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***KINGDOM OF LESOTHO***

***Interim Poverty Reduction Strategy Paper***

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**Macroeconomics 1  
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## Acronyms

AIDS	Acquired Immunodeficiency Syndrome
ANC	Ante-Natal Care
APCBP	Agricultural Policy and Capacity Building Project
ASAP	Agricultural Structural Adjustment Programme
ASC	Advisory School Committees
ASDP	Agricultural Sector Development Programme
BEDCO	Basotho Enterprise Development Corporation
CAS	Country Assistance Strategy
CHAL	Christian Health Association of Lesotho
CHW	Community Health Worker
CPI	Consumer Price Index
ESAF	Enhanced Structural Adjustment Facility
EU	European Union
EU-SAFTA	EU/South Africa Free Trade Area
FPE	Free Primary Education
GDP	Gross Domestic Product
GNP	Gross National Product
HIV	Human Immuno Virus
IDA	International Development Association
IEC	Independent Electoral Commission
IMF	International Monetary Fund
IPA	Interim Political Authority
I-PRSP	Interim Poverty Reduction Strategy Paper
LADB	Lesotho Agricultural Development Bank
LCCI	Lesotho Chamber of Commerce and Industry
LCU	Labour Construction Unit
LEC	Lesotho Electricity Corporation
LFCD	Lesotho Fund for Community Development
LHDA	Lesotho Highlands Development Authority
LMA	Lesotho Manufacturers Association
LNDC	Lesotho National Development Corporation
LTC	Lesotho Telecommunications Corporation
M	Maloti
NEAP	National Environmental Action Plan
NGO	Non-Governmental Organisations
NUL	National University of Lesotho
PFP	Policy Framework Paper
PHC	Primary Health Care
PRGF	Poverty Reduction and Growth Facility
SACU	Southern African Customs Union
SADC	Southern African Development Community
SAP	Structural Adjustment Programme
SME	Small and Medium Size Enterprises
TEBP	Targeted Equity Based Programme
TOR	Terms of Reference
TWG	Technical Working Group
UN	United Nations
UNDP	United Nations Development Programme
UNICEF	United Nations Children's Fund
VAT	Value-Added Tax
VIP	Ventilated Improved Pit (Latrine)
WASA	Water and Sewerage Authority
WFP	World Food Programme
WHO	World Health Organisation
WIID	World Income Inequality Database

THE INTERNATIONAL DEVELOPMENT ASSOCIATION AND  
INTERNATIONAL MONETARY FUND

THE KINGDOM OF LESOTHO

**Joint Staff Assessment of the Interim Poverty Reduction Strategy Paper**

Prepared by the Staffs of the International Development Association and  
the International Monetary Fund

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February 5, 2001

**Introduction**

1. The Interim Poverty Reduction Strategy Paper (I-PRSP) reflects an ongoing effort by the Government of Lesotho (GOL) to formulate a comprehensive poverty reduction strategy. Traditionally, poverty reduction has been addressed in the context of national development plans and associated annual budgets and, in fact, was the overarching objective in the current and previous triennial plans. The I-PRSP reaffirms GOL's commitment to poverty reduction, highlights weaknesses in existing poverty analysis in Lesotho, elaborates on the failure to adequately deal with poverty in the past and therefore the need to develop an alternative framework, and identifies the steps to be taken in formulating a poverty reduction strategy through a participatory process. The paper has been approved by the Cabinet and was transmitted to the Bank and the Fund with a cover letter authorizing its publication.

2. The I-PRSP was prepared by a Technical Working Group (TWG), established in February 2000, under the oversight of the Deputy Prime Minister (who is also the Minister of Finance and Development Planning) and the Poverty Council, made up of Principal Secretaries of various line ministries and the Governor of the central bank. The TWG comprised representatives from government, private sector, non-governmental organizations (NGOs), the National University of Lesotho, and the donor community resident in Maseru. Because of time constraints in preparing the I-PRSP for support under the IMF's PRGF and upcoming IDA assistance for the Utility Sector Reform, consultation was limited to line ministries and Lesotho's development partners resident in Maseru. At the request of the Government, the staffs of the Bank and the Fund provided

informal comments on a draft of the I-PRSP. However, the I-PRSP is a fully-owned government document.

### **Extent and Pattern of Poverty**

3. The I-PRSP points out the lack of consensus within Lesotho on the extent and pattern of poverty. GOL does not have an official measure of poverty, but based on studies sponsored by various development partners, including the Bank, the document states the following: one-half to three-quarters of the population may be considered “poor” and a quarter to one-half may be “ultra poor”; poverty is regionally concentrated in the predominantly rural areas, where more than 80 percent of the people may be poor; and the poverty situation does not seem to have improved over the past decade despite the economic boom that Lesotho has enjoyed since the late 1980s. The staffs agree that poverty is widespread, but would question the assertion that economic growth has not improved the poverty situation. First, the data on which the poverty analysis in the I-PRSP is based are very weak and do not lend themselves to reliable conclusions about the level and trend of poverty. Second, we do not know much about the incidence of economic growth in Lesotho. The staffs would strongly recommend that during the preparation of the PRSP, a major effort be made to improve the data base on poverty and to explore the relationship between poverty and economic growth in Lesotho.

4. The I-PRSP proposes to establish national poverty standards during preparation of the full PRSP, recognizing the limitations of income measures of poverty. The staffs support this proposal, but will suggest that the exercise include an in-depth diagnostic analysis of income poverty and human development in Lesotho. The staffs also support the proposal in the I-PRSP to establish a poverty-monitoring unit under the auspices of the TWG to fill information gaps, set necessary standards for measuring poverty at the national level, set targets for monitoring activities, and take active part in keeping various stakeholders informed. The main information gap that needs to be filled includes: establishment of a poverty line, the proportion of population below the poverty line, regional and gender distribution of poverty, and factors contributing to poverty. The staffs suggest that, as soon as possible, through a participatory approach, a preliminary list of indicators be established based on existing data sources. Such indicators could include, inter-alia, indicators of poverty outcomes as well as on budget management and efficiency of public resource use. The staffs recommend that the full PRSP include a systematic, participatory evaluation of the impact of government programs on poverty reduction. Community monitoring of the impact of government programs on poverty could be supported by the Bank and other donors through technical assistance. The ongoing IDA-supported Learning and Innovation Loan (LIL) for strengthening the Lesotho Fund for Community Development (LFCD) may be used as an instrument for this purpose.

## Poverty Reduction Policies

5. The I-PRSP identifies unemployment (estimated by the Bureau of Statistics at about 40 percent in 1998) as the dominant cause of poverty, and lists several factors contributing to high unemployment, including reduced job opportunities in South African gold mines, the slow-down of construction activities in Phase 1B of the Lesotho Highlands Water Project, and constraints to the growth of manufacturing on account of political uncertainties and the lack of essential infrastructure such as reliable low cost electricity supply. It notes that GOL has sought to reduce unemployment mainly by promoting economic growth and using projects as instruments, giving rise to a number of projects to improve service delivery and infrastructure. Rural road construction, for example, while it has helped develop critical infrastructure, appears to have created seasonal jobs only. The government has also promoted privatization and various industrial development projects and has sought to develop small and medium enterprises and encourage indigenous entrepreneurship through, inter-alia, improved access to finance and training. Yet, these measures have not resolved the problem of high unemployment.

6. The I-PRSP also notes that the poverty impact of social sector spending has been mixed, but encouraging. Improvements in access to health services, for example, may have contributed significantly to increasing life expectancy, although this trend is being reversed on account of the spread of HIV/AIDS. Dealing with the effect of HIV/AIDS in the context of Lesotho's high poverty will be a development challenge for the PRSP. In education, adult literacy has not changed significantly, and there has been a substantial drop in the net enrollment ratio at the primary level. The high and increasing cost of education may have been a barrier for the poor; GOL has responded by making primary education free. The education strategy will need to address not only the issue of parental costs, but also issues of cost effectiveness and quality of education. The I-PRSP acknowledges that government has not been able to effectively make a dent on poverty through social sector expenditures, and argues that top-down development and implementation of policies, without adequate community participation, may have been an important reason for the failure.

7. The I-PRSP briefly outlines a medium-term economic strategy that would serve as a basis for developing the poverty reduction strategy. The economic strategy emphasizes economic growth and poverty reduction in the context of macroeconomic stability, and contains the following elements: export-led economic growth, prudent fiscal management, cautious monetary policy, strengthened capacity for national economic management, and increased efficiency and accessibility to quality social services. Private investment plays a key role in the strategy. In this context, the staffs suggest that Government should provide for a more amicable environment for private sector development through the execution of appropriate legal and judicial reform programs.

The proposed policies are expected to restore growth to about 4 percent a year, reduce inflation to about 5 percent a year and help maintain adequate levels of international reserves. This economic strategy is appropriate and consistent with the economic program that will be supported under the Fund's Poverty Reduction and Growth Facility (PRGF).

8. To ensure that economic growth maximizes employment generation, the document suggests that priority be given to those activities that have a direct impact on the poor. In addition, growth policies should be supplemented by accelerated public works programs and by redesigning these programs to target them more effectively at the poorer segments of the population. The staffs agree with the emphasis on employment generation and improved targeting of public works programs, but would caution the government against trying to select and target specific economic activities based on only their perceived employment generating potential.

9. The I-PRSP is relatively weak on sectoral policies for the medium to long-term. The policy matrix outlines ongoing sectoral programs in trade, state enterprise reform, telecommunications, power, water, agriculture, and the social sectors without defining follow-up medium-term policies and actions in these areas. The Government will need to develop reform strategies in each of the sectors which set clear priorities for private and publicly funded service provision. The strategies should also provide for sequencing of policy measures, an indication of the cost of various programs, and an identification of funding sources. Future government budgets will need to take into account the cost estimates of the programs contained in the poverty reduction strategy. The staffs urge Government to seek relevant technical assistance from the donor community to support the development of sectoral strategies in the context of the full PRSP.

#### **Towards the Full PRSP**

10. The commitment of the government to a participatory process and the effort that has gone into carefully identifying appropriate mechanisms for participation are attractive aspects of the I-PRSP. The process envisaged for the full PRSP offers substantial scope for participation by various stakeholders, including the Parliament, civic society, private sector, development partners, local governments, community based organizations (CBOs) and the rural population. The staffs believe that, if properly executed, the proposed process could lead to the development of a community-driven and country-owned poverty reduction strategy.

11. The Government feels that, after over half a decade of consultation through various fora, such as the poverty action program, the Roundtable Conference on poverty and the Bank's Country Assistance Strategy, a stock-taking exercise needs to be undertaken. Therefore, preparation of the full PRSP has begun with an assessment of the

performance to date of the TWG, which is central to the entire process. The assessment, which is being undertaken by a local consultant, will look at the management, composition and capacity of the group. A reconstituted group is expected to be in place by February 2001, following which the process of consultation towards a full PRSP will begin. Data collection for the assessment of existing poverty programs and for the preparation of the PRSP has already begun. The final PRSP is expected to be completed by June 2002, 20 months after the completion of the I-PRSP. This time frame is realistic, given the need for careful consultation at the time the country is preparing for elections, which are expected to take place in late 2001 or early 2002. The upcoming elections could affect the consultative process. It is thus essential to provide adequate time for critical steps to be completed.

12. The Poverty Council, chaired by the Deputy Prime Minister, will provide policy guidance and a mechanism for consultations at the highest levels of the government. The establishment of a Civil Society Poverty Reduction Forum by NGOs will be a key instrument for consultation at both national and district levels. Interaction among the TWG, Poverty Council, and the Poverty Forum should minimize the tensions that are likely to occur in participatory processes. Consultations will be held at various levels, the initial round taking place after some background information on poverty is prepared. The proposed institutional framework for preparing the full PRSP is all-inclusive and sound. However, the TWG has proposed that it would prepare an initial draft PRSP as a working document to initiate the consultative process. The staffs caution that the Government should avoid confronting stakeholders with a predefined policy strategy which could adversely affect the quality of the consultative process and undermine ownership.

13. The I-PRSP gives an estimate of the resources required for the preparation of the full PRSP and requests technical support from development partners. However, it does not explicitly state the role it would like these partners to play in developing the poverty strategy. There is substantial scope for technical assistance to the TWG, such as in data collection and analysis and in assessing of the impact of poverty programs. The UNDP and key donors in Lesotho have indicated their willingness to support the Government in its efforts to conduct a wide-ranging consultative process.

## **Conclusion**

14. The I-PRSP constitutes a commendable step towards developing a comprehensive poverty reduction strategy. It makes a fair assessment of the poverty situation based on existing information, affirms government's commitment to poverty reduction, reviews the country's experience in poverty alleviation, outlines a medium-term economic strategy consistent with maintaining macro stability, and suggests a realistic process for developing the full-fledged PRSP. However, there are considerable risks involved in the process, mostly of a political nature. First, the impending elections could result in

insufficient attention being paid to developing the PRSP, which could suffer in terms of quality and timeliness of preparation. The participatory process may also be adversely affected. Second, and more importantly, there may not be full commitment to the PRSP if the government changes towards conclusion of the process, as a new government might not consider the document to be its own. Thus the PRSP may need to be revised. The key to success could be the role of the Bank, the Fund and other development partners in helping the authorities understand that the PRSP process can help Lesotho find solutions that go beyond its immediate problems. In designing their poverty strategy, the authorities may also want to take into account the risks associated with implementing this strategy. These include: (a) the extreme vulnerability of the Lesotho economy to external shocks (such as changes in employment opportunities in South Africa for Lesotho workers, and loss of external markets), (b) weak institutional capacity to implement the strategy, and (c) uncertainties regarding foreign assistance flows.

15. Given the above assessment, the staffs of IDA and the Fund consider that this I-PRSP provides a sound basis for the development of a fully participatory PRSP and for IDA and Fund concessional assistance. The staffs recommend that the respective Executive Directors of the World Bank and the International Monetary Fund reach the same conclusion.

**Annex**

**Lesotho: Key Bank/Fund Events Related to PRSP**

<b>Institution</b>	<b>Event</b>	<b>Date</b>
Fund	Board discussion of request for new three-year PRGF arrangement and JSA of I-PRSP	March 1, 2001
Bank	Board discussion of JSA of I-PRSP	March 6, 2001
Bank	Technical Assistance mission to assist TWG in defining poverty indicators	March/April, 2001
Fund	Board completion of first review under the three-year PRGF arrangement	July, 2001
Bank	IDA Board discussion of Lesotho CAS Update	September, 2001
Bank	Board discussion of I-PRSP progress report	January, 2002
Fund	Board completion of second review under the three-year PRGF arrangement and discussion of I-PRSP progress report	January, 2002
Bank	Board discussion of JSA of PRSP	July, 2002
Fund	Board completion of third review under the three-year PRGF arrangement and discussion of JSA of PRSP	July, 2002



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## CHAPTER 1: INTRODUCTION

### Purpose of the Poverty Reduction Strategy Paper

1. Poverty Reduction Strategy Paper (PRSP), a successor of the Policy Framework Paper (PFP) will serve as an enhanced framework for poverty reduction in the country. It will also serve as the basis for access to the Poverty Reduction and Growth Facility (PRGF), which has replaced the Enhanced Structural Adjustment Facility (ESAF) as the concessional lending arm of the International Monetary Fund (IMF). Furthermore, it will provide the context for a Country Assistance Strategy (CAS) under the World Bank's International Development Association (IDA). The objective of the PRSP is to promote poverty reduction strategies that are: (a) country-driven; (b) results-oriented; (c) comprehensive; (d) partnership-based, and (e) framed within a medium term macro-economic strategy. To facilitate full participation and national ownership of the process, it is envisaged that a fully-fledged PRSP would be completed within a period of twenty months (November 2000 to June 2002). The Government's medium-term economic policies and strategies eventually will be set in the context of the comprehensive poverty reduction strategy.

2. Following the guidelines for formulating the I-PRSP as developed by the World Bank and the IMF staff, the I-PRSP describes the government's commitment to poverty reduction (Chapter 1); gives an overview of the poverty situation in Lesotho (Chapter 2) and outlines the main elements of its previous poverty reduction efforts (Chapter 3). Moreover, the document contains a matrix (Chapter 4) describing the macro-economic and structural adjustment policies pursued by the government over the coming three years. Finally, the I-PRSP describes the consultative process under which the full PRSP will be developed and a timeline for the process is outlined (Chapter 5).

3. As the first step towards the preparation of the I-PRSP, the Government of Lesotho established the Poverty Reduction Technical Working Group (TWG) in February 2000. The TWG comprises representatives from government, private sector, non-governmental organisations, the National University of Lesotho, and the donor community. The process entailed meeting with the Deputy Prime Minister and Minister of Finance and of Development Planning. The Committee of Principal Secretaries and the Governor of the Central Bank - who constitute the Poverty Council - was also briefed by the Principal Secretary of the latter ministry in order to solicit and enhance government's commitment to the PRSP process. The TWG was intended to go into a comprehensive consultative process, through sensitisation briefings, workshops, media, etc. Complete coverage in this regard was constrained by limited time. However, the multi-sectoral structure of the TWG was considered sufficient in terms of sample poverty views and research orientation, at least for purposes of formulating the I-PRSP. The document would be subjected to scrutiny and acceptance by all stakeholders after which it would be forwarded to the IMF and the World Bank.

## **Government's commitment to poverty reduction**

4. The government adopted poverty reduction as its highest development priority during the Sixth National Development Plan (1996/97-1998/99) and, to this end, sustainable human development became the theme for the Sixth Plan with the following elements:

- Enable people to lead long and healthy lives;
- Acquire knowledge; and
- Have access to resources needed to accommodate acceptable levels of human needs. (Government of Lesotho, 1997).

5. The development objectives of the Seventh National Development Plan 2000/2001-2002/2003 remain unchanged. The over-arching objective for the Government's long-term policies continues to be poverty reduction. In the launch of the 2000/2001 budget, the Government outlined a strategy for "consolidating democracy, and helping the poor, while laying the basis for strong economic growth". It is emphasised that sustainable improvements in the poverty situation in the country will only be achieved in an environment of macroeconomic and political stability, characterized by a sound and coherent policy framework, necessary for economic growth. Moreover, a series of specific interventions aimed at reducing poverty are defined.

6. In the social sectors, the budgetary allocation to education continues to increase at a rate of 5 per cent above the rate of inflation. Free education has been introduced to all government and church-owned primary schools for standard one pupils. World War II Veterans or their widows have started to receive a monthly pension with effect from February 2000. The Lesotho Fund for Community Development (LFCD) – Lesotho's social fund - has been reformulated to make room for financial accountability and transparency. This will enable proper management of the Fund and well-planned community projects that will offer employment to the rural as well as the urban communities.

7. An amount of M52 million has been allocated to the then Labour Construction Unit (LCU) for the rehabilitation of rural roads using labour-intensive methods. The Road Fund has been allocated an amount of M42.0 million that will be administered by a Board under the Ministry of Finance. The Board will make subventions to local government institutions, the Roads Branch, the Maseru City Council and the Department of Rural Roads (merger of the LCU and the Civil Works Section of the Ministry of Local Government) of the Ministry of Public Works and Transport.

8. The Government of Lesotho aims to create more employment opportunities through investing in construction of factory shells currently in high demand by foreign as well as emerging Basotho entrepreneurs. It is clear that there will be need to revisit the rental policy, in order to render it competitive with that of the South Africa. Among the new areas for trial is the "export processing zone" whereby assembly plants for motor vehicles and electronic equipment have already been discussed with firms from the newly industrializing economies. More opportunities for employment creation will be identified during the consultations process, and a

system developed whereby job-creation by various firms will actually be monitored and recorded by the Bureau of Statistics.

## **Recent Economic Developments**

7. During the mid-1990s, the country experienced an economic boom that was driven by two main activities in the economy: construction under the Lesotho Highlands Water Project and the expansion of the manufacturing sector. The Structural Adjustment Programme (SAP), which the Government entered into with the IMF/World Bank in 1988, laid the foundation for economic stability. The gross domestic product (GDP) grew at an average rate of 6.3 per cent in the period from 1988 to 1997 (Bureau of Statistics, 2000).

8. Under the SAP the budget out-turn improved from a deficit of 10 per cent of GNP in the fiscal year 1987/88 to a surplus of 2.1 per cent on average from 1992/93-1997/98. Inflation as measured by the Consumer Price Index has dropped from 18 per cent in 1991 to an average of 9 per cent over the past five years. Moreover, in the ten-year period since 1988 the balance of payments registered an annual average surplus of over 8 months of import coverage.

9. In 1998, there was a turnaround in the performance of the economy. Gross domestic output contracted by 4.6 per cent against a growth rate of about 8.0 per cent in 1997. The economic recession was caused mainly by the civil and political unrest of 1998, which led to wide spread looting and burning of businesses, job stoppages and eventual income losses and reduced investor confidence. The income loss is estimated at M145.0 million, which is enough to provide livelihood to some 9,000 families for one year at present levels of per capita incomes. It is further estimated that net private investment inflows dropped by 50 per cent in 1998 compared to 1997, as a result of reduced investor confidence. Some of the other major contributing factors to the significantly lower levels of growth are:

- El Nino effects adversely impacting harvests and agricultural production during 1996/97.
- Winding down of phase 1A of the Lesotho Highlands Water Project leading to reduced output of the building and construction sector.
- Continued restructuring in the South African mining industry leading to reduction in employment of Basotho migrant mine workers. In 1989, more than 125,000 Basotho migrants (nearly one half of the total male labour force) worked in the South African gold mines. That number almost halved to 69,000 in 1999.
- The manufacturing sector experiencing a slump in output due to constraints in productive capacity, resulting from limited availability of financial resources and land.
- Weaknesses in the state dominated financial sector, specifically the Lesotho Bank and the Lesotho Agricultural Development Bank (LADB).
- Poor performance of the state owned utility companies, particularly the telephone and electricity corporations. This has hampered private

sector investment, discouraged foreign investors and resulted in backlogs of un-serviced customers.

10. Provisional estimates from the Bureau of Statistics show a slight recovery of 2 per cent in economic growth for 1999. Government finances have weakened and a deficit of 13.4 per cent was registered for the financial year 1999/00. The sizeable deficit is explained by the costs associated with recapitalisation of the old Lesotho Bank, as well as the early repayment of the domestic loans on behalf of the 'Muela Hydropower Plant. When these exceptional factors are excluded the overall budget balance is a positive 0.4 per cent. The rate of inflation increased from 7.8 per cent in 1998 to 8.7 per cent in 1999, fuelled by a temporary shortage of consumer products in the aftermath of the 1998 events. Inflation is expected to come down to below 7 per cent by the end of 2000. The balance of payments situation deteriorated from a surplus in 1998 to a deficit during 1999. The country's foreign reserve position deteriorated from import coverage of 9.8 months in 1998 to 8.9 months in 1999.

11. The Government of Lesotho has responded to the negative developments in the economy by formulating a series of initiatives to correct the growing macro-economic imbalances and lay the foundation for renewed economic growth. This is to be achieved through: accelerating divestiture of state-owned enterprises; improving domestic financial intermediation; diversifying and increasing the government revenue base; and, containing government expenditures through public sector reforms. In addition, the Government entered into a nine-month IMF Staff-Monitored Programme in January 2000.

12. The macro-economic policies put in place are: to restore economic growth to around 3 per cent a year, a growth rate higher than the annual population growth rate of 2.0 per cent; keep inflation at about 6 per cent a year and maintain gross international reserves at the equivalent of at least 6 months of imports of goods in the medium-term. The Government has undertaken to enhance revenue, restrain expenditure and continue borrowing concessionally. A programme of strengthening of tax administration will be drawn up, and the tax net will be widened. The value-added tax (VAT) in fiscal year 2000/2001 will be introduced and there will be a periodic adjustment of specific taxes and fees in line with inflation. The Central Bank of Lesotho will seek to keep the broad money growth in line with the growth of nominal GDP. It is further considering to strengthen monetary control and help develop a money market by introducing indirect instruments of monetary policy and phase out direct instruments (Ministry of Finance, 2000).

13. However, the outlook for the Lesotho economy in the medium term will continue to be dominated by a series of structural changes in the external environment. 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 per cent reduction in customs revenues. Revenues are set to be further eroded by the recent EU/South Africa Free Trade Area (EU-SAFTA) under which Botswana, Lesotho, Namibia and Swaziland are likely to lose the share of SACU revenue as part of fiscal total revenue. Lesotho is estimated to lose 30 per cent of the revenue rising to 50 per cent if protocol items eventually become tariff free.

14. The Government of Lesotho faces the challenge of exploiting new sources of tax and non-tax revenue, whereas the private sector will face the challenge of restructuring and repositioning in order to take advantage of the more competitive and larger markets that will arise. BLNS exporters to the EU are expected to face increased competition from South African producers on the EU market. On the other hand, the new ACP-EU Cotonou Agreement signed in Benin on 23 June 2000, which replaces the Lome Convention, aims to support development and poverty reduction policies and strategies.

15. The outlook of the Lesotho economy will continue to be affected by the developments in the South African mining industry. Since 1990 the number of Basotho mine workers has been on a downward trend due to a number of factors, namely: (a) decline in the price of gold; (b) escalating production costs; and (c) high mine wages which now attract black South Africans in larger numbers than before. GNP growth in the medium-term is however expected to stabilise given the recent stability in the price of gold.

### **Recent Political Developments**

16. Lesotho went through a decade of authoritarian rule from 1970 to 1986, followed by military rule from 1986 to 1992. So, when the first democratic elections were held in 1993, the state was already weak, particularly the law enforcement mechanism and administration of justice in general. The most recent elections were held in May 1998 and were won by the ruling Lesotho Congress for Democracy, which won 79 of the 80 Parliamentary seats. Although the elections were declared free and fair by the international observers, opposition parties refused to accept the election results, leading to widespread civil unrest and military intervention of SADC forces in September 1998.

17. Consultations between the government, opposition party leaders and a troika of SADC heads of state led to the formation of an Interim Political Authority (IPA) which is composed of members from all political parties which had contested the 1998 elections. The main mandate of the IPA is to pave the way for fresh elections and advise on the election model to be adopted. New members of the Independent Electoral Commission (IEC) have been appointed and elections are expected in the first half of 2001.

18. Thanks to the profound political changes that have taken place in South Africa, prospects for political stability are bright and it will no longer be possible to topple a democratically elected government in Lesotho. Moreover, the military retraining programme that began with the SADC forces will continue to maintain stability within the internal security of the country. In addition, the Commission of Enquiry into the 1998 events will continue its work on investigating and analysing the background to political instability and disturbances, which occurred and make recommendations as to what action could be taken to prevent the repetition of those events. These measures are aimed at achieving the political stability necessary for economic growth and poverty reduction.

## CHAPTER 2: THE POVERTY SITUATION IN LESOTHO

### Overview

19. Lesotho ranks as one of the poorest countries in the world. According to the World Bank (1999), the country's real per capita GDP measured in Purchasing Power Parities was USD 1,860 in 1997, placing Lesotho among the world's 50 lowest income countries. Moreover, Lesotho ranks 127<sup>th</sup> out of 174 countries on UNDP's Human Development Index, which includes indicators of education and life expectancy along with the traditional measure of GDP to create a broader measure of a country's development situation (UNDP, 2000). As a multi-dimensional phenomenon, poverty is defined and measured in a number of ways. Income unequivocally plays a highly significant part in achieving well-being for individuals. But since material wealth does not form the total sum of well-being, lack of income does not form the total sum of poverty. Other factors that reflect the extent to which individuals are deprived of access to basic human needs, such as food, shelter, schooling and health services, should constitute an integral part of any description of well being and poverty. So should factors that describe the 'end' results of the development process, the general capability of individuals to lead long and healthy lives in a manner they have reason to value. Indicators of these human capabilities include life expectancy and literacy rates. In the following section all these factors will be taken into account to provide an overview of the poverty situation in Lesotho. It should be stressed that as in many developing countries, the statistical base for analysing the poverty situation in Lesotho is underdeveloped. Therefore an explicit output of the following analysis will be to identify gaps in the available data material, recommend ways to bridge those, and more generally propose that instruments for the systematic monitoring of the poverty situation in Lesotho be developed as part of the PRSP process.

### Levels of income and inequality

20. Over the past 10 years a series of efforts have been undertaken to measure the levels and distributions of income poverty in Lesotho. Even though the various studies are based on differing methodologies, they provide important insights into the poverty situation in Lesotho. One of the most comprehensive studies is conducted by the Maseru-based Sechaba consultants who have undertaken three "Poverty Mapping Exercises" in 1990, 1993 and 1999. The most recent study was sponsored by the Government of Lesotho, The World Bank, Ireland Aid, UNICEF and WHO. Defining the "poor" as those with monthly expenditures below M80 it is estimated that a total of 68 per cent of the population fall in this category. According to the survey this represents an increase from 49 per cent in 1990 and more or less unchanged compared to the 71 per cent found in 1993. Moreover, out of the total number of poor, more than 70 per cent were defined as "destitute" with monthly expenditures of less than M40. This group makes up 49 per cent of the total population.

21. It should be stressed that important changes in methodologies have occurred between the studies, which complicates inter-temporal comparisons. More generally studies based on eliciting a limited number of expenditures from households often suffer from underestimation of actual income levels. Indeed correcting for this

assumed underreporting of expenditure and converting to a relative poverty measure World Bank (1995) adjusted the Sechaba findings down by almost one third to derive a poverty level of 49 per cent. In addition, neither the Sechaba studies nor the World Bank assessment apply nationally derived poverty measures. Consequently, one key output of the PRSP process would be to derive income poverty datum lines based on national characteristics.

22. What emerges from the available evidence, despite the obvious problems in measurement, is that a large proportion of the Basotho people, perhaps more than half, are trapped in poverty and that the situation does not seem to have improved over the past decade despite the macro-economic boom that Lesotho has enjoyed since the late 1980's. It appears from available data that conventional economic growth is not enough to reduce poverty in Lesotho. As part of the move towards an integrated macro-economic policy and poverty reduction framework, more research will be conducted to determine the linkages between economic growth and poverty.

23. Another key conclusion from the Sechaba study, which is not compromised by methodology, is the large regional disparities that exist in poverty levels. Poverty is highly concentrated in the predominantly rural and remote Mountain and Senqu River areas where more than 80 per cent are characterised as "poor" or "destitute". This compares with nearly 70 per cent in the Lowland and Foothill areas and 54 per cent in the urban zones. These results must not be taken to under-emphasise the problem of urban poverty. Indeed, in the 1997 UNDP study on "Assessment of Urban Poverty in Lesotho" it was found that: *"...if non-income economic indicators are taken into account, then urban poverty turns out to be relatively underestimated in Lesotho."* Clearly, the distinct features of poverty that prevails in different parts of the country must be taken into account, rather than applying the same methodologies and using the same indicators and benchmarks, which has been quite customary in poverty analyses in Lesotho. Consequently, urban as well as rural poverty will receive equally high priority in the future analysis of the specific features and determinants of poverty in Lesotho and the most effective policy measures.

24. One of the most striking features of the poverty situation in Lesotho, which is not captured by the average and aggregate poverty levels, is the inequality with which income is distributed. In the 1998 UNDP National Human Development Report for Lesotho, it was found out that 45 per cent of total national income flows to the richest 10 per cent of the population, compared to less than 1 per cent for the poorest 10 per cent. Translated into the Gini-index – the standard measure for analysing inequality of income distribution, which takes a value of zero under perfect equality and a value of 100 in the case of perfect inequality – the report measured the index for Lesotho in 1998 as 57. Comparing this result with research conducted throughout the region (UNDP WIID, 1999), Lesotho appears to have one of the most unequal income distributions with a higher proportion of national income accruing to the richest groups than for most other countries in Southern and Eastern Africa for which data is available. One severe implication of this skewed distribution of income is that growth in national income levels such as GNP and GDP in Lesotho is less likely to benefit the poorest groups and less so than in most other countries in the region. As mentioned above, through the PRSP process the linkages between economic growth and poverty reduction will be explored. Central to

this analysis will be to investigate the possibilities for reducing income disparities and other inequalities. In turn, this analysis will form a basis for the government's development of 'pro-poor' economic policies.

### **Human Capabilities and Basic Needs**

25. Even though available evidence points to persistent high and increasing levels of income poverty in Lesotho over the past decade, on several social indicators Lesotho fares better than its regional neighbours. Based on data from the Bureau of Statistics (1996) and the UN Population Division (1999) life expectancy for a new born Mosotho is estimated at 55 years in 2000, compared to 37 years in the 1950s. Indeed, the progress in life expectancy has been so remarkable that Lesotho today ranks among the top performers on the African continent (UNDP, 2000). However, the HIV/AIDS pandemic is taking its toll on this significant progress in Lesotho and throughout the region. According to a recent study by the US Bureau of the Census (1999), life expectancy in Lesotho is set to drop to 45 years by 2010. Without the presence of HIV/AIDS, life expectancy would have been 66 years. The virus thus threatens to reverse one of the most remarkable human development achievements in Lesotho's modern history. It should be noted that these estimates are based on HIV prevalence for Lesotho of 4.4 per cent. More recent estimates put the rate six times as high, only to dim the prospects for higher life expectancy even further (World Bank, forthcoming).

26. The health care delivery system in Lesotho is relatively well developed with NGOs and the churches playing a key role in the most inaccessible areas. The health vision of the Government of Lesotho is to enable every citizen to have access to essential health care and social welfare services under a system characterised by social justice and equity. The strong focus in providing improved access to health services should be regarded as a key factor in the improvements of the over-all longevity or life expectancy of the Basotho people. As a result, infant mortality has also improved remarkably in Lesotho over the past half a century. According to the Bureau of Statistics (1996), in 1986, 85 out of 1,000 children born died before their first birthday. In 1996 the rate came down to 55. However, even though the effects of HIV/AIDS on infant mortality in Lesotho have not been investigated in full, early estimates suggest that HIV/AIDS may at best nullify any further improvements in the infant mortality rates over the coming ten years.

27. One of the pillars in the Government's education strategy for the country has been the plan for Free Primary Education (FPE), which took effect from January 2000. The plan proposes a gradual increase in access to primary education to be fully implemented by 2006. The initiative comes in the backdrop of a worrisome trend in several education indicators. Although Lesotho continues to enjoy some of the highest levels of literacy and primary school enrolment in Sub-Saharan Africa, the latest available data suggest that 55 per cent of children 6-12 years of age – the official primary school age – attended primary school in 1998, compared to 76 per cent in 1990 (Ministry of Education, 1998 and 1999). Generally primary school enrolment rates are higher for girls than for boys chiefly because boyhood in Lesotho, traditionally involves the herding of livestock. However, the enrolment rate for girls has dropped by nearly one third over the period.

28. In 1998, Lesotho was ranked 5 out of more than 40 Sub-Saharan countries in adult literacy (UNDP, 1999). According to the National Literacy Survey undertaken by the Lesotho Distance Teaching Centre (2000) 39 per cent of the population is considered to be illiterate. The illiteracy rate is unchanged from 38 per cent found in a similar study conducted in 1985. Even though overall illiteracy may not have changed over the past 15 years, the underlying data reveal a significant development between the two sexes. In 2000, illiteracy rates were found to be 42 per cent for men, compared to 54 per cent in 1985. However, over the same period illiteracy has increased from 30 per cent to 37 per cent for women. Illiteracy thus continues to be higher for men than for women, but the gap has narrowed from 24 percentage points to just 5 since 1985.

29. One of the most important factors in explaining the high levels of income poverty in Lesotho is the persistently high rate of unemployment. Indeed in their 1991 survey, Sechaba Consultants found that 7 out of 10 in the population ranked unemployment as the number one cause of poverty. The most recent estimates compiled by the Ministry of Labour and Bureau of Statistics (1998) put the rate of unemployment as high as 40.5 per cent, leaving a large part of the population dependent on low-yielding activities in subsistence agriculture and the informal sector. The problem of unemployment has been exacerbated by the depressed developments in the South African mining sector. In 1986 more than 122,000 Basotho migrants (nearly one half of the total male labour force) worked in South African gold mines. That number almost halved to 65,000 in the first half of 1999. Moreover, the labour force is growing rapidly and only few of the new entrants are being absorbed by formal sector employment. It is estimated that 25,000 youths enter the work force every year, but only 9,000 find employment. Moreover, it is estimated that to reach near full employment by 2008, employment growth has to average 14.4 per cent annually, compared to a realised annual growth rate of 0.9 per cent since 1990 (Central Bank of Lesotho, 1999).

30. Addressing the fundamental problem of how to bring the level of unemployment down to acceptable levels continues to be a top priority for the Government of Lesotho. A combination of policies and measures are being developed and implemented to combat unemployment. Most fundamentally, the Government is committed to continue the process of market reform and liberalisation, to create an enabling environment for private sector investment and growth. Lesotho National Development Corporation is currently being restructured to provide for even more aggressive efforts to attract foreign investors to the country. Furthermore, the Government will explore the need to provide a more amicable environment for private sector development through the carrying out of appropriate legal and judicial reform programs. The Government is also recognising the untapped potential of the tourism sector as a source of jobs and foreign exchange, and is currently in the process of formulating a formal policy to fully exploit the country's tourism potential. As a more immediate unemployment relief measure, the Government intends to redesign the public works programs to target the poorest segment of the population. When all this is said, it should be stressed that considering the magnitude of the unemployment problem, the Government will continue to investigate ways to reduce the problem as a primary source of poverty. As such, exploring policy options for reducing unemployment will form a priority during the PRSP process.

## **The Need for Monitoring**

31. An integral part of any strategy development is the establishment of mechanisms to monitor progress made in achieving the strategy, and for redesigning measures to correct adverse developments or respond to changes and shocks. Consequently, in the early phases in the process of designing a Poverty Reduction Strategy for Lesotho, the Government of Lesotho will make the necessary efforts to establish viable mechanisms for monitoring. A first step will be to further explore and fill the gaps in the available poverty research, as well as investigate the existing institutional capacities and constraints for monitoring poverty. A full strategic plan of action for the development of poverty monitoring systems in Lesotho will be prepared in early 2001 and discussed with stakeholders. This plan will also form the basis for more specific requests for support from our development partners.

## **CHAPTER 3: EXPERIENCES IN POVERTY REDUCTION**

### **Overview**

32. Lesotho has gone through various programmatic and project approaches as general development building blocks and attempts to foster economic growth since independence. These were assumed to ultimately impact on poverty levels in the urban, peri-urban and rural areas, especially in the latter, where most of the population has lived for decades. It is noteworthy that the interventions were mainly in terms service provision and very little economic infrastructure, delivered with minimum guidance from quasi-poverty-incidence studies.

33. For well over twenty years, mine labour remittances were the main source of household income in the rural areas. Most able-bodied men were often assured jobs in the flourishing South African gold and diamond mines and in other industries. But recent economic and socio-political events affecting South Africa have exacerbated both rural and urban poverty in Lesotho. Specifically, the mining industry in South Africa is faced with restructuring and financial constraints that have contracted employment opportunities for Basotho. Thus domestic unemployment has increased, adding to the effect of winding down of Phase 1A of the Lesotho Highlands Water Development Project and weak employment creation policies.

### **Poverty Reduction Within the Context of Good Governance**

34. In 1991, for the first time the geographic (at least the zonal: mountain district; Senqu River Valley; Foothills; and Lowlands) distribution of poverty was known, as a result of the co-operation between the then military government, the European Union (EU), and the World Food Programme (WFP), who commissioned the consultants to speed up the process initiated in 1988. The 1991 report: *Poverty in Lesotho: A Mapping Exercise*, was "updated" in 1994 by mainly including coping strategies of the poor. The report became a working document of the first democratic Government of Lesotho in 1993. In 1995, the World Bank undertook an assessment of the poverty situation using the 1991 and 1994 reports and in their *Poverty Assessment*, provided an extensive poverty profile in terms of income, expenditure, and access to social services. The report concluded with recommenda-

tions to the Government of Lesotho, the Lesotho Council of NGOs and non-affiliated NGOs, USAID and the European Union.

35. This report was distilled into the 1996 policies and strategies report with the title *Pathway Out of Poverty: An Action Plan for Lesotho*. The key messages in this report indicated an economy characterized by macroeconomic stability and high growth rates, relatively well educated and productive labour force, a small but quickly expanding export base, an agrarian structure based on family farming and a sizeable inflow of revenue from the imminent sale of water to South Africa. Subsequently, the Government organised a workshop on the feasibility of implementing this Poverty Action Plan.

36. During the workshop, a wide spectrum of stakeholders agreed that existing project and programme resources could not adequately implement the Plan. Hence the decision by the Lesotho Government in 1997, that a costed document be presented before a roundtable conference. The Poverty Task Force, constituted in 1994, in collaboration with UNDP's technical assistance, produced the document *Poverty Reduction Within the Context of Good Governance* - the current Lesotho Poverty Reduction Programme - and organised a roundtable conference (RTC) in Geneva, Switzerland, in November 1997 for mobilisation of the required resources. The Government became aware that a sustainable poverty reduction strategy is most likely to be formulated through a transparent and participatory system of policy-making and implementation, reflecting a broad consensus across society. In December 1999, the Government of Lesotho agreed with the World Bank and the IMF to formulate a Poverty Reduction Strategy Paper, which would replace the Policy Framework Paper to more concretely embody this vision.

### **Sectoral Interventions and Achievements**

37. The general development programme conceived and implemented over the years since independence embraced the areas discussed below. It is to be noted that while the major portion of the resources came from development partners, this section covers programmes and projects that were implemented by government ministries. In the next chapters, it will be indicated how the role played by the rest of the stakeholders – particularly the NGO sector – will be addressed.

#### *Rural road construction*

38. The Labour Construction Unit (LCU), under the Ministry of Public Works and Transport, is making an impact on poverty reduction. In this programme, not only are rural dwellers employed in their own areas exclusively as labourers, they are also trained as contractors. This process has also reduced rural-urban migration, which would have over-burdened social services available in peri-urban and urban areas of the country. The ministry also intervened effectively through the LCU in transferring incomes to unskilled and semi-skilled labour. Due to the phenomenon of seasonal unemployment in subsistence agriculture in the rural areas of Lesotho, the labour force that would have otherwise been unemployed participates in the programme. The merger of the LCU and the Civil Works Section of the Ministry of Local Government into the Department of Rural Roads is also an important devel-

opment, since the CWS was also focusing on related infrastructure such as rural clinics and footbridges.

### *Education*

39. In the education sector, the Fifth National Development Plan coincided with the first elaborate project to develop the education sector (the Education Sector Development Project I: 1991/92 – 1995/1996), with its focus on primary education. The project aimed to enhance the equity, quality and efficiency of the education system, with skills in-built to cater for the event that the Primary School Leaving Certificate was terminal for some children coming from poor families. The project not only provided more and better furnished primary school classrooms; it also facilitated a phased supply of trained teachers, curriculum materials and other training facilities. Bilateral support from organisations such as Ireland Aid was also secured.

40. The Ministry of Education also collaborated with the Save the Children Fund to secure bursaries for children from poor families. In addition, the ministry established the Technical and Vocational Education Department in order to provide for policy and curriculum guidance to improve technical and vocational training in the country. Institutions such as the Thaba-Tseka Technical Institute and the Leloaleng Technical School in Quthing, based in the mountain districts of Lesotho, are already providing graduates with the necessary skills to secure employment. It is through the utilisation of these human resources that the economic policy of export-led growth will be implemented.

41. Despite the achievements in expanding educational infrastructure, enrolment rates in the primary school system did not improve. Perhaps in addition to the current prohibitive fee structure to poor families, belated diagnosis of various disabilities could explain the low enrolment rates. Early diagnosis could therefore have not only made for more cost-effective prevention of disabilities, it could also have saved care services costs and released financial resources for payment of fees. However, the government is committed to providing basic education for all by 2006 taking this consideration aboard, with the recent policy of Free Primary Education (FPE). Also notable in this context is the integral feeding component which will have to be sustained in order to provide an incentive to poor families to send their children to schools.

42. The first attempt to undertake a system-wide review and revamping of the health sector came with the adoption, in 1979 of the Primary Health Care (PHC) strategy for the delivery of health services. The primary focus of the PHC strategy was decentralisation of health care delivery down to the community level. Developments included mapping and operationalisation of the Health Service Areas, as well as, the introduction of the Nurse Clinician Cadre and voluntary Community Health Workers (CHW).

### *Health*

43. In 1994, the National Health Sector Plan was developed. The intention was to formulate a framework for the national action plan in the fields of health and social welfare for the period 1995/1996 - 1999/2000. The aim was to address newly

emergent health and social welfare problems such as HIV/AIDS, impact of increasing urbanisation, unemployment and poverty. This was followed by the development of the Health Sector Reform Strategy document in 1999 with the realisation that serious erosion of the health sector gains was beginning to show. The main objective of health sector reforms is to increase access to a quality, preventive, curative and rehabilitative health care and management services in a sustainable manner.

44. The long-standing co-operation between the Government and the Christian Health Association of Lesotho (CHAL) has resulted in a relatively well-developed health care system. CHAL owns 49 per cent of the country's health facilities and receives annual subventions from the Government budget to provide subsidised health services to all Basotho. In order to ensure the goals of equity and accountability, the Ministry of Health and Social Welfare has initiated development of mechanisms of collaboration between the Government and CHAL through a Memorandum of Understanding, which is intended to contribute to the design of an efficient integrated health care delivery system.

45. The government provides free treatment of tuberculosis, leprosy, immunisable childhood diseases, malnutrition related diseases for children under the age of five, pre- and post-natal services, as well as subvention for referrals to South Africa in special cases. Social welfare services are provided through public assistance to individuals, families and communities who are unable to meet basic needs. These include social security schemes for the elderly, child welfare services and education for the disabled and the destitute. However, these interventions are implemented on a limited scale due to lack of resources.

46. The national HIV/AIDS Strategic Plan, recently completed, aim at controlling the spread of HIV/AIDS in Lesotho and mitigating its impact on vulnerable groups, individuals, families and communities. The programme is wholly committed to promoting counseling support and compassionate care services for people living with HIV/AIDS, affected families and orphans.

#### *Water and Sanitation*

47. The sector has been unable to keep pace with the demand for adequate water and sanitation services for both the urban and rural population. While coverage rates of water supply in urban areas are up to 65 per cent, about 50 per cent of the total urban population do not have access to piped water supplies. Further, the reliability in some areas that benefit from piped supplies is decreasing. This situation is compounded by periodic water shortages as a result of upstream over-abstraction from the major water source for the Lowlands areas, the Mohokare River. Furthermore, lack of ability to deal with wastewater pollution and the environmental impact mitigation measures required by export industries is undermining industrial growth and employment opportunities. The Department of Rural Water Supply reports that about 40 per cent of the rural areas still lack basic water services. Furthermore, 30 per cent of the rural systems are not working and are in need of repairs. Maintenance remains a big problem. While Lesotho has a good record in urban sanitation through its VIP latrine program with coverage of exceeding 75

per cent, sanitation in rural areas is still a problem with coverage less than half that in urban areas. In both sub-sectors the poor remain the least served.

48. The Government's strategy for the sector is based on (i) framing legislation and establishing a regulatory framework for both the urban and rural sub sectors; (ii) providing clarification and demarcation of roles and responsibilities for the major sector implementation agencies, most critically for the Ministry of Natural Resources; (iii) determining the choice of reform and methodology with respect to private sector participation in urban and peri-urban water supply and sewerage; and (iv) establishing a new credit with the main policy reform based on a public water company arrangement that is based on commercial practices.

#### *Private sector development*

49. In 1994, the Government of Lesotho entered into a Development Credit Agreement with the World Bank on Privatisation and Private Sector Development Project to be executed by the Privatisation Unit under the Ministry of Finance. The overall objective was to create an enabling environment for increased private sector participation in the development process by limiting direct government intervention in the economic sectors. Through the project, more than 50 state-owned enterprises and parastatals have been identified for closure or divestiture. So far, companies such as Lesotho Flour Mills, Lesotho Bank, Plant and Vehicle Pool Services and Lesotho Airways have been privatised, and divestitures of Lesotho Telecommunications Corporation and Lesotho Pharmaceutical Corporation are expected by the end of 2000. In 1998, Lesotho Agricultural Development Bank was closed down and is currently undergoing liquidation.

50. In the trade and industrial sectors, the Small/Medium Industrial Development Project, was launched in 1995 comprising the following components: skills upgrading programme; NGO Credit Centre; and capacity building for the Ministry of Industry, Trade and Marketing. The programme is phasing out at the end of 2000 with the skills upgrading component being transferred from UNIDO to BEDCO. The main objective of the programme is to reduce poverty by improving employment opportunities for the participants. Under the programme, funding was channelled to the NGO Credit Centre to provide access to credit for associated members. The Centre is expected to continue in a restructured form and the Lesotho Manufacturers Association (LMA), among others, is poised to promote entrepreneurs that will utilize this scheme.

51. The Industrial and Agro-industries Project, which ran from 1991 to 1998, had four main areas of intervention. Firstly, the Line of Credit and Equity Fund was established mainly to increase access to loan and equity finance by indigenous enterprises. Secondly, industrial infrastructure was provided to LNDC industrial estates and factory shells expanded. Thirdly, agro-industrial development was geared towards the reform programme to encourage private investment in the sector. As a result foreign investment in the clothing and footwear sectors created more than 8,000 jobs during the life span of the project. Fourthly, the Basotho Advisory Promotion Service (BAPS) was established under the Ministry of Industry, Trade and Marketing to build capacity among entrepreneurs. Finally, a study was undertaken

to look at the establishment of a "one-stop-shop" facility to ease the bureaucratic procedures of establishing a private business in Lesotho.

52. The Basotho Enterprise Development Corporation (BEDCO) is charged with the responsibility of supporting indigenous enterprises through the provision of industrial buildings and training. The Government of Lesotho has allocated M5 million for the establishment of a micro-finance credit scheme, which started operations in July 2000.

53. Under the Trade Opportunities for Job Creation and Economic Growth Project the three main components were market development, post-Uruguay Round consultations and the training of trade attaches. The market development component was the most successful training ministry officials in marketing techniques and exposing local exporters to SADC markets. Initially, 30 companies were involved and eight are still continuing.

### *Agriculture*

54. The Food Self Sufficiency Project initiated in 1980/81 was maintained up to the mid 1990s, as a measure and consistent national policy. The objective of this intervention was to reduce the country's dependence on South Africa for the supply of staple grains, mainly maize, wheat and sorghum. It provided an integrated package of services in the form of supply, tractor hire services and credit. However, the realisation of the goal of food self-sufficiency proved difficult to achieve due to declining agricultural production. The decline in output that had been observed prior to the Food Self Sufficiency Project continued during and after implementation of the project. Given the declining trend in agricultural output there was corresponding intensification of food insecurity and rural poverty (UNDP, 1998).

55. The Government of Lesotho established the Lesotho Agricultural Development Bank (LADB) in 1980 with the objective to serve as an apex organisation for rural savings and a central source for agricultural credit. Since LADB's closure in 1998, due to the problems of heavy losses, illiquidity and severe capital deficiencies, the objectives for its establishment have been seriously undermined. The Central Bank of Lesotho through its Rural Finance Division is currently working on a policy document to address the rural financial intermediation process. This proposed policy aims at, among others, mobilising savings and ensuring that credit is available to self-help groups in rural areas, who would use their own group savings as collateral.

56. As a follow up to the 7<sup>th</sup> Round Table Conference held in January 1995, consultations were held to facilitate the development of the Agricultural Sector Development Programme (ASDP) for addressing the multiple challenges facing the agricultural sector in Lesotho.

57. Through the consultative process six programme areas were defined, these include:

- I. Agriculture Policy and Strategy Formulation
- II. Privatisation and Market Liberalisation
- III. Land Reform and Natural Resource Management
- IV. Agriculture Diversification
- V. Agricultural Support Services Provision
- VI. Capacity Building

58. Realising the need for the Ministry of Agriculture, Co-operatives and Land Reclamation to be institutionally restructured and strengthened, as the first step, a three-year Agricultural Policy and Capacity Building Project (APCBP) was approved. The project seeks to create an enabling environment for increased participation by all stakeholders in agricultural development. Its objectives are to: build the capacity of the Ministry of Agriculture for client responsive delivery of services, decentralise the ministry's activities by increasing the role of districts in decision making in resource allocation and implementation, develop new systems of decentralised management and a sound database, and support a participatory process of land reform.

59. The Agricultural Sector Adjustment Programme (ASAP), a component of the APCBP, which has the overall objective of providing the Government with foreign exchange resources, has commenced. These resources will be used for importing agricultural implements, inputs and other related equipment for accelerating private investment in the sector. Another objective of the programme is to develop capacity in the private sector, to pave way for commercialisation and divestiture of eligible agricultural parastatals, and assist Government to complete remaining agricultural pricing and marketing policy reforms.

60. Two related programmes, which do not directly fall under ASDP, but which complement its objectives are Sustainable Agricultural Development Programme in the Mountain areas and Berea Rural Development Programme. The first programme has, as its objectives, household food security and rural employment creation through effective and efficient delivery of core agricultural support services. It aims at responding to the needs of smallholder farmers and also increasing household farm incomes through crop diversification as well as improved livestock production with due attention given to sustainable natural resource use and management. The programme area will be the three-mountain districts of Mokhotlong, Thaba-Tseka and Qacha's Nek. The second one aims to support increased production of food and high value crops among smallholder farmers in the Berea District. This is to be achieved through improvement in the delivery of agricultural credit, promotion of improved farming techniques, protection and improvement of the environment through soil and water conservation and development of rural infrastructure such as access roads and village water supply.

## *Tourism*

61. In order to address the employment requirements of the Basotho people, while at the same time regulating entry into the tourism business and efficient provision of services, the Accommodation, Catering and Tourism Act was promulgated in 1997. In the same way, regulation of the sale of liquor has been targeted through amendment of the Liquor Licensing Act 1997. The tourism sector also intends to utilize the existing employment potential of eco-tourism to enhance protection of natural resources. To this end, the Ministry of Tourism, Sports and Culture will work the Lesotho Highlands Water Development Authority and other related government departments in the proposed Natural Resources and Rural Income Enhancement Project. It is noteworthy that the sector has been able to provide permanent self-employment in pony trekking and handicrafts as well as temporary employment through construction works.

62. Established with the mandate to assist in the development and promotion of tourism activities in general in 1983, the Lesotho Tourist Board has been actively involved in a number of national initiatives including community mobilisation for community projects such as Basotho Pony Trekking Centres and Handicraft Centres. Access roads, footbridges and water facilities were constructed in tourist attraction places; not only for tourists, but also to serve the rural communities to further reduce poverty. Other specific activities have included affiliation to the long-running Roof of Africa Rally, an off-road motor and motorcycle race in some of the most scenic and rugged terrain in the highlands of Lesotho. The Board has featured in numerous articles and advertisements in the country's key markets: South Africa, Germany and the United Kingdom.

63. Notwithstanding the stated achievements, the Lesotho Tourist Board has, since its inception, had a number of difficulties in fully implementing its mandate of developing and promoting tourism. Consequently, after seventeen years of operation the Board ceased to operate on July 31, 2000. Its activities have been reverted to the parent ministry, in preparation for the creation of the National Tourism Development Corporation through the Tourism Development Bill. This will encourage private investment in tourism related activities. Tourist attraction projects implemented so far are entirely found in the rural areas, which is the location for development of an integrated tourism product. This is consistent with Government's policies and strategies to reduce poverty through sustainable tourism development, among other demands on the environment.

64. The Maloti-Drakensberg Transfrontier Conservation and Development Project was conceived in 1999. The project is a long-term collaborative initiative between South Africa and Lesotho to protect the exceptional bio-diversity of the Drakensberg and Maloti Mountains through conservation, sustainable resource use and development planning. This Global Environmental Facility (GEF) project has eight interrelated components in both countries that together serve to conserve globally significant bio-diversity, develop opportunities for nature based tourism in the area and provide new alternative livelihood opportunities for local communities based on bio-diversity conservation.

### *Culture and sport*

65. Culture and sport are two clearly underdeveloped sectors in the Basotho society, even though they may play an important role in the country's development process. Art for instance, can be a useful means of disseminating information. There are so many unemployed artists in the country, who could help transmit such messages as HIV/AIDS awareness, environmental protection, good agricultural practices, economic and political stability, peaceful conflict resolution and as such indirectly contribute to poverty alleviation. In general, a flourishing artistic community is a sign of good social health and is an integrated part of a strong democracy.

66. Sport is one of the least realised activities in the country, yet one of the major community builders and a guard against drug addiction, crime, disease and other social ills. Moreover, in some cases youngster's talents are enhanced to an extent where they are able to generate a livelihood from their sport. Indeed, since the early 1990s some Basotho soccer players have been employed in the UK, South Africa and other overseas premier leagues. Even though more trainers have been educated in recent years, the major problems facing the development of sports activities continue to be the poor state of sporting grounds and facilities.

### *Environment*

67. Lesotho faces serious environmental problems, which emanate primarily from the poor management of its natural resources. Aiming to preserve arable land, in particular and biomass equilibrium in general, Lesotho has introduced a number of soil conservation and environmental rehabilitation projects and programmes. Notable among these were the Soil Conservation Programme and the Range Management Programme that were implemented by the Ministry of Agriculture.

68. Subsequent to the 1985 African Ministerial Conference on the Environment, the Government embarked on the formulation of a National Environmental Action Plan (NEAP). Despite NEAP's importance to Lesotho's sustainable development, there were serious delays in its implementation. It has since been revised to ensure that environmental issues are integrated into the planning process, and it is now being implemented. Lesotho is a signatory to the Rio Declaration on Environment and Development and endorses the objectives of Agenda 21. The National Environmental Secretariat (NES), established in 1994, is mandated to oversee environmental affairs and co-ordinate the implementation of the NEAP and Agenda 21. In the implementation of Agenda 21, the National Environment Youth Corps Project and the Rural Development Programme were implemented by the Ministries of Environment, Gender and Youth Affairs, and Local Government, respectively, and the former is expected to continue beyond 2000.

69. The justification for these interventions was the visibly dwindling arable land, which has dropped from 13 per cent of landmass in the 1980s to less than 10 per cent today and the Government's recognition that poverty is both a cause and effect of environmental degradation. Harnessing the natural and human resource base will critically depend on the effectiveness, efficiency and foresight with which Lesotho manages these resources for future and present generations. It is to this end that guidelines for carrying out Environmental Impact Assessments (EIAs)

have been developed for application in the appraisal of social and industrial projects.

### *Community Participation*

70. The government has reformulated the Lesotho Highlands Revenue Fund. The new fund, the Lesotho Fund for Community Development (LFCD) shall be demand-driven and shall finance projects that have been identified and prioritised by communities. A legal notice establishing the Fund was gazetted in March 1999. An Operation Manual outlining the principles and operational procedures of the LFCD has been prepared. This was based on feed back from a series of consultations with stakeholders, which were carried out at central, district and village levels. A Board has since been established to set policies for the Fund. It is composed of representatives of communities, government, non-governmental organisations and the private sector. The LFCD is decentralised and has district and regional offices. Whilst the lowland districts have regional offices, the poor mountain areas have district offices. The purpose was to bring services close to poor communities and create employment in these regions.

### *Gender and Poverty*

71. The defunct Bureau of Women's Affairs had the mandate to implement the Convention on the Elimination of All Forms of Discrimination Against Women (CEDAW), signed in 1981 and ratified in 1995 as part of the Nairobi Forward-Looking Strategies for the Advancement of Women. This convention was ratified with reservations regarding constitutional limitations, customary law, the church, and chieftainship. Yet it was clear that married women had fierce constraints to participation in mainstream development, such as lack of access to credit. This constraint was particularly serious in the case of wives of migrant workers who remained at home for the most part as defacto heads of households in charge of risky subsistence agriculture. Indeed it was in attempting to redress this plight, a number of coalitions including the Lesotho Federation of Women Lawyers (FIDA) were formed. To further address gender discrimination, some co-operating partners also attached revision of discriminatory laws as conditionalities in their development assistance frameworks (for example in the Structural Adjustment Support Programme between Lesotho and the European Union). The establishment of the Law Reform Commission in 1997 may be regarded as an achievement, with at least a Draft Married Persons Equality Bill to be completed in 2000.

72. Policies and procedures have been revised to ensure that socio-economic activities that were male-dominated are accessible to women. For example, in the road sector, recommendations have been made on how the work organization and site management can be made more user-friendly for women and on the possibility of sub-contracting women in the sector, with flexible working hours (Government of Lesotho, 1999).

73. Since independence, poverty reduction has been at the core of government policies and strategies. Moreover, since 1995 the Government has formulated two comprehensive strategies (Pathway Out of Poverty: An Action Plan for Lesotho; and Poverty Reduction Within the Context of Good Governance) to combat pov-

erty. These strategies have been supplemented by specific sectoral interventions as outlined in national development plans and the annual budgets. However there is no clear picture of the extent to which these efforts have resulted in alleviating poverty. Establishing such a picture by analysing the past poverty programmes should form the basis for designing a new programme and as such should be an explicit outcome of the PRSP process. This is one of the areas where co-operating partners could be of assistance, both technically and financially.

74. By their nature, the above programmes and projects could not, and did not significantly reduce poverty, because they lacked the necessary focus and were in all cases not meant to be sustainable. Their shortcoming was underpinned by the top-down approach at various levels: planning, formulation, implementation, monitoring and evaluation. This could also explain why they were often difficult to co-ordinate, which function would easily have been shared with direct beneficiaries. Thus it would be an overstatement to say that the project and programme documents were known, let alone design, by most of the direct beneficiaries.

## CHAPTER 4: POLICY COMMITMENTS AND ECONOMIC TARGETS

### Overview

75. The Government's medium term strategy aims at the attainment of sustained economic growth and poverty reduction in the context of macro-economic stability. Quantitatively, macro-economic policies will increase to restore annual economic growth to around 4 per cent, reduce inflation to about 5 per cent a year, as well as restore the overall fiscal balance after grants to a surplus of about one per cent of GDP by the year 2003/04 (Tables 1 and 2). These commitments and targets are tentative and will need to be revised when the IPRSP is replaced by the full PRSP. To meet the challenge of poverty reduction, economic policies will be more focused on resource allocation and strategies that give priority to activities that have a direct bearing on the poor. In order to achieve its goals, at the core of the medium term strategy will be policies to enhance:

76. Export-led Economic Growth. Policy measures will include institutional, regulatory, and other reforms to boost private investment and exports, especially in the manufacturing sector. Also, given the uncertainties associated with the traditional sources of economic growth, the Government will target other non-traditional activities, such as tourism, as the main engines of growth. The education sector will also play a vital role in terms of providing the necessary technical and vocational training.

77. Prudent Fiscal Management. Increase revenue, restrain expenditure and increase concessional financing. A programme of strengthening tax administration will be drawn up, and the tax net will be widened. In the fiscal year 2000/2001, value-added tax (VAT) will be introduced and there will be a periodic adjustment of specific taxes and fees in line with inflation. There will also be public expenditure reviews to restructure current expenditure, to put relatively more emphasis on the social sectors, and to privatise operations of certain government functions.

78. Macro-economic Management. The development of Lesotho government's capacity for macro-economic management will be in the forefront focusing on the operationalisation of the Macro-economic Unit and introduction of a cash management system within the Ministry of Finance.

79. Cautious Monetary Policy. Given Lesotho's limited scope for implementing an independent monetary policy, the Central Bank of Lesotho will seek to keep broad money growth in line with the growth of nominal GDP. To strengthen monetary control and help develop the money market, the Central Bank will introduce indirect instruments of monetary policy and phase out direct instruments. Bank supervision has been strengthened by restructuring the Supervision Division and by the passage of the Financial Institutions Act.

80. Employment Creation. Strategies to create jobs will continue to be the main focus of the Government in poverty reduction. The government plans to harness this measure through the already mentioned export expansion mechanism.

81. Accessibility and efficiency of quality social services. Government will continue to intensify efforts to give more priority in resource allocation to the health and education sectors. This will be done with the aim of bringing basic and essential services closer to the people. The Lesotho government's objectives, targets and strategies are set out in the matrix below. All the elements of the matrix are based on current, ongoing and planned initiatives. As the PRSP process proceeds, the Government is committed to assess the costs involved with all these initiatives, to amend and expand where necessary, and do so in partnership with a broad range of people's representatives and co-operating partners. This is to secure that the concrete steps of government to reduce poverty are conducted through a process where participation and ownership of the poverty strategy is maximised. It is of utmost concern to the Government that a constant dialogue is pursued with all stakeholders, including the co-operating partners, to ensure that coordination and efficiency in delivery – and ultimately impact – are optimal.

82. Legal and judicial reform. Since reducing unemployment is central to any sound strategy for poverty reduction, Lesotho needs to provide an environment in which both domestic as well as foreign investors can have full confidence that they can freely and equitably reap the benefits of their investments of capital and labor in any venture of their choice. To this end, the Government will endeavor to streamline business laws and regulations, improve the system of administration of justice in Lesotho and ensure access to equal justice for all and particularly for the poor.

Table 1 Lesotho: Selected Economic and Financial Indicators, 1996/97-2003/04 1/

	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04
(Annual percentage change, unless otherwise specified)								
<b>National income and prices</b>								
Real GDP	9.5	4.6	-3.6	2.1	2.4	2.8	3.9	3.9
Real GNP	8.1	3.4	-6.6	1.1	0.7	1.7	4.2	3.3
Nominal GDP (in millions of maloti)	4,216.3	4,764.2	5,078.8	5,730.9	6,197.1	6,762.4	7,352.2	7,968.8
Nominal GNP (in millions of maloti)	5,627.1	6,305.4	6,488.9	7,246.5	7,706.4	8,318.6	9,070.7	9,779.6
<b>External sector 2/</b>								
Exports, f.o.b.	50.1	8.7	19.5	4.3	25.2	15.1	10.3	9.7
Imports, f.o.b.	18.5	8.4	-5.6	8.1	1.9	6.6	8.8	7.2
Net labor income	3.6	11.4	-7.7	8.8	0.3	0.6	5.5	4.5
Real effective exchange rate 3/	-2.0	-2.9	-12.6	0.7	...	...	...	...
<b>Government budget</b>								
Revenue (excluding grants)	20.7	10.4	-3.3	6.4	8.3	14.9	7.9	8.7
Total expenditure and net lending	22.5	14.1	4.1	38.3	-12.3	8.4	6.9	5.6
Current expenditure	5.4	25.0	31.8	19.3	3.7	2.2	6.2	5.6
Capital expenditure and net lending	56.6	-0.6	-42.9	-3.2	15.5	35.4	9.3	5.5
(Changes as percent of opening broad money)								
<b>Money and credit 4/ 5/</b>								
Net foreign assets	52.6	61.9	22.1	-8.2	-10.7	19.9	14.4	14.6
Net domestic assets	-35.1	-44.6	-10.3	6.5	11.5	-11.1	-6.7	-7.0
Credit to the government	-47.0	-38.5	10.8	56.2	29.5	-1.4	-5.8	-12.2
Credit to the rest of the economy	5.4	-0.6	10.3	-4.0	0.2	7.3	7.5	7.2
Broad money	17.5	17.3	11.8	-1.7	0.9	8.8	7.7	7.6
Velocity (GDP/average broad money)	4.3	4.1	3.7	4.3	4.5	4.5	4.5	4.5
(In percent of GDP, unless otherwise specified)								
<b>Investment and saving</b>								
Investment	57.2	52.2	36.8	27.7	26.3	24.4	25.9	26.8
Public	20.7	18.2	9.8	8.4	8.9	9.8	9.9	10.2
Private	10.0	6.6	5.1	6.6	7.4	8.1	9.4	10.2
LHWP	26.5	27.4	21.9	12.8	10.0	6.6	6.5	6.4
Gross national savings (including remittances)	27.0	21.3	11.8	5.3	7.9	10.6	11.6	12.8
Public	20.5	16.2	4.5	-0.1	2.4	7.0	7.6	8.6
Private	6.4	5.0	7.2	5.4	5.4	3.6	4.0	4.2
<b>Government budget</b>								
Revenue	48.3	47.2	42.8	40.4	40.4	42.6	42.2	42.4
Total grants	4.8	3.8	2.4	2.3	3.4	4.1	4.1	4.1
Total expenditure and net lending	48.7	49.2	48.0	61.6	47.7	47.4	46.6	45.4
Overall balance (before grants)	-0.4	-2.0	-5.2	-18.5	-7.3	-4.8	-4.4	-3.0
Overall balance (after grants)	4.4	1.8	-2.9	-16.2	-3.9	-0.8	-0.2	1.0
Primary balance (excluding grants)	1.1	-0.1	-2.7	-15.3	-3.1	-1.7	-1.4	-0.3
Government domestic debt	6.7	4.6	4.4	13.6	13.4	12.0	9.5	5.7
<b>External sector</b>								
Current account balance (excluding official transfers)	-49.8	-50.7	-40.7	-36.0	-33.1	-31.4	-30.8	-30.3
Current account balance (including official transfers)	-30.3	-31.0	-25.0	-22.4	-18.4	-13.9	-14.3	-14.0
Stock of external debt	63.1	66.4	78.2	72.0	71.9	69.9	69.7	67.9
Debt-service ratio 6/	4.5	4.0	6.6	8.1	14.7	8.8	8.3	7.6
(In millions of U.S. dollars, unless otherwise specified)								
Overall balance of payments	113.4	153.6	63.6	-52.0	-22.8	37.3	26.5	27.0
Gross official reserves (end of period)	525.1	606.3	552.9	471.1	358.9	382.7	403.1	429.4
Gross official reserves (in months of imports of goods)	5.8	8.7	7.9	7.7	6.3	6.3	6.3	6.3

1/ Fiscal year beginning in April.

2/ In maloti.

3/ Based on partner country data (excluding South Africa).

4/ Change in percent of broad money at the beginning of the period.

5/ Monetary data for the period 1996/97-1998/99 are very provisional as the Lesotho Bank published no regular accounts for the period from December 1996 to September 1998.

6/ In percent of exports of goods, services, and income.

**Table 2: Macro-economic and Sectoral Policies: 2000/01-2003/04**

<b>Policy Area</b>	<b>Objectives and Targets</b>	<b>Strategies and Measures</b>	<b>Timing</b>
<b>Fiscal Policy</b>			
<b>A. Management</b>	Pursue prudent fiscal policies consistent with maintenance of financial stability by containing Government expenditure and strengthening domestic revenue sources.	Limit overall fiscal deficit to levels consistent with continued build up of government deposits with the banking system.	2000/01-2003/04
<b>B. Tax Policy</b>	Bolster domestic tax yields	Introduce Value Added Tax (VAT)	April 2002
		Outsource tax revenue collection (Sales Tax and VAT)	2000/01
		Amend the Income Tax Act for a tax clearing system for all kinds of businesses and professionals.	2001
		Improve customer service and provide taxpayer education.	Ongoing
<b>C. Tax Administration</b>	Strengthen non-SACU revenue collection.	Extend the Taxpayer Identification System to Sales, income and Customs Departments.	2001
		Operationalization of the National Revenue Authority.	Sept., 2001
		Increase administrative fees and charges in line with inflation.	Ongoing
<b>D. Expenditure</b>	Intensify efforts to restrain and rationalize public expenditures and increase support for priority sectors (social sectors).	Reduce expenditures as percent of GDP.	2000/01 – 2003/04
	Improvement in the efficiency and effectiveness of expenditures.	Introduce an improved system of expenditure tracking, cash management and regular reporting.	Ongoing
		Continue the efforts to reduce the Wage Bill.	Ongoing
		Carry out a Public Expenditure Review.	March, 2002

	Improvement in the management of debt contracting and servicing	Continue to borrow concessionally.	Ongoing
<b>E.</b>	Achieve a leaner, efficient and more productive public service.	Conduct a review of the payroll in order to eliminate ghost workers	Ongoing
<b>Civil Service Reform</b>		Restructuring and right-sizing of the public service	Ongoing
		Reduce the wage bill as a percentage of GDP	2001/02 – 2003/04
		Improve the political and administrative interface to ensure ministerial plans and programmes are supported by Cabinet	March 2001
<b>F.</b>	Expand gainful employment opportunities	Refocus the Lesotho Fund for Community Development (LFCD) on poverty alleviation projects, including public works programmes in the rural areas	Ongoing
<b>Employment Creation</b>		Actively assist NGOs to develop a micro-credit programme and establish a sustainable strategy to implement the programme	2002/2003
		Re-design the public works programme to better target the poorest segments of the population	2000/01 – 2002/03
		Expand the factory shells programme	Ongoing
		Further explore the "export processing zone" strategy	2001/2002
<b>G.</b>	Lay the basis for an orderly development of money markets. Introduce indirect instruments of monetary control	Strengthen open market operations through the auction of treasury bills and Central Bank securities	2000/01- 2002/2003
<b>Monetary Policy and Financial Sector Reforms</b>			
	Improve rural finance intermediation	Introduce a Rural Finance Scheme in order to target the rural economy	2000/01 – 2002/2003
	Strengthen banking supervision and regulation	Formulate and enforce prudential regulations a minimum capital adequacy requirements for financial institutions, consistent with international standards	Ongoing
	Improve access to credit for potential exporters	Ensure prudent credit expansion including adequate provision for credit to the private sector	2000/01 – 2002/2003
	Modernize domestic and		2000/01 – 2002/2003

	cross- Border national clearing, settlement and payment system		02/2003
	Restructure the banking system		2002/01 – 2002/2003
External Sector and Regional Policy  <b>A.</b>  <b>Trade</b>	Ensure that the trade system  Enhances external  Competitiveness	Maintain a competitive and more investor-friendly environment by streamlining administrative procedures set up for obtaining licences	2000/01 – 2002
		Maintain a liberal trade system free of quantitative restrictions	2000/01 – 2003/04
		Formulation of a competition policy for WTO members	2000/2001
	Promote export diversification	Review the Export Finance Project	2000/01 – 2002/03
	Improve regional competitiveness	Accelerate supply side reforms including cost-effectiveness and efficiency of public utilities	2000/01-2003/04
		Review of the current investment incentive regime	2000/2001
	Intensify private sector development	Provide assistance to the Lesotho Chamber of Commerce and Industry (LCCI) and Lesotho Manufacturers Association (LMA) to increase their capacity	2000/2001
		Establishment of a micro-finance credit scheme	2000/2001
		Skill upgrading programmes for small, micro and medium enterprises (SMMEs)	2000/01-2002/03
		Facilitate market access to SMMEs	2000/01 – 2003/04
	Upgrade and expand business extension services	Augment capacity and upgrade the quality of products and services provided by the Basotho Enterprises Development Corporation (BEDCO), LMA and other business service providers	2000/01 – 2003
<b>B.</b>	Improve management of external debt service op-	Government to strictly limit its external financing to grants and conces-	Ongoing

<b>External Debt Management</b>	erations	sional loans	
		Operationalization of the Debt Management Committee	2000/2001
<b>State Enterprise Reforms And Private Sector Development</b>	Improve the management and efficiency of public utilities	Simplify the procedure by delegating authority to approve privatisation decisions for certain enterprises to a Cabinet sub-committee or Privatization Unit	2000/2001
<b>A. Telecommunications</b>	Complete the operationalization of TCL	Engagement of consultancies and studies	Early 2001
<b>B. Power</b>	Reduce system's loss, improve service delivery and meet the growing demand	Announce a power sector policy to facilitate restructuring and private sector participation	2001
		Design and implement a new electricity tariff policy incorporating the impact of the 'Muela Hydropower Project	December 2000
	Formulate an action plan for privatisation of the Lesotho Electricity Corporation (LEC)	Establish an Interim Management Task Force	2001
	Outsource LEC's non-core activities	Recruit a Sales Advisory Team	Ongoing
<b>C. Water</b>	Introduce outsourcing of WASA non-core activities	Develop a water sector policy	Ongoing
<b>Agriculture</b>	Enhance the efficiency and productivity of the sector	Promote an efficient and effective agricultural input supply, marketing and processing systems through deregulation	2000/01 – 2002/2003
		Impact assessment of the policy reforms to date	Ongoing
		Divest agricultural parastatals	2000/2001
<b>SOCIAL SECTORS</b>			
<b>A. Social Welfare</b>	Ensure that protective and rehabilitative welfare services are provided to all vulnerable groups without discrimination	Establish social assistance packages for all vulnerable groups	2001/02 – 2002/2003

		Support income-generating projects for vulnerable groups	2001/02 – 2002/2003
<b>B. Nutrition</b>	Reduction of deaths, illnesses, and other disabilities due to malnutrition	Reducing prevalence of micronutrient deficiency in children below five years of age	Ongoing
<b>C. Sanitation</b>	Prevent morbidity and mortality associated with poor sanitation and drinking water quality	Testing all drinking water sources for rural people	2000/2003
<b>D. Health Services</b>	Reduce mortality and morbidity by increasing access to quality health care	Increase access and timely delivery of quality health care at district and community levels	2000/2001
<b>E. HIV/AIDS</b>	Control the spread of HIV/AIDS and mitigate its impact on individuals, families and the nation as a whole	Establish structures for effective co-ordination multisectoral National AIDS Programme	Ongoing
		Mobilize adequate resources for the National AIDS Programme	Ongoing
		Strengthen information, education and communication	
		<i>Provide support to the infected and affected</i>	Ongoing
		Involve the youth in HIV/AIDS programmes	2000/2001
		Intensify surveillance and testing	2000/2003
<b>F. Education</b>	Expand access to provide basic education to all	Introduce the policy of Free Primary Education (FPE) including school lunches	Ongoing
		Introduce the Targeted Equity Based Programme (TEBP) to cover children from poor households not in the FPE Scheme	Ongoing
		Put up infrastructure to accommodate the influx necessitated by the FPE Scheme	2000/2001
	Improve quality, relevance and efficiency of the education system	Increase non-wage recurrent and development expenditures on basic education by at least 5 per cent in real terms	2000/2001
		Strengthen curriculum and pedagogic training deepen community involvement in schools	2000/2001
		Implement cost-containment and curtailment measures at the National University of Lesotho	2000/2001

<b>CAPACITY BUILDING</b>	Strengthen the capacity for macroeconomic management	Full operationalization of the Fiscal Analysis and Policy Unit	2000/2001
		Strengthen capacity of the Bureau of Statistics for compilation of national accounts	Ongoing

## **CHAPTER 5: TOWARDS A POVERTY REDUCTION STRATEGY PAPER FOR LESOTHO**

### **Overview**

83. The Technical Working Group (TWG) was established in February 2000 charged with the task of initiating and implementing the process of preparing a Poverty Reduction Strategy Paper (PRSP) for Lesotho. The TWG is composed of the Government, the Private Sector, Non-governmental Organisations, the National University of Lesotho and the United Nations Development Programme. This diverse institutional set-up was adopted with the realisation that the fight against poverty cannot be left to government alone, but must involve all stakeholders. The institutional set-up also derives its strength from the principle of good governance to which the Government of Lesotho is committed. The formulation of the full Poverty Reduction Strategy Paper is expected to take a total of 13 months with three main phases as outlined below and illustrated in the work plan table.

### **The Preparation Stage**

#### *Evaluation of I-PRSP Process*

84. It should be stressed that the 20 months deadline set for the final formulation of the PRSP can only be met if the necessary resources and commitment are made available from the government in general, and Ministry of Development Planning and line ministries, in particular, as well as from our co-operating partners. To make certain the limited government capacity and resources are used with optimal efficiency, it is recommended that the PRSP preparatory stage commences with an evaluation of the I-PRSP process. The evaluation will be conducted by an external consultancy commissioned by the Ministry of Development Planning by November 27<sup>th</sup>, 2000. This evaluation should also look at the management, composition and capacity of the Technical Working Group, which is to be restructured, strengthened and ready for work on Wednesday 17 January, 2000. The TWG will continue its weekly standing meetings. The deadline for the evaluation is Tuesday 28<sup>th</sup> December, 2000.

#### *Data Collection and Analysis*

85. Establishing a clear picture of the severity, the distribution and the possible causes of poverty is a key precondition for the design and implementation of policies that efficiently bring sustainable improvements in the livelihoods of the poorest

groups. As part of the PRSP process instruments for the systematic measurement and monitoring of the poverty situation should be established. More specifically the process should include:

- A. Establishment of a Poverty Monitoring Unit that will assume the overall responsibility for collecting and analysing data on the poverty situation in Lesotho and feeding the results back into the policy design/redesign phases. The Unit should be placed within Ministry of Development Planning and serve as a facilitating forum for research and survey facilities outside government structures.
- B. The Unit should have as a priority the development and update of targets on the poverty situation. These targets should reflect the multiple dimensions of poverty, and be viewed in light of the global and national targets already established through UN Conferences and the 8<sup>th</sup> Round Table Conference. A key output of this process should be the establishment of poverty lines for Lesotho, thus creating awareness on the poverty situation in the country as well as suggesting strategies for addressing it.
- C. Necessary surveys, covering various social groups, should be carried out to empirically fill gaps of previous surveys. In this respect it is recommended that the planned Household Income and Expenditure Survey of Bureau of Statistics is conducted to reflect the priorities established by the Poverty Monitoring Unit. Moreover, regular Rapid Poverty Appraisals should be conducted.

#### *Assessment of Poverty Programmes*

86. As part of the PRSP process an assessment of the coverage and impact of past poverty reduction programmes, as well as specific sectoral and budgetary interventions will be conducted. The purpose of the assessment is to establish a firm understanding of best practices in designing and implementing effective poverty alleviation measures. In addition, the prospects for integrating such measures within a medium and long-term macro-economic framework should be investigated. The assessment is to be conducted through an external consultancy, which is to be commissioned by Ministry of Development Planning by January 8<sup>th</sup> 2001, with final reporting before March 13<sup>th</sup> 2001.

#### *Preparation of Working Document*

87. Based on the data analysis, poverty mapping and the assessment of previous poverty reduction programmes, the Technical Working Group will prepare a working document to be presented to a wide range of stakeholders in the sensitisation phase.

#### **The Consultative Stage**

88. The Government of Lesotho is committed to develop the PRSP document through a process of consensus-building within government structures, and comprehensive consultations with the rural poor, civil society organisations, Members of Parliament and Senators, local authorities, the business community and other

relevant interest groups. It is proposed that the process will be driven by three bodies: the Technical Working Group, a Poverty Council and a Poverty Forum (civil society and national level). The consultative stage is to commence on March 2001 and go through to January 2002. It should be stressed that the consultative process will not be limited to these eleven months, but will continue throughout all the phases of a PRSP process that will be characterised by transparency, networking and inclusiveness.

89. Non-governmental organizations will establish a Civil Society Poverty Reduction Forum (CSPRF) which will link the Technical Working Group with the civil society and other stakeholders at the district, sub-district level, and grass-root levels.

#### *The Technical Working Group*

90. In the process of preparing the PRSP, the TWG will:

- (i) identify the key role players. Conceive and implement consultative mechanisms at all levels of society. In this process the TWG will facilitate lipitso, public hearings, workshops and stakeholder briefings, with the aim to solicit inputs from a broad range of interest groups.
- (ii) facilitate understanding of the nature and determinants of poverty in Lesotho, and the links between public policies and strategies, and the poverty situation. Clear indicators of poverty shall be identified.
- (iii) review ongoing and completed poverty reduction oriented programmes and projects. The analytical report of these experiences should serve as a working paper for consultations at national, district and community levels.

#### *The Poverty Council*

91. This body, chaired by the Honourable Minister of Finance and of Development Planning, comprises the Governor of the Central Bank of Lesotho and the Principal Secretaries of the Ministries of Development Planning; Finance; Education; Health and Social Welfare; Local Government; Agriculture, Land Reclamation and Co-operatives; Industry, Trade and Marketing; Labour and Employment, Environment, Gender and Youth Affairs; and Public Works and Transport.

92. The establishment of the Council reflects commitment on the part of Government and the will to play a leading role in the process. The Council will provide policy guidance, maintain and accelerate consultations within government institutions and will ensure that the TWG gains access to both material and human resources available in these institutions. The Council will also foster the government-private sector partnership and accelerate the establishment of local structures as well as absorb the cost involved in the consultative process.

## *The Poverty Forum*

93. This is a mechanism for maximisation of stakeholder participation in, and ownership of, the PRSP process. The consultative process carried out at district and community levels will culminate in the national forum and the elaboration of a broad vision of poverty problems and policies/ strategies to combat poverty. The result of this interaction will be the Poverty Reduction Strategy Paper for Lesotho.

94. The establishment of Local Government structures, as provided for in the Local Government Act (1997), is central to the achievement of good governance at all levels. The Act lays out an institutional framework for the establishment of Municipal Councils, Urban Councils, Rural Councils and Community Councils and the District Development Coordinating Committees. These structures will provide the framework for the consultative process of the PRSP.

95. The structures and the membership composition of the Poverty Council and the Poverty Forum will be in place before March 2001 under the coordination of the Ministry of Development Planning.

### **The Finalisation Stage**

96. The preparation of the final report will be based on the Results Summary Report made available during the consultative phase and the inputs received from these consultations. An Editorial Committee will be set up comprising members of the TWG by June 2001. Four months later in early October 2001 a First Draft PRSP will be available. The draft will then be presented at a Mid-term Stakeholder Conference in December 2001. The Second Draft PRSP document will be produced in March 2002 and a final stakeholder conference held in the same month. The Full PRSP for Lesotho will be formulated by May 2002 and submitted to Cabinet on Friday 24<sup>th</sup> May 2002 and to the managements of the IMF and World Bank on Friday 14<sup>th</sup> June, 2002.

### **Work plan/Timeline for PRSP**

ACTIVITY	2 0 0 1												2 0 0 2							
	N	D	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J
<b>PREPARATORY PHASE</b>																				
Evaluation I-PRSP Process		X	X																	
Data Collection and Analysis		X	X	X	X	X														
Assessment of poverty Programmes					X	X														
Preparation of a Working Paper					X	X	X													
Development of Poverty Indicators				X	X	X	X	X	X	X	X	X	X	X	X	X				

**SENSITISATION PHASE**

Stakeholder Seminars

Parliament X  
 College of Chiefs X  
 Media X  
 Agreement of Materials/Messages X

Assessment of District-level institutions X X X

Establishment of District Consultation

Structures

Media Campaign X X X X X X X X X X

**LAUNCH**

Civil Society Poverty Reduction Forum (NGOs) X

National Poverty Reduction Forum X

**CONSULTATION/ACTIVITIES**

Sectoral Thematic Meetings X X X X X X X

District and Local Workshops X X X X X X X X

Editorial Committee set up X

Results Summary X X

**PLANNING BENCHMARKS**

**TWG**

TWG Strategic Planning Workshop X

TWG - Review Meetings X X X X X X X X X

First Draft PRSP X

Mid-term Stakeholder Conference X

Second Draft PRSP X

Final Stakeholder Conference X

Full PRSP for Lesotho completed, X X X

Submitted to Cabinet, IMF and World Bank

**REVIEW OF PLAN**

Periodic Reviews (sixth monthly reporting) X X X

### Summary of key deadlines

- Evaluation of the I-PRSP process will be commissioned to an external consultancy by the Ministry of Development Planning by 28 November, 2000. Deadline for the evaluation is Thursday, 28 December, 2000.
- The structures and the membership composition of the Poverty Council and the Poverty Forum will be in place before March 2001 under the coordination of the Ministry of Development Planning.
- Wednesday 17 January, 2001. Technical Working Group, restructured, strengthened and in session.
- Assessment of previous poverty programmes. External consultancy commissioned by Ministry of Development Planning by 8 January, 2001, with final reporting before March 2001.
- The consultative stage is to commence on March 2001 and go through to January 2002.
- June 2001. Editorial Committee established.
- March 2002. National Forum/Final Stakeholder Conference.
- Third week of May 2002. Submission to Cabinet.
- Second week of June 2002. Submission to IMF and World Bank.

### Resource requirements

		Budget:
<b>Consultancies:</b>		
• Evaluation of the I-PRSP process	1 month	M 25,000.00
• Assessment of Poverty Programmes	2 months	M 50,000.00
• Poverty Monitoring Mechanism	6 months	M300,000.00
<b>Stakeholder Consultations:</b>		
• District/local Workshops	6 w/s	M250,000.00
• Headquarters workshops	6 w/s	M100,000.00
• National Forum/Final Conference	2 days	M400,000.00
<b>Human Resources:</b>		
• TWG		n.a.

• Poverty Council	n.a.
• National Forum	n.a.
Others:	
• Photocopying Facilities	M100,000.00
• Stationery	M 50,000.00
• Office Space	
• Transport	M100,000.00
<b>TOTAL</b>	<b>M1,375,000.00</b>

97. It should be stressed that the above-mentioned resource requirements and associated costs are preliminary and indicative at most, for the inputs into the continued process. An improved budget will be prepared as the consultations process proceeds. Co-operating partners are requested to consider offering technical support even as we budget for the consultations process.

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