share of GDP compared with an average of 13 percent in previous years. Resulting from the 1994 drought, this was the lowest share ever recorded and smaller than the 10.4 percent recorded during the 1992 drought period. Mining's share of GDP has been declining continuously, falling to 0.1 percent in 1996 from when it was maintained up to 1998.

The secondary sector includes manufacturing, electricity and water, and building and construction. The sector's value added started increasing in 1994 by 14.3 percent up from 4 percent of previous years, reaching a peak during 1995-97 period. The growth was ascribed to LHWP construction and building activities, and accounted for 61 percent of the sector's output. As this subsector started displaying deceleration after 1997, due to the completion of LHWP activities, the manufacturing subsector (large and micro-enterprises) was growing at about 6 percent of GDP, only to fall to 2 percent in 1998 as a result of socio-political unrest.

The tertiary sector consists of services in the wholesale and retail trade, government, and other services. Since government services subsector accounts for about 50 percent of the sector, the decline in growth in 1990 was due to structural adjustment. Since then growth has been steady, increasing in 1997. The share of the sector in GDP increased from 44 percent in 1997 to 47 percent as a result of the fall in share of the secondary sector.

Annex 3 (b): Government Budgetary Operations (as Percentage of GNP)



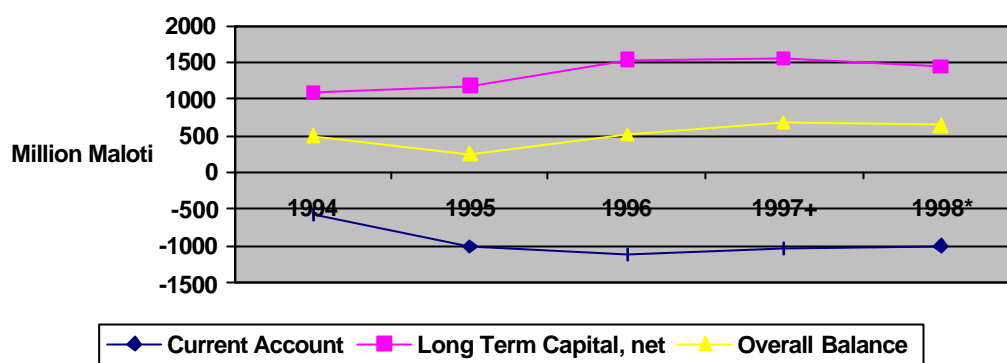
Source: Ministry of Finance (1999)

* Preliminary Estimates

Prior to 1993 the average annual budget surplus since 1990 was 0.5 percent of GNP. This was a dramatic outturn given the fact that the current account deficit was 7 percent of GNP in 1988 at the start of SAP, which was converted to a surplus of 2 percent in 1993. In Maloti value terms, the deficit was M14.8 million in 1990/91 and turned into a surplus of M123 million in 1993/94. The growth spurt was largely due to increased custom tax receipts, which represent 52 percent of revenue and grants during the decade, associated largely with LHWP activities and favourable weather conditions particularly in 1995/96 season, thus resulting in the highest surplus of M856 million in 1996/97 recorded during the decade.

Total expenditures have increased seven-fold from 1990/91, reaching M2468 million in 1998/99 with a deficit of M180 million – the first deficit since 1991/92 (M9.6 million). The largest component of expenditure is recurrent costs, accounting for an average of 65 percent during the decade. A deficit of about 2 percent was expected in 1999. This deficit excludes the payment of LHDA domestic loans (about M264 million) to the local banks, which would increase the deficit substantially to around 18 percent of GNP. However, the impact of this expenditure item on government budgetary operations is temporary, since it is a one-off payment. But interest payments on government securities issued to Lesotho Bank (1999) Ltd, resulting from privatization of its previous counterpart, as well as reconstruction of Maseru city, have started to impact on budgetary operations. A budgetary deficit of around 3 percent of GNP is usually accepted by the Central Bank of Lesotho as non-inflationary.

Annex 3 (c): Balance of Payments (Million Maloti)



+ Revised Provisional Estimates

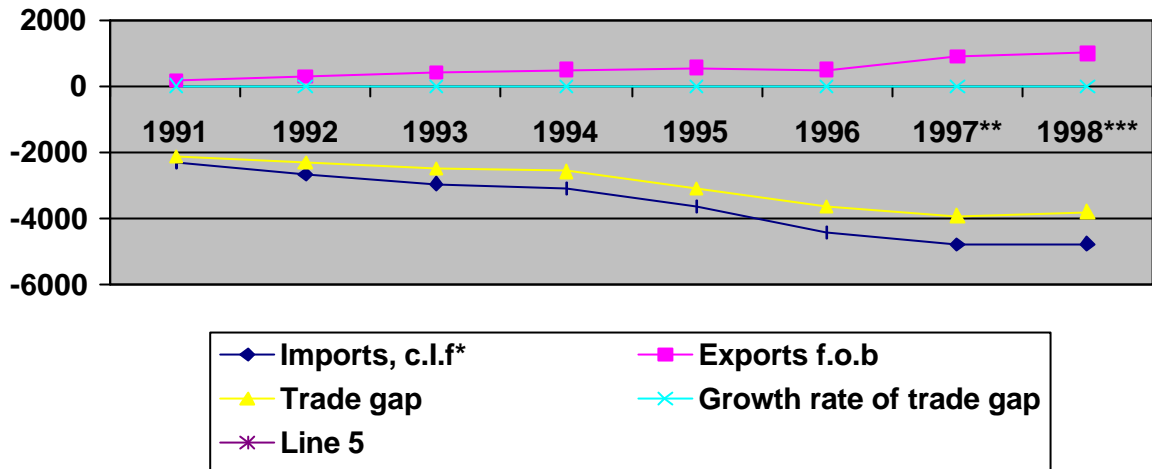
Source: * Central Bank of Lesotho Projections (1999)

Between 1990 and 1993, there was a substantial build up of foreign exchange reserves, rising from 6 weeks of import cover to 15 weeks. This steadily increased to 36 weeks in 1998. During 1994, the overall balance of payments surplus stood at M500 million, thus increasing the net foreign assets of Lesotho to M1.6 billion from M1.1 billion at the end of 1993. At this level, they were sufficient to cover 30.4 weeks of regular imports (i.e. excluding LHWP and donated imports). Merchandise exports registered 16 percent of GDP during 1994 (41% in 1993).

In subsequent years the overall balance declined by almost half, as a result of decelerating growth in net foreign assets of the banking system. However, the overall balance of payments registered a surplus of M515 million – the highest in five years. Growth in imports and exports was arrested by the low execution of the government capital expenditures, decreased domestic demand and the reduced level of economic activity, especially in distributive services subsector following the civil unrest.

ANNEX 4: TRENDS IN TRADE

Annex 4 (a): Merchandise Trade 1991-1998 (Million Maloti)



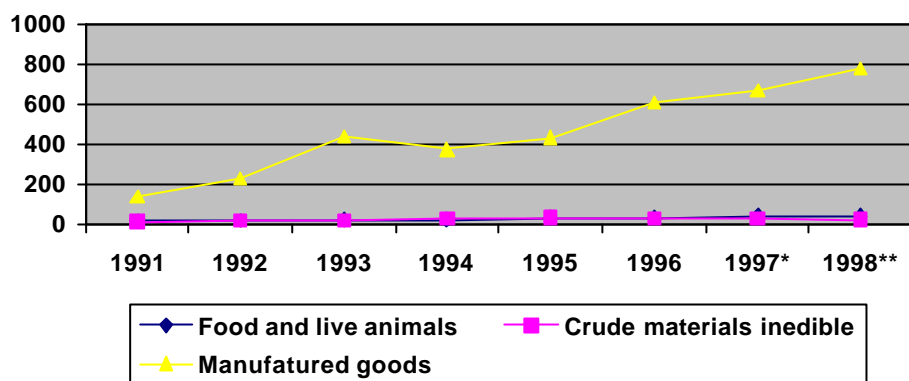
Exports as %	8.0	11.8	15.0	16.5	15.8	18.2	18.6
of Imports c.i.f.							

Source: Central Bank of Lesotho (CBL 1999)

* Imports figures shown above are for commercial imports, e.g. imports excluding donations of food and clothing; ** CBL revised provisional estimates; *** CBL projections.

The trade gap between exports and imports shows a significant increase from 1994 when merchandise imports exceeded exports by M2.7 billion. The increase in imports was largely due to increased economic activity, especially public works. The gap stabilized between 1997 and 1998 as LHWP activities were winding. On the other hand, exports as percent of imports have increased by over 100 percent from 1991 to 1998. While SACU (mainly RSA) had the largest share of imports which constituted about 90 percent from 1991 and 82 percent in 1998, Asia has been the second largest source of imports and accounted for 12.6 percent of the total in 1998. This is associated with the increased Asian investment in Lesotho since 1991.

Annex 4 (b): Value of Major Exports During 1991-1998 (Million Maloti)

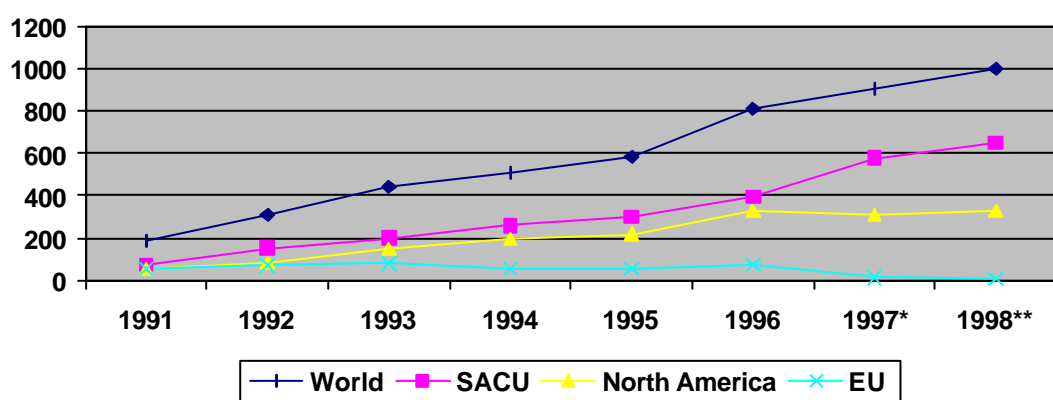


* Revised provisional estimates; ** Central Bank of Lesotho Projections

Source: Central Bank of Lesotho, 1999

The value of manufactured exports has risen from 1991 to 1998 following policies that have led to the establishment of the new export-oriented industrial sector in Lesotho. Other driving forces are the establishment of a new Export Promotion Strategy, the introduction of a Comprehensive Export Finance Scheme (EFS), continued inflows of foreign investment, aggressive industrialization programme driven by the private sector and the development of new exportable products. In the past years, export goods were dominated by diamonds, wool and mohair which were exported raw, with no value added. In recent years, the manufacturing sector, especially the clothing, footwear and electronic sub-sectors have been the fastest growing sector of the economy.

Annex 4 (c) : Major Destination of Exports and Value F.O.B.: 1991-1998 (Million Maloti)



* Revised provisional estimates; ** Central Bank of Lesotho Projections

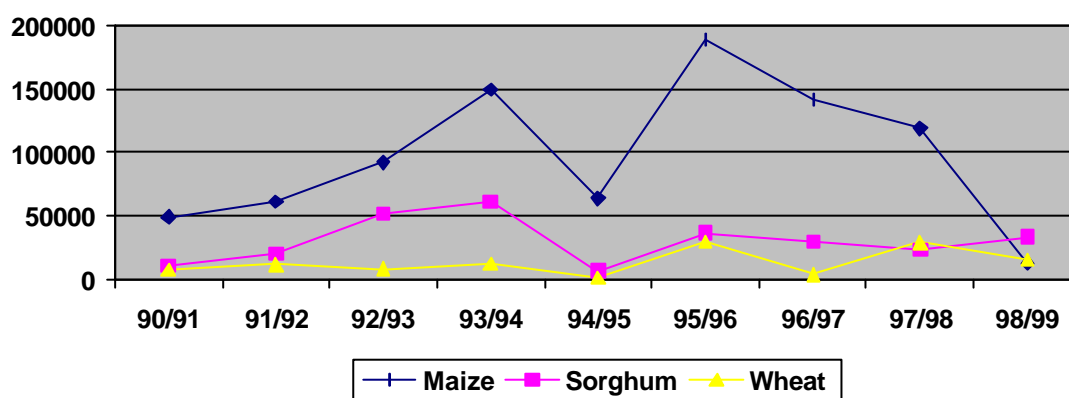
Annex 4 (c) indicates that though the South African Customs Union (SACU) area still remains the major market, the USA and EU are increasingly becoming important. SACU, the traditional export market of Lesotho, currently absorbs about 65 percent of

Lesotho exports. In 1991 SACU absorbed 40 percent, and 51 percent in 1994. Exports to SACU region (mainly RSA) represent 99 percent of total exports to Africa, and relatively insignificant amounts to other SADC countries. Exports to USA increased by over 100 percent between 1991 (M52 million) and 1993 and have risen to M333 million in 1999, which represents 33 percent of total exports. The third largest export market is the European Union countries which, at an average export value of M53 million, declined to M7.4 million in 1999. This represents only 0.7 percent of total exports and has dropped from the highest 1993 level of 18 percent. The decline may be due to the stringent conditions of entry to that market. Exports to Asia have remained negligible.

ANNEX 5: TRENDS IN AGRICULTURAL PRODUCTION

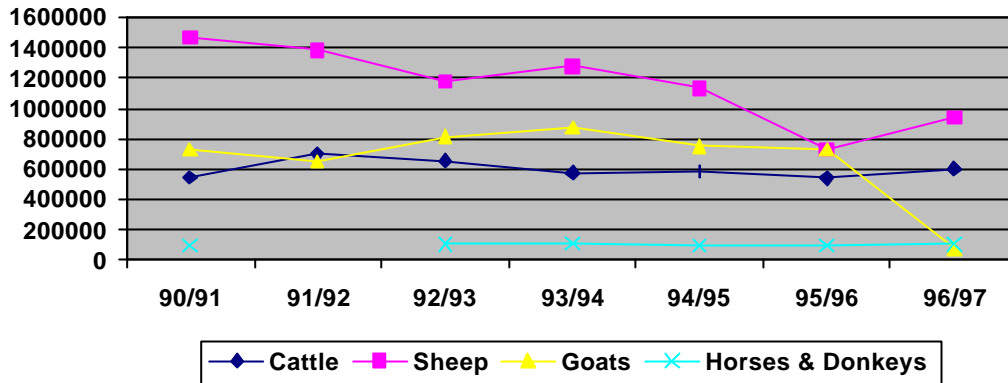
Annex 5 (a): Trends in Crop Production (Metric Tonnes)

Source: Ministry of Agriculture and Bureau of Statistics (2000) Lesotho Agriculture Situation Report 1989/90-1996/97 (updated)



Crop output is a product of area planted and area harvested. Since weather conditions have a strong influence on both variables, a dip in production coincides with the drought years of 1990/91, 1994/95, and 1998/99 (except for sorghum). Area planted for maize and beans decreased by an average of 47 percent during the three periods, with maize showing the lowest production output and the highest (1995/96) when favourable weather conditions prevailed, compared with drought resistant sorghum and winter produced wheat and peas. In the good seasons, GDP share of crop subsector increased by about 3 percent and fell to 0.5 percent in drought years. In 1990s Lesotho produced an average of 50 percent maize, 98 percent sorghum and 15 percent wheat of its annual demand. The balance was provided by imports which account for 70 percent of maize imports in drought years. An opportunity for Lesotho producers lies in the vegetable and fruit subsector which can contribute to the local demand as well as to exports. Presently demand exceeds local production by 90 percent, and the gap is filled by imports.

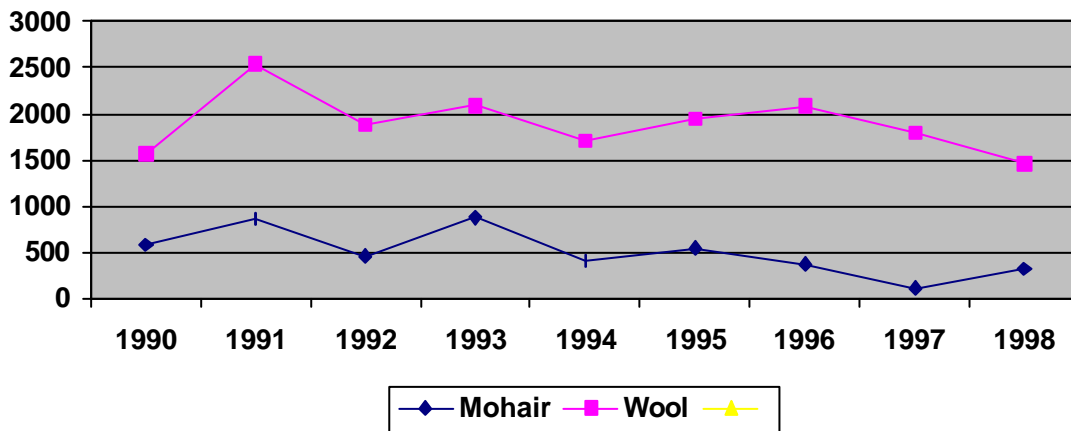
Annex (5b): Livestock Population



The impact of drought on livestock numbers does not appear to be significant. The loss of grazing is usually compensated by the failed crop harvest which provides feed for livestock in drought years. Two notable trends are the decrease of sheep population and increase of goats. The steep decline of sheep from 1994/95 is correlated with decline in international wool prices and stock theft (sheep are more liable to be stolen than other classes of livestock). The increase in goat population is an indicator of rangeland degradation characterized by progressive substitution of grass species with bush species, which are relished by goats. Cattle and equine population have remained stable.

The main contribution of cattle in the agricultural sector is their draught power for crop production and seasonal nutritional role in providing milk in summer. While cattle, sheep and goats, and equines (for transport) play an important role in the rural agriculture sector income, uncontrolled numbers have serious negative impacts on the rangeland and water resources through grazing pressure on the range and stream sources (bogs and wetlands).

Annex 5 (c): Wool and Mohair Production and Exports (Metric Tonnes)



Merino sheep and Angora goats produce wool and mohair and exports, which have generally fluctuated slightly, provide farmers with a steady, but small annual income (M12/sheep or goat). The overall production and exports of wool and mohair in the

1990s has been stable; any fluctuations that have occurred are a result of world fibre prices. Compared to output of previous two decades, wool has declined by an average of 45 percent, while mohair has increased by an average of 35 percent. The real quantity of wool and mohair exported is disguised by rampant smuggling that takes place between Lesotho/RSA borders. The fluctuations in the value of wool have been similar to mohair (M4,000-10,000 per ton) in 1990s, compared to much wider differences in 1980s – per ton average mohair M15,000; wool M4000.

ANNEX 6: STATUS OF PUBLIC ENTERPRISE PRIVATIZATION

Completed Transaction	Incomplete Transaction
<p>1. Lesotho Flour Mills – 51% of the Government shareholding was sold to a strategic investor, 10% reserved for employees and the remaining 39% reserved for future public floatation. SEABOARD was the winning bidder, and the sale was concluded in 1998.</p> <p>2. Car Rental Division (IFTS) – Following Government approval of the transaction in April 1999, the assets were sold to Avis Southern Africa, with 20% shareholding reserved for Basotho participation.</p> <p>3. International Freight and Travel Services (IFTS) – This enterprise was broken down into its three main components namely: Travel Services (American Express), Car Rental Services Division (Avis) and Freight Services. Following transaction 2 above, the rest of the company was put into liquidation by Lesotho Bank - 100% share holder in International Freight and Travel services.</p> <p>4. Plant and Vehicle Pool Services – The assets were offered for sale to Imperial Fleet Services under agreement negotiated in March 1999. Imperial Holdings would have 80% shareholdings while the government of Lesotho held the rest. No local bids were received in spite of a concerted effort to attract local investors.</p> <p>5. Marakabei Lodge – Was sub-leased for 3 years to MCM enterprise. Annual rental for the lodge was set at M36.000 (30 April 1998).</p> <p>6. Lesotho Airways Corporation (LAC) – The operational assets of the company were sold to Rossair Group as of 31 July 1997. Rossair also agreed to allow 20% shareholding to Basotho Investors at a later date but the company's operations ceased in February 1999. The Privatization Unit is in the final stage of engaging a liquidator for LAC.</p> <p>7. Lesotho Bank – Standard Bank Lesotho took over control of Lesotho Bank on 1 August 1999 with the eventual acquisition of a majority shareholding in a new Lesotho Bank, with a 70% shareholding by Standard Bank and 30% held by the Government of Lesotho.</p> <p>8. Orange River Hotel – The sale of the lodge was advertised for sale in July 1997. One bid to purchase was received from local businessman in January 1998. Negotiations with the prospective buyer have been ongoing.</p> <p>9. Maseru Sun Cabanas – Sale of Government shareholding is pending.</p> <p>10. Lesotho National Insurance Company - Sale of Government Shareholding Proposal was received from African Life and St. Paul to take over part of GOL's stake in Lesotho National Insurance Holdings and its subsidiaries.</p> <p>11. Maluti Oil and Cake Mills – The company has not operated since February 1996. In June 1996 the privatization scheme was approved and assets were to be sold to Continental Aid.</p>	<p>1. Basotho Fruit and Vegetable Cannery (BFVC) – Two years search for a strategic investor for BFVC which commenced in January 1997 has generated only one bid – Langeberg of RSA. As the Ministry of Agriculture was unable to provide some of the required inputs, and the negotiations with Langeberg failed. Privatization Unit resumed the search for a strategic investor for BFVC. Privatization Unit contacted other companies which had expressed interest, but without success. The enterprise is still being under the Ministry of Agriculture and LNDC.</p> <p>2. Lesotho Telecommunication Corporation – Action was taken on several fronts to prepare LTC for privatization by mid-2000. Price Waterhouse Coopers were appointed to assist with the implementation of divestiture of the LTC for completion by 30 June 2000.</p> <p>3. Maluti Highlands Abattoir – (Wholly-owned Government asset) Privatisation of the Abattoir became a Government priority in January 1998. Despite intensive advertising and local lobbying, the Privatization Unit received no expression of interest.</p> <p>4. Water and Sewage Authority - (WASA) entered the privatization process through a recognized need to out-source its non-core services in July 1997 which are mechanical workshop tanker and pit emptying services. The Basotho bidders were encouraged to bid. One bid from local company was received for the mechanical workshop and one bid from a South Africa Operator for the tanker and pit emptying. Negotiations with the bidders are in process.</p> <p>5. Maluti Mountain Brewery – The Government of Lesotho prepared a bid to take-over the shareholding of the Commonwealth Development Corporation in Lesotho Brewing Company for eventual transfer to the proposed Unit Trust, which is being processed.</p> <p>6. 20 Agricultural Enterprises – The implementation of divestiture of several small Agriculture enterprises and services was delegated by the Privatization Unit to the Ministry of Agriculture. Recruitment of an Advisor to assist the MOA with privatization was set in motion in February 1999.</p> <p>7. Lesotho Pharmaceutical Corporation – In negotiation with Time Controlling Capital Investments (TCI) of South Africa, agreement was reached for TCI to undertake due diligence in Lesotho Pharmaceutical Corporation from 4 February to 31 March 2000, with the possibility of acquisition of a majority shareholding in LPC with effect from 1 April 2000 if the due diligence turned out positive.</p> <p>8. Loti Brick – The management contract with Weneen Bpk of South Africa was formally revoked (8 February 1999). Plans were made by agreement between the Privatization Unit and Lesotho National Development Corporation for an Interim Management of the company while it was re-advertised.</p>

Source: Privatization Unit, 2000

ANNEX 7: SUCCESS STORIES

(a) National Environment Youth Corps Project – Learning Through Action Programme

As part of GOL's intention to combat unemployment and environmental degradation and as a means of achieving sustainable development, the involvement of the youth is considered crucial, hence the establishment of the National Environment Youth Corps (NEYC) project in 1996 by the National Environment Secretariat (NES). The project is funded by UNDP and targeted to youth between the ages of 15 and 24 years who are out of school and unemployed. NEYC was designed to focus on two major problems which tend to encompass a number of other problems: increasing youth unemployment and increasing environmental degradation of both rural and urban areas.

Environment clubs have been formed in three districts (one mountain, and two lowland/foothill) and have overall membership of 1460 school youth. The youth through their clubs are involved in environmental protection activities in rural and urban areas. The participants in the programme are paid monthly allowance of M200 in the first year, M100 and M50 in the second and third year respectively. Thereafter, they are expected to start their own income generating projects which are environmentally sound, such as vegetable and poultry production, candle making, building construction. The achievements of the programme include:

- Establishment of over 420 soil conservation structures covering about 300 hectares, raising 25000 seedlings in collaboration with NGOs, e.g. Red Cross.
- Planting 1000 fuel wood trees (Community Forestry) and 100 fruit trees, and construction of one dam for irrigation purposes.
- Formation of an organization ALOE Advocates for Lesotho's Own Environment which promotes healthy surroundings, undertakes soil erosion control measures and establishes community parks.
- Engaged in environment friendly arts and craft (recycling plastic and paper) and water recycling.

(b): LNDC's Investment Promotion Achievements (1992-1997)

The Corporation attracted investors to initiate and implement a total of 33 new projects, starting with 1 in 1992/93 and ending with 7 in 1997/98. The highest number of projects (11) was in 1995/96, giving an annual average of 5 projects. The employment generation which resulted, benefited 9970 workers during the period at an annual average of 1660 jobs. The targets were between 97 percent and 119 percent (1995/96) except in 1994/95 and 1997/98 when only 26 percent of targets were achieved due to labour unrest associated with political disturbances.

The total amount invested came to M1508 million, with LNDC contributing M530 million (28%). The annual average totaled M251 million and M44 million as total investment and LNDC contribution respectively. The highest export growth figures were recorded in 1992 (38.1%) and in 1993 (41.2%), followed by a decline from 1994 (16%) to 1997 (10.7%) as a result of labour unrest and external factors in the export market.

c) Achievements in Health (1990-1999)

The Expanded Programme on Immunization (EPI) and the Programme on the Control of Diarrhoeal Diseases (CDD) can both be singled out for having had a significant impact (in terms of reduction in mortality amongst this age group). With regard to EPI antigen-specific coverage ranges from 77% (Measles) to 98% (BCG), whilst “all antigen” coverage averages out at 71%. The corresponding figures for ten years ago are 53%, 87%, and 49% respectively. With regard to the CDD programme, widespread availability of Oral Re-hydration Salts (ORS) has effected a remarkable decrease in the mortality rate, secondary to diarrhoea. Other areas of significant achievement in terms of both coverage and improvement in the key indicators are nutrition and maternal health.

The Community Health Worker (CHW) Programme has also grown from strength-to-strength since its inception, and thereby has continued to ensure that most communities have access to, at the very least, their basic health care requirements. To date the programme has succeeded in training approximately 6000 community health workers.

In terms of improving access to health care services by effecting improvements in the physical infrastructure, key roles have been played by both the Rural Health Services Project (RHSP), the Rural Clinics Improvement Project (RCIP) and the World Bank funded 2nd Population, Health and Nutrition Project (PHN-II). All district hospitals, as well as the majority of rural health centers have been refurbished by these two projects. Hospitals were the responsibility of RHSP whilst centers were that of RCIP. The only drawback to the achievements made by the hospital refurbishment and renovation programme is that it focused on government-owned facilities to the total exclusion of CHAL-owned facilities. The RCIP on the other hand, attended to all clinics requiring refurbishment and/or renovation, irrespective of where the ownership lay. The PHN Project, on the other hand, facilitated the construction of “Filter Clinics” that were constructed utilizing private contractors.

To date the following accomplishments have been achieved despite the backlog of an alarming rapid spread through the population over the years.

- A high level of awareness and knowledge of HIV/AIDS STIs.
- All the blood that is transfused is tested for HIV.
- An HIV/AIDS surveillance system has been instituted to measure the magnitude of the problem and to monitor its trends.
- The management of STIs has been improved through the development of guidelines and training of health workers.
- A limited number of government and private institutions and Non-Governmental Organizations (NGOs and CBO) have been mobilized into the fight against HIV/AIDS.

ANNEX 8: KEY DEVELOPMENT STRATEGIES

National Goal

National Policy Objectives

Key Strategies

Source: Ministry of Development Planning, 2000.

**ANNEX 9:
DETAILED SUMMARY OF IMPLEMENTATION PROGRAMME
PRIORITIES**

Programme	Component Programmes/Projects Requiring Support	Sub-	Institutional Role Players Ministry/Agency/Organization
<p>1. MACRO-ECONOMIC STABILITY</p> <p>Objective: Creation of favourable environment for sustained economic growth</p>	<p>1. Manpower (i) VAT Implementation Unit; (ii) Tax Administration; (iii) Fiscal Analysis and Policy Unit; (iv) Privatization Unit (PU); (v) PRS Coordination; (vi) Aid Coordination</p> <p>2. Privatization and Economic Participation (i) Utility Sector – LEC, LTC, WASA (ii) Extend Privatization Unit, (iii) Strengthen Capacity of LSPP and rationalize land tenure; (iv) Establish Trust Fund System</p> <p>3. Infrastructure (i) Irrigation-rehabilitation and production investment (ii) Factory shells and marketing centers (iii) Dam construction – feasibility studies and investment (iv) Road construction – Mokhotlong/Sani Pass</p> <p>4. Regional Integration (i) Diversify Moshoeshoe I international airport services into free trading zone; (ii) Capacity for efficient coordination of SADC ELMS and Water sectors; (iii) Capacity for implementation of WTO competition policy</p>		<p>GOL and DONORS</p> <p>Ministry of Finance (MOF)</p> <p>MOF Ministry of Planning & Development (MDP)</p> <p>MOF, Ministries of Natural Resources (MNR) and Communications, LEC, WASA, LTC MOF Ministries of Home Affairs (MOHA) and Local Government (MLG) MOF and Central Bank of Lesotho, Private Sector</p> <p>Ministries of Agriculture, Crops and Land Reclamation (MACLR), PU, Farmers orgs. Ministry of Trade, Industry and Marketing (MTIM), LNDC, MLG, MACLR MNR, MACLR, LHWP</p> <p>Ministry of Works (MOW), Private Sector</p> <p>MTIM, Communications, and MACLR and other Ministries</p> <p>Ministries of Environment, Gender and Youth Affairs (MEGYA) and MNR MTIM</p>
<p>2. SOCIAL STABILITY</p> <p>Objective: Creation of Social environment conducive to development of productive capacity of human resources</p>	<p>1. Enabling democratic and security Environment and upholding human rights (i) General and local government elections, education programmes and election material; increasing capacity of NGOs; (ii) Strengthening administrative and implementation capacity of Local</p>		<p>GOL and DONORS</p> <p>Min of Law, Constit. and Parliamentary Affairs; MOHA, MLG, Lesotho Council of NGOs (LCN) NGOs and CBOs</p> <p>MLG, MOHA and all ministries, Ministry of Public Service Commission, MDP</p>

	<p>Government; and accelerate civil service reform;</p> <p>(iii) Training for security forces and judiciary, prevention of crime and stock theft (livestock marking and registration project)</p> <p>2. Human Capacity Development</p> <p>2.1 Health</p> <p>(i) Control population growth – family planning;</p> <p>(ii) Strengthen and expand primary health care programme and combat HIV/AIDS (condoms and education); TB and STDs; improve nutrition of under 6 years olds – Vit. A and Iodine supplies, nutrition surveillance system;</p> <p>(iii) Professional and technical manpower and supplies for government and CHAL centers, and education;</p> <p>(iv) Provision of water and sanitation</p> <p>2.2 Education and Training</p> <p>(i) Universal free primary education;</p> <p>(ii) vocational and technical training;</p> <p>(iii) teaching materials, equipment training of teachers; (iv) elimination of illiteracy among youth and adults, provision of specialized education to the disabled; (v) materials, equipment and teachers for NUL (vi) supporting church schools</p> <p>3. Administrative and Social Infrastructure</p> <p>(i) Housing and offices for local government; and for law enforcing and justice administration agencies;</p> <p>(ii) district and local courts;</p> <p>(iii) health centers and clinics, water supply and sanitation facilities;</p> <p>(v) schools, laboratories, water supply and sanitation</p>	<p>Ministry of Defense, MOHA, LG, Ministry of Justice and Human Rights</p> <p>Ministry of Health and Social Welfare (MOHSW), Christian Health Association of Lesotho, NGOs and CBOs</p> <p>Ministry of Education (MOE), NUL, Churches and NGOs</p> <p>MOHA, LG, Ministries of Defense and Justice,</p> <p>WASA, LEC, LTC</p> <p>MOHSW, Churches, WASA, LEC, LTC</p> <p>MOE and above agencies</p>
<p>3. PRODUCTIVE SECTOR</p> <p>Objective: To expand productive potential based on Lesotho’s comparative advantages, thus improving income distribution patterns and broadening income opportunities.</p> <p>Main productive sectors are trade and industry, agriculture, tourism, and mining</p>	<p>1. Service Sector</p> <p>(i) Improving access to production, marketing and trade information;</p> <p>(ii) Training traders and producers in quality and competitive production;</p> <p>(iii) providing credit. Above 3 assistance requirements targeted to informal sector</p> <p>2. Science and Technology</p> <p>(i) Train manpower for technology transfer especially in small and medium size enterprises</p>	<p>GOL and DONORS</p> <p>MTIM, MACLR, Ministry of Tourism. Sports and Culture, MNR (Dept of Mining) Banks, Private Sector</p> <p>As above, and MLG (Appropriate Technology Services), MACLR/NUL (Research Dept),</p>

	<p>(ii) Support research in alternative export commodities (traditional and new)</p> <p>3. Rural Development (i) Transformation and capacity building programmes in agriculture, (APCB and Sustainable Development Programme); (ii) in trade and industry, Small Enterprise Project, Small and Medium Industry Development Project, and Informal Sector Promotion Programme, (iii) in tourism and mining, provide technology and equipment through credit</p> <p>4. Infrastructure (i) Private investment in poultry and pig slaughter houses and provision of milk collection centers – mainly women’s programmes; (ii) Private investment in large scale irrigation, and provision of facilities for medium and small scale irrigation; (iii) rehabilitation of wool and mohair shearing and grading sheds</p>	<p>Private and farming sector</p> <p>MACLR, MTIM, Ministry of Tourism, Sports and Culture, MNR (Dept of Mining) Private Sector, NGOs, CBOs, Banks, and LHWP</p> <p>MACLR, Farmers Associations and Cooperatives, District Councils</p> <p>MTIM, MACLR, Farmers Associations and Cooperatives, District Councils</p>
<p>4. NATURAL RESOURCES</p> <p>Objective: To tackle the twin-problem of poverty and environmental degradation for sustained growth and sustainable development</p>	<p>1. Awareness Programme (i) Education of rural and urban communities; (ii) Capacity building at professional, technical, district and community level</p> <p>2. Development and Protection of Natural Resources (i) Incentives (Production Through Conservation Strategy) to combat soil erosion and range degradation; (ii) Comprehensive training of farmers and local authorities in RMA programmes (iii) Capacity to implement Environmental Policy and Legislation; (iv) Supporting Youth Corps, Youth NGOs and herdboys literacy programmes by providing equipment and tools, also to stone cutters; (v) Afforestation and development of low cost alternative fuel sources</p> <p>3. Infrastructure (i) Soil Conservation dams and other structures and tree seedling production facilities; (ii) RMA infrastructure - fenced livestock improvement centers, dip tanks, livestock sales pens; (iii) Groundwater for domestic use and</p>	<p>GOL and DONORS</p> <p>MEGYA, MACLR, MLG, MOHA, NGOs and CBOs, NUL As above</p> <p>As above</p> <p>As above</p> <p>MEGYA</p> <p>MEGYA, NGOs</p> <p>MEGYA, MNR, MLG</p> <p>MACLR, LG</p> <p>MACLR, LG, MNR, WASA</p>

	<p>gravity-led water facilities for domestic and irrigation</p> <p>4. Regional Integration</p> <p>(i) Capacity building to ensure integrity of resources (water and biodiversity) shared with regional partners;</p> <p>(ii) Support border parks and Drakensberg/Maloti Mountain Conservation Programme</p> <p>(iii) Combat climate change and desertification through afforestation and preventing range degradation</p>	<p>MEGYA, MNR, SADC Coordination Units</p> <p>MEGYA, Foreign Affairs</p> <p>MEGYA, Foreign, MACLR, MLG</p>
<p>5. DISASTER MITIGATION AND PREVENTION</p> <p>Objective: To improve capacity of Lesotho to identify disaster scenarios, establish appropriate protective measures and contingency plans, and involve local community leaders and the population</p>	<p>1. Disaster Preparedness</p> <p>(i) Capacity to update vulnerability Assessment and Mapping on continuing basis; (ii) awareness programmes in disaster prone areas, mountain areas in particular;</p> <p>(iii) employment schemes to promote self-reliance for disaster preparedness, (iv) Contingency fund for food and medical stockpile.</p> <p>2. Mitigation Measures</p> <p>(i) Contingency fund (see above);</p> <p>(ii) Storage facilities in disaster prone areas;</p> <p>(iii) Supplementary emergency vehicles to private sector fleet and funds for flying supplies in the event of snowy conditions.</p> <p>3. Preventive Measures</p> <p>(i) Support to Southern Districts Mountain Biodiversity Project,</p> <p>(ii) support to Sustainable Mountain Development Programme for ensuring food security;</p> <p>(iii) assist in controlling greenhouse gas emissions through range management (RMA), afforestation, and preventing climate change (FEF) project;</p> <p>(iv) water harvesting and conservation;</p> <p>(v) anti-pollution measures in domestic and industrial systems.</p>	<p>GOL and DONORS</p> <p>Disaster Management Authority (DMA), all ministries, NGOs (in particular Red Cross), Church organizations</p> <p>DMA/MOF/MDP Ministry of Works, MLG Ministry of Communications, Ministry of Works</p> <p>MEGYA, MACLR</p> <p>MACLR, MLG</p> <p>MNR/MEGYA, MACLR</p> <p>MNR/MEGYA, MACLR, LG MNR/MEGYA, MTIM/LNDC, Private Sector</p>

ANNEX 10: PSIP BUDGET AND ALLOCATIONS TO 6 TOP MINISTRIES BY SOURCE OF FUNDING

	2000/01				2001/02				2002/03			
A. PSIP BUDGET	GOL Grant	Donor Grant	Donor Loan	Total	GOL Grant	Donor Grant	Donor Loan	Total	GOL Grant	Donor Grant	Donor Loan	Total
Million Maloti (M2083 million)	300	279	400	979	264	186	305	755	156	193	0.521	350
B. Ministry Allocation	% of Grant	% Donor Grant	% Donor Loan	% All Sources	% of Grant	% Donor Grant	% Donor Loan	% All Sources	% of Grant	% Donor Grant	% Donor Loan	% All Sources
Health					9.4	3.7			3.2		100	2.8
Agriculture		13.3	7.5	7.9			8.8	5.4				
Education	8.7	5.0	14.8	10.1		12.9	21.0	14.9				3.1
Planning							2.3			5.6		3.1
Finance			4.7									
Justice and Human Rights					3.7				4.4			
Prime Minister's Office		6.5										
Trade and Industry						10.2		4.1	11.5	25.3		19.1
Works	29.0	29	6.2	19.9	37.8	51	1.3	2.6	69.8	52.8		60.5
Natural Resources	8.3	5.4	4.5	5.9	5.6	9.1	6.2	6.6	2.5	5.2		4.0
Foreign Affairs	5.3											
LHWP	15.0	27.9	58.6	36.6	21.5		59.5	31.5				
Tourism												
Local Government	12.6			3.8	3.4				2.5			
Environment Gender and Youth Affairs						3.7				1.5		
Total	78.9	90.3	96.3	84.2	81.4	90.6	99.1	88.5	93.9	96.0	100	92.6
Others	21.1	9.7	3.7	15.8	18.6	9.4	0.9	11.5	6.1	4.0	-	7.4

ANNEX 11: PROJECTED PSIP BUDGET FOR IMMEDIATE TO LONG TERM (Million Maloti)

	Immediate Term			Medium Term			Long Term			
MINISTRIES	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
Needs (N)	1,254	984	678	1,013	1,061	1,109	1,167	1,203	1,242	1,284
Allocation PSIP (AP)	979	755	357	732	767	801	828	854	881	910
Gap (G)	276	229	322	281	294	308	339	350	361	373
PROGRAMME										
1. Macro-Economic Stability										
N	32	18	23	26	27	28	29	30	31	32
AP	-47	-21	-11	-28	-29	-30	-31	-32	-33	-34
G	-14	-2	+12	-2	-2	-2	-2	-2	-2	-2
2. Social Stability										
N	178	180	154	180	188	197	203	210	216	224
AP	-194	-153	-33	-133	-139	-146	-150	-155	-160	-165
G	-15	+27	+121	+47	+49	+51	+53	+55	+56	+58
3. Productive Sectors										
N	206	142	55	141	147	154	159	164	169	178
AP	-316	-285	-294	-313	-328	-343	-354	-365	-377	-390
G	-109	-142	-239	-173	-181	-189	-195	-201	-208	-215
4. Natural Resources										
N	825	633	443	657	688	720	765	789	814	841
AP	-416	-290	-15	-252	-264	-276	-285	-294	-303	-313
G	+410	+343	+428	+405	+425	+480	+480	+495	+511	+528
5. Disaster Management										
N	13	11	4	10	10	10	11	11	11	12
AP	-7	-7	-3	-6	-6	-7	-7	-7	-7	-8
G	+6	+3	+454	+3	+4	+4	+4	+4	+4	+4

**ANNEX 12: PSIP BUDGET BREAKDOWN BY MINISTRIES AND PHASES
(Maloti) Needs/Allocation***

IMMEDIATE TERM			
Ministries	2000/01	2001/02	2002/03
1. AGRICULTURE	122,973,780 76,635,620	38,254,760 41,517,000	12,025,170 3,120,000
2. HEALTH	21,371,000 23,600,000	29,735,450 15,400,000	24,336,760 10,400,000
3. EDUCATION	79,980,510 99,024,000	97,587,970 113,262,000	97,861,430 11,000,000
4. FINANCE	10,744,050 24,000,000	150,000 -	100,000 -
5. TRADE	13,800,000	31,000,000	67,500,000
6. PLANNING	21,287,910 22,525,720	17,938,700 20,914,920	22,898,340 11,354,360
7. NATURAL RESOURCES	825,058,000 415,508,000	632,591,000 289,546,000	442,954,490 14,500,000
8. JUSTICE & HUMAN RIGHTS	10,251,000 6,503,230	9,351,000 10,772,000	1,650,000 7,003,000
9. HOME AFFAIRS	5,417,000 4,336,880	2,000,000 3,436,880	- 7,003,000
10. EMPLOYMENT & LABOUR	589,600+ 2,263,390	588,600+ 875,470	589,600+ 1,225,650
11. LOCAL GOVERNMENT	41,100,000+ 38,000,000	26,900,000+ 8,523,500	15,700,000+ 3,191,000
12. PUBLIC WORKS	49,190,000 194,618,750	22,122,500 199,289,750	3,619,750 212,251,000
13. ENVIRONMENT, GENDER & YOUTH	12,939,000 6,875,000	10,507,370 7,188,000	3,772,090 3,318,000
14. FOREIGN	16,000,000 16,000,000	16,000,000 -	10,500,000 -
15. COMMUNICATIONS	3,833,100 1,350,000	- 2,650,000	- 250,000
16. DEFENCE	8,300,000 3,500,000	59,576,120 1,300,000	20,512,040 -
17. PRIME MINISTER	21,127,840 23,129,000	16,306,190 1,612,000	13,889,550 -
18. TOURISM, SPORTS & CULTURE	4,150,000 7,130,000	4,490,800 8,129,800	8,046,000 4,500,000
NEEDS	M1,259,619,190	984,100,460	676,970,220
PSIP ALLOCATION	978,790,590	755,417,320	352,161,010
GAP	280,846,600	228,683,140	356,622,010

* First figure for each Ministry denotes Needs. Second figure denotes allocation.

MEDIUM TERM				
MINISTRIES	2003/04	2004/05	2005/06	2006/07
1. AGRICULTURE	60,288,800 42,445,420	63,159,690 44,466,630	66,030,550 46,487,820	68,180,890 48,005,370
2. HEALTH	26,405,120 17,290,000	27,662,510 18,113,330	28,919,880 18,936,650	29,861,680 19,553,340
3. EDUCATION	96,400,470 78,150,100	100,990,960 81,871,530	105,581,400 85,592,920	109,019,750 88,380,320
4. FINANCE	3,847,920 8,400,000	4,031,150 8,800,000	4,214,380 9,200,000	4,351,630 9,499,600
5. TRADE	? 39,305,000	? 41,176,660	? 43,048,300	? 44,450,200
6. PLANNING	21,744,270 19,178,250	22,779,710 20,091,500	23,815,140 21,004,740	24,590,070 21,688,400
7. NATURAL RESOURCES (NR)	LHWP 637,998,900 208,681,900 NR 19,130,370 43,162,000	LHWP 668,379,770 218,619,120 NR 20,041,340 45,217,330	LHWP 698,760,030 228,556,230 NR 20,952,300 47,272,640	LHWP 743,105,990 235,999,350 NR 21,634,630 48,812,100
8. JUSTICE & HUMAN RIGHTS	7,438,200 8,497,390	7,792,400 8,902,030	8,146,600 9,306,660	8,411,900 9,610,030
9. HOME AFFAIRS	2,595,950 5,171,870	2,719,570 5,418,150	2,843,190 5,664,430	2,935,770 5,848,890
10. EMPLOYMENT & LABOUR	912,800 1,527,580	956,270 1,600,320	999,740 1,673,060	1,032,290 1,727,550
11. LOCAL GOVERNMENT	29,295,000 17,400,080	30,690,000 18,228,650	32,084,980 19,057,220	33,129,860 19,677,830
12. PUBLIC WORKS	26,226,290 212,155,830	27,475,160 222,258,480	28,724,020 232,361,020	29,659,430 239,928,030
13. ENVIRONMENT, YOUTH & GENDER	9,526,480 6,083,350	9,980,120 6,373,030	10,433,760 6,662,710	10,773,540 6,879,690
14. FOREIGN	14,374,990 5,600,000	15,583,320 5,866,670	16,291,640 6,133,330	16,822,210 6,333,310
15. COMMUNICATIONS	1,340,850 1,487,500	1,404,700 1,558,330	1,468,550 1,629,160	1,516,370 1,682,220
16. DEFENCE	30,935,860 1,680,000	32,408,990 1,780,000	33,882,110 1,840,000	34,985,500 1,899,920
17. PRIME MINISTER	17,963,250 8,659,350	18,818,640 9,071,700	19,674,020 9,484,050	20,314,730 9,792,900
18. TOURISM, SPORTS & CULTURE	5,840,380 6,915,930	6,118,490 7,245,260	6,396,600 7,574,590	6,604,910 7,821,260
NEEDS	1,012,765,900	1,060,992,790	1,108,218,890	1,166,931,150
PSIP ALLOCATION	731,791,470	766,638,720	801,485,230	827,590,310
GAP	280,974,430	294,354,070	307,733,660	339,340,840

LONG TERM			
Ministries	2007/08	2008/09	2009/10
1. AGRICULTURE	70,336,910 49,523,400	72,561,880 51,089,970	75,002,140 52,808,130
2. HEALTH	30,805,970 20,171,660	31,780,460 20,809,750	32,849,240 21,509,580
3. EDUCATION	112,467,170 91,175,080	116,024,840 94,059,220	119,926,760 97,222,430
4. FINANCE	4,489,240 9,800,000	4,631,240 10,110,000	4,786,990 10,450,000
5. TRADE	45,885,800	47,306,360	48,897,270
6. PLANNING	25,367,660 22,374,230	26,170,120 23,081,990	27,050,220 23,858,240
7. NATURAL RESOURCES (NR)	LHWP 766,604,490 243,462,120 NR 22,318,760 50,355,640	LHWP 790,854,490 251,163,560 NR 23,024,770 51,948,540	LHWP 817,450,930 259,610,190 NR 23,799,090 53,695,570
8. JUSTICE & HUMAN RIGHTS	8,677,900 9,913,920	8,952,410 10,227,530	9,253,480 10,571,480
9. HOME AFFAIRS	3,028,600 6,033,840	3,124,400 6,224,710	3,229,470 6,434,450
10. EMPLOYMENT & LABOUR	1,064,930 1,782,180	1,098,170 1,838,560	1,135,100 1,900,390
11. LOCAL GOVERNMENT	34,177,490 20,300,080	35,258,630 20,942,230	36,444,380 21,646,520
12. PUBLIC WORKS	30,597,320 247,515,030	31,565,210 255,344,670	32,626,750 263,931,910
13. ENVIRONMENT, YOUTH & GENDER	11,114,220 7,097,240	11,465,800 7,321,750	11,851,390 7,567,980
14. FOREIGN	17,354,160 6,533,580	17,903,120 6,740,260	18,505,200 6,966,930
15. COMMUNICATIONS	1,564,320 1,735,420	1,613,800 1,790,320	1,668,070 1,850,530
16. DEFENCE	36,091,810 1,960,000	37,233,500 2,022,000	38,485,660 2,090,000
17. PRIME MINISTER	20,957,120 10,102,570	21,620,070 10,422,150	22,347,150 10,772,650
18. TOURISM, SPORTS & CULTURE	6,813,770 8,068,580	7,029,310 8,323,810	7,265,710 8,603,740
NEEDS	120,383,840	1,241,912,220	1,283,677,730
PSIP ALLOCATIONS	350,071,470	361,144,850	373,289,740
GAP	853,760,370	880,767,370	910,387,990

ANNEX 13: REFERENCES

1. **Central Bank of Lesotho.** Annual Reports (1990-1999)
2. **Government of Lesotho 2000**
Lesotho Public Sector Improvement and Reform Programme Policy Framework. Ministry of Public Service. Maseru.
3. **Government of Lesotho, Ministry of Development Planning – MDP (Formerly Economic Planning – MEP)**
 - 1995, Lesotho 7th Round Table Conference: Strategic Issues Confronting Lesotho's Development. MEP. Maseru
 - 1996, Follow up on the 7th Round Table Conference for the Kingdom of Lesotho. MEP, Maseru.
 - 1996, Lesotho Sectoral Round Table Consultations on Health: Building Partnerships for Lesotho Health Sector Reform. MEP, Maseru
 - 1996, Lesotho Sectoral Round Table Consultations on Environment: A Strategic Programme of Action in Support of Agenda 21. MEP, Maseru.
 - 1996, Lesotho Sectoral Round Table Consultations: Population: A Strategic Programme of Action
 - 1996, Lesotho Sectoral Consultations: Agriculture: A Strategic Programme of Action
 - 1997, Lesotho 8th Round Table Conference: Poverty Reduction within the Context of Good Governance. MEP, Maseru.
 - 1997, Lesotho Round Table Sectoral Report on Education. MEP, Maseru.
 - 1997, Strategic Option Study Phase II. Ministry of Economic Planning. Maseru.
 - 1998, Sixth National Development Plan (1996/97-1998/99). Ministry of Development Planning (MDP)
 - 1999, Comparative Analysis on Economic Structure and Performance of Common Monetary Area Economies. Bureau of Statistics. Maseru
 - 2000, Draft 7th National Development Plan (1999/2000-2001/02), MDP, Maseru.
 - 2000, Consolidating Democracy, Helping the Poor while Laying the Basis for Strong Economic Growth. Budget Speech for the Fiscal Year 2000/2001. Parliament for the Kingdom of Lesotho, Maseru.
 - 2000, Interim Poverty Reduction Strategy Paper. MDP, Maseru.
4. **Lesotho Distance Teaching Centre, 2000**
National Literacy Survey. Maseru
5. **Ministry of Education, 1999**
Education Statistics, 1998. Maseru
6. **Ministry of Education, 1998**
Education Statistics, 1997. Maseru
7. **Ministry of Finance, 2000**

Memorandum on Economic and financial Policies, February. Maseru

8. Ministry of Finance, 1998

Privatization and Private Sector Development. Annual Report 1997/98. Maseru

9. Ministry of Labour and Bureau of Statistics, 1998

Labour Force Survey, 1997. Maseru

10. National Environment Secretariat, 1998

Review of Agenda 21 Implementation in Lesotho

11. Sechaba Consultants

- 1994, Poverty in Lesotho – A Mapping Exercise. Maseru
- 2000, Poverty and Livelihoods in Lesotho – More than a Mapping Exercise. Maseru

12. UNCTAD

- 1999, Guidelines for the Preparation of the Action Programme for Development at Country Level. Third UN Conference on LDCs. Brussels
- 1990, Paris Declaration on the Programme of Action for LDCs (1991-2000). Brussels.

13. UNDP

- 1995, Seventh Round Table Conference for Lesotho. Maseru
- 1997-1999, Lesotho National Human Development Reports, Maseru
- 1997, Eighth Round Table Conference for Lesotho: Report of the Conference. Maseru
- 1998, An Evaluation of Round Table Mechanism (RTM) 1973-1997 in Lesotho. Maseru
- 1998, Overcoming Human Poverty. New York
- 1999, Implementation of WSSD Commitments. Kingdom of Lesotho. Maseru

14. World Bank

- 1995, Lesotho Poverty Assessment, Washington DC
- 1995, Proposed Credit to the Kingdom of Lesotho for Agricultural Policy and Capacity Building Project: Project Appraisal Document. Washington DC.
- 1999, World Development Indicators. Washington DC.
- 2000, PRSP Internal Guidance Note. Washington DC.