



The Government of Lesotho

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NATIONAL STRATEGIC DEVELOPMENT PLAN

2018/19-2022/23

In pursuit of Economic and Institutional Transformation for private sector led job creation and inclusive economic growth



Table of Contents

LIST OF FIGURES.....	4
LIST OF TABLES.....	4
FOREWORD.....	8
EXECUTIVE SUMMARY.....	9
1. INTRODUCTION.....	10
1.1 THE POLITICAL CONTEXT.....	10
1.2 SOCIAL STRUCTURE.....	10
1.3 NSDP I 2012/13-2016/17: PROGRESS.....	12
1.4 NSDP I IMPLEMENTATION: ACHIEVEMENTS, CHALLENGES AND LESSONS.....	13
1.4.1 Major Public Sector Investment Projects under NSDP I and Performance of PCM.....	16
.....	18
.....	18
1.5 PLAN OBJECTIVES.....	18
PART I.....	22
IN THE NEXT FIVE YEARS	
2. DEVELOPMENT CONTEXT: CHALLENGES, THREATS AND OPPORTUNITIES.....	22
2. CONTEXT AND PROSPECTS.....	22
2.1. GEOGRAPHICAL LOCATION.....	22
2.2 WEATHER AND CLIMATE.....	22
2.3 DEMOGRAPHIC PROFILE.....	23
2.5.1 Population.....	23
2.4 THE ECONOMIC STRUCTURE.....	24
2.5 DEVELOPMENT AND STRUCTURAL CHALLENGES, AND THREATS.....	26
2.5.1 Development Challenges.....	26
2.5.2 Structural Challenges.....	30
2.5.3 Threats.....	30
Shifting Geo-Political Power.....	30
2.6 DEVELOPMENT AND JOB CREATION OPPORTUNITIES.....	33
2.6.1 Economy Wide Opportunities.....	34
LABOUR FORCE.....	34
ACCESS TO INTERNATIONAL MARKETS.....	35
LOCATION.....	35
3.1 MACROECONOMIC POLICY.....	38
3.2 RECENT MACROECONOMIC PERFORMANCE.....	38
3.2.1 REAL SECTOR PERFORMANCE.....	38
3.2.2 TRENDS IN FISCAL OPERATIONS.....	40
3.2.3 DEBT SUSTAINABILITY.....	44
3.2.4 TRENDS IN EXTERNAL SECTOR.....	45
3.2.5 TRENDS MONETARY SECTOR.....	46
3.3 MACROECONOMIC OUTLOOK: ECONOMIC PROJECTIONS FOR THE PLAN PERIOD.....	49
4.1 INTRODUCTION.....	56
4.2 GROWTH DIAGNOSTICS.....	57
4.3 GROWTH STRATEGY.....	60
4.4 GROWTH & EMPLOYMENT SCENARIOS.....	63
PART II.....	66
STRATEGIC FRAMEWORK.....	66
5.0 ECONOMIC POLICY DIRECTION.....	66
5.1 NSDP II, VISION 2020 AND INTERNATIONAL DEVELOPMENT FRAMEWORKS.....	67



5.2 KEY PRIORITY AREAS, STRATEGIC OBJECTIVES AND KEY POLICY INTERVENTIONS.....	68
INVESTMENT CLIMATE REFORMS, MINING AND FINANCIAL SECTOR DEVELOPMENT.....	73
.....	73
OUTCOME 1: A CONDUCTIVE BUSINESS ENVIRONMENT	73
6.2 MINING.....	75
.....	78
OUTCOME 2: MINERAL RESOURCE EFFICIENCY	78
6.3 FINANCIAL SECTOR DEVELOPMENT TO SUPPORT PRODUCTIVE SECTORS	78
OUTCOME 3: A STABLE AND EFFICIENT FINANCIAL SECTOR	85
ENHANCING INCLUSIVE AND SUSTAINABLE ECONOMIC GROWTH AND PRIVATE SECTOR-LED JOB CREATION.....	86
7.1 INTRODUCTION	86
(2) IMPROVED CREATIVE ARTS INDUSTRY	ERROR! BOOKMARK NOT DEFINED.
OUTCOME 1: SUSTAINABLE COMMERCIAL AGRICULTURE	91
OUTCOME 1: DIVERSIFIED PRODUCTS AND EFFECTIVE BUSINESS LINKAGES	97
OUTCOME 2: OPERATIONAL INDUSTRIAL CLUSTERS AND INTEGRATED SUPPLY CHAIN.....	98
7.3.3 <i>Tourism and Creative Industries Sector</i>	98
OUTCOME 1: DIVERSIFIED TOURISM PRODUCTS AND IMPROVED HERITAGE SITES.....	ERROR!
BOOKMARK NOT DEFINED.	
CREATIVE INDUSTRY	ERROR! BOOKMARK NOT DEFINED.
OUTCOME 1: IMPROVED CREATIVE ARTS INDUSTRY	ERROR! BOOKMARK NOT DEFINED.
7.3.4 <i>TECHNOLOGY AND INNOVATION</i>	103
8.1.1 INTRODUCTION	111
8.1.2 SITUATION ANALYSIS	112
[3] PROMOTE INCLUSIVE AND EQUITABLE EDUCATION SYSTEM.....	116
[4] EXPAND AND UPGRADE TVET INSTITUTIONS AND PROGRAMMES TO SUPPORT GROWTH SECTORS.....	116
8.1.3 SITUATION ANALYSIS	117
NUTRITION	121
8.1.4 SITUATION ANALYSIS	121
STRATEGIC OBJECTIVES AND INTERVENTIONS.....	121
8.1.5 SITUATION ANALYSIS	122
STRATEGIC OBJECTIVES AND INTERVENTIONS.....	124
8.1.6 SITUATION ANALYSIS	124
BUILDING AN ENABLING INFRASTRUCTURE	127
8.2.1 INTRODUCTION	127
STRATEGIC OBJECTIVES AND INTERVENTIONS	134
8.2.4 WATER, SANITATION AND HYGIENE (WASH).....	134
STRATEGIC OBJECTIVES AND INTERVENTIONS.....	136
STRATEGIC OBJECTIVES AND INTERVENTIONS	139
STRENGTHENING GOVERNANCE AND ACCOUNTABILITY SYSTEMS	144



LIST OF FIGURES

Figure 1.1: Lesotho NSDP I key indicators' forecasts and realizations 2011/12- 2016/17	14
Figure 1. 2: Employment by Government, LNDC Assisted Companies and Migrant Labour System, 2012/13-2016/17	15
Figure 1. 3:Private Investment and Public Investment (excl. LHDA), 2011/12-2016/17	16
Figure 1. 4 Objectives of the Plan	18
Figure 1. 5 Context of NSDP II.....	20
Figure 2. 1: Location of Lesotho in Southern Africa	22
Figure 2. 2:Lesotho Population Pyramid, 2016.....	23
Figure 2. 3: Decomposition of Growth by Sector, 2003-2007	25
Figure 3. 1: Savings and Investment (Percentage of GNI), 2012-2017	40
Figure 3. 2: Government Expenses, 2009/10-2017/19 (Percentage of GDP).....	41
Figure 3. 3: Capital Expenditure, 2012/13-2017/18 (Million Maloti and as a share of GDP)	42
Figure 3. 4: Sources of Government Revenue, 2012/13-2017/18 (Share of GDP).....	43
Figure 4. 1 :Growth Diagnosis Decision Tree	57
Figure 5. 1 FOUR KEY PRIORITY AREAS (KPA) that have been identified to anchor the NSDP II Strategic Framework.....	68
Figure 7. 1:Strategic Intermediate Outcomes under Key Priority I.....	86

LIST OF TABLES

Table 1. 1: Capital budget and outturn (million Maloti) FY2010/11-FY2016/17	17
Table 2. 1: Lesotho Life Expectancy, 1990-2016	27
Table 2. 2: International Competitiveness of Lesotho and other SACU countries	29
Table 3. 1: Aggregate Economic Indicators, 2012/13-2016/17 (percentage changes, 2012=100)	39
Table 3. 2: Lesotho's Stock of Public Debt, 2013-2017	44
Table 3. 3: Summary of Balance of Payments.....	46
Table 3. 4:Financial Soundness Indicators-Banking Sector	48
Table 3. 5:Baseline Medium Term Fiscal Framework (MTFF) Projections.....	51
Table 3. 6: Medium Term Fiscal Framework projections under 3.5% growth target.....	52
Table 3. 7: Medium Term Fiscal Framework projections under 5% desired growth target.....	53
Table 4. 1:Baseline: Restoring Fiscal Sustainability	63
Table 4. 2: Real Growth Target: 3.5%.....	64
Table 4. 3:Target growth of 5%.....	65
Table 5. 1: Summary Program Logic for the NSDP II.....	72
Table 6. 1: Ease of Doing Business Ranking, 2017-2018.....	74
Table 6. 2: Lesotho Financial Sector Landscape, 2013-2017	80
Table 6. 3: Private Sector Credit and Partial Guarantee Scheme	84
Table 7. 1 Summary of Sector Binding Constraints to Private Sector Investment.....	87
Table 7. 2: Investment Opportunities in Agriculture.....	89
Table 7. 3: Other opportunities	Error! Bookmark not defined.
Table 7. 4: Lesotho's Level of Technological Readiness and Innovation in Global Competitiveness Ranking compared to that of Botswana and Namibia in 2017/2018	104
Table 7. 5: Technology and Innovation Challenges	106
Table 8. 1: Water and Sewage Connections between 2012/13-2015/16.....	135
Table 8. 2:Lesotho Annual Rating on Governance 2012 -2016.....	145



LIST OF ACRONYMS AND ABBREVIATIONS

ACP	-	Africa Caribbean Pacific
AfDB	-	African Development Bank
AGOA	-	African Growth and Opportunity
ABC	-	All Basotho Convention
AD	-	Alliance of Democrats
AIDS	-	Acquired Immune Deficiency Syndrome
ART	-	Antiretroviral Therapy
ASM	-	Aartisanal Small-Scale Mining
BNP	-	Basotho National Party
BEDCO	-	Basotho Enterprise Development Corporation
BOS	-	Bureau of Statistics
CBL	-	Central Bank of Lesotho
CHAL	-	Christian Health Association of Lesotho
CHE	-	Council on Higher Education
CGP	-	Child Grant Programme
CMA	-	Common Monetary Area
CPI	-	Consumer Price Index
CWC	-	Common Wealth Countries
DCEO	-	Directorate on Corruption and Economic Offences
DHS	-	Demographic Health Survey
DMA	-	Disaster Management Authority
ECCD	-	Early Childhood Care and Development
EFT	-	Electronic Financial Transactions
EIA	-	Environmental Impact Assessment
EPA	-	Economic Partnership Agreement
ERR	-	Economic Rate of Return
EFTA	-	European Free Trade Association
EU	-	European Union
EU GSP	-	European Union's Generalised System of Preferences
FDI	-	Foreign Direct Investment
FSI	-	Financial Soundness Indicators
GDP	-	Gross Domestic Product
GNI	-	Gross National Income
GoL	-	Government of Lesotho
GVC	-	Global Value Chains
HDI	-	Human Development Index
HIV	-	Human Immunodeficiency Virus
HRIMS	-	Human Resource Information Management
ICAO	-	International Civil Aviation Organization
ICCPR	-	International Convention on Civil and Political
ICR	-	Investment Climate Reforms
ICT	-	Information Communication Technology
IEC	-	Independent Electoral Commission
IFAD	-	International Fund for Agriculture Development
IFMIS	-	Integrated Financial Management Information System



LIST OF ACRONYMS AND ABBREVIATIONS

IIAG	-	Ibrahim Index of African Governance
ILO	-	International Labour Organisation
IMF	-	International Monetary Fund
IINDF	-	Interim National Development Framework
IoDS	-	Institute of Directors Southern Africa
IPR	-	Intellectual Property Rights
IRC	-	Industrial Relations Council
JBCC	-	Joint Bilateral Commission of Cooperation
KPA	-	Key Priority Area
LDHS	-	Lesotho Demographic and Health Survey
LEC	-	Lesotho Electricity Corporation
LePHIA	-	Lesotho Population Based HIV Impact Assessment
LHWP	-	Lesotho Highlands Water Project
LGCSE	-	Lesotho General Certificate of Secondary Education
LGDN	-	Lesotho Government Data Network
LHWP II	-	Lesotho Highlands Water Project II
LNDC	-	Lesotho National Development Corporation
LSP	-	Lesotho Special Permit
LTDC	-	Lesotho Tourism Development Corporation
MCA	-	Millennium Challenge Account
MCC	-	Maseru City Council
MDG	-	Millennium Development Goals
MDWSP	-	Metolong Dam Water Supply Programme
MERCOSUR	-	Common Market of the South
MGYSR	-	Ministry of Gender and Youth, Sports and Recreation
MIA	-	Moshoeshoe I International Airport
MoET	-	Ministry of Education and Training
MoLG	-	Ministry of Local Government and Chieftainship Affairs
MoSD	-	Ministry of Social Development
MSM	-	Maseru Securities Market
MSME	-	Micro Small and Medium Enterprise
MTEF	-	Medium Term Expenditure Framework
NAC	-	National Aids Commission
NACOLA	-	National Advisory Council on Labour
NSDP	-	National Strategic Development Plan
NBFI	-	Non-Bank Financial Institutions
NCD	-	Non-Communicable Diseases
NISSA	-	National Information System for Social Assistance
NMDS	-	National Manpower Development Secretariat
NPS	-	National Payment System
NUL	-	National University of Lesotho
OAG	-	Office of Accountant General
OBFC	-	One Stop Business Facilitation Centre
CMA	-	Common Monetary Area



LIST OF ACRONYMS AND ABBREVIATIONS

OPEC	-	Organisation of Petroleum Exporting Countries
OVC	-	Orphans and Vulnerable Children
PAYE	-	Pay-As-You Earn
PCT	-	Patent Cooperation Treaty
PEPFAR	-	President's Emergency Plan for AIDS Relief
PFMA	-	Public Finance Management and Accountability
PFMRP	-	Public Financial Management Reform Project
PHC	-	Population and Housing
PRS	-	Poverty Reduction Strategy
PPA	-	Power Provision Agreement
PPP	-	Public Private Partnership
PMTCT	-	Prevention of Mother-to-Child Transmission
PSID	-	Public Sector Investment Database
PSLE	-	Primary School Level Education
R&D	-	Research and Development
RCA	-	Root Cause Analysis
GDP	-	Gross Domestic Product
RCL	-	Reformed Congress of Lesotho
RISDP	-	Regional Indicative Strategic Development Plan
RSA	-	Republic of South Africa
RSCG	-	Rural Savings and Credit Group
RVC	-	Regional Value Chains
SACCO	-	Savings and Credit Cooperatives
SACMEQ	-	Southern and Eastern Africa Consortium for Monitoring Educational
SACU	-	South African Customs Union
SSA	-	Sub-Saharan Africa
STEM	-	Science Technology Engineering and Mathematics
SUN	-	Scaling Up Nutrition
SDG	-	Sustainable Development Goals
TB	-	Treasury Bills
TB	-	Tuberculosis
TDA	-	Tourism Development Areas
TIP	-	Trafficking in Persons
TPP	-	Trans Pacific Partnership
TVET	-	Technical, Vocational, Education and Training
UK	-	United Kingdom
UN	-	United Nations
UNAIDS	-	United Nations Programme on HIV/AIDS
USA	-	United States of America
VAT	-	Value Added Tax
WASCO	-	Water and Sewerage Company
WTO	-	World Trade Organisation
YDI	-	Youth Development Index



Foreword

The Lesotho National Strategic Development Plan II has ambitious policy targets of the transformation of the Lesotho economy from a consumer driven economy to a producer-based economy led by the private sector. Its full implementation will depend upon the concerted efforts and commitment of all the people of Lesotho. Thus, it is the responsibility of all of us-the people of Lesotho, to build the future we want by committing ourselves once more to redoubling our efforts, in whatever capacity, towards the transformation of our country socially, economically and politically for the betterment of the lives of our people “leaving no one behind”. We must all familiarize ourselves with the contents of this plan and pursue selflessly its implementation.

Our people are suffering long spells of unemployment. Poverty and inequality have wreaked our society, and HIV/AIDS is cutting at the fabric of our most productive labour force. The persistence of these social evils has reversed the gains we have made over the past fifty years. Political instability resulting from our own internal squabbles and conflicts have undermined our efforts to implement the previous National Strategic Development Plan of 2012/13-2016/17 and as a result very little progress has been made in changing the lives of our people. Let me once again remind all Basotho that unless we are united and share in the common vision of “people centered development”, improvement in the quality of lives of our people will not be achieved. Maintenance of the rule of law, peace, stability, the respect of the fundamental human rights entrenched in our constitution, and good governance provide a firm platform and conducive environment for the private sector development, employment creation, and social and economic progress and improvement in the quality of life of all our people.

This National Strategic Plan defines our new development path and represents our renewed commitment and strategic guidance towards the creation of shared prosperity. This Plan also serves as the first to implement the Post 2015 UN Sustainable Development Goals and Agenda 2063. Therefore, let us all join hands and forge smart partnerships with our development partners to deliver on the inspirations of our people after commemorating our fifty years of independence.

It is my honour and privilege therefore to present and commend the NSDP II to the nation as a national policy document and a reference to our sectoral plans, and an inspiration in our tireless efforts to enhance and uplift the social well-being of all Basotho.

Khotso, Pula, Nala



Executive Summary



1. INTRODUCTION

1.1 The Political Context

1. Lesotho is constitutional monarchy, with a mixed proportional parliamentary system that consist of a senate and a national assembly. The King is the Head of State and the democratically elected Prime Minister is the head of Government and has executive authority. The country has held regular democratic elections since independence with varying degrees of success. Recently, the country has experienced political instability emanating from fractious coalition government arrangements, with a disruptive effect on the economy and developmental trajectory. Although the constitution makes provisions for coalition governments, the rules and standards by which power is shared are not clear. In June 2012, Lesotho established its first coalition government which collapsed, after only two years in power. The culmination of events subsequently led the country to holding three general elections within a period of five years (between 2012 and 2017), all resulting in coalition governments. The current coalition government consists of four political parties - comprising of the All Basotho Convention (ABC) with 48 seats, the Alliance of Democrats (AD) with 10 seats, the Basotho National Party (BNP) with 5 seats, and the Reformed Congress of Lesotho (RCL) with 1 seat. Evidence from elsewhere has shown the propensity for instability in coalition governments and this remains a potential threat to the country's political stability, especially conflicts that arise between coalition partner political parties and intra-party clashes. However, the country has started on the journey of institutional reforms and these reforms if endorsed by all relevant stakeholders will place Lesotho once again a stable polity and reduce uncertainty that potentially distracts potential investment in the country. It must be noted that Lesotho had been a stable country over the past two decades preceding 2012, and this stability was anchored on the rule of law, respect of human rights and effective institutions.
2. The review of NSDP I revealed that one of the key factors that led to the sub-optimal implementation of NSDP I was the chronic political uncertainty and the politicization of civil service management. Therefore, a strong political consensus is essential to make difficult reforms needed to promote political stability and lay the foundation for broad-based growth and poverty reduction. The NSDP II has been prepared at a time when the country is preparing for the review of the Constitution and the Security Sector Reforms, which are critical to lay a firm foundation for political and economic stability. These reforms are critical in ensuring that successive governments maintain policy continuity and sustain the economic reform agenda in order to preserve the country's focus towards its long-term strategic goals.

1.2 Social Structure

3. Lesotho is a patriarchal society with a homogeneous culture, where lineage devolves along the male line. Patriarchy influences important spheres of Basotho life, including marriage, divorce, succession, property rights, and the justice system. Persistent cultural norms and traditional practices (informal institutions) delineate the different responsibilities of men and women within households and in the community¹. The country has a dual legal system consisting of customary law (customs and traditions) codified under the laws of Lerotholi and common law. The Constitution explicitly recognizes customary law as a source of law, which sometimes undermines gender and social equality, as well as livelihoods of and economic opportunities for groups affected by discriminatory customary laws. However substantial progress has been

¹ LMDA (2014) Compact Foundation Studies.



made in the review of legal instruments and implementation of reforms that provide for equal opportunities for both males and females to the extent that in 2016 Lesotho ranked 57 out of 144 countries on Gender Inequality. But women representation in decision making roles, such as in politics, is still lagging. Analysis of the aspect being considered in the ranking is reflective of the areas in which there is still gender inequality and discrimination. Therefore, NSDP II will pursue gender sensitive strategic intervention as outlined in the strategic framework. Its programmes and projects will specifically target women's participation, and build women and girls leadership skills for social, economic and political development. The country will ensure that gender is mainstreamed in public policy and in terms of policy implementations, different implications for men and women of any policy action will be assessed, in all areas and at all levels. Through the NDSP I, several strategies were implemented to promote and mainstream gender.



LOOKING BACK

1.3 NSDP I 2012/13-2016/17: Progress

4. The National Strategic Development Plan (NSDP) I covered the period 2012/13 to 2016/17 and implemented vision 2020². The overarching goal of NSDP I was to achieve a sustained employment creating growth over the duration of the plan. This was premised on private sector growth which would be encouraged and supported by Government. The private sector was entrusted with pursuing the most likely sources of growth as determined by Lesotho's comparative and competitive advantages. NSDP I built on the foundation set by earlier planning documents including Poverty Reduction Strategy (PRS), and Interim National Development Framework (INDF). The thrust of NSDP I was to transform Lesotho economy from the consumer-based economy driven by Government spending to a producer-based economy driven by the private sector investment. To achieve this objective and hence the National Vision of reducing poverty and achieving sustainable development, the NSDP major development strategic goals were to: (1) pursue high, shared and employment creating economic growth; (2) develop key infrastructure; (3) enhance skills base, technology adoption and innovation; (4) improve health, combat HIV and AIDS and reduce vulnerability; (5) reverse environmental degradation and adapt to climate change; and (6) promote peace, democratic governance and build effective institutions.
5. NSDP I envisaged that during the plan period the economy would grow at 5.9 percent on average annually under the moderate growth scenario while under low growth scenario, it would grow at 3.5 percent annually, while producing on average 50,000 private sector jobs mainly in agriculture, manufacturing and mining over the Plan period of which 10, 000 jobs were to be created per year. It further envisaged that by end of the plan period HIV prevalence would have been halved. Thus, NSDP I was intended to achieve the Vision 2020 interim target of reducing the unemployment rate to 18% by the end of the plan and reducing HIV/AIDS. NSDP I implementation was to be done through the alignment of plans and budgets of Ministries, Departments and Agencies (MDAs) to the main NSDP I document. The successful implementation and sustainability of the NSDP I required that it be embedded in the planning, budgeting and monitoring and evaluation systems across all sectors.
6. To monitor the implementation of NSDP I, the government emphasized the need to undertake annual progress reviews against the NSDP I goals yet did not have timely Monitoring and Evaluation and suffered Weak Implementation Management. In 2016, the government commissioned a strategic review on the implementation of the NSDP to guide the development of NSDP II. The Review assessed the progress made in implementation of NSDP I; assessed the processes that were followed in developing and implementing NSDP I, in particular with focus on what worked well and what did not work. The review

² The first National Development Plan was developed in 1970/71 and covered a five-year period to 1974/75, and this was followed by subsequent plans that covered five-year intervals up to sixth National Development Plan that covered the period 1996/97-1998/99. There was some break in the development of the National Development Plans in the period between 2000/01 and 2010/11 which was filled by the Poverty Reduction Strategy (PRS), and Interim National Development Framework (INDF) which acted as the National Development Planning frameworks. The National Development Planning was then resuscitated in 2012/13 and this ushered the NSDP I.



was to identify the implementation achievements and challenges as well as the emerging issues. Therefore, the sub-section that follows presents these achievements, challenges and lessons learnt which paved way for NSDP II development and its implementation.

1.4 NSDP I Implementation: Achievements, Challenges and Lessons

Challenges and Lessons from NSDP I implementation

7. The NSDP I implementation resulted into an uneven performance of encouraging progress and disappointing development results. On the one hand, there were four main areas where the encouraging accomplishments of the past five years that country will build upon, replicate and extended under NSDP II: (1) Emerging dynamism in Lesotho's private sector; (2) Emerging consensus on embarking upon public sector modernization; (3) Effective interface between development partners and line ministries; and (4) Emerging progress and shortfalls at Ministry level; and huge progress on Social Protection.
8. On the other hand, while some progress has been made towards attainment of the strategic goals set out in NSDP I, several challenges-some of which lied outside the control of the country, impeded the full realization of NSDP I goals and targets. There were six main areas of concern that have undermined successful implementation of NSDP I. These are: (1) chronic political uncertainty and bringing with it politicization of civil service management; (2) Institutional fragmentation and lack of coordination; (3) NSDP design flaws concerning poverty reduction and employment generation, (4) weak link between NSDP priorities and spending patterns; (5) the fall of donor support; and (6) untimely Monitoring and Evaluation and Weak Implementation Management. These weaknesses have provided lessons have been reflected in the design of a new strategic framework for NSDP II that gives a sharper focus on the potential strategies that can accelerate the achievement of: (i) higher employment creation and inclusive economic growth, (ii) a further energized and dynamic private sector and (iii) a modernized public service that supports the private sector and anchored on the principle of “people centred development”, (iv) good governance and accountable systems. The overall target of NSDP II is employment creation and achievement of inclusive economic growth. The achievement of these macro targets is believed will ultimately lead to poverty reduction and social inclusion in the country.

Performance and Achievements of NSDP I

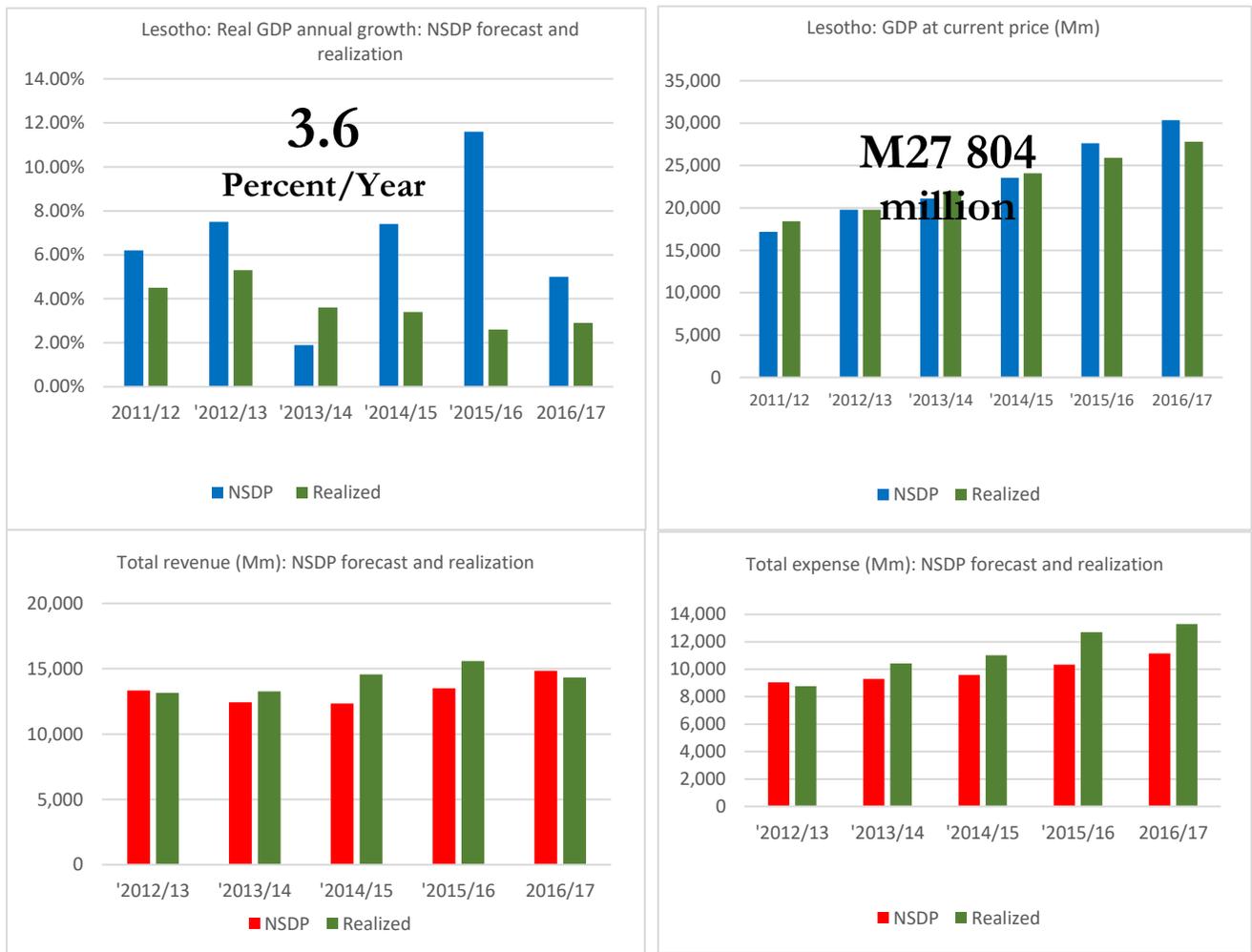
The Macroeconomic Performance, 2012/13-2016/17

9. During the implementation of NSDP I, many of NSDP strategic interventions had not been fully put to work and that, therefore, expected results had not been coming through. Indeed, they revealed more than anything else that NSDP's uneven and untimely implementation was the effect of political uncertainty caused by the advent of a series of successive and increasingly fragile coalition governments who appeared not able to fully commit to the vigorous pursuit of development results.
10. On the macroeconomic front, NSDP I achieved real economic growth rate of about 3.56 percent per annual on average over the plan period, and GDP at current prices grew from 19,783 million at the start of the implementation of the plan to about 27,804 by end of plan period. This did not represent any significant difference between the nominal GDP forecasts and the realized forecasts. Figure 1 displays the forecast and the realization of some key economic indicators by comparing the forecast and the realized outcomes.



11. The realized 3.56 annual percentage growth was contrary to NSDP I forecasts. In fact real economic growth had taken a downward trajectory since the implementation of the plan. During the first year of implementation, real growth registered 5.3 percent per annum but started to decline in subsequent years till the end of the plan period when it registered 2.9 percent which signalled some slides recovery.
12. The implementation of the Plan in relation to the forecasts has been sporadic because there was no clear implementation plan or methodology for the implementation to take place. In some cases, there was limited dialogue between stakeholders in particular the dialogue between the Government and the Private Sector, between the Government and Development Partners, and between the Government line ministries and between Development Partners. The main reason for this limited dialogue was lack of coordination and leadership at the strategic level of Government. But, there are indications of progress for some of the targeted outcomes, because they were relative to ongoing programmes within government that happen with or without a NSDP. In many cases also the lack of a baseline and accumulated relative data made it difficult to ascertain whether progress took place or not³.

Figure 1.1: Lesotho NSDP I key indicators' forecasts and realizations 2011/12- 2016/17

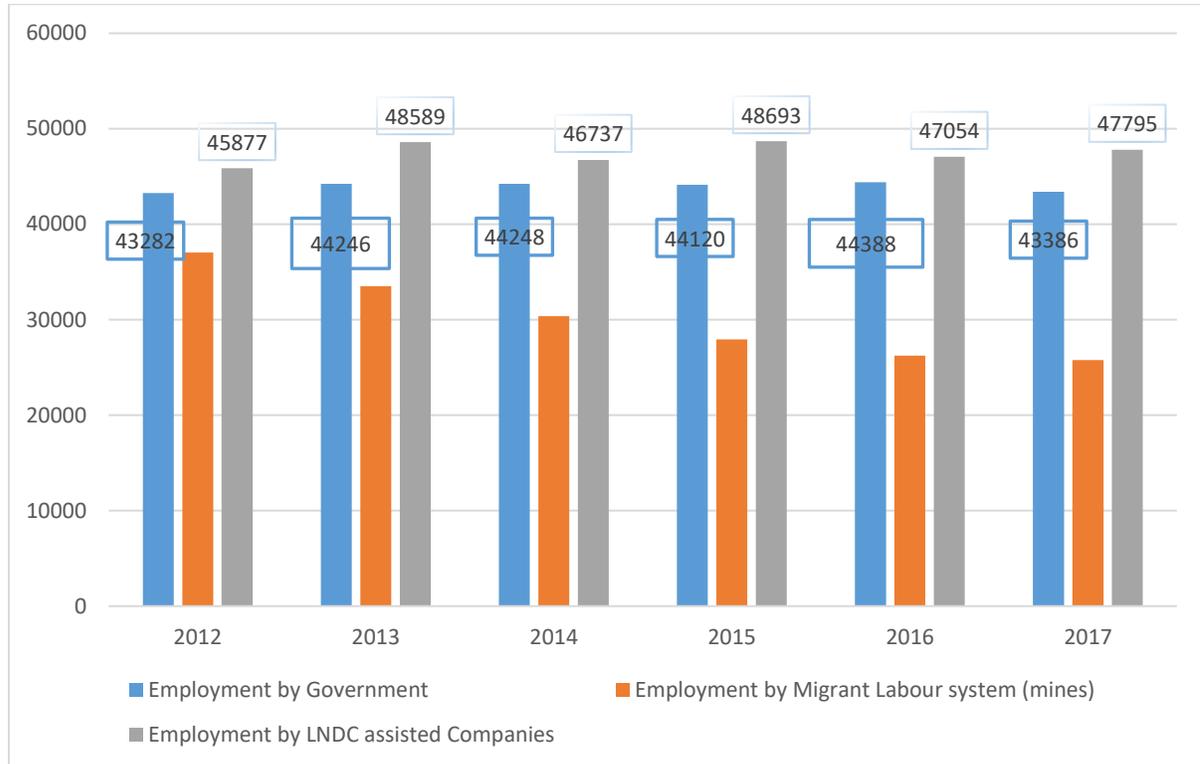


³Refer to the NSDP Implementation Progress Report page vii. The lack of data is mentioned and noted many times in their report, also the dearth of current statistical information related to most of charts and graphs is further evidence.



In the case of the critical economic challenge of unemployment, it actually increased, yet real growth was on an upward trend until 2013, and real economic growth had increased by average 3.6 percent per year over the past five years. Figure 2 shows that employment by LNDC assisted companies stagnated at around 48 000 during the plan period with some slight decline in some years, and by end of the Plan period it stood at 47 795. Government employment fluctuated between 43 282 and 43 386. The wage bill continued rising due to inflation adjustments and the changes in salary structure implemented in 2014. The migrant labour employment declined further with falling remittances during the Plan period.

Figure 1. 2: Employment by Government, LNDC Assisted Companies and Migrant Labour System, 2012/13-2016/17



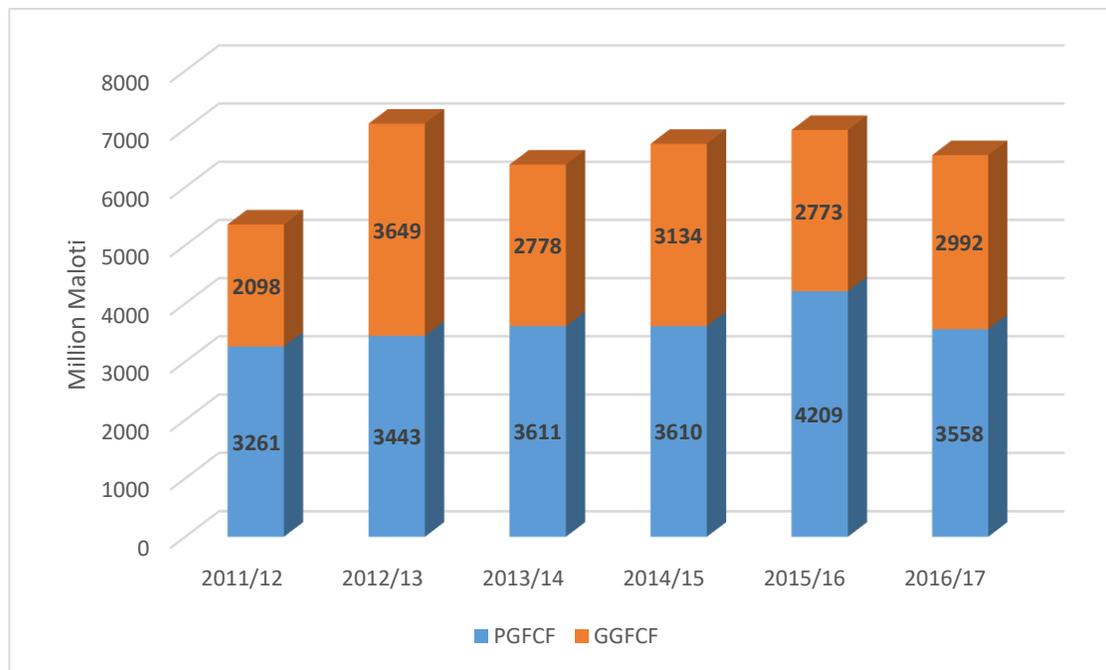
13. The increasing household incomes from M13, 334 million at the beginning of the plan to M15,502 million at the end of the plan (about 2.8 percent on average per year) to due increased real economic growth have led to reduction in poverty from 57.1 percent to 49.8 percent. Poverty Gap has similarly declined from 30 percent to 22.1 percent between 2010/11 and 2016/17. Inequality, as measured by the Gini coefficient, although remains high at 0.45 in 2016/17, it has declined from 0.53 observed in 2010/11. However, significant growth and jobs are still needed to bring majority of the people out of poverty especially in rural areas where poverty remains virtually unchanged. The improvement in poverty levels and inequality are a result of huge investments in the social sectors that the government, with support of its development partners, has made and is continuing to make. Therefore, better targeted interventions will even make greater impact on reducing poverty.
14. Contrary to the expectation that private sector employment would rise by 10, 000 jobs per year and public sector employment would come down, the opposite occurred: public sector employment rose from 43282 to 43 386 and employment in the private sector only increased by about 2,000 from 45 877 to 47 795. Indeed, despite economic growth and macro-stability achieved in the first three years of NSDP, overall



unemployment appears not to have fallen but may have risen to a high (25 percent) with unemployment of youth reaching beyond 36 percent. Where progress has been identified, it is also difficult to declare that this is as a result of the implementation of the NSDP I or that it happened as ongoing activity by individual stakeholders. This therefore calls into action those strategies that can meaningfully create jobs in the economy during the NSDP II implementation.

15. On the investment commitment, the Public Sector Investment rose slightly from 3,443 million to 3,558 million between 2012/13 and 2016/17 but the efficiency of capital actually lessened as indicated by an increase in Incremental Capital Output Ratio (ICOR) from 1.20 in FY2014/15 to 2.13 in FY2016/17⁴. A number of projects implemented under the public sector do not seem to have supported the growth of the private sector rather were driven more by social considerations. Private Sector Investment declined from 3,649 million in 2012/13 to 2,992 million in 2016/17 with consequences for potentially less jobs to be created. This explains why real growth took a downward trend during the plan period.

Figure 1. 3: Private Investment and Public Investment (excl. LHDA), 2011/12-2016/17



1.4.1 Major Public Sector Investment Projects under NSDP I and Performance of PCM

Major Projects, 2012/13-2016/17

16. The major capital investment projects implemented during NSDP I include: (a) The Metolong Dam and Water Supply Programme worth M1,761 million (US\$157.2 million)⁵; the MCC Supported Programme worth M4,011million (US\$358 million) that entailed construction of health care centres, land administration reforms, civil and legal reforms to support private sector development, and support to Metolong project; the construction and upgrading of more than 300km of access roads to bitumen standards (i.e.

⁴ Increasing ICOR implies that capital is becoming less efficient while declining ICOR implies capital is becoming more efficient.

⁵ The conversion rate is US\$1 = M11.204 which is an average between 2010 and 2015.



Mokhotlong-Sani road (42km), Roma-Ramabanta-Sekake road (80.3km) and Oxbow-Mokhotlong road (109km and rehabilitation and resealing of more than 214 km of roads that included included the Mafeteng-Thabana Morena road, Nyenye-Makhorroana road (37km), Teyateyaneng- Sefikeng road, Kolonyana-Rakolo road, Old Teyateyaneng road, Mafeteng Van Rooi road, Motsekuoa-Rants'eli road and, Quthing-Mount Moorosi road) and other capital projects worth M14, 521 million.

17. While the rate of capital budget utilization has improved between the FY2010/11-FY2016/17, as evidenced by more 80 percent of budget outturn at aggregate (combining all financing sources: Government funded, Grants funded and loan funded), the higher rate of utilization in some cases does not necessarily imply more efficient and effective project cycle management. The high outcome in outturn sometimes results from a last-minute push for disbursements at the end of a fiscal year. This may not have followed the design of the projects and ministries instead of retiring funds back to treasury often spend such budget on non-capital expenditure items or rush capital projects without following correct procedures. As such, capital resources may have not been spent in accordance with the intended purposes (Table 1). This is a challenge that should be addressed in NSDP II.

Table 1. 1: Capital budget and outturn (million Maloti) FY2010/11-FY2016/17

	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
Total capital budget	3,445	4,432	5,423	4,961	5,147	4,888	5,162
GoL funded	1,689	2,072	2,504	2,667	3,130	3,006	3,214
Loan funded	502	770	1,025	963	1,123	930	934
Grants funded	1,255	1,591	1,893	1,331	894	952	1,015
Total project outturn	2,837	4,038	4,137	4,393	3,857	4,536	4,740
GoL funded	1,879	2,532	1,981	2,794	2,400	2,990	2,830
Loan funded	130	359	649	701	966	595	939
Grants funded	828	1,147	1,507	898	492	952	971
Outturn as % of budget expenditure	82%	91%	76%	89%	75%	93%	92%
GoL funded	111%	122%	79%	105%	77%	99%	88%
Loan funded	26%	47%	63%	73%	86%	64%	101%
Grants funded	66%	72%	80%	67%	55%	100%	96%

Source: MTFF and World Bank (2018)



1.5 Plan Objectives In the Next Five Years

18. The second National Strategic Development Plan (NSDP II) is formulated with the desire to transform Lesotho from a consumer-based economy to a producer and export driven economy. NSDP II will become a centrepiece of all development efforts for the next five years. The Plan implements the Sustainable Development Goals (SDGs) and the African Union Agenda 2063 Goals. It is also implementing the final years of the goals set out in Vision 2020. The plan has identified development opportunities which will become key levers to getting Lesotho on a sustainable development path. It has identified key challenges (root causes) that hinder the country from achieving its potential output and that hinder the private sector development. By addressing the root causes of Lesotho's underdevelopment, it is hoped that the country will make substantial progress towards graduating from a group of least developed countries.
19. The plan puts emphasis on private sector development and gives priority to pursuing people centred development. It re-enforces the Government's commitment to bring further development to the people of Lesotho by empowering them to participate fully in the development process, thereby providing them dignity, and uplifting their potential to partake in the prosperity that will be generated in the next five years.
20. In order to achieve inclusive growth and further reduce poverty, the Plan has identified Four Strategic Super Goals which also form the pillars anchoring private sector development, that are meant to help Lesotho stay ahead of the challenges and take opportunities of the fast changing global and political landscape. Pursuance of these Super Goals will anchor private sector development and help achieve sustainable development over the Plan period:

Figure 1. 4 Objectives of the Plan



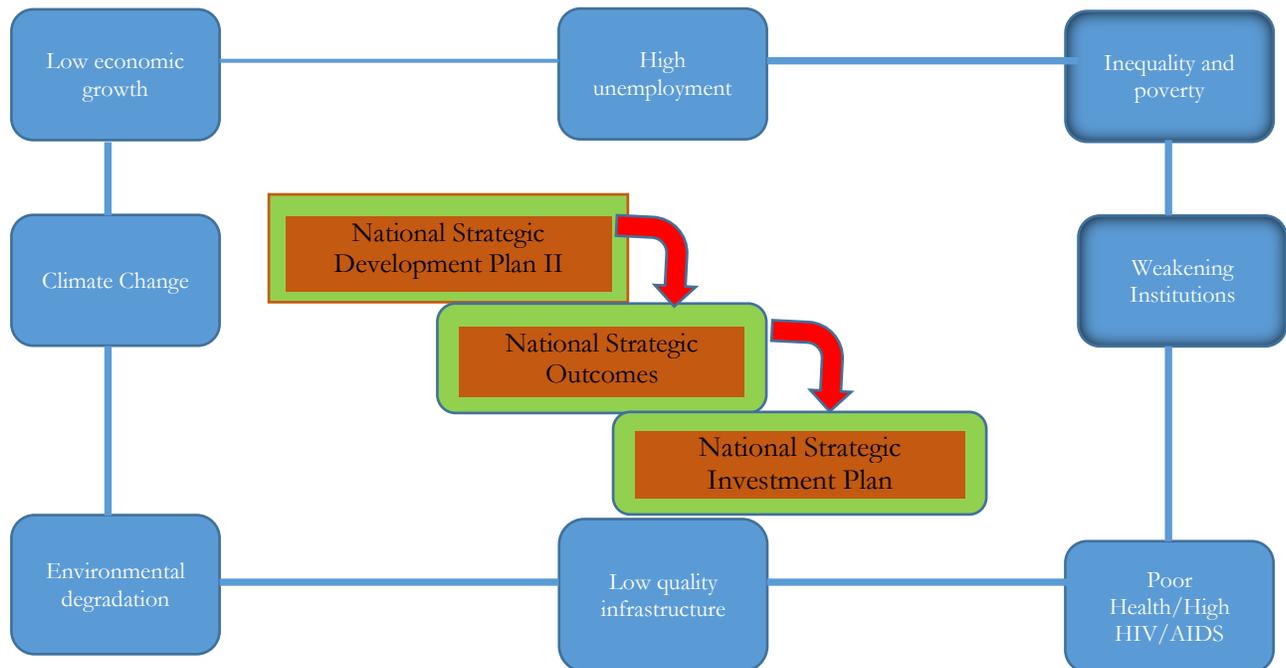


21. The goals of the second National Strategic Development Plan (NSDP II) will be achieved only if the economy is supported by macroeconomic stability which is a pre-condition for economic growth and private sector development. As such strengthening macroeconomic resilience for inclusive growth and employment creation is necessary.
22. The Plan emphasizes the necessity to pursue sustainable inclusive growth as the most effective route for poverty reduction. It sets out the growth strategy anchored on four productive sectors that have the greatest potential to create jobs and achieve sustainable inclusive growth. These four sectors were chosen on the basis of at least four features:
 - Job creation potential
 - Inclusive economic growth potential
 - Comparative advantage existence or potential
 - Sector's multiplier effect or impact across multiple sectors
23. This plan sets out the intended growth and development strategy for the Kingdom of Lesotho and provides strategic direction to all stakeholders pursuing Lesotho's development inspirations. It is the basis on which resource allocations and budgeting decisions will be made. The Plan objectives and outcomes will be integrated into the Government's annual Medium Term Expenditure Framework (MTFF), and NSDP II Public Sector Investment Plan and Implementation Plan which form part of the NSDP II companion documents. The national development programmes by the Government, Development Partners, Non-State Actors, Oversight Institutions, Government Parastatals and the Private Sector must as much as possible be aligned to the outcomes articulated in this Plan and its companion documents.
24. NSDP II is informed by the key challenges that have plagued Lesotho's development over the past decades. It is also informed by the Global Mega trends that will continue to affect the economy in number of years to come, and which should be recognized and responded to in a strategic manner using appropriate approaches. These include: (a) Geopolitics and the World Disorder; (b). Geo-economics shifts, trade protection and new trade order; (c). Trade in the Digital Era; (d). Climate Change; (e). Resurgence of populism; (f). Accelerating technological innovations including robotics. Some of these megatrends are discussed in detailed under treats and opportunities section of this plan. However it is important to note that Lesotho will have to manage the social and economic impact of megatrends and new trade order. The context of the second National Strategic Development Plan (NSDP II) is summarized in Figure 1.5 below and discussed in detail in the next Chapter.

Economic growth is not an end in itself but it is the only reliable mechanism for achieving sustained reduction in the number of people living below poverty line. The benefits of growth are therefore influenced by the pattern of income distribution. A highly unequal distribution reduces the impact of growth on the incidence of poverty whereas an effective pro-poor growth strategy will improve income distribution by ensuring that the benefits of growth are broadly shared hence an inclusive growth.



Figure 1. 5 Context of NSDP II



25. Inclusive economic growth is only attained if sustainable decent jobs are created. For Lesotho, formal jobs are the main avenue out of poverty. This Plan targets creation of about 40 000 jobs to be created in the private sector under the desired growth scenario. This translates to the creation of approximately 8 000 jobs annually. This employment target will be achieved if the economy grows gradually from the current technical recession (-2.7 percent) to 4.9 percent in 2022/23. This growth target is the minimum required to sustain poverty reduction and achieve the plans objectives. If Lesotho sustains growth at 5 percent that will be achieved at the end of the plan for yet another 14 years, that would double the size of the Lesotho economy.
26. This transformation will require all members of society to work together for a common good, and there is no single “magic growth budget” that will deliver the transformation except Basotho themselves. The Plan has set the framework to guide the transformation of Lesotho, and it will serve as a foundation for long-term growth and development.
27. The target level of employment and economic growth will require substantial increase in the rate of investment from the current 31 percent of average propensity to invest to at least about 54 percent by end of the plan. The Plan recognizes the importance of the private sector in the process of job creation as such Government programmes (provision of goods and services) will attempt as much as possible to support the growth of the private sector. The Plan proposes strategies under investment climate reforms and other reforms on how Government should create a conducive environment that is private sector supportive and conducive for inclusive economic growth. The political and constitutional reforms, the Public Sector reforms, Judiciary Sector reforms, the Parliamentary Reforms, the Security Sector reforms as well as the Socio-economic reforms that are being proposed will go a long way in supporting this Plans objectives of employment creation and inclusive growth.
28. Efficient and effective public sector will remain very essential in supporting the growth of the private sector. It is important to note that it is only now that Lesotho will have to make difficult reforms decisions



and balance the trade-offs thereof and choose carefully the priorities for the nation that will emancipate Lesotho from the vicious cycle of poverty and inequalities.



PART I

2. Development Context: Challenges, Threats and Opportunities

2. Context and Prospects

2.1. Geographical Location

29. Lesotho is a mountainous, landlocked country located in Southern Africa, covering an area of around 30,355 square kilometres. It is completely surrounded by South Africa, making it one of only three countries in the world that are enclaved within another country (see Map 1). The country is divided into four geographic regions: lowlands, highlands, Senqu river valley, and the foothills. Administratively, the country is divided into ten districts, namely: Berea, Butha-Buthe, Leribe, Mafeteng, Maseru, Mohale's Hoek, Mokhotlong, Qacha's Nek, Quthing, and Thaba-Tseka. The districts are further subdivided into 80 constituencies, which consist of 129 local community councils.

Figure 2. 1: Location of Lesotho in Southern Africa



2.2 Weather and Climate

30. The country has a unique elevation. The lowest point lies 1,400 metres above sea level, and about 80 percent of the country lies above 1,800 metres. Because of its elevation, the country's climate is cooler than in most other regions at the same latitude. The climate is characterized with rainy summers (between October and April) and dry winters (between May and September), with significant snowfall. The annual rainfall varies between 600 millimeters in the lowland valleys to around 1,200 millimeters. The country also experiences periodic droughts and flooding due to climate change. Lesotho's main natural resources are water and diamonds. Coal and clay deposits are also found in the country, and other mineral deposits continue to be discovered in the country.

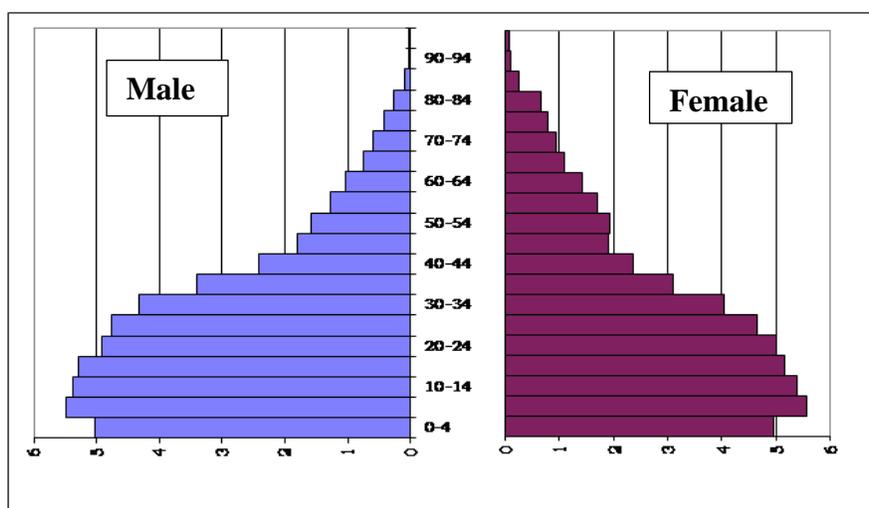


2.3 Demographic Profile

2.5.1 Population

31. Lesotho's population of 2,008,801 people in 2016 makes it a small country. The population has grown progressively from 851 591 people at independence in 1966. However, the rate of population growth has been uneven throughout the period. From a high of 2.65 percent in 1986, the rate of population growth reduced to a low of 0.08 in 2006. The reason for this is mostly due to HIV/AIDS epidemic. Since 2006, however, the pace of population growth averaged 0.68 percent between 2006 and 2016. This reflects mainly improvements in the population life expectancy, which has seen life expectancy at birth rise from 41 years in 2006 to 56 years by 2016. According to the 2016 census, the number of reported deaths has declined by more than half from 49,343 deaths in 2006 to 23,004 deaths in 2016. This improvement in mortality rates, (hence life expectancy), can largely be attributed to the significant scaling-up of Antiretroviral Therapy (ART) and Prevention of mother-to-child transmission (PMTCT) services country-wide. The country has more females at 51 percent of the total population than males at 49 percent of the total population.
32. The average national population density is low, at 66 persons per square kilometer. However, when expressed in terms of arable land, the population density rises to 349.8 people per square kilometre. Mokhotlong is the least dense district with a population density of 24.1, while Berea is the most densely populated district at 132.9 persons per square kilometre. The majority of the population (58 percent) is concentrated in the rural parts of the country where they mostly depend on subsistence farming for survival. Recurrent droughts have impacted agricultural productivity over the past years, resulting in frequent food security crises for vulnerable households and children. It is estimated that 15 percent of the population will remain food insecure in 2017/18, with 78 percent (224,664) of them being in rural areas. The four largest districts: Maseru, Leribe, Berea and Mafeteng hold 65 percent of Lesotho's population and this needs to be taken into consideration in allocation of resources and decentralization of resources.

Figure 2. 2: Lesotho Population Pyramid, 2016



Source: Bureau of Statistics, Population and Housing Census 2016

33. The population is young. The youth comprise 39.6 percent of the total population while the elderly (aged 65 years and above) comprise only 6.1 percent of the population. Lesotho's population pyramid (Figure 4) puts this into perspective. The youthfulness of the population is manifest in the wider base, which is an



indication that the population has many younger people compared to older people, and this structure is expected to remain unchanged for a long time. This youth bulge presents both a challenge and opportunity. On the one hand, the young population gives Lesotho a distinct advantage in the global market as it provides potential for reaping large dividends in terms of an educated workforce capable of meeting the brainpower demand of the local and global economy. On the other hand, however, it provides a challenge as the youth may become a source of social and political instability if economic opportunities are not created for them.

34. There is also a significant number of the population that is either old or disabled. The 2016 census estimates that 2.5 percent of the population have disabilities, and that visual impairment and dementia are the most prevalent types of disability, with prevalence rates of 36.2 percent and 36.8 percent, respectively. These figures imply that 8.6 percent of the people are either old or disabled, which means there is an increasing need for social protection services and safety nets to take care of vulnerable members of society given also the commitment of the country to the United Nations Post 2015 Development Agenda of “leaving no one behind”. The age dependency ratio, which is defined as the ratio of dependents (people younger than 15 or older than 64) to the working population, has increased from 40 percent in 2006 to 60.9 percent in 2016. This means that for every 100 people in the productive age-group (15 to 64 years), there are 60 people who are depending on them. This basically impacts on households’ ability to take themselves out of poverty as their incomes and consumption patterns are spread thinly among many members in the household. The majority of the dependents are in the below-15 age group. Thus, while the working population has been shrinking over years, the number of dependents has been rising overtime (between 2006 and 2016). Progress towards implementing social protection plans and strategies is commendable but challenges remain that must be dealt with urgently if the country is to achieve the desired destination of prosperity for all. These challenges and strategies to further enhance social protection are discussed under the Social Protection and Vulnerability Chapter that falls under the Human Capital Cluster. However, it must be noted that progress towards mainstreaming disability has been slow.

2.4 The Economic Structure

35. Lesotho’s economic development has been shaped largely by its unique geography discussed under Section 2.1. Surrounded entirely by South Africa, the country’s location has had a profound impact on the emergence of industries, the development of the private sector, its trade relations, and the country’s political economy. This is particularly true in relation to its highly constrained fiscal and monetary policy framework. The country is a member of Common Monetary Area (CMA)⁶ through which the country’s currency is fixed at par with the South Africa Rand. This has resulted into Lesotho losing its monetary policy independence, and its real effective exchange rate being closely tied to the commodity cycles, especially metal exports of the South Africa economy. Therefore, exchange rate and monetary policy cycles driven entirely by South Africa Monetary Policy and Exchange rate policy impact on Lesotho’s economy. Lesotho cannot use these demand management policies to its own advantage at any point it wishes.
36. Moreover, the country is a member of South African Customs Union (SACU)⁷ which has largely determined Lesotho’s fiscal policy operations since a large portion of the country’s expenditure is financed through revenues coming from SACU tariffs. Reliance on SACU tariff revenue has made further trade liberalization a very difficult agenda to sell, and Lesotho cannot make unilateral decision on trade liberalization even if the investors Lesotho is hoping to attract require lower-cost inputs for Lesotho to be a competitive location. Given these macroeconomic policy constraints, Lesotho can only free its self from

⁶ Other members of CMA include South Africa, Swaziland, and Namibia.

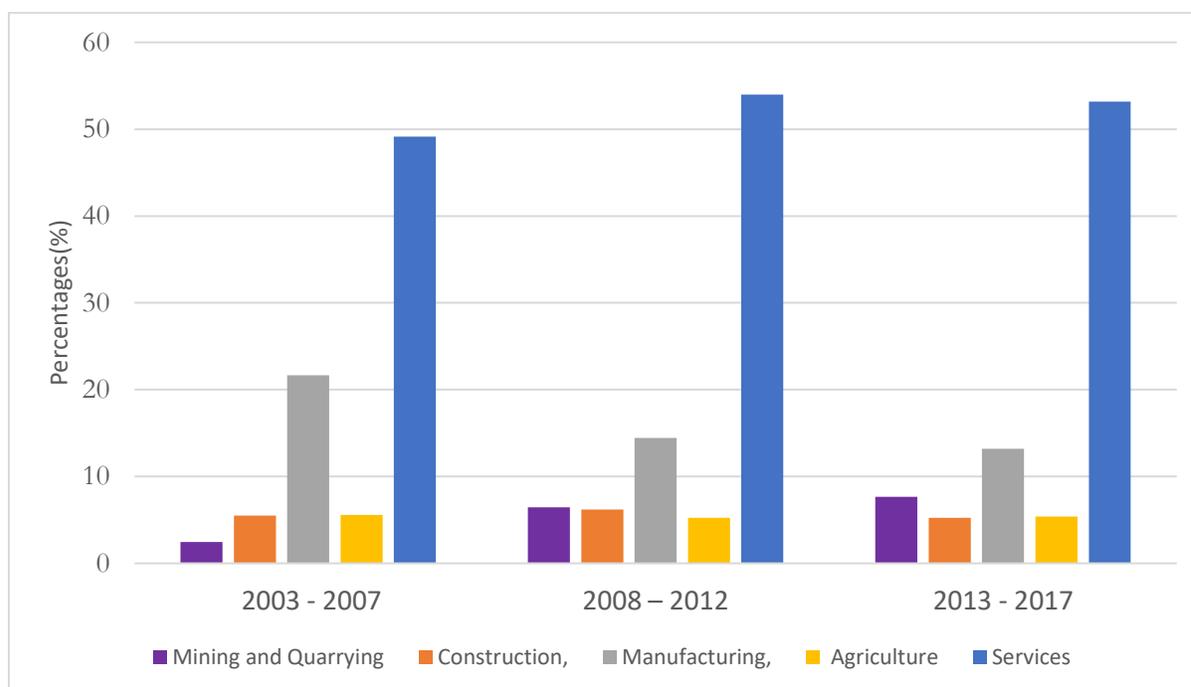
⁷ Other members of SACU include South Africa, Swaziland, Namibia and Botswana.



poverty and unemployment through being **EFFICIENT** (that is being able to do something well, successfully and without waste) in all spheres of development. This implies that Lesotho should strive to become more competitive than other countries in the region given its peculiar location, structural challenges and lack of natural resources. The most important resource the country has is its people. If it takes 40 days to get a trading licence in South Africa, it should take less than 5 days to get it in Lesotho. If it takes 10 processes and procedures to obtain a work permit in South Africa, it should take less than 2 processes and procedures to obtain it in Lesotho with less cost. At the same time the country must be able to maintain a stable political order if it is to transform from the Third World Country to the First World Country in years to come. The transformation of Lesotho economy will also depend entirely on how the country develops an innovation driven economy and applies technology to meet societal needs.

37. Over the past 30 years the structure of Lesotho’s economy has changed significantly from one dominated by agriculture and real estate and government services to the one dominated by manufacturing, retail and services. In the 1980s, agriculture was the most dominant sector contributing 15.2 percent to GDP. However, in recent years, the sector’s GDP contribution has declined to 5.2 percent, yet the sector remains an important sector for supporting the livelihoods of the rural economy with more than 80 percent of households’ dependent on subsistence farming.

Figure 2. 3: Decomposition of Growth by Sector, 2003-2007



38. During the early 1990s, construction contributed significantly to GDP growth due to the implementation of the Lesotho Highlands Water Project (LHWP) phase I. When this construction projects ended in the late 1990s, manufacturing of textiles and apparel became a dominant sector driving growth and employment in Lesotho’s economy. Its contribution to GDP rose from 8.2 percent in 1984 to 23 percent in 2014. The expansion in the textile and apparel industry was mainly boosted by the African Growth and Opportunity Act (AGOA) in 2000, which entitles Lesotho (and 40 other Sub-Saharan Africa countries) to duty and quota free access to the United States (US) market.



39. At its peak in 2004, the industry employed around 45,000 workers. However, in recent years, Lesotho's textile industry has faced strong competition in the US market from Asian producers. Its subsequent decline saw manufacturing's contribution to GDP fall from about 23 percent in 2004 to 10 percent in 2014. Notably, the decline in textile and apparel exports to the US have been partially offset by increasing exports to South Africa. Some companies have started to diversify their markets to SACU countries and especially south Africa that consumes about 700 000 tones of textiles per year and other regions. The service sector has played a major role in Lesotho's growth. It is therefore legitimate to expect that during NSDP II the service sector might continue to play a dominant role as a source of growth in the Country.

2.5 Development and Structural Challenges, and Threats

2.5.1 Development Challenges

2.5.1.1 Low Economic Growth

40. Although Lesotho achieved solid economic growth over the past two decades growth has waned in recent times and it has lacked inclusiveness. Real Gross Domestic Product (GDP) is estimated to have grown at an average rate of 4.0 percent between 1982/83 and 2010/11. For the past five years, the real GDP growth rates fell to an average of 3.4 percent per annum. Over these 40 years, the drivers of growth have changed significantly. In 1984, agriculture was the most dominant sector contributing 15.2 percent to GDP. However, in recent years, the sector's share in GDP has declined to 5.2 percent, but remains an important sector supporting lives of more than 70% of total population who reside in the rural areas. From the early 1990s, drivers of growth changed from agriculture to manufacturing driven mainly by the textile and apparel industry which is mainly supported by the African Growth and Opportunity Act (AGOA). The manufacturing sector has been the engine of growth and job creation for the last decade. However, in recent years, Lesotho's textile industry has faced strong competition in the US market from Asian producers, and has subsequently declined in export volumes to the USA. This decline has seen manufacturing's contribution to GDP fall from about 23 percent in 2004 to 10 percent in 2016.

2.5.1.2 Persistent Poverty and Growing Inequality

41. Bureau of Statistics HBS (2017) results indicate that poverty levels and inequality have declined in recent years: Poverty has reduced from 57.1 percent to 49.8 per cent of the population living below the national poverty line between 2010/11 and 2017/18. In addition, the intensity of poverty has slightly decreased over time in rural areas but remains high while in urban areas it has drastically reduced. The poverty gap is estimated at about 22.1 percent which is a decline from 30 percent estimated in 2010/11. However, significant growth and jobs are still needed to bring majority of the people out of poverty. The improvement in poverty levels and inequality are likely a result of huge investments in the social sectors that the government, with support of its development partners, has made and is continuing to make. Therefore, better targeted interventions would have made even greater impact on reducing poverty. Poverty varies by geographic location with rural areas still hard hit than urban areas. About 61 percent of the rural population is remains poor, while only 28.4 percent of the poor live in urban areas. The spatial rural/urban distribution of the poverty has not shown significant changes over time. Inequality, as measured by the Gini coefficient, although remains high at 0.45 in 2017/18, it has declined from 0.53 observed in 2010/11.

2.5.1.3 Unemployment

42. Lesotho continues to experience high rates of unemployment, despite having pursued poverty reduction through job-creation growth as the overarching objective of the government's economic policies over the



past two decades. BoS (2017) estimates the overall unemployment rate to be 32.8 percent. Unemployment incidence is higher for females and youths estimated at 39.7 percent and 32.3 percent respectively, compared to males at 26.2 percent. The employment by sector shows that majority of the working population (38.4 percent) is engaged in elementary occupations which, consist of simple and routine tasks that mainly require the use of hand-held tools and often some physical effort. This is an indication that Lesotho economy has not been able to create jobs in more productive and higher paying activities. Further, the limited job opportunities in the private sector has put the public sector under enormous pressure to provide employment, which has bloated the size of the public sector and public expenditure. This has led to a vicious cycle that simultaneously crowds out private investment in the country.

43. High unemployment rates, chronic poverty and rising inequality are unusual for an economy which has been growing at average rate of 4 percent per year for the past ten years before 2012/13 when the economy started slowing down to growth rates of about 2.5 percent. The failure of economic growth to translate into poverty reduction and employment calls for a rethinking the country’s growth and development model to increase its inclusiveness. This will require adopting integrated measures that deepen the inclusiveness of growth and improve the targeting and efficiency of the social safety net. According to NSDP I Review, the role of social protection has increased and Lesotho has become a model of targeted reductions in vulnerability, with its own donor-supported programme, which is making a difference in rural areas. However, due to its heavy dependence on donor support, the programme’s sustainability is doubtful. Inclusiveness will require broad-based job creation, greater productivity, and a structural shift in Lesotho’s growth model. Further, in order to make progress on poverty reduction, the country will need to adopt policies that both promotes economic growth and lower inequality by promoting inclusiveness in economic opportunities and rights of citizens.

2.5.1.4 Human Development

44. Lesotho ranks 160 out of 187 countries on the 2015 UN Human Development Index, falling into the category of low human development with a score of 0.497. Notably, the country ranks lower than all the other SACU countries on human development. Although the 2016 Population and Housing Census (PHC) indicates some improvement on Lesotho’s life expectancy to 56 years, mortality and morbidity remain critical challenges in the country. Since 2005 HIV/AIDS and tuberculosis have remained the top causes of deaths in the country with lower respiratory infections being the third highest cause of death.

Table 2. 1: Lesotho Life Expectancy, 1990-2016

	1990	2005	2016
Males	56.5	42.3	51.7*
Females	64.5	45.8	59.5*

Source: BoS (2016); *2016 estimates from the Population and Housing Census

HIV/AIDS and Mortality and Morbidity

45. The HIV/AIDS prevalence has increased to 25 percent and this has placed the country position two in the World in terms of HIV/AIDS prevalence. Efforts are being undertaken to prevent or minimize this high prevalence rate especially towards prevention from mother to child such as “mother-baby pack”. The new PMTCT guidelines which are aimed at scaling-up PMTCT services to target a greater proportion of pregnant women and new-borns who would otherwise not receive antiretroviral drugs to prevent mother-to-child transmission is being implemented. Pregnant and lactating mothers, HIV



Positive & TB clients, and also malnourished under-5 are being provided with food supplements. The Government has also launched the “test and treat” campaign in which every infected person will get treatment regardless of their CD4 count. However, significant challenges still remain in the health sector and these will be discussed in detail under Key Priority Area 2 (Building Human Capital). The 2016 Population and Housing Census has noted that HIV/AIDS has led to increased incidence of orphanage that is estimated at 210,712 in 2016--a 4.8 percentage decline from 221,403 recorded in 2006. However, this number is still high, and it is mainly because of the high HIV/AIDS deaths incidences. One of critical interventions has been the Child Grant Programme (CGP), which has reached at least 25,000 households and provided benefits for more than 70 000 children across the 10 districts.

Malnutrition and Food Insecurity

46. Lesotho is currently experiencing a triple burden of Malnutrition—under and over nutrition and micronutrient deficiency across all age groups. Under-nutrition is characterized by wasting (a low weight for height), stunting (low height for age) and underweight (low weight for age). Low birth weight remains a critical challenge in the country. Food insecurity and malnutrition remain chronic problems and are key obstacles to Lesotho’s development agenda⁸. The LDHS 2014 indicates that one-third (33 percent) of children under age 5 are stunted, or too short for their age. Children living in the poorest households are more than three times as likely to be stunted than children living in the wealthiest households (46 percent versus 13 percent). However, the prevalence of stunting, wasting, and underweight have all declined over the past 10 years, with stunting declining from 44 percent in 2004 to 33 percent in 2014. These improvements suggest that food security at the household level has been improving, mainly due to intervention targeted at addressing the problem such as “Blanket Feeding Strategy” and the intensive training of pregnant and lactating mothers on options of proper nutrition for child feeding.
47. However, an estimated 39 percent of households remain vulnerable to food insecurity, despite implementation of agricultural support programmes, including input subsidy schemes and crop sharing schemes supported by the government. Food insecurity affects mostly around 70 percent of the population who reside in rural areas and depend on subsistence farming. Food security is exacerbated by low productivity in agriculture and absence of other economic opportunities. The low agricultural productivity is a result of, among others, low adaptation of high yielding technologies and poor adaptation to climate change as well as loss of land due to erosion.

2.5.1.5 Low Quality of Education, Skills Mismatch and Shortage of Critical Skills

48. Although the country has made significant progress on the overall literacy since 97 percent of women and 85 percent of men aged 15-49 are literate, only over half of women and 40 percent of men attended at least some secondary school and only 9 percent of women and 8 percent of men have more than secondary education. There are other significant challenges that include: the efficiency and effectiveness of public spending in education, skills mismatch, shortage of critical skills such as entrepreneurship skills, medicine, engineering and management skills. Expenditure on education is one of the highest relative to GDP, but the country’s education outcomes have been unsatisfactory. Enrolment in primary schools had been steadily decreasing since 2004 and the primary school net enrolment rate in 2017 was 77.3 percent, down from 81.8 percent in 2010. Over the same period, secondary net enrolment marginally increased from 34.2 percent to 37.3 percent, while enrolment of learners in TVET marginally increased, with 3296 registered in

⁸ This challenge remains a concern for the country, since the cognitive abilities of undernourished children are impaired; hence, their chances performing well at school and acquiring employable skills as an adult are lower.



2012 and 3303 in 2013, and 4,223 in 2014⁹. Unlike primary and secondary schools, TVET institutions are only in seven districts with most students in Maseru (45% of students), Leribe (20%), and Mohale's Hoek (18%)¹⁰. This bias has implied that learners in other districts who could enrol under TVET often fail to do so because of costs related to upkeep and accommodation. In terms of quality, pupil learning scores compare poorly with the Sub-Saharan African region, despite the considerable higher spending on education in comparison to Sub-Saharan African countries (WB SCD, 2015). In Tertiary education, relevance of curriculum, employability of graduates and skills mismatch are widely cited as major causes of high graduate unemployment with simultaneous shortages of skilled labour in the private sector.

49. The foregoing challenges are worsened by gender stereotypes and social norms and practices. Achieving gender equality is one of the country's policy objectives. Although the country continues to perform better than most African countries in terms of gender equality, progress in promoting gender equality has stalled as evidenced by the country's move downwards by 41 places from a rank of 16 in 2013 to 57 in 2016 out of 144 countries in the Global Gender Gap Report. Some of the key areas of concern are primary school enrolment for boys, gender-based violence and low occupation of leadership positions by women both in the public and the private sector. In order to keep momentum on gender equality and achieve inclusive development, the country will need to tackle the remaining underlying challenges emanating from social norms and practices as well as legal barriers that hinder equal participation of men and women in the economic opportunities.

2.5.1.6 Low Competitiveness

50. Lesotho's international competitiveness ranking remains relatively low in comparison to those of countries in SACU. However, the country's position on the Ease of Doing Business is commendable and if Lesotho implements further reforms during the Plan period, it will likely rank best on the ease of doing business in SACU and CMA. However, like many small economies, its economy is less diversified, predominately based on agriculture and textile manufacturing and is highly dependent on trade, as the main path for the country's growth. This makes the country particularly vulnerable to international or regional shocks. Hence to reduce this vulnerability, Lesotho needs to diversify into new economic activities and remain competitive on the ease of doing business in the region. This will require strong transformational leadership and strategic governance to encourage the discovery of new sectors and the establishment of new industries. Thus, the country's international competitiveness is of critical importance for inclusive growth.

Table 2. 2: International Competitiveness of Lesotho and other SACU countries

Countries	Global Competiveness Ranking, 2017/18	Ease of Doing Business Ranking, 2017/18
South Africa	47	74
Botswana	64	71
Namibia	84	108
Lesotho	120	104
Swaziland	-	111

51. Given that production costs might be higher for small land-locked economies due to importation of raw materials and other inputs into production processes, the costs of doing business must be reduced in other

⁹ Education Statistics Bulletin, (2014: 52)

¹⁰ Education Statistics Bulletin, (2014: 54)



areas, notably the business environment to compensate for these costs. Therefore, the Government has the unenviable task of creating a business environment that is superior to those of its larger peers.

2.5.2 Structural Challenges

52. Lesotho economy is landlocked, less diversified, and domestic market is small and private sector that is estimated to account for only 14.6 of GDP¹¹ remains weak. This has resulted in the government being the main driver of economic activity through high levels of public spending estimated at around 60 percent of GDP. The large public sector crowds-out the private sector, resulting in limited job opportunities in the private sector. This has exacerbated poverty and inequality. As a result, the public sector has become de facto employer resulting in a bloated public sector, leaving limited fiscal space for government to pursue other development objectives. The problem is compounded by the fact that government expenditure is largely dependent on the volatile SACU transfers, which are projected to decline in the medium term. From a sustainability perspective, this poses serious macroeconomic stability risks. For growth and development, there is a need for a structural shift in the country's growth model from one driven by government spending to a model where the private sector drives economic activity and creates jobs.
53. Therefore, the country will pursue an export-led growth model, which makes trade a central components of Lesotho's economic development. This will be achieved by improving the country's international competitiveness for trade and foreign investment in order to participate effectively in regional and global markets. The country will also effectively utilize opportunities emanating from trade preferences it enjoys with the rest of the world to pursue its strategic development objectives. To this end, the country will improve its strategic focus and bargaining power on bilateral, regional and multi-lateral trade negotiations to promote Lesotho's interests. It is important for the government to establish an appropriate institutional infrastructure and the capacity to participate effectively in bilateral, regional and multi-lateral trade negotiations.
54. The country has the opportunity to utilize external private capital to meet the development-finance gap by tapping into private companies with interest in a number of economic activities in the country including infrastructure investments. But the country needs to remove the remaining impediments to private sector investments ranging from missing policy frameworks (such as public-private partnerships (PPPs) frameworks) to weak technical and institutional capacity.

2.5.3 Threats

55. In addition to the developmental and structural challenges discussed, Lesotho continues to be vulnerable to both domestic and international threats as well as megatrends that could potentially affect its ability to achieve long term development objectives and goals laid in this plan.

2.5.3.1 Global Threats

Shifting Geo-Political Power

56. The world is changing rapidly. This fundamental change is characterised by a shifting balance of power in the global economy. For half a century, the United States of America (USA) embraced a global leadership role and maintained the world's biggest superpower position. In effort to provide stability to the global economy and a platform for international cooperation, the US established and dominated trade networks

¹¹ Molapo 2016



and multilateral institutions. However, a new global economic influence has recently emerged, leaving behind the brief moment characterised by unbounded American dominance. The global economy is now defined by a more complex and continually shifting set of economic relationships. In this world of dispersed economic power, international relations now play out in increasingly diverse ways; reconfigured trade and investment linkages, changing alliance dynamics and potential flashpoints related to the global commons.

57. Interestingly, China's global economic influence has emerged rapidly over the past decade. Its purchasing power has positioned it as the largest economy globally, and a notable challenger to US dominance. China's rapid move into this role has given it enormous leverage in developing and influencing trade networks. Coincidentally, the effectiveness of multilateral trade agreements is deteriorating, and in their place, regional agreements have begun to dominate.
58. Emerging markets such as Brazil, Russia and India, that are transiting from labour and production based economies, to consumption oriented economies have become main exporters of capital, talent, and innovation, slowly changing the direction of capital flow. This transition has created new risks and uncertainties; rising military tensions, and economic and commercial disruptions. In particular, there are changing patterns in capital and trade flows, and in foreign policy. With increased global muscle struggle between major powers, both large and small states are affected, and global norms are eroded. Smaller developing countries like Lesotho will likely be affected by the shifting geopolitical power through interdependence and interconnectedness in trade in capital and goods . This calls for scenario planning on the part of Government.
59. Thus shifting relations between major world powers such as the US and China create increased uncertainty for Lesotho. There is need, therefore, to re-evaluate Lesotho's economic position and role in this shifting power game. Lesotho continues to be on the agenda of multilateral and bilateral bodies, with close ties to both the U.S and China. For instance, the country currently depends on the US for international aid (HIV/AIDS mitigation assistance and promotion of economic development through AGOA, MCA, PEPFAR), and on China for infrastructure and education exchange programmes. Therefore, evidently Lesotho will soon find itself at the centre of a stand-off between these two world powers. This potential threat implies that the country must be strategic in its international relations and foreign policy. It will need to determine how to manage this economic complexity and cross the threshold to the next economic order with confidence and skill. To optimize the leverage this potentially provides, Lesotho should be ready to respond to the geopolitical shifts and the new global challenges in ways that can potentially shape the future of the nation.

Increasing Global Competition in Trade and Investment, and the Rising Level of Protectionism

60. While the country inspires to intensify its production base, diversify its products and markets and increase its exports shares in the global trading system through several bilateral and multilateral agreements, competition from other players in the World Trade system might not afford Lesotho this opportunity. The country needs to stand ready to face competition from the rest of the world in the World Trade System through increasing its competitiveness hence its productivity. The country needs to take cognizance of vulnerabilities emanating from international or regional shocks, especially because its economy is less diversified. At the same time there is rising trade protectionism among the developed nations and this is likely to affect Lesotho's future export potential. Nonetheless Lesotho's membership of other multilateral organisations, and its diplomatic relations across the world will continue to offer the country vast opportunities for foreign investment and trade. These international relations enable the country to enjoy duty-free access for its goods to major world markets. Lesotho, however, has not been able to use the opportunities emanating from its membership to the trade preferences effectively to pursue its strategic



development objectives. This is largely because the country lacks a national brand and has a low bargaining power on bilateral and multi-lateral negotiations. Bilateral and multi-lateral negotiations are led by people with limited expertise to negotiate and promote Lesotho's interests. This challenge is also compounded by inconsistency of delegations of the negotiating teams; lack of well documented information on the country's requirements or interests, and offers from different trade agreements negotiations; and limited coordination and engagement between delegation members and other in-country stakeholders especially the private sector. It is, therefore, important for the government to establish an appropriate institutional infrastructure and the capacity to participate effectively in the negotiations on regional integration, and to develop trade agreements with third parties as well as other international policy making processes, such as the WTO and the UN system. The private sector and non-state actors' engagement will remain critical at all levels of trade negotiations.

2.5.3.2 Domestic Threats

Uncertainty from frequent Political Regime Changes

61. The country has experienced some episodes of frequent political regime changes in recent years as a result of unstable coalition administrations. Unstable coalition governments remain a threat to the country's policy stability and economic development generally. According to a review of the NSDP I, a chronic political uncertainty and politicization of civil service management were one of the key factors that led to the sub-optimal implementation of NSDP I. Political uncertainty has negative effects on private investment, families and communities which invariably are a burden of women. Studies show that political uncertainty and possible instability and conflicts largely affect women and children and renders them vulnerable to violence. The political uncertainty affects investor confidence negatively and slow down the economy as the case has been since 2014. Therefore, a strong political consensus is essential to make difficult reforms needed to promote stability and lay a foundation for broad-based growth and poverty reduction.

Deteriorating Land Quality and Increasing Environmental Degradation

62. Land quality is deteriorating in the country and this is caused by excessive or inappropriate human exploitation and climate change. High environmental degradation in the country is largely attributed to increased use of natural resources for farming, grazing, and dependency on biomass as a source of fuel. The most affected areas are the highlands, rural areas and the Senqu Valley. At the same time the country has lost vast amount of land due to the fast paced encroachment of settlements into the arable land. This is attributed to poor implementation of land appropriation policies and legislation and lack of enforcement thereof. As a result, the country has experienced low production in agricultural. The declining land quality and land encroachment remain critical threats to food security and general development of the nation.

63. In addition, the country continues to experience land pollution due to inadequate and ineffective waste management measures and poor compliance thereof. The current official landfills are inadequate to provide optimal waste disposal. The landfills are prone to exacerbating the problem of environmental pollution. There is a high proliferation of illegal dumps in most of the commercial centres and urban areas all over the country. In addition, the influx of second-hand motor vehicles imported from different parts of the world is another source of pollution in the country. These vehicles emit hazardous gases into the atmosphere and their disposal on land cause further pollution. The country has no clear laws and policies for management of scrap car disposals. Thus environmental pollution due to poor waste management remains a threat to socio-economic development of the nation, and productive sectors in particular.

Extreme weather conditions caused by climate change.

64. Lesotho experiences extreme weather conditions characterized by recurrent droughts, heavy rain falls and floods, strong winds, early/late frosts, hail, snow storms and emerging signs of progressive desertification



caused by climate change. Increasingly warmer temperatures and lower levels of rainfall have significant implications for agriculture, food security, poverty and vulnerability. Thus hinder sustainability of agriculture and land productivity, water resources, health, and human development. Despite being one of the least contributors to climate change, Lesotho is among the countries that face the severe consequences of climate change effects. The occurrence of extreme weather conditions requires Lesotho to use up the already scarce financial and other resources in relief efforts other than to help finance developments geared towards economic growth and employment. Thus climate change has remained the greatest threat to Lesotho's developmental progress and left the country vulnerable to the impacts of climate change and environment related challenges particularly among the poor and rural communities who tend to have lower coping capacities.

Most households in Lesotho practise low input, low output traditional rain-fed crop farming and extensive livestock husbandry under a communal land tenure system. As a result of increasingly erratic climatic conditions, coupled with ongoing environmental degradation and their impacts on production and productivity, they seldom produce enough food to meet their household food requirements even in what could be regarded as good years. What is emerging is that even if farming is done under ideal conditions, it has become increasingly difficult to realize its full potential, leading to a growing food deficit and higher levels of climate change related vulnerability for many farming households. Reliance on crop agriculture as a main provider of household livelihoods has therefore become difficult under current climatic conditions. The frequent El-Niño induced drought conditions have resulted in chronic deficits in staple food grains that usually call for declarations of food emergencies and appeals for international humanitarian assistance, the last appeal having been made in early 2017.

Internal Migration and Urbanization

65. Lesotho has experienced a high level of out migration starting with the migration of Basotho men into SA mines two centuries ago. In recent times the country has experienced rural-urban migration of mostly women due to shifting occupational choices as the textile and garment industry took momentum. The 2016 census indicated that over 90 per cent of the population had moved from their districts of birth and are living elsewhere in the country. It is therefore expected that if the four productive sectors anchoring job creation take off, the country will experience further rural-urban migration as individuals leave their places of origin to settle at job centres. This requires the country to have a clear strategy for rural development and urbanization to manage migration. The 2016 Census has further indicated that 179,579 Basotho household members are currently out of the country which represents 8.1 percent of the country's total population, 124,386 of them in South Africa, and others in the rest of Africa, and the UK. Out-migration should however not be seen as a pressing challenge as Diaspora bring back skills and remittances. There is also a small number of asylum seekers from Lesotho in South Africa: 1,437 in 2016¹². Emigration also takes place through irregular channels which is difficult to quantify.

2.6 Development and Job Creation Opportunities

¹² Department of Home Affairs, 2017



66. The prospects of inclusive growth and employment creation remain largely depended on opportunities the country possess which determine its comparative and competitive advantages. These arise in three dimensions: its population; its location and its access to international markets. The small carbo-footprint continues to offer the country further opportunities to develop a green economy in a sustainable way. This plan takes recognition of these opportunities and advances that their exploitation will lead to achievement of the inspirations set out in this plan. There are economy wide opportunities as well as sector specific opportunities that if exploited can yield the desired destination embodied in this Plan, Vision 2020, Sustainable Development Goals (SDGs) and SADC Regional Indicative Strategic Development Plan (RISDP) 2005-2020.

2.6.1 Economy Wide Opportunities

Labour Force

67. Lesotho currently boast of abundant literate labour force (more than 80 per cent of total population is literate¹³) that provides a distinct advantage in both domestic and global market as it provides potential for reaping large dividends in terms of an educated workforce capable of meeting the brainpower demand of the local and global economy. The Lesotho workforce is largely English Speaking and this allows easy communication with the rest of the world. The Basotho people possess huge sense of civility and do not have a sense of entitlement. Because of these unique Basotho character traits, the country has experienced relatively low labour industrial actions (strikes) compared to South Africa. The labour costs are also low in the country compared to South Africa and the country remains competitive to the rest of the world in terms of labour costs.
68. The country also has a well-established tripartite wages negotiation structures that comprises representatives of workers, employees and government across sectors. These structures have served the country quite well over the past decade and maintained wages competitive and in line with labour productivity without causing any disruptions in production. The country has rectified 23 ILO conventions which include fundamental conventions such as a convention on forced labour, governance convention such as labour inspection convention and technical convention such as minimum wages fixing machinery convention. During the NSDP II implementation, the Government will ensure that wages in both the public sector and private sector remain in line with gains in labour productivity to avoid the economy becoming uncompetitive in international markets. Lesotho will strengthen the pleasant labour relations that have characterized the country over the past two decades.
69. The country is experiencing rapid demographic change as discussed in section 2.3.1. This presents an opportunity as the country will have an usual large labour force which currently makes around 40 per cent of total population. The demographic transition has an impact also on child dependency (ratio of population aged less than 15 years to population aged 15 to 64 years) which has declined from 87.7 per cent recorded in 1996 to 58.3 per cent in 2006 and further to 54.9 per cent in 2016. Evidence from Asian countries (commonly referred to as Asian tigers) that escaped poverty and grew their countries significantly in period of less than 30 years reveals that demographic bonus accounted for about one third of the region's unrepresented economic growth between 1965 and 1990.
70. However, for the country to take advantage of this youth bulge, it will be imperative to address the skills mismatch, and skills shortages in the economy. During the NSDP II implementation, the Government will reform its education system and develop the skills development strategy to be more responsible to emerging labour markets demands.

¹³ Education Statistics (2016).



Access to International Markets

71. Lesotho is a member of a number of multilateral organizations and has diplomatic relations across the world, which offers opportunities for foreign investment and trade. Lesotho is a member of the World Trade Organization. As a least developed country, it enjoys duty-free access for its goods to major world markets such as the United States through the AGOA and the European Union's Generalised System of Preferences (EU GSP). In addition, Lesotho has signed an Economic Partnership Agreement (EPA) with the EU, it is a partner of the European Free Trade Association (EFTA), which includes Iceland, Liechtenstein, Norway and Switzerland. In the region, Lesotho is a member of the Southern African Development Community (SADC) free trade area and the Southern African Customs Union (SACU), the Common Monetary Area (CMA) and the African Union (AU), which offer great opportunities for regional cooperation and trade. Finally, a Preferential Trade Agreement is in place between the Common Market of the South (MERCOSUR) and the Southern African Customs Union (SACU). SACU and CMA are key influences on trade, exchange rate and monetary policies of all member countries. These regional and unilateral trade agreements shapes Lesotho's trade with the rest of the world and as such they offer huge markets for Lesotho's products.
72. Over the past t but is only utilizing of the 6500 product lines offered under AGOA. However, the country has not been able to use most of the opportunities emanating from its trade preferences membership effectively to pursue its strategic development objectives. This is largely because the country has faced supply constraints and lacks a national brand and has a low bargaining power on bilateral and multi-lateral negotiations. Bilateral and multi-lateral negotiations are led by Lesotho's foreign missions, which are, in most cases, composed of representatives with limited expertise to negotiate and promote Lesotho's interests. This challenge is also compounded by inconsistency of delegations of the negotiating teams; lack of well documented information on the country's requirements or interests and offers from different trade agreements negotiations; and limited coordination and engagement between delegation members and other in-country stakeholders. During the NSDP II implementation, the government will establish an appropriate institutional infrastructure and build capacity of its negotiating teams and strengthen coordination between internal stakeholder to participate effectively in the negotiations on regional integration and developing trade agreements with third parties as well as other international policy making processes, such as the WTO and the UN system.

Location

73. Lesotho's location at the center of South Africa which is a more industrialized country with about 55.91 million population (2016 est.) and relatively good infrastructure offers huge opportunity of integrating into the main economic centers. The Lesotho's main town (Maseru) is just 558km from Durban Port and Botha-Bothe is 435km from the same Port, and Qacha'snek is 361km from the same Port. Yet despite Johannesburg-the South Africa industrial hub, being 574 km from Durban Port, goods are still shipped through Durban port to Johannesburg or through Cape Town port to Johannesburg. Therefore, Lesotho's location is even closer to the port than many trade centers in South Africa and other African countries. In fact, the country location provides it better roads access than even some parts of South Africa such as Mpumalanga and Eastern Cape. During the NSDP II Lesotho will explore these comparative advantages and pursue an export led strategy to achieve inclusive economic growth and employment creation.
74. Lesotho will have to increase its efficiency in service delivery and remove all bottlenecks to doing business if the country is to take opportunity of its location within South Africa. During the Plan period, the Country will intensively work on investment climate reforms and significantly increase its exports in the region and thereby reduce the trade deficit with South Africa. The Country has been consumption driven economy financed through remittances from South Africa and Trade taxes (SACU receipts). The patterns and nature



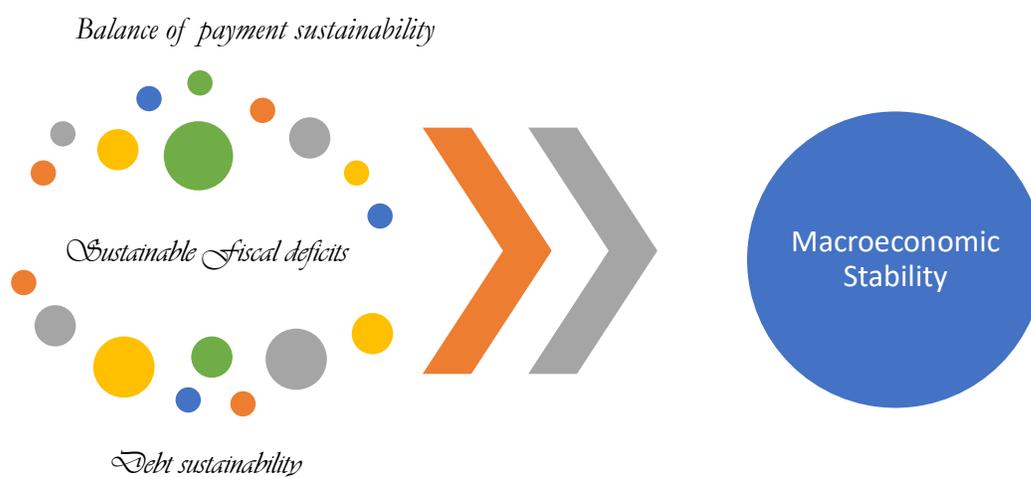
of migration from Lesotho to South Africa have changed from formal migrant mine workers to an informal domestic workers' migration, and South Africa has become more stringent on its migration policy which disadvantages Lesotho citizens. It is imperative therefore that the country stimulates its local economy to create jobs that most of its citizens used to obtain in South Africa. Lesotho used to generate two-third of its GNI from South Africa while only one-third resulted from domestic productive activities within borders. In 2016, more than 70 percent of national income was generated from economic activities within borders, and this will be increased during the plan period. It must also be noted that domestic employment opportunities strengthen sectoral linkages through stimulating aggregate demand in the economy and have positive social impact such as reducing HIV/AIDs as migrant labourers work closer to their families.

2.6.2. Clean Energy and Green Technologies

75. While Lesotho has a small carbon footprint, it is affected by climate change and must play its part in mitigating the threats from climate change. The country will promote green economy during its development trajectory. The current energy production in the country is among the greenest in the world. Lesotho generates 72 Megawatts (MW) of hydropower through the Muela Hydropower plant although this production does not satisfy domestic demand. The Country could potentially produce 450 MW in hydropower and several hundred more with wind power. In addition, the pre-feasibility studies have indicated that the country has potential of producing about 6000 MW from wind, and 4000MW from pump storage. Yet, the country is currently exploiting only about 17 per cent of this potential, 96% of it at the Muela Hdro-power and the rest from mini- hydro-power plants at Mantsonyane, Mokhotlong, Tsoelike and Semonkong. The country has already signed a World Bank support of US\$19 million to undertake feasibility studies on alternative energy sources.
76. During the NSDP II implementation the Government will promote private investment and public investment to tap this potential. It will promote appropriate technologies to reduce biomass and fuel consumption in order to maintain low carbon emissions, reduce pollution while preventing loss of biodiversity and ecosystems. Energy demand is growing in South Africa and the rest of the region, and Lesotho has the potential to export renewable power. Opportunities exist for both local and international companies in supplying renewable energy products or developing renewable power generation in Lesotho.
77. Investments in green energy technologies will reverse the trends in deforestation and soil erosion and enable society to heat their houses and cook using more efficient technologies. Adoption of green technologies will likely rebuild Lesotho's natural capital as a critical economic asset and source of livelihoods especially for the poor people whose livelihoods and food security depend on nature.
78. In addition to the economy wide opportunities discussed in the foregoing section, Lesotho possess sector specific opportunities particularly in those four sectors identified as employment creating and inclusive growth spurring sectors. These opportunities are detailed under each sector in the Chapter on Productive sectors.



Macroeconomic Framework





3 The Macroeconomic Framework and Prospects

Strengthening macroeconomic resilience for inclusive growth and employment creation

3.1 Macroeconomic Policy

79. The plan's targets and intermediate outcomes are based on key assumption that the country will maintain macroeconomic stability and deliver sound macroeconomic management. During NSDP II the overarching macroeconomic target will be to strengthen macroeconomic resilience for inclusive growth and employment creation. This will be achieved through managing government spending and removing any inefficiencies in spending; ensuring low and stable inflation rates which is not only key to achieving the nation's competitiveness but also important for protection of incomes of the poor; ensuring sustainable levels of fiscal deficits and maintaining sound external balances. Fiscal policy will be targeted at providing public goods and services that improve national welfare but at the same time that support the private sector development. However, growth in aggregate public spending will be kept below the forecast economic growth to achieve fiscal consolidation. Doing so will provide fiscal space to implement the much-needed reforms while providing necessary public goods and services. The level of gross international reserves that is currently threatened by declining SACU receipts will be maintained at healthy levels to protect the Loti to Rand exchange rate peg and as a fiscal prudence measure. The country will further strengthen domestic resource mobilization and strengthen tax collections. Tax policies and expenditure policies will be set with caution to protect the incomes of the poor and other vulnerable groups in society. These policies will be set in a manner that provides beneficial impact on the distribution of wealth. The section that follows discusses the recent economic performance with a view to laying a foundation for the Medium-Term Fiscal Framework, and Growth and Employment targets for the Plan.

3.2 Recent Macroeconomic Performance

3.2.1 Real Sector Performance

80. The recent macroeconomic performance has highlighted the deeply rooted structural challenges the economy faces. At the end of NSDP I period real economic growth had declined to 2.9 per cent from 5.3 per cent realized in 2012/13. In 2017/18 the economy slipped into a technical recession with real economic growth rate registering -2.7 per cent per annum for the first time after a decade of positive growth. However, Gross Domestic Product (GDP) at current prices grew from M19,783 million at the start of the implementation of the plan to about M27,804 by end of plan period. This was largely driven by increasing household consumption that grew from M19,506 in 2012/13 to M21,128 in 2016/17. Increased consumption was supported by higher national disposable incomes that increased by 9.25 per cent per year on average between 2012/13 and 2016/17 (i.e. from M32,701 million realized at the start of the plan to M44,837 million attained at the end of the Plan). However, the majority of the population especially in the rural areas did not benefit from increasing incomes as evidenced by stagnating poverty levels in the rural areas. These rising incomes have mostly benefitted urban residents.
81. The GNI per capita at constant prices grew from M13,334 to M15, 502 at the end of NSDP I. This represents an average increase of 2.8 per cent per annum since 2012/13. The increase in GNI per capita is



mainly attributable to increase in incomes from abroad, in particular, the increase in remittances and increase in interest earned. This increase however did not qualify Lesotho to graduate from Least Developed Countries classification. While there is a desire for the country to graduate, immense challenges remain to be addressed and this will be discussed under the Growth Chapter.

Table 3. 1: Aggregate Economic Indicators, 2012/13-2016/17 (percentage changes, 2012=100)

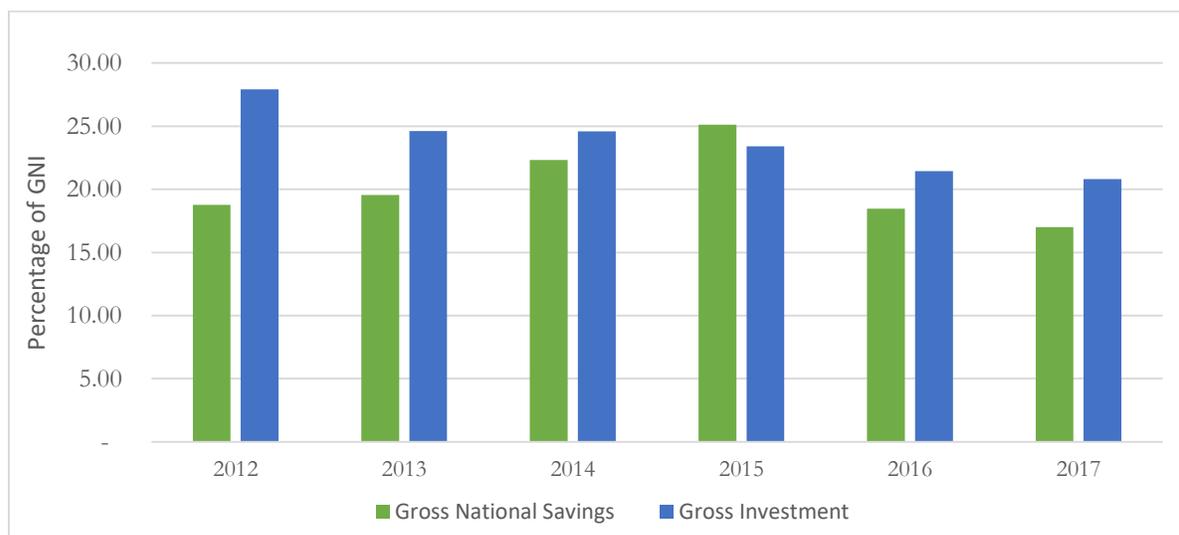
Aggregate Economic Indicator	2012/13	2013/14	2014/15	2015/16	2016/17
Gross Domestic Product (GDP)	6.0	1.8	3.1	2.5	2.4
Gross National Income (GNI)	-1.0	2.4	5.9	7.1	1.6
Gross Domestic Product (GDP) per Capita	5.7	1.5	2.8	2.1	2.0
Gross National Income (GNI) per Capita	-1.3	2.0	5.6	6.7	1.1
Gross National Disposable Income	13	9.8	12.4	9.8	1.2
Household Consumption	3.3	6.3	-1.3	1.8	1.3
Government Consumption	10.7	-3.6	14.8	0.2	2.9

Source: Bureau of Statistics (2017)

82. In recent years economic growth has been driven mainly by mining and quarrying industry, manufacturing and service sectors particularly telecommunication and financial intermediation. For instance, manufacturing sector has grown by 4 per cent on average, the service sector has grown by more than 28 per cent between 2012/13 and 2017/18. Although mining and quarrying continues to make huge contribution to growth, it contracted by 4 per cent during NSDP I period. In 2017/18 mining and quarrying sub-sector showed signs of recovery as evidenced by 34.4 percentage growth. The Agriculture sector has shown signs of recovery too albeit growth remains very volatile. In 2016/17, growth in agriculture, forestry and fishing sub-sector grew by 7.2 per cent while in 2017/18 it grew by 3.4 per cent. Given the relatively small size of the private sector, Government continues to dominate economic activities as such remains the main contributor to growth accounting for about 50 per cent of GDP. Government consumption increased by 5 per cent per year on average during NSDP I.
83. The Gross National Savings, as a percentage of GNI declined from 25 per cent in 2015 to 17 per cent in 2017. The decline in national savings per gross national income mainly reflects a decline in national savings driven by declining Government savings as a result of reductions in SACU transfers. Government investment has also declined in recent years and this has narrowed the savings-investment gap from 9.16 per cent recorded in 2013 to 3.8 per cent recorded in 2017. The decline in Government investment outweighed the decline in private sector savings. The savings and investment rates recorded at 17 per cent and 21 per cent of GNI respectively remain far below the levels considered necessary to generate sustained growth (Figure 6).



Figure 3. 1: Savings and Investment (Percentage of GNI), 2012-2017



Source: Bureau of Statistics

FISCAL STABILITY AND DEBT SUSTAINABILITY

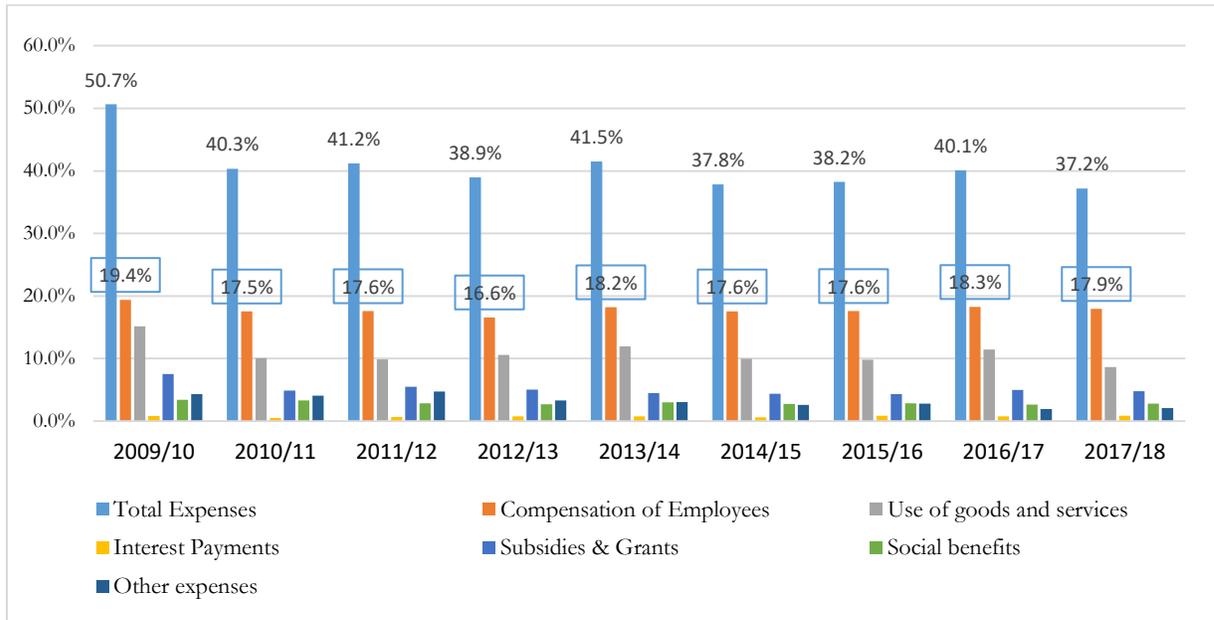
3.2.2 Trends in Fiscal Operations

84. Lesotho's only instrument of macroeconomic management is fiscal policy given the confines of the CMA agreement¹⁴. Therefore, prudent exercise of fiscal policy to steer the economy in the right direction is essential. This provides a compelling reason why public sector investment must be well targeted, efficient and effective as it will remain the "wheels" for long-term economic growth in the country while at the same time decreasing uncertainty about fiscal sustainability. All public sector capital projects must raise productivity and supply capacity of the private sector. As such they must alleviate capacity constraints that might otherwise restrict economic growth and increase risks to the private sector. Boosting the quality of Lesotho's public infrastructure is also central to the effective and efficient delivery of high-quality public services. Sub-section 3.2 discusses the Fiscal Framework for the NSDP II and it underpins the growth projections discussed in the next chapter.
85. Over the period 2012/13 to 2016/17, government recurrent expenditures as a share of GDP grew by 1.2 percent on average while revenues declined by 16.2 per cent. In FY2016/17 aggregate spending as proportion of GDP amounted to 51.4 per cent. This composed of 40.1 percent recurrent spending and 13.4 percent on non-financial assets (capital expenditure). However, in FY2017/18, government total expenditure is projected to have declined to 44.8 percent of GDP in an attempt to do fiscal consolidation meant to restore the macro fiscal stability. That notwithstanding the high recurrent expenditures especially on compensation of employees, which are linked to improper intertemporal revenue management are a source of the country's macro-fiscal challenges. In FY2017/18, government recurrent expenses as a share of GDP stood at 37.2 percent with compensation of employees making up 18.3 percent of GDP. Compensation of employees remains relatively higher when compared to other countries in SACU such as Botswana and Swaziland. Spending on goods and services has fluctuated between 10.6 per cent and 11.4 of GDP between FY2012/13 and FY2016/17 which is also high by regional standards (Figure 53.2).

¹⁴ Fiscal policy is limited by volatile SACU revenue.



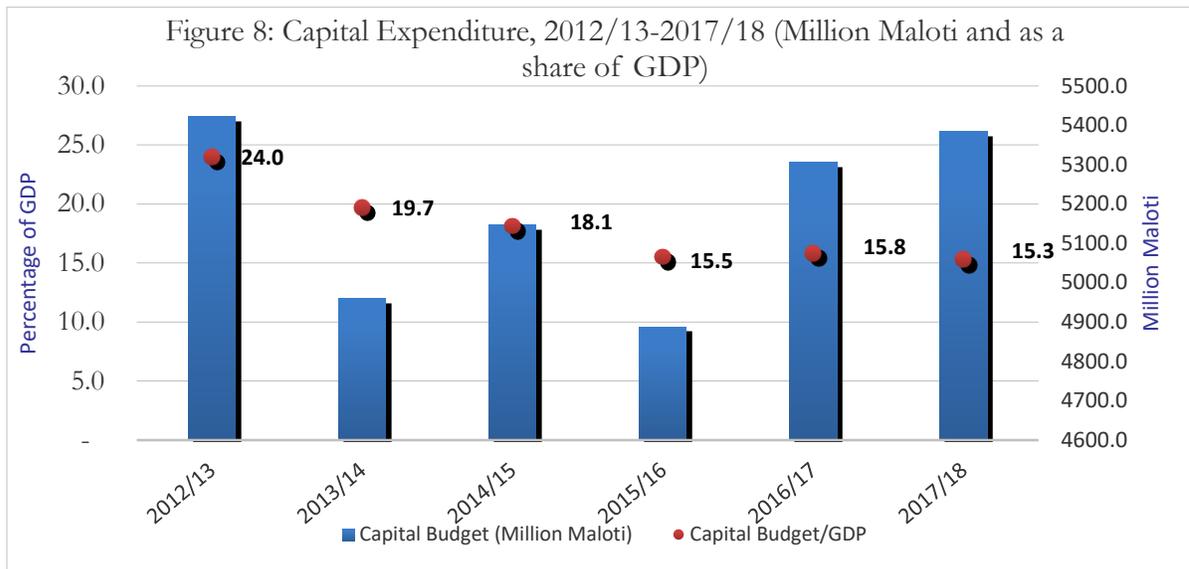
Figure 3. 2: Government Expenses, 2009/10-2017/19 (Percentage of GDP)



86. It is important to note that the country spends a sizable amount of its budget on non-financial assets (capital expenditure) which is in line with its lower-middle income developmental needs (Figure 8). However, the fiscal consolidation path that the Government will undertake in 2018/19 will likely be achieved through capital budget cuts because the economy has less options that could be exercised to restore fiscal stability in order to get the economy back on a sustainable growth path. However, capital budget will be allowed to rise gradually once the economy is back on a sustainable growth path, but with caution to avoid yet another macro-fiscal crisis in the next five years.



Figure 3. 3: Capital Expenditure, 2012/13-2017/18 (Million Maloti and as a share of GDP)



87. It is not the first time the country faces tough macro fiscal outlook as a result of declining SACU receipts and improper intertemporal revenue management. In FY2009/10 Lesotho’s recurrent spending reached a record high of 50 percent of GDP, an increase of 8.7 percent of GDP from FY2009/10. Although 2.3 percent of the increase was due to increased capital spending, the wage bill rose from 15 percent of GDP to 19.4 percent of GDP — accounting for half of the increase.
88. With the onset of the global financial crisis, SACU revenues declined from 30 percent of GDP in FY2009/10 to 14.4 and 13.3 percent of GDP in FY2010/11 and FY2011/12, respectively, thereby leading to a call for sharp fiscal consolidation. Because of the drop in SACU revenues, the GoL had to cut recurrent spending by 10 percent of GDP in FY2010/11. The Country embarked on a fiscal consolidation program, supported by the International Monetary Fund (IMF) Extended Credit Facility (ECF), in response to rising fiscal pressures. It managed to cut expenditures by 11 percent of GDP in 2010. However, capital spending was mostly preserved. As soon as SACU revenues rose again in FY2012/13, expenditures also started to rise¹⁵.
89. NSDP II is similarly implemented at the time when Lesotho is facing a tough macro-fiscal outlook in the near-to-medium term due to a sharp decline in SACU revenues. SACU revenues have declined from 25 percent in FY2014/15 to 13.6 percent of GDP in FY2016/17 — mostly due to lower growth in South Africa. The decline in SACU revenues has narrowed fiscal space and has led to a considerable decline in fiscal buffers. The country has missed an opportunity to make a gradual adjustment in FY2016/17. Lesotho’s fiscal deficit reached 8 percent of GDP in FY2016/17. Due to limited borrowing opportunities, the GoL financed the deficit through a drawdown of government deposits at the Central Bank. The reserve coverage declined from 6.1 months of imports in FY2015/16 to 4.2 months of imports at the end of FY2016/17. To maintain fiscal sustainability and preserve buffers, the country will have to considerably adjust its spending downwards over the next three years. But such adjustment will come at the premium in terms of growth and jobs creation. Given the current projections of SACU revenues if no adjustment is

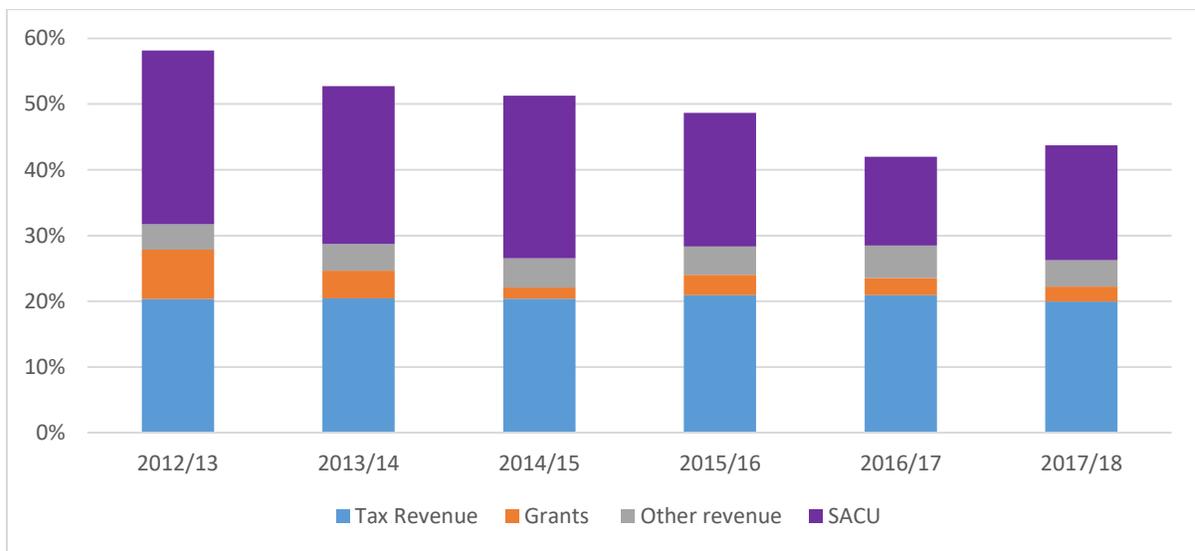
¹⁵ World Bank (2018)



made Lesotho’s reserve coverage can go below 3 months of imports by the end of FY2019/20 — thereby risking macroeconomic stability and exchange rate sustainability.

90. The overall revenue has declined from 56 percent of GDP at the beginning of the plan to 43 percent of GDP at the end of NSDP I. This reflects declining SACU receipts while tax revenue has been constant at around 21 percent of GDP. Grants have declined from 4 percent to 2 percent of GDP while other non-tax revenues increased by 1 percent between FY2012/13 and FY2016/17 before declining back to 4 percent of GDP in 2017/18. Given the levels of expenditures that remain relatively high, the country has registered fiscal deficits of around 1.1 percent of GDP over NSDP I plan period. There were surpluses however of 4 percent of GDP and 3 percent of GDP in FY 2012/13 and FY2014/15 respectively which resulted from sluggish projects implementation, whereas in FY2016/17 a deficit of 8.2 percent of GDP was attained as already discussed. This resulted from a dramatic fall in SACU receipts while expenditures were maintained high.
91. The declining revenues imply that fiscal space for further capital expansion is limited and the country has to undertake a difficult consolidation exercise which should involve expenditure realignment and re-prioritization in order to get back to sustainable economic growth path.

Figure 3. 4: Sources of Government Revenue, 2012/13-2017/18 (Share of GDP)



92. There are several lessons that emerge from the foregoing discussions on the recent country fiscal experience. Some of these lessons carry forward from NSDP I and they underpin the macroeconomic stability, sustainable growth and fiscal framework outlook. Box 1 summarizes these lessons.



Box 3.1: Lessons from recent fiscal experience

- The country has to restore macroeconomic stability through fiscal consolidation given that the current level of expenditures especially the wage bill is not sustainable.
- Fiscal consolidation has to prioritize expenditure measures. Although the required adjustment is large, it must be achieved while minimizing the impact on long-term growth and poverty. Adjustment must come mostly from limiting large spending inefficiencies.
- Although it is important to reduce the high public wage bill to achieve fiscal sustainability, it is essentially difficult given the long-term nature of public servants' contracts. Therefore, growth in wage bill should be restricted below GDP growth until macro-fiscal sustainability is achieved. Given prior experience of fiscal adjustment in FY2010/11 SACU revenue shortfall in which the cut on goods and services spending provided a major source of adjustment that restore fiscal balance, the Government will have to cut on goods and service but caution must be exercised so avoid crippling service delivery.
- Public financial management reforms will have to strengthened in order to reduce spending inefficiencies. There is some scope for expenditure cuts in low quality projects that have been dragging on for long-time
- At same time the government will implement measures to improve domestic resource mobilization, including selective measures to broaden the tax base and further improve administration.

3.2.3 Debt Sustainability

93. The country public debt position was recorded at M12,603.83 million in FY2017/18 which was equal to 35.57 percent of GDP. This represents a decline from M14, 154.60 million (55.65 percent of GDP) realized in 2014/15. About 81 percent of the country's total public debt represents external debt which is contracted mainly with multilateral creditors. Domestic debt makes about 19 percent of GDP, and in FY2017/18, it amounted M2,426.25 million (Table 3.1.2). The stock of domestic debt could still be increased especially in the event that the Government wishes to finance fiscal deficits during the plan period, and to avoid further depletion of its balances with the Central Bank. Given the relatively small size of domestic debt, the country's total public debt trajectory is largely driven by external debt developments and exchange rates fluctuations.

Table 3. 2: Lesotho's Stock of Public Debt, 2013-2017

	2013/14	2014/15	2015/16	2016/17	2017/18
Total Stock of Public Debt	9,930.52	10,706.84	14,154.60	12,821.02	12,603.83
External Debt	8,067.50	8,717.32	11,862.07	10,598.93	10,177.59
Domestic Debt	1,863.02	1,989.52	2,292.52	2,222.09	2,426.26
Percentage of GDP					
Total Stock of Public Debt (%)	45.30	45.23	55.65	40.52	35.57
External Debt (%)	36.80	36.82	46.63	33.49	28.72
Domestic Debt (%)	8.50	8.40	9.01	7.02	6.85
Percentage of Total Debt					
External Debt (%)	81.24	81.42	83.80	82.67	80.75
Domestic Debt (%)	18.76	18.58	16.20	17.33	19.25
Concessional as % of External Debt	82.15	82.50	79.67	77.20	77.62

Source: Central Bank of Lesotho (2017) and Ministry of Finance (2017)

94. A comprehensive debt sustainability analysis undertaken by the IMF in 2017 shows that the Country's risk of external debt distress is "low" which is a revision from the "moderate" status of 2015. This is mainly due to the recent rebalancing of GDP and solid GDP growth as well as revisions to the assessment for new borrowing requirements. Debt projections and sensitivity analysis by the IMF show that the country's external debt vulnerabilities would increase only in the face of a large shock to exports, like a terms of trade shock. However, present value of external public and publicly guaranteed (PPG) debt-to-GDP ratio will



only reach a peak of around 24 percent by 2020, well below its threshold of 40 percent of GDP. The IMF analysis show that under stress tests, a large negative shock to exports constitutes the main risk for a possible deterioration of external debt indicators, but even under the most extreme simulated shocks, debt ratios remain below their corresponding thresholds. The country will possibly remain below its debt thresholds of 40 percent of GDP throughout the Plan period.

95. Given the likelihood that LHWP Phase II will export water to South Africa upon its completion, this will again raise the value of exports hence reduce the country external vulnerability. The debt sustainability findings illustrate that Lesotho has some scope to address challenges from the severe cyclical downswing of Southern African Customs Unions (SACU) revenues by new external borrowing. However, the sensitivity to export shocks illustrates the need for a sizable grant component in new external debt as part of a prudent debt strategy to preserve the low risk of debt distress. The country could still borrow around US\$ 50 million per year for the entire plan period to finance its major capital projects meant to unlock the private sector investment. This will help relax the current foreign exchange constraint facing the country. In addition, Lesotho's eligibility for the Millennium Challenge Corporation, which was approved in December 2017, will open up access to significant grant financing, and the growth projections in the next chapter take this into account.

MONETARY POLICY AND EXTERNAL STABILITY

3.2.4 Trends in External Sector

96. Lesotho's trade balance has been consistently negative over the last decade, at over 60 percent of GDP. Imports make up almost 100 per cent of GDP in recent years while exports have generally hovered around 40 per cent of GDP. Although imports and exports have steadily increased in nominal terms over the past decade, their performance as share of GDP has been fairly stable. While the country has increased its exports volumes fairly in recent years, they remain largely concentrated in few products and markets. In 2016, apparel and textiles accounted for about 44 per cent of exports, diamonds for 35 per cent of exports, and water distribution to South Africa was responsible for 7.2 per cent of exports and Agriculture exports accounted for 2 per cent of total exports. In terms of destination, Lesotho's exports have concentrated in few markets with 90.9 per cent of exports (apparel) to USA, 8.9 per cent of exports (diamonds) to EU and the rest to SACU but more to South Africa. The external sector stability has been threatened by large fiscal deficits in recent years owing to the sharp decline in SACU revenues due to a sluggish growth in South Africa.
97. In 2016/17 the country's external position weakened because of a decline in SACU revenues and lower diamonds exports, but remained broadly in line with medium-term fundamentals and desirable policies. Given the high import volumes which represent about 90 percent of GDP, and whose financing is mostly dependent on SACU transfers, low performance in South Africa economy particularly in its imports directly affects the country's ability to finance its imports. Imports are therefore expected to decline in FY2018/19 in line with South African sluggish performance. Over the medium term, the large current account deficit is expected to persist as the new government deals with the vulnerabilities associated with the spillovers from South Africa. Rand volatility and weaknesses in competitiveness will continue to pose challenges for the economy.
98. In recent years, the country has also experienced declining trends in external financing as FDI and portfolio flows failed to match a drop in SACU transfers. In 2014/15, and 2015/16 FDI inflows reached about 4 percent and 5 percent of GDP respectively as a result of new mining investments but started to slow down



thereafter. Currently FDI inflows remain broadly around 3 percent of GDP and other financing options have been declining in recent years. This will pose a challenge moving forward.

99. However, imports are expected to recover starting in FY2019/20 in line with the cyclical upswing in South Africa. The current account will also be subject to large capital grants in the near term with the beginning of the Lesotho Highlands Water Project Phase II, which will be only partly offset by imports of capital goods. Over the long term, the project will contribute to exports. Risks also continue to arise from Lesotho's export concentration with over 25 percent (mainly textiles) directed to the United States, exposing the country to volatility in the Rand/dollar exchange rate. Therefore, the growth prospects of Lesotho remain largely foreign exchange constrained as the country is not able to generate adequate foreign currency to finance its capital outlays.

Table 3. 3: Summary of Balance of Payments

	2012/13	2013/14	2014/15	2015/16	2016/17
Current Account	-6.4	-4.7	-3.1	-8.6	-6.2
Goods	-41.1	-36.2	-31.8	-31.9	-29.4
Services	-13.3	-11.4	-10.8	-10.7	-11.5
Primary Income	14.9	12.2	12.6	13.1	12.8
Secondary Income	33.0	30.8	26.9	20.9	21.9
Capital Account	6.1	1.3	1.5	2.1	1.6
Financial Account	4.3	-5.5	-4.5	-10.7	-3.2
<i>Reserves in months of Imports</i>	5.1	5.5	6.1	5.1	4.1

Source: Central Bank of Lesotho (2017) and Ministry of Finance (2017)

3.2.5 Trends Monetary Sector

100. Lesotho as a member of CMA operates a fixed exchange rate regime in which Loti is pegged at par with the South Africa Rand. The country keeps an adequate level of net international reserves in order to maintain the peg. The purpose of the reserves is largely to enable the country to meet its foreign financial obligation which includes financing imports of goods and services, making debt repayments, and meeting foreign exchange demands of travelers. In recent years, the level of net international reserves has taken a downward trajectory. In FY2014/15, the country's international reserves reached a peak at US\$1.1 billion yet by the end of FY 2016/17 the level of reserves had declined to US\$864 million, equivalent to around 4 months of prospective imports. The optimal level of reserves for Lesotho is estimated to be around 4.7 months of imports. However, the current level of reserves remains above the minimum threshold of traditional metrics (3 months of imports, 100 percent of short-term debt, and 20 percent of broad money) as they cover 185 percent of short-term debt and more than 100 percent of broad money. During NSDP II the country will undertake fiscal adjustment in order to preserve the Loti/Rand peg.

101. Given the CMA confinement, the Country does not have an independent monetary policy, and has surrendered monetary policy to the Reserve Bank of South Africa. Therefore, monetary policy is less important as a macroeconomic management tool. The country imports more than 80 percent of goods and services for its consumption, and therefore inflationary pressures are influenced to a large extent by price developments in South Africa. The CMA arrangement has benefitted Lesotho greatly, and the Country will keep this arrangement for the foreseeable future including during the plan period. The CMA arrangement allows for free flow of capital, and of goods and services between members states. Therefore, domestic inflation is anchored on South Africa inflation and regional inflation. Since inflation has been well managed in South Africa under the inflation targeting regime which has set a target inflation of 3 to 6 percent,



Lesotho's inflation has also remained within the target range over the past 5 years. In 2017, inflation recorded 5.2 percent with moderate changes during the year that were influenced essentially by the Rand/Dollar depreciation. Low inflation in the country as a result of South Africa credible monetary policy, has enabled Lesotho's exports to remain competitive in the international markets. The CMA arrangements have also meant the Country cannot print money to finance fiscal deficit since it only prints if it has enough backup of foreign currency.

FINANCIAL SECTOR STABILITY

102. Lesotho's financial sector, though small, concentrated and lacks financial inclusion, is relatively stable. The Central Bank of Lesotho (CBL) plays a crucial role in promoting financial stability in Lesotho. Over and above the primary objective of achieving and maintaining price stability, the CBL performs a number of other functions of which the most relevant to financial stability are: to foster liquidity, solvency and proper functioning of a stable market-based financial system and to promote the safe and sound development of the financial system.
103. The Bank continues to advance its efforts to 'promote a stable financial system' by enhancing its Financial Stability function. To this effect, the Bank continues to expand its set of macro prudential surveillance indicators (including financial soundness indicators (FSIs)) as well as increase the coverage to include the non-bank sector. This facilitates regular reporting on the financial system stability through quarterly and annual reports. The reports reviews and analyze international and domestic macro-financial developments and trends of the FSIs, and assesses potential risks and distil any implications arising from them for financial stability. In addition, in enhancing its early warning system, the Bank Conducts Banking Sector Stress Testing semi-annually to assess resilience of the sector to both external and internal shocks.
104. Other key aspects, in the pipeline, of the Financial Stability function are the Macro Prudential Policy and Crisis Management and Resolution frameworks. In an effort to build a macro prudential policy framework, the Bank continues to conduct research central to the development of a macro prudential policy framework for Lesotho which will be used to shape the macro prudential policy tool-kit for the country. Similarly, the Bank is conducting ground work to establish a robust and effective bank crisis management and financial safety nets, in line with relevant international standards. The work covers issues such as bank recovery and resolution planning, deposit insurance and emergency liquidity assistance as well as domestic and cross-border coordination.
105. Financial instability escalates with the pace of deepening and inclusion. Therefore, promoting well-managed financial deepening can enhance resilience and capacity of the financial system to cope with shocks, improve policy effectiveness, and support growth. Thus, it lowers growth volatility, and allows for an expansion of opportunities for effective risk management and diversification. Furthermore, Improvements in technology coupled with financial innovation can increase financial inclusion. For example, mobile money is one initiative which can overcome some of the barriers to financial inclusion through the introduction of new technologies. It allows for rapid expansion of services to reach populations which are otherwise excluded from the financial system and reduces the costs of service delivery.
106. A wide range of reforms have been implemented in Lesotho to improve financial deepening and inclusion and ultimately the contribution of the financial sector to economic growth. While banks are the biggest players in this regard, there is scope for the non-bank financial sector to play a larger role in facilitating access to credit and mobile banking has been the main driver in this area.



107. The banking system continues to be sound and stable. The industry is highly capitalized, relative to the minimum capital requirements and maintains a good quality of assets. The level of liquidity within the banking system is fairly adequate to withstand shocks to banks' balance sheet and the industry is profitable. Stress test results demonstrate that the current capitalization, liquidity and profitability levels of the banking sector guarantee a high degree of resilience to the assumed shocks.
108. However, banks face a number of challenges. They are exposed to credit concentration risk, which poses a threat to their capital position. Credit to households constitutes the largest share of credit extended to the private sector and some segments of the household sector appear overburdened by debt. Furthermore, Lesotho's economic structure makes the financial system prone to concentration risk because economic activity is undiversified. Banks lend mostly to businesses operating in limited sectors. This calls for prudent monitoring of large exposures.
109. The non-bank sector, which consists of insurance, pension funds, collective investments schemes and microfinance institutions, is also relatively stable and continue to grow. Even though it is relatively small compared to the banking sector, it plays a very important role in terms of closing intermediation gap left by banks. As such, considering the role it plays, the non-bank sector is an integral part and does impact on the financial system's stability or instability thereof.

Table 3. 4: Financial Soundness Indicators-Banking Sector

Table 3.1.4: Financial Soundness Indicators - Banking sector							
		2013	2014	2015	2016	2017	
Core Set	Capital Adequacy	Regulatory capital to risk-weighted assets	12.1	13.7	15.2	18.0	11.0
		Regulatory Tier 1 capital to risk-weighted assets	11.4	13.0	13.8	17.2	19.8
		Nonperforming loans net of provisions to capital	11.0	8.0	7.8	7.4	13.5
	Assets Quality	Nonperforming loans to total gross loans	3.7	4.1	3.9	3.6	4.3
		Large exposures to capital		163.5	150.9	124.3	170.0
	Earnings & Profitability	Return on assets	4.8	4.5	4.5	4.5	3.3
		Return on equity	42.7	40.5	40.8	38.0	25.1
		Interest margin to gross income	55.9	58.4	57.6	58.0	58.1
		Noninterest expenses to gross income	52.8	51.1	52.2	54.7	64.5
	Liquidity	Liquid assets to total assets	35.3	40.6	40.3	31.4	35.8
		Liquid assets to short-term liabilities	71.6	56.1	63.6	52.4	53.7
		Customer deposits to total (non-interbank) loans	154.7	174.3	163.1	149.4	173.8
	Sensitivity to Market Risk	Net open position in foreign exchange to capital	32.3	8.0	17.5	10.5	56.71

Source: CBL, 2018

110. The payment and settlement system and infrastructure is an important anchor of financial stability when it operates effectively and efficiently. The Central Bank of Lesotho (CBL) continues to strengthen and maintain the safety and efficiency of the National Payments System (NPS) infrastructure. To date, a number of reform projects have been implemented to increase the up-time of the systems and promote financial system stability. Consequently, the systemically important payment system, have over time, maintained high system availability and the transaction volumes and values processed continue to grow. Mobile money business has also grown tremendously since 2012, but in a stable environment. However, a large share of



mobile money market in Lesotho remained untapped during the period ending December 2016. Nonetheless, the number of active agents and customers, the transactions volumes and values continued to grow over time and offer a big potential to bridge the financial inclusion gap. Vulnerabilities related to mobile money operations are minimal and pose fewer systemic threats.

3.3 Macroeconomic Outlook: Economic Projections for the Plan Period

111. The Plan projections are based on a fourteen-sector model that is built to fit the context of Lesotho economy. The model was used to generate the Medium-Term Fiscal Framework for 2018/2019-2022/2023, and the economic growth outlook. The plan forecasts three growth scenarios: The Baseline scenario, the moderate growth scenario and the desired high growth scenario. In the desired high growth scenario which is the plan scenario, growth recovery is expected starting in FY2019/2020 amidst the fiscal challenges and rising household debt levels. During the FY2019/20, growth is projected to register 2.6 percent and it will increase gradually with the implementation of LHWP project until it reaches 5 percent in FY2022/23. This will also likely be driven by strong growth anticipated in the mining industry which is in line with anticipated global economy upswing.
112. The wholesale and retail trade and the construction activities associated with the implementation of Phase II of the Lesotho Highland Water Project (LHWP II) will also underpin the strong medium growth outlook. The growth impulse from mining and the LHWP II project will, however, create temporary employment during the 5-year construction phase which the Government should sustain thereafter through strong policies and resource allocation to the four productive sectors beyond LHWP project. Strong medium-term growth will possibly be supported by achieving full production capacity by the Lets'eng and Kao diamond mines.
113. Although the manufacturing sector under textile and clothing exports to non-AGOA destinations are expected to grow, those destined to US markets are set to be strained further by the gradual erosion of the country's competitiveness in the US market and the structural challenges that have hampered productivity in the sector. NSDP II proposes measures to deal with structural challenges that affect productivity in the sector hence the sector should realize relatively better growth during the plan period. Whether the SA-based value chain can offset these challenges is yet to be seen. The signing of the Trans-Pacific Partnership (TPP) agreement between several Pacific Rim countries and the US further poses a threat to domestic manufacturing exports. The limited value chain addition and weak business linkages between the large firms and small firms will likely hamper growth prospects in the sector. Some of these challenges will be dealt with during NSDP II implementation in order to increase prospects for growth in the manufacturing sector. In addition, more work will be done to improve the business environment in order to improve prospects for inclusive growth in the country. The country has made commendable progress in improving its World Bank Doing Business indicators, especially in terms of streamlining business and property registration processes that hinder growth of local businesses, as well as FDI.
114. The moderate growth scenario is not substantially different from the high growth scenario. However, it is less ambitious and it assumes MCC grant fails to be provided. The moderate growth scenario generates about 35 817 additional jobs while high growth scenario generates around 39 104 additional jobs under the both productive sectors and the rest of the economy. The details of investment requirements to create these jobs are discussed under the growth Chapter.



3.4 Medium Term Fiscal Framework, 2017/18-2022/23

115. The Medium-Term Fiscal Framework (MTFF) forecasted the resource envelope based on the current and past expenditure patterns, the projected growth, overall fiscal balance and debt sustainability analysis. Given the narrowing fiscal space it will be hard for the Government to stimulate growth in the medium term. As such, Lesotho's growth performance is expected to be driven mainly by growth accelerators mainly mining and construction — especially with the start of the second phase of the Lesotho Highlands Water Project (LHWP II). However, the four productive sectors will be given priority in terms of budget allocation in order to kick start inclusive growth in these sectors.

MTFF Baseline Scenario

116. The MTFF is presented under three scenarios corresponding to the growth scenarios presented in the next chapter. The first is the baseline scenario that forecasts real GDP growth of about 1.1 percent per annum over the plan period. In this scenario Government will undertake fiscal consolidation in order to restore the macro fiscal path. The scenario excludes Lesotho Highlands Water Project (LHWP) and the grant from the Millennium Challenge Corporation (MCC). Fiscal adjustments are undertaken through a cut in both recurrent spending and capital spending given the size of adjustment required to achieve fiscal sustainability. Although the country is at low risk of debt distress as noted earlier, financing pressures will pose significant risks. Given the size of imbalances and little buffers left for the Government at CBL, and the projected further decline in SACU revenue during the FY2019/20, the country has less options but to cut on its capital spending as well. This will come at a premium in terms of growth and employment as indicated in the next chapter. Thus, restoring fiscal sustainability in a situation of political fragility, weak institutions and high rates of poverty and income inequality remains a critical challenge.

117. Revenue projections include a gradual improvement in tax administration. Revenues are expected to grow in line with potential GDP growth. As a result, under the baseline scenario, total revenue will grow from M14,987 million to M18,776 million during the plan period. Increasing taxes in an economy that has just come out of a technical recession would not be plausible as this will likely depress the economy further. Nonetheless there are potential sources of revenue that remain to be explored and these include: increasing service fees such as car licensing, passport fees and other user fees; revisiting tax incentives provided in the law such as the insurance sector benefits from a corporate income tax (CIT) exemption for life insurance. The fiscal costs of this exemption might be quite large in view of the size of the insurance sector. The government will also consider increasing taxes on alcohol and tobacco but a deeper analysis is required to estimate the fiscal contribution of such measures as well as assessing their impact on household's expenditure patterns. The low hanging fruits for adjustment meant to restore fiscal sustainability will possibly come from expenditure side. A moderate reduction in capital spending from M3,684 million to M3,477 million in FY2021/22 to restore fiscal sustainability will be undertaken. However in FY2022/23, capital spending will be adjusted to M3,825 thereby representing about M141 million above the pre-crisis level. The possibility of cutting the recurrent spending is difficult because of the nature of contracts entered between Government and public servants that are long-term and hence difficult to adjust. However, compensation of employees (COE) although allowed to grow in nominal terms, its growth will be capped by limiting the cost of inflation adjustment to half the rate of inflation, and as such is expected to decline in percent of GDP in FY 2018/19 and FY2022/23. Total expenses as a ratio of GDP are expected to decline from 44.5 to 39.1 by end of plan period. Expenses will be maintained at levels below growth in



revenue given that SACU will likely recover only in FY2020/21 in line with import projections for South Africa. SACU receipts will remain broadly around 13 percent of GDP until the end of the Plan. The fiscal deficit would be maintained broadly below 2 percent of GDP in the first three years of the Plan and some moderate surplus will be realized starting in the FY2020/21 till end of the Plan period.

Table 3. 5: Baseline Medium Term Fiscal Framework (MTFF) Projections

Indicator	Actual	Projections				
	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
Total Revenue	14987	15698	15761	16837	17800	18776
Total Tax revenue	6852	7830	8261	8719	9255	9853
SACU	6154	5538	5006	5561	5854	6164
Total Expenses	-15964	-16218	-16166	-16685	-17418	-18323
Goods and Services	-2834	-3119	-2805	-2875	-2990	-3109
Compensation of Employees (COE)	-6140	-6711	-6878	-7050	-7332	-7626
Subsidies	-357	-315	-323	-331	-344	-358
Social Benefits	-980	-1109	-1137	-1166	-1212	-1261
Grants	-964	-778	-797	-817	-850	-884
Non-Financial Assets	-3684	-3088	-3095	-3280	-3477	-3825
Fiscal Balance	-977	-519	-405	152	383	454
Potential GVA in the 4 Sectors	9286	9494	9746	9990	10232	10477
Export Value	14524	15180	16269	17423	18753	20243
Import Value	28448	27769	28611	29299	30787	32343
Percentage (%) of GDP						
Total revenue	41.8	42.4	40.3	40.7	40.5	40.1
Tax Revenue	19.1	21.1	21.1	21.1	21.0	21.0
SACU	17.2	15.0	12.8	13.4	13.3	13.2
Total Expenses	44.5	43.8	41.3	40.3	39.6	39.1
Goods and services	7.9	8.4	7.2	7.0	6.8	6.6
COE	17.1	18.1	17.6	17.0	16.7	16.3
Grants	2.7	2.1	2.0	1.97	1.9	1.9
Fiscal Balance	-2.7	-1.4	-1.0	0.4	0.9	1.0
Reserves in months of Imports	4.3	4.5	4.0	4.7	5.5	6.4

MTFF Moderate Scenario (3.5 percent growth target)

118. The MTFF moderate scenario corresponds to a target growth of 3.5 percent per annum by the end of the Plan. A critical assumption under this scenario is that LHWP is implemented over a 5-year period. This will contribute to increased volume of imports from M28,488 million to M40,704 million by end of the Plan. However, exports volumes and their value will also increase when the country starts transferring water to South Africa which is projected to be in 2021/22. In this scenario the government continuous fiscal consolidation by moderate cut in capital budget from M3,684 million to M3,744 million before rising again to M3,825 million by end of the Plan. However, the cut in government capital budget will be balanced by capital injection into the economy through LHWP worth more than M27 billion which will basically be channeled toward capital investment through construction. Similar to the previous scenario fiscal outcomes improve from -2.7 percent of GDP to a surplus of 2.4 percent of GDP by end of plan period. During the five years of implementation, the deficit is maintained below 2 percent of GDP to achieve macroeconomic stability necessary for sustainable growth. Total expenses as share of GDP are projected to decline relatively more than in the previous scenario because of higher projected growth. They will decline from 44.5 percent to 36.5 percent by end of the plan. In both moderate growth and baseline scenario import cover will grow gradually until it reaches 6.1 months of imports by end of the plan except in the FY2019/20 where it is projected to fall below 4 months of import cover to 3.8 months.



Table 3. 6: Medium Term Fiscal Framework projections under 3.5% growth target

Indicator	Actual	Projections				
	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
Total Revenue	14,987	15,698	15,879	17,113	18,274	19,506
Total Tax Revenue	6,852	7,830	8,379	8,995	9,728	10,582
SACU	6,154	5,538	5,006	5,561	5,854	6,164
Total Expenses	-15,964	-16,218	-16,166	-16,685	-17,418	-18,323
Goods and Services	-2,834	-3,119	-2,805	-2,875	-2,990	-3,109
COE	-6,140	-6,711	-6,878	-7,050	-7,332	-7,626
Subsidies	-357	-315	-323	-331	-344	-358
Social Benefits	-980	-1,109	-1,137	-1,166	-1,212	-1,261
Grants	-964	-778	-797	-817	-850	-884
Non-Financial Assets	-3,684	-3,088	-3,095	-3,280	-3,477	-3,825
Fiscal Balance	-977	-519	-287	428	856	1183
Potential GVA in the 4 Sectors	9,286	9,494	9,763	10,089	10,465	10,893
Export Value	14,524	15,223	16,509	17,961	19,680	21,686
Import Value	28,447	28,364	31,441	33,913	37,329	40,704
Percentage (%) of GDP						
Total Revenue	41.8	42.3	40.0	40.1	39.6	38.9
Tax Revenue	19.1	21.1	21.1	20.3	21.1	21.1
Total Expenses	44.5	43.7	40.7	39.1	37.8	36.5
Goods and services	7.9	8.4	7.1	6.7	6.5	6.2
COE	17.1	18.1	17.3	16.5	15.9	15.2
Grants	2.7	2.1	2.0	1.9	1.77	1.76
SACU	17.2	14.9	12.6	13	12.7	12.3
Fiscal Balance	-2.7	-1.4	-0.7	1.0	1.9	2.4
Reserves in months of Imports	4.3	4.4	3.8	4.6	5.3	6.1

MTFF projections under the desired 5 percent growth target/year

119. The final MTFF scenario corresponds to the desired 5 percent growth target per annum. This is the scenario that represents better outcomes in terms of growth and employment creation. The basic assumption under the desired growth scenario is that both LHWP and MCC supported projects are implemented over a 5-year period. LHWP is projected to inject about M27 billion (equivalent of US\$1.93 billion) while MCC is projected to inject M7 billion (equivalent US\$500 million) into the economy during the five-year span of the plan. It is assumed that this capital injections will relax foreign exchange constraint facing the economy today. However, it must be recognized that achieving positive results in the desired plan projections will depend on: (i) a successful implementation of a coordinated package of investment climate reforms that will improve business environment for doing business. This is because the 5 percent growth target requires additional investment by the private sector of not less than M5 billion annually. (ii). Commitment by Government to ensure sustained political stability which is a necessary condition for investment. (iii). Strict aggregate government expenditure controls and improving the quality of expenditure through allocative targeting and operational efficiency.
120. The MTFF projections under the 5 percent growth target forecast total revenue to grow by M4,513 million between FY2017/18 and FY2022/23 which represents an annual growth of around 6 percent. The major contribution in total revenue will be through tax revenue that will increase due to LHWP construction works and MCC projects. Tax revenue is forecasted to increase from M6,852 million to M10,576 million during the implementation period. SACU revenue is expected to bounce back only in FY2020/21 from the exceptionally low levels of FY2019/20. From FY2019/20 onwards, SACU revenue will grow at about 5 percent per year in current prices till end of plan. However, given uncertainties about long-term SACU revenue, Government should adopt fiscal rules to enable SACU revenue to be only spend on development



projects and any wind falls receipts such as higher than anticipated customs receipts in the short-term be used to rebuild reserves. This will increase fiscal resilience and improve Government ability to deal with any future downward risk. Alternatively, the Government should negotiate stabilization fund with other member states so that during hard times such fund could be used to support member states.

Table 3. 7: Medium Term Fiscal Framework projections under 5% desired growth target

Indicator	Actual	Projections				
	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
Total revenue	14,987	15,698	15,883	17,161	18,453	19,830
Total Tax revenue	6,852	7,830	8,383	9,043	9,907	10,906
SACU	6,154	5,538	5,006	5,561	5,854	6,164
Total Expenses	-15,964	-16,218	-16,166	-16,685	-17,418	-18,323
Goods and Services	-2,834	-3,119	-2,805	-2,875	-2,990	-3,109
COE	-6,140	-6,711	-6,878	-7,050	-7,332	-7,626
Subsidies	-357	-315	-323	-331	-344	-358
Social Benefits	-980	-1,109	-1,137	-1,166	-1,212	-1,261
Grants	-964	-778	-797	-817	-850	-884
Non-Financial Assets	-3,684	-3,088	-3,095	-3,280	-3,477	-3,825
Fiscal Balance	-977	-519	-283	476	1,035	1,507
Potential GVA in the 4 Sectors	9,286	9,494	9,769	10,152	10,688	11,269
Export Value	14,524	15,223	16,517	18,057	20,042	22,350
Import Value	28,447	28,581	33,670	40,011	42,611	45,591
Percentage (%) of GDP						
Total revenue	41.8	42.3	40.0	40.0	39.3	38.4
Tax Revenue	19.1	21.1	21.1	21.1	21.1	21.1
Total Expenses	44.5	43.7	40.7	38.9	37.1	35.4
SACU	17.2	14.9	12.6	13	12.5	11.9
Fiscal Balance	-2.7	-1.4	-0.7	1.1	2.2	2.9
Reserves in months of Imports	4.3	4.4	3.6	3.9	4.7	5.6

121. On the expenditure site, the Government will continue fiscal consolidation through a moderate cut in capital budget component financed by Government while MCC grant and LHWP projects will counter such cut in order to avoid depressing growth, and employment. The public sector wage bill will be put under control, and cost of living adjustment will grow by less than the rate of inflation. Total expenses in current GDP prices will decline from 44.5 percent to 38.4 percent which is likely to match the revenue performance. This should create additional fiscal space by end of the plan. Therefore, Government will have to make efficiency savings through implementing public financial management reforms and implementing capital projects with the highest rate of return and that unlock private sector investment.
122. Overall, matching the resource envelop and expenditure ceiling shows that fiscal balance will remain similar to that under the previously discussed two scenarios with no surpluses generated during the plan period. However, a deficit less than 2 percent of GDP implies that the Country will satisfy critical debt sustainability indicators. The plan projections of economic growth generate a fiscal framework that allows for once off fiscal consolidation during FY2019/20 after which spending on non-financial asset will grow again from M2,308 to M2,989 although will not reach the 2017/18 levels by end of the plan.
123. The favourable outcomes shall reduce the size of Government relative to the size of the private sector but this will require commitment to maintain fiscal sustainability path, and increasing the projects absorptive capacity so that budget allocations are spent as budgeted. It will require commitment to contain the wage bill and increase public sector efficiency. Line ministries will need to adhere strictly to hard budget ceilings and elimination of arrears. There has been a general concern lately about Government delay in making



payment to the private sector for good and services supplied to Government. This will require urgent attention to avoid supplies charging Government high premiums for such payment delays.

3.5 Risks to Growth Projections and Macroeconomic Outlook

124. The previous slow-down in SA's economy has evidently resulted in a decline in Lesotho's expected South African Customs Union (SACU) revenues, and upswings are only expected between FY2020/2021. Historically, being a major source of government revenues, the decline poses a challenge to Lesotho's fiscal outlook: revenues fell from 25 to 18.7 percent of GDP in 2014/15 to 2017/18. At the back of a substantial drop in SACU receipts and an overall decline in total government revenue, while recurrent expenditures were set to remain fairly elevated, fiscal operations deteriorated and dipped into a deficit equivalent to 6.3 percent of GDP in 2016, before improving to a deficit of 1.1 percent of GDP in 2018. Although SACU revenues slightly recovered in 2017/18, the shortfall is projected to deepen further over the next three years, confronting the GoL with large adjustment needs as buffers have already been depleted.
125. While SACU revenue projections are subject to a large margin of error beyond FY 2018/19, due to positive effects of currency depreciation on customs duties, and several tax reforms proposed by the SA government, especially the proposed hike in excise taxes, current projections, as earlier noted, anticipate a recovery only by FY 2020/21. Notably, government's fiscal position has deteriorated significantly, posing a risk of unsustainable fiscal policy. With an overall Fiscal deficit of 5.7 percent in 2017/18, Lesotho is above the 3.0 percent benchmark recommended by both Southern African Development Community (SADC) and the International Monetary Fund (IMF). The current elevated government expenses against lower tax revenue and SACU receipts has led to a significant drop in foreign reserves and, therefore, threatening sustainability of the peg of the Loti to the South African Rand.
126. With public spending at more than 50 percent of GDP in 2017/18, and a wage bill of 18.8 percent of GDP, government's ability to drive growth further is limited. In the case of fiscal adjustment, expenditure cuts would weaken growth prospects in the short term. However, without adjustment, arrears accumulation and rising uncertainty would be a drag on growth over the medium-term. There is also a risk that a delay of expenditure cutting measures could force a drastic and disorderly fiscal adjustment later, which would create a negative spillover into the real economy. Therefore, to drive growth further, government needs to decisively embark on fiscal adjustment measures. Recurrent spending is projected to remain fairly elevated while capital spending will remain subdued. Net external and domestic borrowing are estimated to remain short of fiscal financing needs over the medium-term. As a result, the GoL will ultimately be forced to drawdown its deposits at the Central Bank of Lesotho (CBL) to meet additional financing needs. This is likely to have negative implications for foreign reserves, projected to drop further to 3.6 months of imports by the end of 2018.
127. Financing the deficit of this magnitude is going to be difficult given that Government deposits with the CBL have been depleted to a bare minimum. As a result, financing for the 2018/19 Budget is limited to borrowing only. This will require a tight balancing between domestic and foreign borrowing. Issuing of bonds has served the country well but may face limits due to the market size and concentration, as well as low market appetite. Preliminary analysis indicates that although there is some borrowing space, the country's deficit is driven by an already elevated recurrent expenditure. As part of the budget bill for 2018/19, government outlined some proposed measures to implement to ensure reduction of the wage bill and to maintain macroeconomic stability and fiscal sustainability. These measures include; continued efforts to remove ghost workers, freezing new positions and limiting hiring to critical positions only, linking notch increases to performance, and introducing voluntary retirement. To further address these challenges,



government intends to reduce public expenditure and support a conducive environment for private sector-led growth. Better still, expected increase in external financing, with a sizable grant element for high quality public infrastructure projects, would likely mitigate fiscal adjustment's drain on growth in medium-term.



4. Growth Strategy and Employment Projections

4.1 Introduction

128. In quest for jobs creation, and inclusive growth Lesotho shall embark on a new growth model. It is evident that the current growth model, driven by government consumption is inadequate, non-inclusive, and unsustainable. To create private sector jobs and eradicate extreme poverty, the new model shall shift: (a) from a state-led to a private sector/export-led growth model; (b) from public consumption-driven growth to investment-driven growth (public and private); (c) from macro-imbalances to pro-growth macro/fiscal stability; and (d) from the inefficiency and ineffectiveness of state interventions to a more effective public sector management¹⁶ and from a high climate risk exposed economy to a climate change resilient and sustainable growth economy. Achieving these structural changes will depend on building more assets for the poor – especially in human capital and institutions – and fostering private sector growth.
129. For Lesotho to become more inclusive, more people need to work. At any presently recorded wage rate in the economy, a rise in the proportion of people employed will have a significant impact on overall poverty and the distribution of income. The most obvious example of marginalization in the economy is between those that have jobs and those that are unemployed and not-economically active. Therefore, employment creation represents the best way of making progress towards poverty reduction, reducing inequality and achieving SDGs and is the best way by which resources of the country are shared by its population. However, strategies meant to create jobs must be coupled with specific interventions targeted at the most vulnerable members of society (youths, elderly, women and disabled people) so that no one is left behind during the growth processes. NSDP II has set the target of achieving at least additional 40 000 jobs (23,079 from productive sectors and 17 912 jobs from the rest of the economy) at the end of the Plan period. This translates into approximately 8 200 jobs created each year.
130. The 40 000 jobs forecasted in this plan will be attained alongside a gradual economic growth from 1.1 percent which will be realized in FY2018/19 to 5 percent growth per annum to be realized by the end of Plan. This will require gradual increase in average propensity to invest in capital formation from the current 34 percent to 54 percent over the plan period. At the same time, it will require improving efficiency in implementation of capital projects and targeting projects that are supportive of the private sector investments. It will also require removing a number of remaining bottlenecks that constrain private sector investment in the economy. This will be achieved through implementing the Investment Climate Reforms. Since job creation and inclusive economic growth is anchored on the private sector's participation, the government role will be to provide public goods and services that support the private sector investments and growth. The number of jobs created and achievement of 5 per cent economic growth should therefore be indicators of success in terms of the overall strategic objective of NSDP II.
131. Government will implement strategies targeted at removing the six identified private sector investment constraints (Access to land, Access to Capital/Finance, Access to skills, Access to Infrastructure, Regulatory Hassles and Poor health. The focus of Government will be on increasing labour intensity of growth, mobilizing resources (savings) to fund investment in the economy, easing skills constraints, improving the cost and efficiency of network support industries such as transport, logistics and communications; water and energy, and improving the functioning of land markets, and removing unnecessary regulatory hassles that stifle private sector investment.

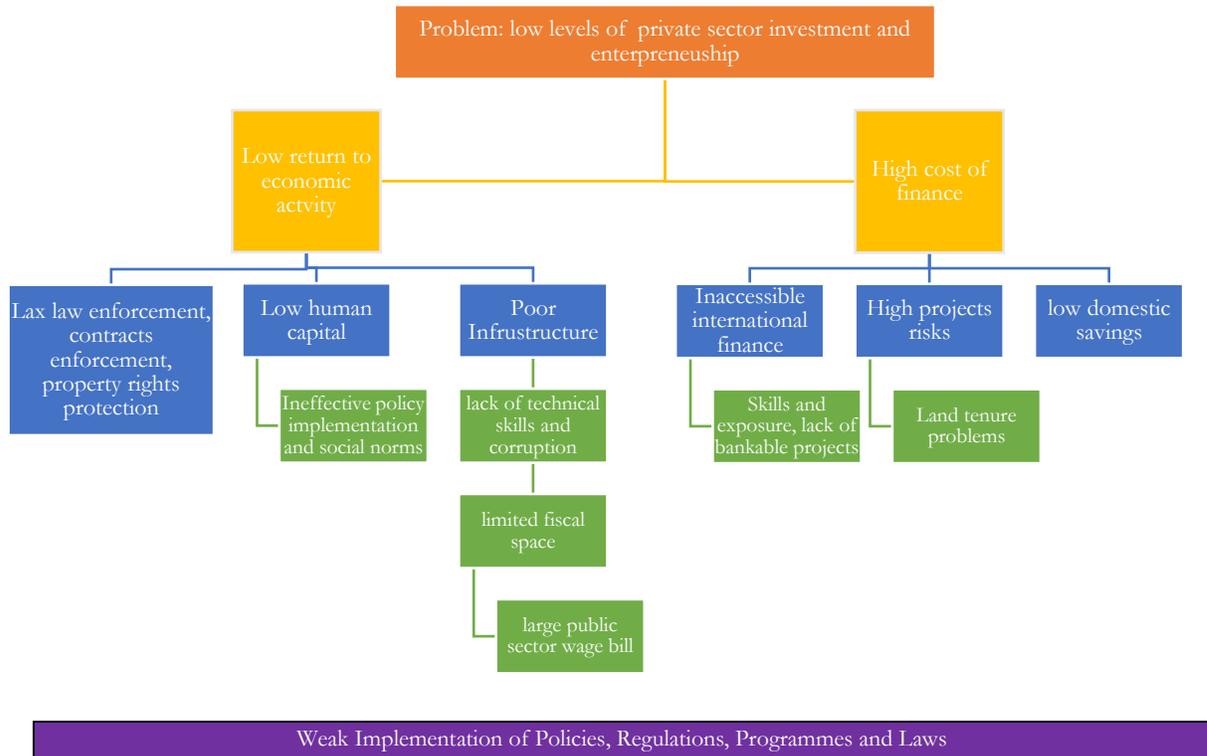
¹⁶ See also World Bank (2015).



4.2 Growth Diagnostics

132. Growth diagnosis following Hausmann and Rodrik (2004) revealed four most binding constraints to private sector investment in Lesotho and two other near binding constraints. These are Government failure to enforce laws, regulations, contracts and protect property rights, and failure to provide public good and services that support growth of the private sector; Low human capital that includes lack of appropriate skills and poor health; Poor infrastructure and lack of access to finance. The near binding constraints were identified to include lack of access to land for productive use and Regulatory Hassles. The root causes of these persisting constraints has been identified to be weak governance and weak institutions that have resulted into weak implementation of policies, regulations, programmes and lack of enforcement of laws that are supportive of the growth of the private sector. These constraints are summarized in Figure 4.1 and discussed below.

Figure 4. 1: Growth Diagnosis Decision Tree



(i) *Lax law and contracts enforcement, property rights protection (Ineffective Execution of Investment Enabling Strategies)*

133. While both local and foreign businesses enjoy the same rights and protections, and that the country's standards and protection of foreign investors are good in practice, the legal framework guaranteeing these norms remain weak. The country does not have foreign investment law and there are limited bilateral investment treaties (BITs) to protect foreign investors and ensure their fair treatment. However the commercial legal, regulatory, and accounting systems are transparent and consistent with international norms. The country's Land Act of 2010 allows foreign investors to hold title to land as long as the local investors own at least 20 percent of the enterprise. At the same time the Companies Act of



2011 strengthened the investors protection by increasing the disclosure requirements for related party transactions and increasing the liability regime for company directors in case of abuse of power related party transactions. The Consumer Protection Policy of 2013 and the Lesotho investment policy of 2016 have also been developed. However, enforcement of these laws remain weak. For instance, the Trading Enterprise Regulations of 2011 have not been enforced as there appears to be a significant number of foreign businesses operating in reserved industries which is against the provisions of the law. The country also does not have specific overarching FDI policy and law but FDI activities are governed by a myriad of legal instruments. The competition bill is also yet to be enacted into Law. The legal structures to protect intellectual property rights are extremely strong yet again enforcement of these structures has remained relatively weak. The judiciary system although is an effective means for enforcing property and contractual rights, in recent years it has been plagued with backlog of cases and inefficiencies-Courts are overburdened, and cases take longer time to resolve. The country's performance in attracting FDI has been credible by regional standards, particularly for landlocked nations. During the NSDP II implementation these challenges will be dealt with under the Investment Climate Reforms.

(ii) *Low Human Capital*

134. The second root cause is the low levels of human capital in the form of skills inadequacy and poor health. Skills inadequacy is in terms of qualified artisans and technical skills, managerial skills as well as low entrepreneurship capacity. This is despite the country's high levels of investment in education and attainment of more than 80 percent of literacy rate. Lesotho has supported education at all levels from ECCD to tertiary education. However, it is noted that TVET education and ECCD have received relatively less attention. There has also been an issue of skills mismatch where the education institutions have not provided skills required by labour market. Low levels of entrepreneurship has led to low emergence of businesses that are owned by local people.

135. Poor health is reflected in high incidence of HIV/AIDS and curable diseases such as Tuberculosis which currently account for highest causes of death in the country. This is despite commendable progress achieved in HIV/AIDS treatment. New infections remain high especially amongst women who account for 30 percent of new infections. The causes of new infections are mainly two interconnected drivers linking economic and socio-cultural domains. Under economic domain is lack of employment and livelihood opportunities in both rural and urban areas which have rendered most women and girls vulnerable as they engage in transactional sex and other risky behaviours in an effort to cope with unemployment and poverty. On the socio-cultural dimension, is the gendered social norms that limit women and girls from negotiating safe sex. Infections are also explained by gender-based violence, and other negative health related behaviours, and low rate of male circumcision. The health system has not been able to cope with new infections. The combined effect of low skills and poor health has been low productivity in both government and the private sector. These issues are addressed under KPA II.

(iii) *Poor Infrastructure*

136. Poor and low quality infrastructure in the form of limited industrial infrastructure especially industrial estates and effluent treatment, lack of maintenance of existing infrastructure which for instance is estimated at M4 130 to remove the backlog of road maintenance only. Similarly there still challenges with trade facilitation infrastructure such as national roads and access roads to production sites, and border posts as well as inefficient customs and boarder services on Lesotho and South Africa boarder posts. This results in long delays between production and markets. The cargo handling facilities in Lesotho are also inadequate and inefficient. There has also been limited infrastructure for irrigation and water harvesting to support enterprising youths and people at different localities. Over the past years our infrastructure was not specifically targeted at unlocking the private sector under productive sectors, and was more influenced by



politically demands. This resulted from lack of coordinated and integrated planning which has often seen some projects implemented without following the project appraisal processes. Poor infrastructure has also been a result of limited fiscal space due to high wage bill that has left little resources to support capital expansion, and weak link between NSDP priorities and public spending which often had not targeted NSDP priorities that support the private sector. The result of limited infrastructure has been low private sector investment because social returns are low and further unemployment and poverty in the economy. The infrastructure issues are discussed elaborately under KPA III.

(iv) Inaccessible finance (lack of access to finance)

137. Limited access to finance has been suggested to constrain private sector investment in Lesotho particularly small and medium enterprises. However the financial sector indicators suggest that low return of economic activity is the more binding constraint. Loan to deposit interest spreads remain very high in the country compared to other countries in the region pointing out to high profitability in the industry, and high risk to investment projects. Nevertheless, Lesotho's private credit to GDP is relatively low as banks have historically preferred to invest excess liquidity in South Africa, thus draining savings out of Lesotho. Indeed, the return on equity of banks in Lesotho is the highest in the region, but it is derived largely from liquid assets, rather than long-term loans to productive sectors (see Table 3.4 in Chapter 3). Financial Sector discussions emphasized the lack of quality investment projects as the main reason behind dormant domestic lending activity to businesses. Weak credit growth for businesses may also reflect a risky investment climate with weak contract enforcement, forcing banks to add a significant risk premium, which few projects are profitable enough to afford. Although the country launched stock market in 2014 and leasing framework as a way to provide alternative sources of finance for businesses, the uptake in these two financing sources has been sluggish. The country lacks development finance as such many potential projects by local private sector have failed to secure financing, and eventually fail. These include projects in productive sectors and other long term projects in support sectors such as energy projects and other infrastructure projects. These issues are addressed in a separate Chapter under growth accelerators and enablers.

(v) Lack of access to land for productive use and regulatory Hassles

138. Although the Land Act of 2010 provided for land ownership by foreign investors as long as the local investors own at least 20 percent of the enterprise, land and physical planning and enforcement of the Act thereof has remained a challenge to private sector investment. The land market remains largely underdeveloped and large parcels of land remain in the hands of people that do not make optimal use of such parcels. In most instances, land remains fallow and the legal clause that if land has been fallow for more than 3 years would be referred back to the Basotho nation has not been enforced. There has also been poor land and physical planning which has not provided for land zoning. This has affected private sector investment especially in Agriculture land. There is therefore a need to facilitate emergence of land markets. The regulation of land markets is also weak as private agents trade land without concern of authorities and in some instances creating land speculation. The lack of access to land for productive use and lack of enforcement thereof has affected private investments especially foreign investors. The country needs to develop a clear model of partnerships between local land owners and foreign companies interested in investing in Land markets in the country. In some instances there remains some regulatory hassles that



hinder private sector investment in productive ventures in the economy. During NSDP II implementation regulatory hassles will be addressed under the investment climate reforms agenda.

139. Weak implementation of policies, regulations, programmes and laws appear to explain Lesotho underdevelopment generally. This is explained by institutional capacity constraints and poor coordination for regulatory and policy reforms. The Country will need to address these binding constraints if private sector is to create jobs and support attainment of inclusive growth.

4.3 Growth Strategy

140. Sustainable economic growth and employment creation will be anchored on four productive sectors as already articulated elsewhere. The creation of such growth and jobs will however require political stability and institutions that are resilient to shocks; stable macroeconomic environment; stable labour markets characterized by competitive, flexible, healthy and skilled labour force; stable public sector that is efficient and insulated from undue political interference; access to minimum infrastructure; savings and investment; access to technology and/or capacity for innovation, and access to markets through global and trade integration. Sustainable economic growth and jobs are premised on private sector that will be supported by Government in ways that crowds in or increases returns from economic activities. In this context the role of Government will largely remain provision of necessary public goods and services such infrastructure, regulation and provision of right policy environment that enhances the private sector capacity to exploit the existing potential and opportunities in the country. The Government will also remain entrusted with supporting for the vulnerable members of society such as the disabled, children and elderly who will not participate directly in labour markets. If these prerequisites to growth are provided, private sector will grow and diversify its products and markets, thereby creating thousands of jobs over the Plan period and beyond.

(a) Savings and Investment

141. Economic growth is driven by investment therefore high levels of investment will require strategies that improve business environment/climate especially at sector level. It will also require strategies that can mobilize domestic and foreign resources for investment. At the same time strategies that minimize risk to investment (de-risking) will enable conversion of domestic savings into productive investments. Savings on their own are a leakage from the system hence must be converted to investment for the economy to grow. Over the next five years, Lesotho will rely on both domestic savings and foreign savings (FDI, concessionary loans, grants and ODA) to support investment in the economy. Given the current foreign exchange constraint faced by the economy, attracting more FDI will remain central for the country. Therefore high levels of investment will increase the country's productive capacity for economic diversification and exports.

(b) Political Stability and Stable Institutions

142. Investment does not happen in a vacuum. It requires predictable political environment, rule of law, low corruption, strong institutions that are resilient to shocks, and enforcement of regulations and laws thereof. It requires credible leadership that can commit to the course of stability and maintenance of peace and security. It is important therefore that the political and constitutional reforms, security sector reforms, public sector reforms meant to provide for security and long lasting peace for Lesotho be implemented hastily. It is proposed that institutions that fight corruption, crime and disputes be strengthened in order to enable them discharge effectively their mandates and ensure that society and businesses are protected



against perpetrators. Thus security of property and investment will remain critical for further growth in the economy.

(c) Macroeconomic Stability

143. Although the economy will start from low base characterized by tough economic conditions (technical recession) which therefore requires fiscal expansion, it is difficult to avoid fiscal consolidation given the dwindling level of international reserves which underwrite the Loti-Rand peg. It will be important to ensure consonance between fiscal policy and monetary policy, and to stay on track in relation to fiscal consolidation in order to increase investment competitiveness. High unsustainable fiscal deficits are a cost to the private sector as they crowd out private sector investment, lead to higher interest rates which also increases the cost of borrowing by the private sector, lead to potential inflation which again reduces profits of the private agents, and eventually affect future generation through high tax rates. Therefore government borrowing must be limited to financing productive investments with high returns and employment potential.

(d) Minimum Infrastructure Platform and Stable Labour Markets

144. Private sector investment depends of the provision of minimum infrastructure in the form of roads networks to enable easy distributions of goods and services; energy, water and ICT infrastructure, as well as soft infrastructure. Therefore NSDP II identifies road maintenance and asset recovery as a priority to support the private sector. It also proposes development of access roads and corridors to productive areas. The country has also identified energy and water provision to industrial areas/zones as critical and should be given priority during implementation. The creation efficient borders will remain critical for trade facilitation as such the Government will continue its engagement with South African government to improve the handling of transit Cargo in South Africa ports. It is also proposed that modern dry port and one stop border be established to enhance trade between Lesotho and other countries. The electricity distribution networks will be modernized to ensure safety and reliability, and expand connections to potential growth areas in particular those areas that are off grid. The Plan has also proposed hydro power generation to be installed in Polihali Dam during Phase II construction. This will likely cut the cost of electricity for productive activities. The Plan proposes also land and water management related infrastructure in order to reduce environmental degradation and increase productivity in the natural resource sector.

145. On the other site growth will require stable labour markets characterized by competitive, flexible, healthy and skilled labour force. The Plan proposes skills development and strengthening human resource base through investment health, education, social protection and migration. The migration management will be improved to enable easy importation of skills not available in the local economy. The country has already enacted dual citizenship Act to enable individuals with skills to invest those skills in the country. During the NSDP II special attention shall be given to development of legal frameworks that will facilitate the country to leverage on expatriates skills in its development trajectory. Stable labour markets will be maintained through strategies that reduce labour disputes and industrial actions. Lesotho has already well established labour relations institutions and dispute resolution mechanisms, therefore the Country will strengthen these institutions and tripartite structures to keep labour markets stable. It will facilitate permit acquisition through improvement in labour market information system.



(e) Global Integration, External Trade and Domestic Trade

146. Given Lesotho's limited effective demand due to small population size and low levels of per capita incomes, growth strategy based exclusively on satisfying domestic demand would quickly exhaust its potential. Therefore this growth strategy is based on export promotion to meet regional and international markets demand thereby stimulating further growth in the country. The country will continue exploiting niche market opportunities offered in the domestic market and building linkages between foreign and local firms, in order to maximize domestic content of production as well as linking to global industrial value chains and marketing chains. Over the past decades there has been low trade between rural areas and urban centers which has exacerbated the rural urban divide. The growth strategy therefore proposes identification of growth poles in the rural areas and urban centers and promotion of trade between rural and urban areas. Agricultural markets and agribusinesses will continue to be developed to serve as the primary link between rural and urban centres. The country will support growth of rural based cottage industries in the country, and facilitate linkage between rural economy supply and urban centers demand. The development of industrial and services sector nodes and hubs, including tourism circuits linked to agriculture, manufacturing and service sector will require huge investment in infrastructure. The growth strategy further emphasizes the need to promote sector linkages between the four productive sectors especially agriculture, manufacturing and tourism with the mining industry such that the mining companies utilize the produce from these other sectors.

(f) Stable public sector that is efficient and insulated from undue political interference

147. To support the delivery of strategic thrusts of NSDP II the Government will transform the public service to become more citizen-centric, efficient and effective in service delivery. The inspiration is to embark on public sector reforms to enhance efficiency and productivity of public service in a less bureaucratic, hierarchical, and centralized manner. The private sector will only grow if support services are delivered efficiently and effectively. The transformation of public service will therefore call for rationalization of public sector institutions for greater productivity and performance by reducing overlapping roles and functions among agencies, right sizing the public service, and introducing an exit policy for underperformers; Strengthening talent management for the public service by providing a more conducive working environment including flexible work arrangements, Empowering ministries and agencies, and upgrading public sector training institutions; Enhancing service delivery through decentralization, eliminating unnecessary bureaucratic processes, expanding the outreach of its services and increasing accountability.



4.4 Growth & Employment Scenarios (to be completed)

148. This Plan models three possible scenarios for employment creation and growth trajectory during the five-year period with each scenario underpinned by certain plausible assumptions. The starting position is unfavourable as the economy is just coming out of technical recession (real growth rate of -0.27) in 2017/18 Fiscal Year. Economic growth had been on a downward trajectory since 2012/13 until it reached technical recession point in 2017/18 fiscal year. The recession was a result of multiple factors which include: reductions in SACU receipts which affected Government buffers and its spending; improper intertemporal revenue management, and sluggish performance of the South African economy which has fueled reductions in SACU customs pool. In 2017/18, the country was also recovering from worst EI Niño weather condition that affected agriculture production immensely. The decline in SACU receipts has had adverse effects on all major supplies to Government and by 2017/18 more than M1.2 billion was outstanding liabilities of Government to all suppliers. At the same time Government had run down its buffers at the CBL with the consequence that Net Foreign Assets had declined from 6.1 months of imports cover in 2014/15 fiscal year to 4.4 months of import cover in 2017/18 fiscal year. While fiscal consolidation could not be avoided, a need for expansionary fiscal policy was warranted to take the economy out of technical recession and create the much needed jobs and stimulate economic growth. Pursuance of these two conflicting objectives has become a major challenge to Government. This therefore calls for **cautious** fiscal adjustment path that would preserve growth and employment creation while at the same time restoring macroeconomic stability which is a necessary condition for growth. The plan's three possible growth scenarios are discussed below:

4.4.1 Baseline Growth Scenario

149. The current fiscal conditions demonstrate the country's failure to manage revenues in intertemporal manner over the past years. It also shows that the country remains vulnerable to external shocks and exogenous events. The Baseline growth scenario extrapolates macroeconomic outcomes under the conditions that country undertaken fiscal consolidation but without any external support (i.e. development partners support, no LHWP, and no MCC grant provided).

Table 4. 1: Baseline: Restoring Fiscal Sustainability

Table 4.1: Key Indicators for the Plan Projections under the Baseline Scenario, 2018/19-2022/23						
	Actual	Projections				
Macro-Economic Indicators	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
Real GDP (Mm)	23,832	24,019	24,337	24,661	25,024	25,403
Real GDP (% annual change)	-1.9	0.8	1.3	1.3	1.5	1.5
GDP at current market prices (Mm)	35834	37015	39141	41365	43945	46828
Household consumption at current prices (Mm)	26924	27252	28826	30223	31997	33832
Total Employment	569,078	569,554	573,108	576,724	581,179	585,911
Employment in the Four Productive Sectors	113,913	115,842	118,819	121,799	124,645	127,279
Employment in the Four Productive Sectors (change)		1,929	2,977	2,980	2,849	1,631
Employment in rest of the economy	455,165	453,712	454,289	454,925	456,534	458,632
Employment in rest of the economy (change)		-1,453	577	636	1,609	2,098
Required Average Propensity to Invest (%)	34	27.2	24.0	23.1	22.9	22.6
Private sector investment at current prices (Mm)	6,005	5,374	5,331	5,588	5,993	6,372
LHDA investment at current prices (Mm)	0	0	0	0	0	0
Public sector investment at current prices (Mm)	2,973	2,491	2,497	2,647	2,806	3,086



Fiscal Balance (Mm)	-977	-519	-405	152	383	454
Fiscal Balance/GDP at current market prices (%)	-2.7	-1.4	-1.0	0.4	0.9	1.0
CBL Net Foreign Assets: Months of import coverage	4.3	4.5	4.0	4.7	5.5	6.4

Table 4. 2: Real Growth Target: 3.5%

Table 4.2: Key Indicators for the Plan Projections, 2018/19-2022/23 (Target Real Growth Rate of 3.5%)						
	Actual	Projections				
Macro-Economic Indicators	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
Real GDP (Mm)	23,832	24,084	24,692	25,418	26,254	27,205
Real GDP (% annual change)	-1.9	1.1	2.5	2.9	3.3	3.6
GDP at current market prices (Mm)	35,834	37,118	39,717	42,641	46,114	50,162
Household consumption at current prices (Mm)	26,924	27,252	28,871	30,490	32,611	34,823
Total Employment	569,078	569,809	575,078	582,775	592,611	604,599
Employment in the Four Productive Sectors	113,913	115,839	119,025	123,051	127,573	132,482
Employment in the Four Productive Sectors (Annual change)		1,926	3,186	4,026	4,522	4,909
Employment in rest of the economy	455,165	453,971	456,053	459,724	465,038	472,117
Employment in rest of the economy (Annual change)		-1,194	2,082	3,671	5,312	7,079
Required Average Propensity to Invest (%)	34.1	29.7	33.3	37.0	40.6	43.3
Private sector investment at current prices(Mm)	6,003	5,371	5,355	5,762	6,492	7,357
LHDA investment at current prices (Mm)	0	653	3,070	4,851	6,565	8,114
Public sector investment at current prices (Mm)	2,973	2,491	2,497	2,647	2,806	3,086
Fiscal Balance (Mm)	-977	-519	-287	428	856	1,183
Fiscal Balance/GDP at current market prices (%)	-2.7	-1.4	-0.7	1.0	1.9	2.4



CBL Net Foreign Assets: Months of import coverage	4.3	4.4	3.8	4.6	5.3	6.1
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Table 4. 3: Target growth of 5%

Table 4.3: Key Indicators for the Plan Projections, 2018/19-2022/23 (Target Real Growth Rate of 5%)						
	Actual	Projections				
Macro-Economic Indicators	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
Real GDP (Mm)	23,832	24,084	24,704	25,551	26,733	28,035
Real GDP (% annual change)	-1.9	1.1	2.6	3.4	4.6	4.9
GDP at current market prices (Mm)	35,834	37,118	39,737	42,868	46,960	51,696
Household consumption at current prices (Mm)	26,924	27,252	28,871	30,498	32,712	35,211
Total Employment	569,078	568,956	571,078	578,054	592,068	607,892
Employment in the Four Productive Sectors	113,913	115,839	119,095	123,817	130,269	136,979
Additional Employment in the Four Productive Sectors (Annual change)		1,939	3,256	4,722	6,452	6,710
Employment in rest of the economy	455,165	453,118	453,983	454,237	461,799	470,913
Additional Employment in rest of the economy (Annual change)		-2,047	865	1,865	7,562	9,676
Required Average Propensity to Invest (%)	34.1	30.3	40	54.2	54.2	54.2
Private sector investment at current prices (Mm)	6,003	5,371	5,363	5,870	6,938	8,277
LHDA investment at current prices (Mm)	0	871	5,300	10,952	11,743	12,488
Public sector investment at current prices (Mm)	2,973	2,491	2,497	2,647	2,806	3,086
Fiscal Balance (Mm)	-977	-519	-283	476	1,035	1,507
Fiscal Balance/GDP at current market prices (%)	-2.7	-1.4	-0.7	1.1	1.2	2.9
CBL Net Foreign Assets: Months of import coverage	4.3	4.4	3.6	3.9	4.7	5.6



PART II

Strategic Framework

5.0 Economic Policy Direction

150. Lesotho's economic policy direction has shifted several times since independence,¹⁷ and today the economy has to reposition itself under the current globally competitive environment. Since, 1995 the nation's focus has been on promoting free market enterprise through privatization of state-owned enterprises (SOEs) and taking opportunities offered by globalization and global value chains (GVCs) in textile industries. The country has divested from state-owned enterprises in the food, construction, tourism, banking, telecommunications, and pharmaceutical industries although it continues to dominate the water, power, and transport industries. From the late 1990s to the early 2000s, it encouraged foreign private investment in other sectors, notably textiles and garments, driven by the benefits offered by American Growth and Opportunity Act (AGOA). The country offered a range of incentives to investors in the manufacturing sector, and took advantage of the favourable trade preferences in the US market offered through AGOA. It developed its manufacturing capacity, particularly in the textiles and apparel, and footwear sub-sector. This significantly expanded private sector employment to more than 46 000 jobs for low skilled workers, mostly women and girls, and contributed to rapid growth in GDP and exports. However, the manufacturing sector's growth has stagnated in recent times and relatively very few new jobs are created in

¹⁷ LMDA (2014), "Foundation Studies", Maseru Lesotho.



the sector. The underlying causes of this stagnation are yet to be explored and the country remains very reliant on few products and markets for exports.

151. While Lesotho has used trade to drive economic growth and employment creation, growth has not contributed to poverty reduction. Moreover, the Basotho-owned businesses have struggled to integrate into GVCs as suppliers, resulting in only limited backward linkages to the economy. A tough competitive environment and a slow pace of investment climate reforms risk Lesotho's competitive edge in its core sectors. Lesotho's market shares in ten of its most exported products (apparel export products) to the US has stagnated or declined over the past decade against the Asian and Latin American competitors such as Vietnam, Malaysia, Bangladesh and Cambodia.
152. NSDP II, therefore, remains concerned with the growth of the private sector which presumably will deliver jobs and promote diversification of products and achieve inclusive economic growth. The Government of Lesotho (GoL) has identified four productive sectors - Agriculture, Manufacturing, Tourism and Creative Industries, and Technology and Innovation - as potential sectors for job creation and achievement of inclusive economic growth under a new growth path led by the private sector. The latter sector will probably stimulate trade in services and increase the scope and range of tradable services, and enable the service sector to become a key option for export diversification. The private sector's contribution to GDP is currently estimated at about 14.7 percent¹⁸, and MSMEs make up about 85 percent of all firms and employ about 200, 000 people. While there are larger firms, especially in the textile and apparel, and mining sectors, there remains a gap in growth of middle firms; with only six percent of firms considered medium sized. At the same time business linkages between these small firms and large firms are missing.
153. Therefore, the growth of firms across the productive sectors will depend on establishing these business linkages and creating an environment characterized by macroeconomic stability and a conducive investment climate. Macroeconomic stability involves two elements. First, rebuilding the international reserves to support the exchange rate peg to the South African rand. Second, fiscal consolidation through limiting the deficit to less than three percent of GDP by restraining the public sector spending particularly wage bill, reducing non-priority outlays through stringent expenditure controls, and strengthening revenue administration. Conducive investment climate will involve removing impediments or restrictions to businesses and introducing new laws that are supportive of business operations. This will further be discussed in detail under the investment reforms section.

5.1 NSDP II, Vision 2020 and International Development Frameworks

154. This Framework is embodied in the National Vision 2020 which articulates that by 2020, 'Lesotho shall be a stable democracy, a united and prosperous nation at peace with itself and its neighbours. It shall have a healthy and well-developed human resource base, a strong economy, a well-managed environment and an established technological base'. However, there have been lost opportunities to fully realise these aspirations as the country is just two years away from the year 2020¹⁹. However, it is more likely that the development aspirations articulated in the Vision will not change much. As such, NSDP II has considered these development aspirations in its making. NSDP II, therefore, builds on NSDP I that covered the period 2012/13–2016/17. The Plan is also informed by the United Nations Sustainable Development Goals (SDGs) and the Africa Union Agenda 2063, and is aligned to the SADC Regional Indicative Strategic Development Plan (RISDP) 2005-2020. The alignment between NSDP II and these development frameworks is provided herein as annex under each Key Priority Area.

¹⁸ See Molapo (2016).

¹⁹ The review of National Vision 2020 and the development of a new Vision have commenced.

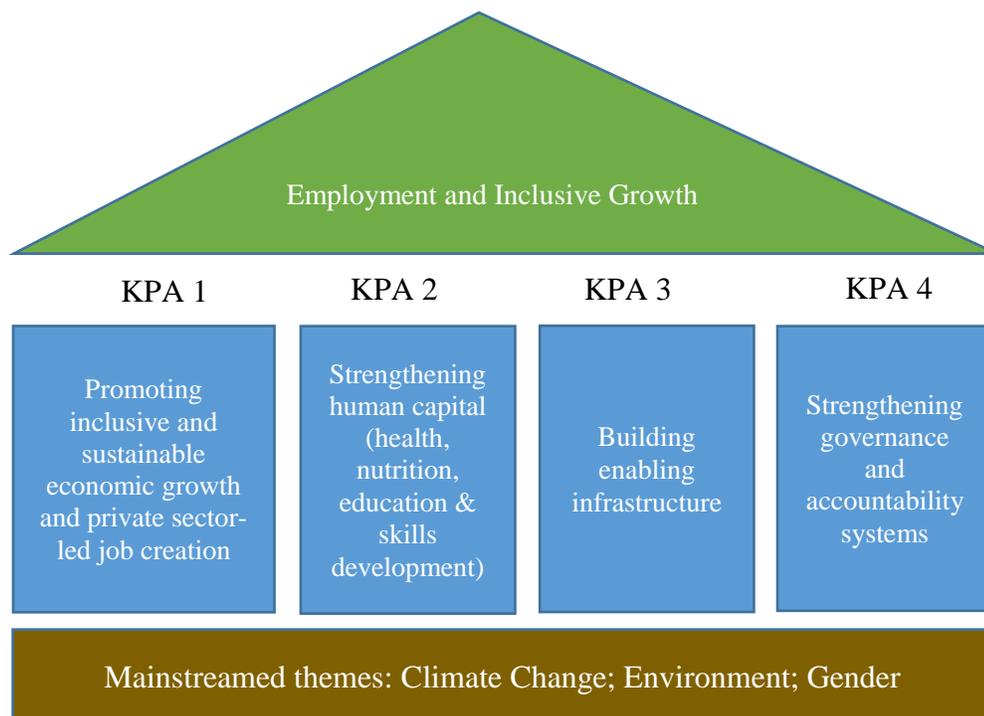


5.2 Key Priority Areas, Strategic Objectives and Key Policy Interventions

155. Overall strategies for NSDP II both at macro and thematic levels were drawn on the basis of the identified Four Key Priority Areas that are likely to unlock private sector investment in the economy, and lead to the achievement of inclusive economic growth, that is a precondition for poverty reduction. These priority areas include: (1) Promoting Inclusive and Sustainable Economic Growth and Private Sector –led job Creation, (2) Strengthening Human Capital (through developing human capabilities in Health, Education, Nutrition and Social Protection); Building Enabling Infrastructure, and Strengthening the National Governance and Accountability Systems. The ultimate goal of these priority areas is to address the country’s main development challenges as articulated in the introductory Chapter. Thus, the plan aims to achieve sustainable development both within and across generations entrenched in the concept of inclusive growth and decent employment creation. The Plan further serves as a framework towards the implementation of the United Nations Sustainable Development Goals (SDGs) as well as the goals expressed in the African Agenda 2063.

156. Figure 6.1 presents the four **KEY PRIORITY AREAS** (KPAs)²⁰ that have been identified to anchor the NSDP II Strategic Framework.

Figure 5. 1 FOUR KEY PRIORITY AREAS (KPAs) that have been identified to anchor the NSDP II Strategic Framework.



²⁰ The Key Priority Areas (KPAs) refers to strategic pillars or focus areas, which represents high level objectives or cluster of related objectives, around which the NSDP II strategic framework is anchored.



157. NSDP II, like its predecessor concerns itself with creating productive employment and growing the country's wealth in a manner that is inclusive and sustainable. Critical to this is the speed at which the economy will transform its pattern of growth from the current government-led growth path to the private sector-led growth. Lesotho cannot do business as usual given the urgency with which employment creation and spurring of inclusive economic growth should be achieved. Lesotho ranks among the twelve worse countries in the world in terms of unemployment. As a consequence, the country needs to find diversified sources of economic growth that will yield productive jobs. This objective lies at the heart of the current strategic framework. In addition, NSDP II framework emphasizes the need for Lesotho to tap onto its existing comparative advantage to broaden sources of growth by supporting economic diversification and export competitiveness through developing industrial clusters under Productive Sectors. It is notable that although the Lesotho private sector is at its nascent stage, with good regulatory framework and support from the Government and financing institutions, such a private sector will grow and create the much needed jobs in the economy. The country has committed to establish Special Economic Zones and draw synergies across sectors through clustering of Government Ministries which serve as strategic support sectors for the current strategic framework. The efficiency in delivery of public services that support the private sector will be crucial during the implementation phase of the plan. Therefore, the Government has committed to undertake the Public Sector Modernization reforms to propel efficiency of public service in order to support the private sector and general public.
158. From the production side of the economy, the Plan identifies Agriculture, Manufacturing, Tourism and Creative Industries, and Technology and Innovation as employment creating and inclusive growth driving sectors while Mining, and Lesotho Highlands Water Authority (LHDA) phase II are considered to be growth accelerators. This is because despite their relative small size in terms of job creation, they massively contribute to GDP growth. These sectors are likely to contribute to achieving the Lesotho's overall goal of generating 5 to 6 percent economic growth, despite their limited potential to produce a significant number of sustainable jobs. At the same time NSDP II views Political Stability, Investment Climate Reforms (ICR) and Financial Sector Development as growth enablers. This is premised on the fact that without them it is difficult to have private sector committing their funds in the economy.
159. NSDP II views Strengthening Governance and Accountability Systems; Building an Enabling Infrastructure; Strengthening Human Capital (Health, Education & Skills development, Nutrition and Social Protection) as support areas to anchor NSDP II strategic framework in the next five years. It further views building climate change resilient across all sectors (both productive and support sectors) that have low carbon footprints as strategically important to the country's pursuance of sustainable development. Domestic resource mobilization to finance key priority sectors will be achieved through further development of the Financial Sector.

116. NSDP II mainstreams Climate Change, Environment, Gender and Social Inclusion across all sectors. These are crucial for the realization of inclusive growth. Climate change has implications for employment creation and economic growth since its impact on various economic sectors such as agriculture, health and nutrition, tourism and natural resources has been well established. Therefore, it is imperative that NSDP II strategy for employment creation and growth takes cognizance of climate change mitigation and adaptation. Unless gender and social issues ...



160. From the demand side, employment creation and inclusive economic growth will be achieved by targeting both domestic market for goods and services, which is currently served by imports from South Africa and elsewhere, and foreign markets. This will broaden growth and economic base, and likely increase domestic tax collection. The broadening of Lesotho's aggregate demand will likely boost investor confidence further to invest in the economy and create jobs. However, for a small landlocked country like Lesotho with low effective demand and per capita income, domestic market will limit the extent to which it can absorb goods and services produced in the country. Therefore, improving the country's trade competitiveness and increasing its regional and global integration are essential for growth and development. Lesotho will, therefore, pursue export expansion and diversification as part of the strategy to create jobs and grow the economy. Lesotho's position within South Africa, a country of more than 55 million people, offers a huge market opportunity for its exports.
161. In addition, the country's membership of the Southern African Customs Union (SACU) and the Southern African Development Community (SADC), and its multi-lateral and bilateral trade agreements with a number of countries offer further market opportunities. The country is part of the African Caribbean Pacific (ACP), an European Union (EU) Partnership Agreement, which grants non-reciprocal preferential access to the EU market for some ACP products. The country is classified as a least developed country under the Cotonou Agreement and its status is enhanced by the EU's Everything But Arms (EBA) initiative. Under this initiative, Lesotho enjoys quota-free and duty-free access to the EU market for everything except arms. In addition, Lesotho has recently initialed an Interim Economic Partnership Agreement which will give it significantly improved access to the European Union. These memberships provide a huge market opportunity for Lesotho's products, and the country can be used as a gateway to larger regional markets by both domestic and foreign businesses. Thus, the country must take advantage of the Regional Value Chains (RVCs) and Global Value Chains (GVCs), and the favourable trade preferences in regional and global markets.
162. Since not all economic growth will be employment creating, nor poverty reducing as evidenced by Lesotho's past growth experience where growth did not reduce poverty and create sustainable jobs, it is important that social safety-nets be strengthened. At the same time, some segments of society might not be able to participate in economic activities or take advantage of available economic opportunities due to their incapacities and other vulnerabilities and/or in some case because of their special circumstances. These include people living with disabilities, orphans and the elderlies. Therefore, to realize inclusive economic growth and "leaving no one behind", the country will continue to strengthen social protection programmes targeted at such groups. These programmes will continue to be improved at three levels of generality: preventive social protection (i.e. measures to avert poverty and food insecurity), promotional income enhancement social protection measures (i.e. like skills promoting, vocational and agriculture training measures), and transformative social protection measures targeted at addressing inequality and exclusion. Within this context social protection programmes must therefore: (1) contribute towards social inclusion, (2). Strengthen human capabilities, (3). Contribute towards employment creation through the multiplier effects, and (4) stimulate aggregate demand and thereby lead to increased production in the economy.





Table 5. 1: Summary Program Logic for the NSDP II

Private Sector-led Job Creation and Inclusive Growth						
Problem	KPA	Strategic Activities	Short term outcomes	Medium term outcomes	Long term outcomes	Goal
	Growth and Job Creation	<ul style="list-style-type: none"> Private sector development Access to credit – financial sector diversification Investment climate/regulatory reforms Land tenure & management reforms Youth employment Environment, Climate change strategies? 	Improved quality of land for productive use Policy, legal and regulatory reforms	<p>Increased productivity in agriculture, manufacturing, technology and tourism and creative industries sectors</p> <p>Investment climate that encourages PS investments, and growth, protects</p>	<p>Increased private sector investment in productive sectors</p> <p>Increased employment in productive sectors</p>	Employment creation and poverty Reduction through Sustainable Inclusive Economic Growth
	Governance and Institutions	<ul style="list-style-type: none"> Constitutional & Security Sector reform Autonomy and strengthening of oversight bodies (Parliament, DCEO, OAG, Ombudsman, etc) Principal Secretaries positions 	Time, cost, quality and equity of government services improved	Increased use of land in productive investments		
	Human Capital	<p><u>Education & Skills Development</u> Access? Quality? Capacity to anticipate and match labour market needs (tripartite sector skills councils, labour market research (skills forecasting), NMDS scholarships alignment) People with disability?</p>	Entrepreneurs have stronger business and management skills	Improved GOL effectiveness in key institutions		
		<p><u>Health, Nutrition and Social Development</u> Effectiveness in health spending Regulation of drugs and public health practitioners Coverage and sustainability of HIV/AIDS and TB Programmes Maternal and Child Health Nutrition? Social protection?</p>		Increased number of businesses operating in key sectors		
Infrastructure	<p>National Infrastructure Policy Roads to support productive sectors Roads Maintenance regime Energy generation and transmission infrastructure ICT, water infrastructure? Spatial planning?</p>			Increased and diversified skill intensive production		



Investment Climate Reforms, Mining and Financial Sector Development

6.1 Investment Climate Reforms and Enablers

Intermediate Outcome GAE1.1: A Conducive Business Environment

163. As part of the strategy to enable the productive sectors achieve the overarching NSDP II objective of job-creation and inclusive economic growth, as well as incorporating sustainable development, a conducive business climate that enables the private sector to successfully play its role is necessary. Empirical Evidence has shown that a good business environment can add more than 1.4 percent to annual GDP growth²¹. The GoL is therefore committed to implement further reforms to improve investment climate in the country.
164. Over the past five years the country made commendable progress on business climate reforms. Some major achievements under the business climate reforms include an establishment of One Stop Business Facilitation Centre (OBFC) which provides a streamlined and integrated suite of business services for enterprises and investors, including business licensing, customs clearance, residence permits, company registration, tax clearance, utilities payment, investment information, and business statistics as well as advocacy for regulatory reform. It became a member of Corporate Register Forum in 2013; a forum that provides market information and economic profiles. Automation of Company Registry in the OBFC was completed and online registration of companies started in 2014. However, the Roll-out of its services to Mafeteng are partly operational. The Lesotho Trade Portal was launched and moved to OBFC with the aim to give investors information on internal and cross border trade issues. The country further drafted the Business Licensing and Registration Bill, and completed stakeholder sensitization workshops. During the same period the Industrial and Competition Policies were completed and presented to Cabinet.
165. The GoL enacted New Companies Act of 2011 to strengthen investor protection by increasing the disclosure requirements for related party transactions and improving the liability regime for company directors in case of abusive related party transactions, and made transferring property easier. The Act removed several restrictive requirements such as minimum capital, registration of companies by lawyers and spouse consent for married women to become directors, and it ensured compliance with the anti-money laundering protocols. As a result, the number of days to register a company dropped from 90 to 5 days because of the reforms in the law, and time taken to issue licenses dropped from 35 to 5 days. The country further passed the land legislation and improved its administration, modernized the commercial legal system which made enforcing contracts easier, strengthened the payments and settlements system, established the credit bureau and supported provision of credit bureau services which improved access to credit information, rolled out the Biometric National Identification System and automated systems under the Maseru City Council (MCC) for acquisition of building permits. Because of these milestones, the country's ranking on the Ease of Doing Business has moved more than 39 points from rank 143 obtaining in 2012/13 to rank 104 in 2017/18.
166. The Country's position on the Ease of Doing Business is commendable and if Lesotho implements further

²¹ World Bank (2013).



reforms during the Plan period, it will likely rank better than its CMA and SACU counterparts on the ease of doing business. It must be noted that South Africa's position and that of Botswana and Namibia have been worsening between 2012/13 and 2017/18 thereby providing opportunity for Lesotho to have the most conducive business environment in CMA. The Country has committed to undertake further Investment Climate Reforms and has targeted reducing its ranking by at least 30 ranking points during the plan period to position 74 by end of 2023/2024 (the **Matrix of Investment Climate reforms indicating strategic interventions and activities is provided in Annex I**).

Table 6. 1: Ease of Doing Business Ranking, 2017-2018

Table 6.1: Ease of doing Business Ranking, 2017/2018											
Countries	2012/2013	2017/2018	Starting a business	Dealing with construction permits	Getting electricity	Getting credit	Protecting investors	Paying taxes	Trading across borders	Enforcing contracts	Resolving insolvency
Lesotho	143	104	119	167	152	77	108	111	40	95	124
Comparator Economies: CMA Countries											
Botswana	54	81	153	59	124	77	76	47	50	133	79
South Africa	35	82	136	94	112	68	24	46	147	115	55
Namibia	78	106	172	107	68	68	89	79	132	59	123
Swaziland	124	112	158	102	159	77	138	63	32	169	114
Comparator Economies: Other SADC Countries											
Mauritius	23	25	40	9	51	55	33	10	70	27	36
Zambia	84	85	101	69	155	2	89	15	150	128	89
Seychelles	103	95	141	131	134	133	108	29	88	130	67
Malawi	145	110	152	144	166	6	96	134	117	151	138
Six Best Performing Economies Globally											
New Zealand	3	1	1	3	37	1	2	9	56	21	32
Singapore	1	2	6	16	12	29	4	7	42	2	27
Denmark	5	3	34	1	16	42	33	8	1	32	7
Korea, Rep.	8	4	9	28	2	55	20	24	33	1	5
Hong Kong	2	5	3	5	4	29	9	3	31	28	43
United States	4	6	49	36	49	2	42	36	36	16	3

167. During the plan period, the aim will be on removing remaining obstacles in areas where the country ranks unfavourably. Focus will be on dealing with construction permits in which the country currently ranks 167, getting electricity (Rank 152), resolving insolvency (Rank 124) - it takes about 2.5 years to resolve insolvency in the country, paying taxes (Rank 111) - it takes more than 150 hours to pay VAT and more than 41 weeks to get its refund, protecting minority rights (Rank 108), starting a business (Rank 119). The MCC will revisit its permit acquisition automation system and improve its functionality as well as reducing the number of days it takes to obtain health certificate which currently stands at 14 days.

168. The GoL has already resuscitated the institutional structures to oversee the implementation of further investment climate reforms (i.e. Cabinet-level Committee and Implementation Committees). The Investment Climate Reforms' Secretariat has been established and placed under the Ministry of Development Planning and is answerable to PS planning. The Government Secretary has been officially mandated to oversee the reforms implementation. Successful implementation of ICR will likely see further Foreign Direct Investment in the country. The country has now opened up to FDI in various areas of the economy including Agriculture and Tourism and Creative Industries. In addition to ICR, Lesotho will continue to offer various incentive packages to encourage investment in all areas of the economy, apart



from few specified cases reserved for Lesotho's citizens. It must be noted that all foreign investors enjoy equal national treatment once businesses are established. Parallel to these investment climate reforms, the country will focus its attention on pursuing four main broad strategies at macro level under the productive sectors: Business Incubation Strategy to build productive capabilities of domestic SMMEs, Economic Diversification and Deepening Trade Integration Strategy; Export and Investment Promotion Strategy; and Research and Innovation Strategy. This set of broad strategies will be implemented in a consolidated fashion and will be supported by specific sector strategies articulated under each support sector.

6.2 Mining

169. Although Lesotho mining and mineral sector is still at its nascent stage the Government through the Minerals and Mining Policy of 2015 recognizes the potential for natural resource rents from mining industry to transform Lesotho economy through supporting other employment creating sectors such as Agriculture, Manufacturing, Tourism and creative industries, and Technology and Innovation. The rents from the industry will be used to catalyze wider economic development opportunities including funding public sector investment in infrastructure, and other public goods that are critical for the achievement of socio-economic development of the country. In addition, the transformation potential of the mining industry will be realized if the country promotes and intensifies inter-sectoral linkages between the mining industry and other economic sectors (i.e. Agriculture, Manufacturing, Tourism and other value adding industries) such that the latter can supply the mining industry with basic consumables.

7.3.1 Situation Analysis

170. The Lesotho mining industry is dominated by diamond mining but sandstone mining and dolerite have been on the rise lately. The sector contribution to the country's GDP has hovered around 8 percent between 2012 and 2018. However, the Artisanal and Small-scale Mining (ASM) remains largely underdeveloped with no legal framework to guide such mining prospects. In 2012, the Government of the Kingdom of Lesotho constituted a fully-fledged Ministry of Mining in recognition of the growing importance of the mining and minerals sector in the national economy.

171. The country's major markets for diamonds and sandstone are in Belgium and South Africa respectively, while dolerite is largely utilized by local construction industry. Royalties, dividends and taxes form the bulk of revenue generated within the mining industry. For the past few years, the industry's revenue has registered an exponential growth from M482.6 million in 2013/14 to M822.3 Million in 2017/18 with 2014/15 and 2015/16 registering over M1 billion. While dividend payments are dependent on shareholding, diamond mines account for a 10 percent negotiable royalty, with the industrial minerals being liable for 3 percent as per the Mines and Minerals Act (2005).

172. The industry's taxes, however, are imposed only on activities beyond the diamond prospecting stage. The following taxes are paid once production starts: company income tax, withholding tax for services, Fringe Benefits tax, Pay-As-You-Earn (PAYE), Value-Added Tax (VAT), Importation tax on sub-contracts, and outside SACU customs duties and Excise duties (from inland manufacturing). The Lesotho's taxation regime is considered more investor friendly on a global comparison. However, there is still a great debate over the uncharged excess profit taxation (being tax assessed upon income of a specified amount, more than what is deemed to be normal income (unearned profits), and whether the amount of tax imposed on extractive resources is levied on the true fair value of the product. This begs the question of the valuation of extractive resources which remains a much complex issue that requires an urgent attention by concerned parties.



173. While it cannot be concluded if the country collects fair share in mining rents, it continues to pay VAT refunds to investors and rebates as a way of luring investors to invest in the industry, thereby further losing on the collections it could have made from the industry. The mining taxation regime has to evolve overtime with innovations in the industry and other global and regional best practices however the Lesotho tax regime appear not to have evolved with developments in mining sector, and in the region as well as globally. The root causes of this stalemate have been lack of coordination between the concerned parties which are the Government through Ministry of Mining, and Tax Authority and the mining companies.
174. The Government of Lesotho does not hold an independent valuation facility/valuator on diamonds, and this has become a challenge for reliable revenue collection. The Government has expressed an intent to institute an independent valuation facility but there has been some delay in the set-up for such facility.
175. Although, the Minerals and Mining Policy was adopted in 2015, its operationalization depends on completion of the new comprehensive mining sector law, which is under consideration for enactment. Furthermore, the Taxation amendment bill is still in the development stage. This provides an opportunity to align both legal frameworks and to further strengthen working relations between the players and regulators in the industry. The diamonds of Lesotho need to be cleaned and sorted into sales assortments to record their value criteria prior to leaving Lesotho to ensure transparency, accountability and traceability of Lesotho diamonds from mine to final sale. Similarly, the Government has a long-term view that diamonds must be beneficiated to bring additional value to the country and possible job creation. However, there are concerns about low production yields compared to those of countries such as Australia, Botswana and India which have successfully implemented beneficiation processes. Lesotho will therefore devote resources to explore further possibilities of mining beneficiation and setting up independent valuation facility.
176. In terms of issuance and management of contracts and licenses in the industry critical challenges remain. For instance, due to Lesotho's terrain, diamond prospecting can take up to 5 years yet the diamond prospecting license is valid for two years, with a one-year possibility of extension. This clearly seems to an unrealistic ambition. Although mines are not involved in any taxable services during this stage, investors incur great losses and often fail to continue to the next stages as they first need to recover financially. At the same time monitoring of the prospecting companies to ensure that indeed they have not yet started production has become difficult. The contracts issued to diamond mining companies are designed in a way that offers the possibility for negotiability of royalties, which affects revenue collection since mines rarely pay the set 10 percent. At present only one diamond mining company pays up to 8 percent in royalties while the rest remain below 6 per cent. These reduced royalty payments claimed as an operating expense further provides tax relief to the mining companies. Although, there is general belief that amendment of the renegotiation of leases clause could drive away investors, there is need to review such clauses as per the Minerals and Mining Policy of 2015. This policy clearly articulates that a mining fiscal and taxation regime should be competitive, predictable and consistent, and advocates for mining lease agreements that are non-negotiable to bring both predictability and consistency to investors. It is imperative that the country explore the mechanisms that can be employed to ensure Lesotho attracts and secures investment, while at the same time it preserves its high-quality minerals for greater national benefit and the future generation of Basotho.
177. A further challenge comes from the fact that the Exchange Control Regulations between the CMA countries require all payments within member states to be made in local currency therefore this has meant that mining royalties paid to Government of Lesotho be made in local currency. This therefore make the Government to forego foreign exchange (Forex) which could contribute to building the gross international reserves of the country if royalties were paid in US Dollar. Although the foreign exchange (Forex)



repatriation clause of the regulations has been adhered to, the policy challenge has been whether part of repatriated earning should be converted by the State for local operations or by the commercial banks.

178. The practice to this stage has been that commercial banks convert such forex into local currency thereby keep the hard currency to themselves. If the State were to convert such hard currency and keep it, it would boost foreign reserves but it remains an area that requires further exploration in the face of declining country foreign reserves.
179. The industry is further characterized by limited infrastructure and absence of wide-ranging skills. During the exploration stage, the bulk of private investment funds are diverted to construction and maintenance of roads, and development of power lines, thereby increasing the cost to private sector initial investments. Similarly, skills development remains a critical challenge for the industry as the country struggles to match industry needs and bridge the skills gap.
180. On governance, the Government's role as a shareholder and industry regulator complicates the industry's corporate governance principles. Although, the initial plan was to hold shares on behalf of the Basotho people, government needs to redefine its role and rethink critically how best they could relinquish its shareholding to local people in the industry. This could serve as a strategy to build domestic private sector in the long run.
181. In addition to sector specific challenges, the inter-sector linkages between the mining industry and other economic sectors is weak. The mining companies continue to depend on supplies from South Africa for a number of third-party suppliers such as food, protective clothing, waste management, park homes and furniture. Thus, the mining sector presents various opportunities for inter-sectoral linkages in the country which if explored could create many jobs. Details of the specific opportunities that would link the mining industry to other economic sectors are presented in Box 6.2.1:

Box 6.2.1: Inter-sectoral Opportunities in the Mining Industry

- Local producers could supply mines with agricultural produce such as milk, eggs, and fresh fruits and vegetables. Collaboration of ministries involved in business development, and agriculture development and farmers' association will strengthen this initiative and ensure local producers grab these opportunities.
- The Local Businesses could provide mining industry with protective clothing and other consumables such as toilet paper and stationery.
- Local private sector could explore the opportunity to supply the mining industry with park homes and furniture which is currently sourced from South Africa.
- They could also consider provision of accommodation facilities to the mines. This would require strong collaboration and coordination with tourism sector.
- Additionally, sewerage and scrap-metals, being two major categories of waste generated by mines, hold potential opportunities that could be satisfied by local businesses. For instance, mines are required to comply with regulations to ensure waste disposal does not contaminate water sources. Sewerage disposal service is, therefore, remains one great available opportunity for local private investors.
- Furthermore, with the hype to promote technology and innovation, scrap-metals collection could be one way to inspire innovation through use of mine scraps.
- Mines further import professional services, including accounting and audit services which could be sourced locally.
- The health and safety auditing
- service for the industry, which happens from the initial stage of prospecting is yet another open opportunity for local businesses.

Strategic Objectives and Interventions

182. The mining industry has potential to accelerate economic growth directly and indirectly by serving as an enabler to all productive sectors to create jobs and economic growth. The GoL as a shareholder in the mining companies and the custodian of mineral resources for Basotho has a duty to ensure the mining



companies are acting in good faith, that they are being open and transparent, that they are accountable for their decisions and actions, that they honour license conditions and agreements, and that they are acting in the best interests of the Kingdom of Lesotho. Therefore, during NDSP II implementation the GoL will undertake the following strategic interventions to ensure that the mining sector serves as growth accelerator, enabler of the productive sectors and meet its corporate citizenship:

Intermediate Outcome GAE 1.2: Mineral resource efficiency

Strategic Objectives	Interventions/Actions
(1) Promote artisanal mining	<ul style="list-style-type: none"> (a) Issue licences to small mining businesses to increase local participation in mining (b) Improve regulatory framework for artisanal mining (c) Establish the Lesotho diamond centre to assist artisanal miners to market their diamonds
(2) Improve geoscience research and innovation	<ul style="list-style-type: none"> (a) Create an autonomous geoscience agency (b) Develop geosciences laboratories (c) Develop geochemical maps for the mining sector
(3) Improve Regulatory Framework for the Mining Sector	<ul style="list-style-type: none"> (a) Review the current mining legal and regulatory framework, including the taxation bill to align them with the Minerals and Mining Policy of 2015 (b) Review the current mining contracts in line the new mining law (c) Review the health and safety legal framework and ensure its inclusion in the current mining draft bill (d) Enhance compliance to regulatory frameworks in the industry (e) Improve diamonds valuation and sales assortment (i.e. develop independent diamond valuation facility) (f) Create an autonomous licensing and regulatory body for the mining industry
(4) Enhance Skills Development for the Mining Industry	<ul style="list-style-type: none"> (a) Develop mining sector skills development plan (b) Identify and establish training centres for technical and vocational skills in partnership with the mining industry (c) Review the mining/extractive sector contracts in particular the ‘transfer of skills’ clauses in order to ensure the mining companies are compliant to skills transfer obligations (i.e. sorting and valuation skills)
(5) Promote inter-sectoral linkages between the Mining industry and Productive Sectors	<ul style="list-style-type: none"> (a) Develop a strategy for transfer of mining shares to the private sector (b) Review the mineral sector value chains and develop a plan for value addition (c) Promote coordination between the mining sector and other economic sectors (d) Use rents from mineral resources to catalyse wider economic development opportunities
(6) Improve Corporate Governance in the Mining Industry	<ul style="list-style-type: none"> (a) Enhance compliance to risk management in the mining industry (b) Establish compliance function in the Ministry of Mining to enforce EIAs, Health and Safety etc. (c) Develop corporate social responsibility (CSR) and compensation guidelines (d) Appoint members of Boards for mining companies based on corporate governance principles (e) Build capacity of mining board members to enhance accountability (f) Establish relevant Board Sub-Committees (g) Promote transparency in the Mining Industry

6.3 Financial Sector Development to Support Productive Sectors

183. The financial sector was recognized by NSDP I as the bedrock through which sustainable and broad-based economic growth necessary for poverty eradication can be achieved. As a result, the implementation of envisaged financial sector reforms geared towards increasing financial inclusion and improving access to finance had to be fast-tracked. The Financial Sector Development Strategy 2014-2017 was developed as a necessary vehicle for coordinated implementation of the financial sector reforms. The strategy comprised



of four pillars; (1) Promoting Financial Inclusion, (2) Mobilizing Financial Resources and Promoting Savings Culture, (3) Improving Efficiency of Financial Services and (4) Enhancing Financial Stability and Soundness. While significant milestones have been achieved in the implementation of the identified reforms, there are still significant challenges that need to be overcome for the sector to facilitate higher economic growth through productive sectors. Also a number of emerging issues have added to the menu of reforms that need to be implemented.

6.3.1 Lesotho Financial Sector: Evolution, Structure and Reforms

184. Lesotho's financial sector continues to be relatively small but has evolved significantly in the last five years characterized by the development of institutions found in a modern and well-functioning financial sector. The sector comprises of a stock exchange, four commercial banks, seven insurance companies, two assets managers, credit bureau, about 150 pension plans, MNOs, 120 Savings and Credit Cooperatives (SACCOs), about 65 Rural Savings and Credit Groups (RSCGs) and 330 Village and Loan associations. The sector contribution to gross domestic product (GDP) is estimated at 7 per cent in 2017 significantly up from 4 per cent in 2010.

185. The banking sector contribution to GDP stood at 6 per cent in 2017 compared to 3 per cent recorded in 2010. Furthermore, banking sector constitutes 42.3 per cent of GDP. As expected, the banking sector is dominated by Pan African Banks with three of the commercial banks (Standard Lesotho Bank, Nedbank Lesotho and First National Bank Lesotho) being subsidiaries of the South African Banks while the other is government owned (Lesotho Post Bank)²². This structure inherently has implications for the domestic regulatory and supervisory regime although these subsidiaries are already being regulated by advanced methodologies in their home country. On this regard, the Central Bank of Lesotho is working towards the full implementation of Basel 2.5 in 2019, review of the Financial Institutions Act of 2012 and the development of crisis and resolution framework. The banking sector remains the epicenter of the strategy to increase financial inclusion and improve access to finance. Currently, the banking sector has about 49 branches in urban and peri-urban areas which will likely mobilize resources for investment under productive sectors.

186. There have been some modest inroads into the rural areas mainly driven by the Lesotho Post Bank. Overall, commercial banks mostly serve the formal sector, mainly medium and large corporate enterprises and salaried employees. In terms of access point, at the end of 2017, there were 217 ATMs and 1561 point-of-sale (POS) terminals in the country. Of note is that most of the improvements in access points occur in the urban centers and lowlands while rural areas still do not have adequate coverage.

²² South Africa is a member of G20 which has been spearheading the post crisis financial sector reforms



Table 6. 2: Lesotho Financial Sector Landscape, 2013-2017

	2013	2014	2015	2016	2017
Banks					
Number of Commercial Banks	4	4	4	4	4
Number of Branches	45	45	47	49	49
Number of Automated Teller Machines	138	159	180	180	217
Number of Point of Sale (POS) Machines	802	1050	1168	1374	1561
Non-Banks (Insurance, Pensions and Securities)					
Number of General Insurers	5	7	7	7	7
Number of Long term Insurers	4	5	5	5	5
Number of Agents and Brokers	23	25	30	35	38
Number of Credit only institutions	6	6	7	9	12
Number of Moneylenders	150	200	230	250	227
Money Transfer and Forex Bureau		1	1	2	2
Leasing Companies					-
Number of Fund Managers (CIS)	2	2	4	4	1
Number of Pension Schemes	101	101	101	101	101
Payments Systems					
Number of Mobile Network Operators	2	2	2	2	2
Number of Mobile Money Agents	808	1724	2746	3039	5706
Number of registered mobile money accounts	448740	742922	1064028	1137903	1345114
Credit Bureau					
Number of registered credit providers					21
Number of customers			77870	90757	103826
Maseru Securities Market					
Number of Brokers					2
Number of Advisors					4
Number of Listed Stocks					

Source: Central Bank of Lesotho

187. Insurance and pension industry contributed 1 per cent to GDP in 2010 which is similar to its contribution in 2010. But insurance sector is still small but compares well against the African countries excluding South Africa. The popularity of the relatively cheap funeral policies has led to high insurance penetration estimated at 62 per cent compared with 50 per cent for saving product. Major changes can be expected in the insurance industry as the Central Bank of Lesotho begins to implement the Insurance Act of 2014. Most of the implementing regulations have now been gazetted paving way for full implementation. As relates to the pensions sector, the Private Pensions Bill is still to be enacted by the Parliament of the Kingdom of Lesotho. The Bill will be a major milestone in the Lesotho financial sector as it will facilitate the regulation of private pensions by the Central Bank of Lesotho. Currently, the majority of pension funds and collective investment schemes are managed in South Africa, a scenario which tends to break the link between savings and investment in Lesotho, and instead enhances investment and development in South Africa.

188. The role of other non-bank financial institutions has increased in the last five years. Major reforms included the enactment of the Financial Institutions Act of 2012 which provides for different categories of banking licenses such as banks, credit only institutions, money transfers and large financial cooperatives. For instance, the Financial Institutions (Large Financial Cooperatives) Regulations of 2016 place large financial cooperatives under the regulatory and supervisory authority of the Central Bank of Lesotho. The Regulations are intended to strengthen governance of large financial cooperatives, their internal controls and streamline regulatory relationship between the Central Bank of Lesotho and the Commissioner for Cooperative Development. Moreover, they are intended to create a prudential, legal, regulatory and supervisory framework for large financial cooperatives in an effort to protect depositors and shares of



members of these cooperatives while preserving their ability to serve their members. The Financial Institutions (Credit only institutions) provided an opportunity for more players in the financial sector. As a result, there is a steady increase in the number of credit only institutions reaching 12 at the end of 2017. Money transfers and foreign bureau stood at 2 at the end of 2017 while the number of money lenders was recorded at 227. Further reforms are still needed in the money lenders sector to eliminate undesirable practices and ensure integrity. The completion of the financial consumer protection framework and scaled-up efforts on financial education and literacy are amongst other interventions underway aimed to curb these harmful practices.

189. Efforts are being exerted towards the development of the leasing market in the country. Financial leasing has been identified as an integral reform in addressing access to finance and financial inclusion. The Financial Leasing Regulations were enacted into Law in 2013. However, the uptake of this market has been sluggish with only two commercial banks having clearance to proceed with leasing but not yet started with leasing operations. There has also been little interest in leasing both as a product and as a business space by financial institutions, other credit providers and prospective asset finance companies. Further strategies have to be implemented to ensure that the leasing market develops as it will directly benefit a number of sectors including the productive sectors: agriculture, manufacturing, tourism and creative arts, and technology and innovation, and other support sectors such construction, service sectors and mining.
190. The establishment of Maseru Securities Market (MSM) in 2015 was a significant milestone in the history of Lesotho and a major development in the landscape of the Lesotho financial sector. Lesotho was among the few countries in Southern African Development Community (SADC) that did not have a stock exchange. In line with the money and capital markets development program that resulted in issuing of long dated government bonds, the launch of MSM in an effort to develop the corporate bonds and equities market in Lesotho while at the same time bolster secondary market development. As expected, take up of the stock exchange is slow in terms of listing of equities but other market makers have been issued with licenses. To date there are six market participants - Old Mutual Lesotho Consulting Services, Matlotlo Group Lesotho, Cadiant Partners Consultants and Actuaries and Nala Capital all of whom are financial advisors. Katleho Securities is a broker and sponsor for MSM while Motswedi Securities is both a Financial Advisor and a Broker. It is worth noting that regulation of MSM is currently through Capital Markets Regulations of 2014, but the Principal Securities Law is being prepared.
191. The ongoing digital revolution has created opportunities for payments systems while at the same time exerted pressure on the Central Bank of Lesotho to strengthen the legal and regulatory framework to achieve safety and efficiency of the National Payment Systems. To date there are two mobile money systems, M-pesa and Ecocash. At the end 2017, M-pesa and Ecocash jointly registered a total of 7945 agents and had about 554, 092 active mobile money accounts. Payments systems have also contributed to the efficiency in the remittances market. Historically, Lesotho economy depends of remittances mainly from South Africa. Initially, remittances were from the Basotho working in the South Africa mining sector but recently there is evidence that Basotho are employed in a number of sectors in SA. At the end of 2017, total remittances to Lesotho were recorded at 19.3 per cent of GDP. The launch of the Shoprite Domestic Money Transfer in collaboration with Standard Bank Lesotho and subsequent launch of Shoprite Cross Border Money Transfer Services for inbound remittances enhanced remittances significantly. The recent Global Financial Index Report presents the compelling evidence that the digital payments systems have contributed significantly to the expansion of financial inclusion in Sub-Saharan Africa, as such efforts need to be put in place to continue to seize the opportunities presented by the digital revolution.



192. During NSDP II priority will be given to: (i). Improving Access to Credit particular by the business sector; (ii). Improving Financial Inclusion; (iii). Improving Domestic Resource Mobilization.

Improving Access to Credit

193. Access to credit has been identified as one of the major constraints to investment in the country. NSDP prioritizes increasing access to finance and financial inclusion as a major policy objective under financial sector development to support productive sectors. As already indicated the commercial banks remain the main source of credit in the country and that poses a challenge particularly to financing for the SMEs in the identified productive sectors. However, significant progress has been achieved in improving credit extension in the country through successful implementation of a number of reforms such (1) Legal Capacity of Married Persons Act (2006), (2) Land Act (2010) and (3) Credit Bureau (2016). The impact of these reforms has been evidenced by the growth in both the loans to deposits and credit to GDP ratios. The loans to deposit ratio which measures the extent of financial intermediation in the economy rose from 36 per cent in 2010 to 55.4 percent in 2017 while credit to GDP ratio rose from 11 per cent to 24 per cent during the same time period. A major concern remains to be the distribution of credit between households and businesses. Household credit remains more than double the amount of credit to businesses. At the end of 2017 credit to households was recorded at M4,189 million compared to M1,967 million for businesses. This is because some household credit is directed towards SME sector possibly because of the stringent requirements for businesses to access credit. Mortgages have also been increasing and they more than doubled between 2010 and 2017.
194. The sectorial classification of credit continues to reflect the structure of the economy of Lesotho with mining, manufacturing, construction and transport, storage and communication sectors continuing to dominate. In line with recent development, mining continues to be on the upward trend. However, two of the four sectors on which job-creation and inclusive economic growth will be anchored during NSDP II (Agriculture which includes Hunting, Forestry and Fishing sub-sector; Tourism and creative arts included in wholesale, retail, hotels and restaurants subsector) continue to receive low credit. At the end of 2017, percentage share of credit to agriculture stood at 1.2 per cent of total credit slightly higher than 1 per cent recorded in 2013. This is mainly due to its subsistence nature, lack of de-risking and slow implementation of reforms necessary to commercialize the sector. As such agricultural sector in Lesotho continues to be characterized by low investment and high risks. The negative effects of climate change and lack of risk sharing have also compounded the situation. Agriculture has basically depended on self-financing, government subsidies, and financing from Development Partners such as World Bank, International Fund for Agriculture Development (IFAD) and Food and Agriculture Organization (FAO). For instance, between 2012 and 2018, Small holder Agriculture Development Project which covered five districts - Mafeteng, Maseru, Berea, Leribe and Botha-Bothe, with total value of around M300 million supported agriculture production.
195. Credit to the manufacturing sector though remains relatively high has been declining in recent years partly reflecting the turbulent conditions that have prevailed in the sector since the global financial crisis of 2008. At the end of 2017, credit to the sector stood at 12.7 per cent of total credit. The bulk of the credit to the sector is mainly directed towards the textiles and apparel sector in the form of short-term smoothing facilities. It is still a challenge for other forms of manufacturing particularly in the lower size categories. Another challenge is the availability of well-tailored trade finance facilities for this sector. Tourism sector is classified under the Wholesale and Retail Trade, Restaurants and Hotels category. Credit to the wholesale and Retail Trade, Restaurants and Hotels category has also been on the decline despite an observable increase in the number of lodging categories in major urban centers. Credit to the sector declined from



14.5 per cent of total credit in 2013 to 8.4 per cent in 2017. The technology and innovation sectors are proxied by the service sector which includes Transport, Storage and Communications, NBFIs, real estate and business services, communication, social and personal services category. Credit to this category has also been high. The share of credit to the sector was recorded at 28.61 per cent (26.1 plus 2.21) at the end of 2017.

196. It is evident that the major challenge in access to credit for firms lies in the lower part of the firm size distribution. These are mainly innovators, entrepreneurs and small businesses which cannot meet the requirements for commercial banks. Unfortunately, these are at the epicenter of this strategy in terms of creating employment. To date there are 76 000 MSMEs in Lesotho who are estimated to have created more than 118 000 jobs mostly for young women under the age of 35. The recent Finscope (2016) presents the compelling evidence on the nature of the challenge for access to credit for small and medium firms. The survey shows that only 2 percent of MSMEs borrow from banks, 7 percent use informal financial services and 91 percent refrain from borrowing due to their apprehension that they will not be able to service the loans. Most MSMEs do not have credit history because MSMEs owners use their personal bank accounts for banking. This evidence lies at the back of the findings that show there are three broad categories of business constraints: obstacles inhibiting growing a business, obstacles inhibiting smooth operations, and obstacles inhibiting business expansion. The problem is more pronounced in the rural areas compared with the urban areas.
197. The establishment of the partial guarantee scheme was an attempt by the Government of Lesotho to assist business enterprises meet the collateral requirements of the commercial banks. The Partial Guarantee Scheme has provided some relief but due to its nature it has some limitations. In 2017, about 6 guarantees have been provided amounting to M15.3 million and facilitating credit to the tune of M31.2 million²³. Going forward the Government will explore additional measures to address the shortage of much needed capital by MSMEs in particular. This includes additional guarantees to expand credit guarantees scheme, exploring other risk sharing instruments for diverse business ventures under the targeted productive sectors.

²³ Say something about the two PGC



Table 6. 3: Private Sector Credit and Partial Guarantee Scheme

	2013	2014	2015	2016	2017
Credit					
Private Sector Credit(Million Maloti)	4556	5121	5502	5665	5455.6
Private Sector Credit (per cent of GDP)	21	21.9	22.2	22.9	23
Business (Million Maloti)	1558	1815	2103	1967	1983.2
Households(Million Maloti)	2998	3306	3398	3698	4148
Loans to Deposit Ratio	58.5	63.2	59.8	65	55.18
Sectors (percent Shares)					
Agriculture	1	1	0.9	1.3	1.2
Mining	11.9	19.8	19.3	18.5	24
Manufacturing	20.6	24.5	22.9	16.2	16.8
Construction	13.7	9.4	10.8	15.9	14.6
Transport, Storage and Communication	7.2	10.4	11.2	9.4	8.6
Wholesale, Retail, Hotels and Restaurants	14.5	8.44	11.2	9.4	8.4
Electricity, Gas and Water	2.4	2.2	1.6	2	1.7
NBFIs, Real Estate and Business Services	13.1	23.6	21.1	26	26.4
Community, Social & Personnel Services	15.6	0.6	0.94	1.34	2.21
Partial Credit Guarantee Scheme					
Value of loans				27, 969, 138	31, 269,138
Value of Guarantees				13, 734, 569	15, 334,569
Number of Projects Funded	8	29	48	50	63

Source: Central Bank of Lesotho and Lesotho National Development Corporation

Improving Financial Inclusion

198. Significant progress has been achieved in improving financial inclusion in the country although there has not been an update on the status of financial inclusion. There is sufficient evidence that financial inclusion has improved. The introduction of the mobile payments has allowed Lesotho to tackle the challenge posed by difficult geographic terrain. The mountainous terrain has made basic infrastructure development that would enhance financial inclusion in most rural areas very difficult. Mobile banking products have extended banking services to sizable rural communities. The implementation of Lesotho Financial Inclusion through Mobile Money Project is intended to build on these successes and take mobile money usage to the next level.

Domestic Resource Mobilization

199. Following the global financial crisis, domestic resources mobilization has been among the top priorities of the Government of Lesotho mainly due to the changing external resources conditions. A well function financial sector is critical for effective domestic resources mobilization. This is particularly important for Lesotho which is a member of the Common Monetary Area which allows for free capital mobility among member states²⁴. Significant progress has been made in creating supportive infrastructure for domestic money and capital markets in the country. The money market is mainly for liquidity management and monetary policy purposes, and has four instruments 91 days TBs, 182 days TBs, 273 days TB and 364 days TB. The treasury bills are traded biweekly and have seen improving participation to the non-banks sector. At the end of 2017, the outstanding treasury bills holdings was M724.7million.

200. The bond market was launched in 2010 with the issuance of three years and five-year bonds with the intention to financing some major capital projects and filling the fiscal gap. The bond window is opened every quarter, and auctions are done every quarter. Participation in this market has been broad with sizable

²⁴ Other CMA member states includes South Africa, Swaziland and Namibia



number of institutional investors. At the end of 2017 the outstanding treasury bonds holdings was M957.8million. The Maseru Securities Market is aimed at bringing the private sector and diversifying risks across markets. It is important for successful domestic resources mobilization for companies to list in the Maseru Securities Market. Government offloading of its shareholding in various companies to the stock exchange may boost this process. The availability of additional resources at the back of Insurance Act of 2014, enactment of Pensions Bill and promulgation of Collective Investment Schemes will also contribute to the development of the market. Therefore, during NDSP II Lesotho will undertake the following strategic interventions to develop the financial sector in order to make it an enabler of the productive sectors in the economy:

Intermediate Outcome GAE1.3: A stable and efficient financial sector

Strategic Objectives	Interventions/Actions
(1) Improve access to finance	<ul style="list-style-type: none"> (a) Build technical and professional industry specific capacity in identified productive sectors to enable them have access to finance (b) Promote more tailored credit products for SMMEs (c) Provide incentives to private financial institutions to target defined groups in the value chains in the productive sectors (d) Promote leasing as a source of financing (e) Establish Small Businesses Start Fund primarily through public contributions to support small business ventures in the country (f) Promote Basotho's participation in capital investment initiatives (g) Promote short-term supply chain finance in partnership with the private sector (h) Expand partial credit guarantee scheme and ensure it covers in particular the four productive sectors (i) Implement collateral registry
(2) Improve resource mobilization for productive sectors and other economic sectors	<ul style="list-style-type: none"> (a) Promote domestic equity market (b) Explore more financing mechanisms to support productive sectors (c) Promote Joint Ventures between Basotho-owned and Foreign Enterprises (d) Establish development finance through capitalizing on institutional and contractual savings to finance long-term development projects (e) Explore the possibility of issuing the Diaspora Bond (f) Advocate for the use of Lesotho's capital markets (Venture Capital Funds, Private Equity Market, Asset Management Services, etc.) (g) Develop ICT infrastructure to support the financial sector
(3) Improve regulatory framework for the financial sector	<ul style="list-style-type: none"> (a) Enact legal frameworks to support the financial sector and provide for financial innovations (b) Establish the institutional framework for integration of Micro Finance Institutions (MFIs) into the financial system (c) Set up frameworks for agriculture financing and insurance
(4) Improve financial stability and soundness	<ul style="list-style-type: none"> (a) Build capacity for consolidated supervision and surveillance (b) Implement financial inclusion strategy (c) Promote financial skills and knowledge to empower society on financial matters (d) Enforce regulatory compliance of financial institutions (e) Improve corporate governance in the financial sector
(5) Improve land use to enable access to credit	<ul style="list-style-type: none"> (a) Harmonize the financial laws with defacto practices of land use (b) Advocate for land use in access to credit (c) Establish mechanisms for land aggregation and transaction (d) Reform the inheritance law to allow women and girls access to productive assets and resources that can be used to secure funding



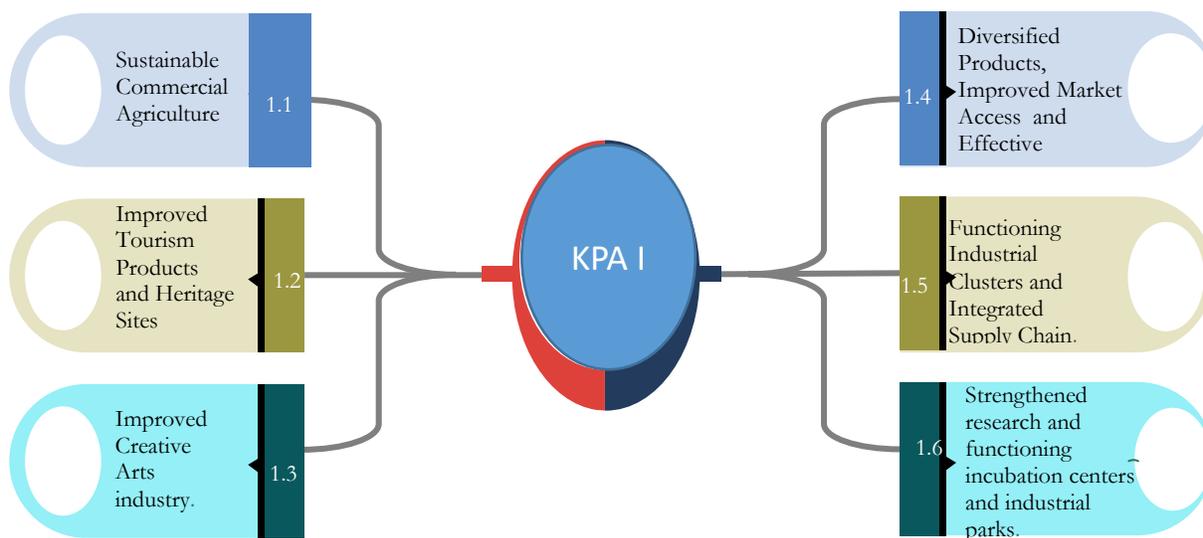
Enhancing Inclusive and Sustainable Economic Growth and Private Sector-Led Job Creation

Key Priority Area I

7.1 Introduction

201. The new growth path the country will embark on is anchored on four productive sectors: Agriculture, Manufacturing, Tourism and Creative Industries and Technology and Innovation. Therefore, priority in terms of public investment meant to unlock the private sector investment will be given to these sectors. The plan proposes seven strategic intermediate outcomes under key priority area I as indicated in Figure 7.1 and these results will be achieved through strategic interventions proposed under each result as discussed herein.

Figure 7. 1:Strategic Intermediate Outcomes under Key Priority I



7.2 Sector Diagnostics

202.The systematic examination of evidence and national consultations with stakeholders, and review of various analytical works, have provided further evidence on some binding constraints to private sector investment in the country. These binding constraints if removed would likely unlock the private sector investment and entrepreneurship in these productive sectors. While it is possible that some non-binding constraints could still hinder economic activities, alleviating a non-binding constraint might not in itself stimulate private sector investment unless a binding constraint is first removed. The six most binding constraints to private sector investment across the four productive sectors can be summarized into four basic accesses “A” constraints: Access to Finance; Access to Land; Access to Infrastructure including Access to Utilities/Energy; Access to Skills; and Poor Health and Regulatory Environment. Although Access to Finance appear to dominate across at least three productive sectors, further analysis and comparative analysis with other countries in the region point in the opposite, implying that there could be further underlying causes why individuals in these sectors might not have access to finance. However, for small business start-up and long-term investments, access to finance in the country remains pertinent. This would



require the Country to promote development finance to assist such long-term business ventures. In addition access to land for agricultural production is constrained by unequal gender and generational exclusion due to cultural constraints.

203. Therefore, the range and severity of the constraints that hinder private sector development in Lesotho point to an underlying cause of underdevelopment in the country: the wide-ranging failure of government to use its resources efficiently to provide public services that stimulate private sector development. This is a fundamental cause of the identified constraints, and also contributes to other barriers to growth in the Root Cause Analysis (RCA). There were several binding constraints identified during the stakeholder consultations and several desktop reviews but which all point towards weak economic governance and weak institutions of governance. Societal norms and certain harmful cultural practices have also contributed to the declining human capital especially through HIV/AIDS which has affected productivity across sectors. Table 1 summarizes the severity of these economy-wide constraints that cross-cut multiple sectors. They are by far not the only constraints affecting productivity in these sectors. There are other sector-specific constraints, as outlined in the sector profile sections, which the country should aim to resolve to unleash job creation potential of the prioritized sectors. The Michael Porter's Competitive Diamond Model was utilized to identify specific interrelated characteristics that determine the ability of firms in each of the sectors to effectively compete in markets as well as to identify specific conditions that constrain businesses' capacity to be competitive. The diagnosis of each sector is presented under each sector.

Table 7. 1 Summary of Sector Binding Constraints to Private Sector Investment

Productive Sector	Severity of Constraints					
	Access to Finance	Access to Infrastructure	Access to Skills	Access to Land	Regulatory Environment	Poor health
(1) Agriculture	High	Low	High	High	Medium	High
(2) Manufacturing	High	High	High	High	Medium	High
(3) Tourism & Creative Industries	High	High	Medium	High	Low	Low
(4) Technology & Innovation	Medium	Medium	Medium	High	High	Low

Source: Consultations with the Private Sector, 2017

7.2.1 Agriculture Sector

7.2.1.1 Opportunities and Constraints and Achievements

204. Agriculture remains an important sector for food security and employment creation in Lesotho. It is the 'backbone of the rural economy' where 65.8 percent of the population lives²⁵. However, Agricultural sector's contribution to GDP has declined over time, from a high of 15.2 percent in 1984 to a low of 5.2 percent in 2014, with a slight increase of 6.9 percent in 2016. The sector is estimated to employ 8.5 percent of the urban population and 54.3 percent of the rural population (BOS 2013). The sector is mostly dominated by subsistence agriculture, with few farmers producing at a commercial scale, yet the country holds potential to produce organic products for exports into the EU and US markets, and to other markets in which Lesotho has trade agreements with, as articulated earlier. There is a need to explore organic food production, so as to economically reposition Lesotho and achieve prosperity in the short to long-run.

²⁵ Lesotho Population Census(2016)



205. The livestock industry is dominated by wool and mohair production, which are exported in raw form. South Africa remains the main corridor for export of Lesotho's wool and mohair, although there is a growing trend of wool exports to the international markets particularly China and Indian markets. Wool and mohair are also utilised by local producers of tapestries and knitwear, although this constitutes a small percentage of consumption. Given Lesotho's climatic conditions, the country has a potential to expand wool and mohair production. Furthermore, Lesotho has potential to expand the poultry and dairy industries, which are currently dominated by imports from South Africa. The government has declared the dairy industry a priority for food security, and several initiatives are underway to stimulate dairy development. In terms of crop production, the sector is dominated by maize, sorghum and wheat production, which occupy about 60 percent, 20 percent and 10 percent of agricultural land respectively. In recent years, Lesotho has shown significant potential in horticulture²⁶, with main products being Fresh Fruits and Vegetables (FFVs). The country has further demonstrated potential in aquaculture, particularly the production of trout, which takes place in the Lesotho Highlands. So far, trout is exported to South Africa and Japan, and other market opportunities remain to be explored.
206. Lesotho, therefore, has potential to be competitive in agricultural exports. The country's cold climate provides a comparative advantage for wool and mohair production, clean trout farming and the early maturation of certain fruits and vegetables. Early maturation would afford Lesotho an opportunity to get its produce to various markets at a time when competition is limited and hence, maximise on premiums. These investment opportunities and others in the agriculture sector are summarized in the Table 7.1:

However, with the current and projected further increase in temperatures due to climate change, realization of these opportunities is at risk as it will likely be negatively impacted by climate change. The country strategies must therefore take into account climate change. **There is room to expand research scope to explore agricultural opportunities that can be brought**

207. While opportunities in the agriculture sector remain largely untapped and the sector has great potential to create jobs, especially for the majority of the population living in rural areas, women and youth included and those that were not able to transit to tertiary education (more 65 percent of total youth population), this potential is undermined by many challenges. Soil erosion and Land degradation which have ultimately reduces the country's capability to produce adequate food for its population; fragmented and underdeveloped value chains; lack of harvesting and post-harvest technology and infrastructure (i.e. slaughter houses, storage facilities); limited access to agriculture finance and agriculture insurance for risk sharing (for instance only one percent of total commercial banks credit financed agriculture in 2016); lack of specialized agricultural skills and limited training for farmers; inadequate research and extension services, failure to meet international sanitary and phytosanitary standards; and lack of coordination and market information system are some of the sector's greatest challenges. Furthermore, the land cover suitable for agriculture has declined to the bear minimal 9 percent due to encroachment onto the most productive and potentially high yielding land over the past decades, soil erosion and other forms of environmental degradation, and climate change. The encroachment into agricultural land is due in part to lack of law enforcement and neglect by administrative authorities.

²⁶ NSDP Review 2016



Table 7. 2: *Investment Opportunities in Agriculture*

Investment Opportunity		Brief Description
1.	Bio- Trade	❖ Lesotho has biodiversity and their derivatives that need to be commercialized sustainably. Some local businesses already use some of these species for medicinal, cultural and cosmetic purposes.
2.	Commercial poultry production: Chicken, Eggs, and related value chain products; seed potato production; Asparagus	❖ Lesotho currently imports more than 80 percent of its poultry products from South Africa. Therefore, the local demand for poultry products could support poultry production. Given the relatively competitive wages in the country, poultry production with all its related value chain products remains an open opportunity for investment in the country. At the same time seed potatoes and asparagus have proven to have great potential to exports.
3.	Horticulture	❖ The country has potential for crop and fruit tree farming. Feasibility studies for fruit trees are complete and negotiations with those who currently own suitable land for production are underway. Experimental evidence provided through World Bank private sector competitiveness project has shown that the country has comparative advantage in the production of delicious fruits. The high altitude conditions which are conducive for an early ripening season and good for the quality of produce place the country at an advantage in fruit production.
4.	Aquaculture	❖ The climate conditions further present greatest potential for aquaculture. Currently in aquaculture only two companies breed and export trout to Japan and EU markets.
5.	Red Meat production	❖ Lesotho's rangelands have potential to support production of organic red meat.
6.	Medicinal Plants such as Cannabis (marijuana)	❖ Some private companies have started planting Cannabis medicinal plants in the country and have already started marketing & selling their products overseas in UK, USA and Canada. The potential for further investment into this area still exists.
7.	Wool and mohair, hides & related products	❖ Lesotho is second in the world in terms of production of wool and mohair. However, there is potential for value chain development and scaling of production in the sector.



208. Although the proportion of arable land in Lesotho has declined from 14 to 9 percent due to foregoing factors the remaining arable land can still provide Lesotho with enough food for its people and for exports²⁷. The greatest constraint in this context is limited irrigation infrastructure, with only 36 000 hectares of land declared suitable for irrigation, and around 2 600 hectares of which has been developed, while large tracks of land continue to lay fallow. Local producers experience post-harvest losses due to either lack or disorganized markets, which result in producers running between traders in order to dispose of their produce. Access to markets is further restricted by lack of storage and roads infrastructure. Due to these problems, producers often experience losses or earn low returns (incomes), which are often less attractive compared to off-farm returns. These challenges have affected productivity of the sector, which is also in part due to low adaptation to high yielding technologies and poor adaption to climate change. As a result, Lesotho is faced with chronic food insecurity and malnutrition, which affect mostly women, children and vulnerable groups from poor households. This also undermines the overall population productivity. In 2017/18, it is estimated that 15 percent of the population will be food insecure, with 78 percent (224,664) of them being in rural areas. This is despite the implementation of agricultural support programmes, including input subsidy schemes and crop sharing schemes by the government. Some of the milestones achieved during NSDP I implementation are highlighted in Box 7.2.1.

Box 7.2.1: Agriculture major achievements

- **GoL implemented the Enhanced Integrated Framework (EIF) Tier II project that provided greenhouse technology to local farmers (115 greenhouses have been installed in Maseru, Mafeteng, Berea and Leribe districts) for production of high value Fresh Fruits and Vegetables (FFVs). This project created 100 jobs (79 men and 21 women with total annualized income of M865,200 or average income of 721/month/person).**
- **The spawn production facility for these mushroom was established at Masianokeng. The facility capacity has been increased from 12,500 to 500,000 spawn bags per annum. The number of people benefitting from the project is estimated at 7,000.**
- **The horticulture pilot farms (commercial orchards) which produce fruits such as apples, cherries, apricots, blue berries, peaches have been successfully established in Mahobong, Qoqolosing and Thuathe plateau. A total of 10,761 trees were planted over an area of approximately 10ha to test the performance of different varieties of apples, peaches, plums, cherries, apricots as well as blueberries. A private company called Likhothola Fruit Farmers Association was registered and it supplies fruits to the local market and the neighbouring Free State towns. Total employment created by the company is around 918 casual labourers. Two more horticulture rollout farms have further been established in Mahobong and Likhedane in the Leribe district.**
- **GoL completed the Geographic Information System (GIS) field mapping and provided farmers with inputs and fertilizer subsidies, and rehabilitated several farmers training centres with 1500 farmers trained on technologies for high value products.**
- **About 40 677 people (farmers, teachers, chiefs and councilors) sensitized on Conservation Agriculture (CA). And 54 persons were trained in para-veterinary.**
- **GoL vaccinated 935, 870 sheep and goats against anthrax and sheep scab, while 76, 842 other animals were vaccinated against anthrax and 26,357 against rabies.**
- **The new drought tolerant varieties of seeds have been improved (VPO 2050 maize and SUG 131 bean) and several value chain feasibility studies with assistance from FAO were completed.**

²⁷ FAO (2016)



7.2.1.1 Strategic Objectives and Interventions

Intermediate Outcome 1.1: Sustainable Commercial Agriculture, and Food Security

To ensure sustainable commercial agriculture while taking cognizance of the impacts of climate change, environmental degradation, and other natural disasters as well as harmful cultural practices that have rendered the economy vulnerable, Lesotho will undertake the following strategic interventions:

Strategic Objectives	Interventions/ Actions
(1) Improve the functioning of land markets	(a) Organize land titling. (b) Conduct a land capability assessment and create an online database of land parcels suitable for agricultural production and responsible irrigation. (c) Market identified land parcels to potential investors.
(2) Improve Genetic Resources	(a) Promote improved animal breeds, and use of plant germ plasm. (b) Enhance seed certification capacity. (c) Enhance the production and use of certified seeds (including plant propagating materials) (d) Promote research and dissemination of drought tolerant crop varieties. (e) Promote conservation of gene banks, community seed banks, zoological and botanical gardens to conserve the biological diversity of valuable plant and animal species. (f) Promote management and conservation of indigenous breeds and enhance appropriate use. (g) Promote vertical integration in agricultural sector
(3) Build Sustainable Infrastructure for Agriculture ²⁸	(a) Provide access corridors and other supporting infrastructure (e.g livestock sales yards) for agriculture. (b) Promote environmentally friendly and energy saving irrigation and water harvesting. (c) Promote climate smart and resource efficient infrastructure. (d) Develop irrigation policy and irrigation master plan. (e) Strengthen and promote integrated catchment management. (f) Promote the development of private sector-led post-harvest and storage facilities. (g) Set up the Lesotho Agri-Georeferenced Information System (Lesotho AGIS ²⁹)
(4) Improve access to finance and risk sharing in Agriculture	(a) Provide financial and technical support services to farmers to facilitate their access to finance. (b) Strengthen agricultural financial institutions. (c) Explore and establish agri-insurance in collaboration with private sector. (d) Finalise and operationalise collateral registry to allow use of land as collateral. (e) Develop capital market instruments for agriculture
(5) Improve technology and use for agriculture	(a) Promote conservation agriculture. (b) Mechanise agricultural production. (c) Enhance integrated management of pests and diseases. (d) Strengthen the national agriculture research. (e) Strengthen animal disease control through surveillance and risk assessment (f) Enhance farmers' access to veterinary services.
(6) Improve production of high value crops and livestock products	(a) Support small-holder farmers to produce high value crops (b) Develop climate screening guidelines in order to reduce risks and vulnerabilities in production (c) Promote crop diversification with differing susceptibilities to droughts, pests, flooding etc (d) Review subsidy policy to include high value crops and livestock. (e) Develop market responsive breeding programmes (both livestock and crops) (f) Promote intensive and commercial livestock production. (g) Promote production and use of quality feeds

²⁸ Much of physical infrastructure strategic interventions should take into account the EIA as per the Environment act of 2008.

²⁹ Timely availability of reliable geo-referenced land, climate, plant nutrients, production and water information, integrated with infrastructural - and socio-economic factors, are essential for stakeholders, policy makers, enterprises and land users to exercise the best choices among options in using these resources to achieve sustainable levels of food production and development.



209. The commercialization of agriculture will require a functioning agri food system. The Lesotho agri food system is largely underdeveloped. Farmers are not well organized as such suffer a lot of information asymmetries and miss out of support services. They fail to supply markets because they are not aggregated into producer organizations and common value chains. At the same time agriculture value addition is limited in the country due to lack of skills for production. To address these challenges, the country will:

Strategic Objectives	Interventions/Actions
(6) Build capacity of farmers, agricultural institutions and associations	<ul style="list-style-type: none"> (a) Organize producers and industry players into enterprise-based associations (system) in order to transform the Lesotho agri- food system. (b) Provide the institutional framework and enforcement mechanisms for the development of well-functioning producer organizations and industry associations. (c) Integrate environment and climate change into agricultural policies, strategies, plans and regulatory frameworks (f) Review Extension Services Model to incorporate outsourcing of extension service from private sector. (g) Promote awareness to farmers to adopt climate smart and conservation agricultural practices; (h) Strengthen capacity of extension agents, associations and training institutions on climate smart and conservation agriculture (i) Provide agric skill based training for youths, women and vulnerable groups
(7) Develop value chains in agri-food systems and enhance agricultural markets	<ul style="list-style-type: none"> (c) Promote the aggregation of smallholder farmers into upgraded value chains (d) Improve private sector-led distribution of inputs subsidies. (e) Develop community and enterprise-based value chains systems (f) Develop and promote sanitary and phyto-sanitary regulatory framework systems and Codex compliant food policy and food quality labels. (g) Develop and implement agricultural market strategy (e.g resuscitate agri-products exhibitions and auction sales across the country) (h) Promote agricultural value addition and processing.

210. Increasing agriculture production and its commercialization is difficult unless the country deals sincerely with management of range, water sheds and protection of the environment and biodiversity as well as reversing alarming environmental degradation that has already aggravated the country's food insecurity situation. Lesotho will improve management of range resources through the following interventions:

(8) Improve management of range resources	<ul style="list-style-type: none"> (a) Promote active and inclusive participation of all stakeholders in rangeland resources management. (b) Improve governance of range (c) Rehabilitate rangelands and wetlands in collaboration with private sector/investors and communities. (d) Develop and implement conservation strategies to improve resilience of rangeland resources to climate change. (e) Improve existing guidelines and grazing control regulations for the sustainable management of range resources. (f) Develop a national fire policy for rangelands management. (g) Improve rangelands grazing capacity. (h) Devise and implement mechanisms for mandatory compensation for the utilisation of rangeland resources (environmental services/ecosystem services), e.g. the grazing levy. (i) Manage alien and invasive vegetation species (j) Enforce key land use policies and Acts (e.g land, environment, range, water, climate change Act, etc)
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7.3.2 Manufacturing Sector

211. Lesotho's manufacturing sector is narrowly based on textiles, garments and footwear exports, and is dominated by female labour and large foreign firms with very limited linkages with the domestic private sector. The government's objective is to diversify and deepen manufacturing for regional and international markets so as to promote sustainable job creation. In 2013 more than 45,000 people were employed in manufacturing, of whom over 40,000 were predominantly female (Lesotho Review 2014). Lesotho has attracted a significant number of manufacturing investments from South Africa and Asia in the last two decades, which provide the highest number of formal jobs in the country. According to BOS (2016), the textile and clothing industry accounted for the highest share of employment in the sector, at 91 percent during the fourth quarter of 2016. While initially the sector produced only textile garments, investments have been more diversified in recent years and now includes the manufacturing of seat leather covers for BMW and Volkswagen to service the South African automotive industry, electronics, food and beverages, and cement.

212. The garment sub-sector consumes between 22, 000 and 26, 000 tonnes of imported knitted fabric per year in 30 factories and the only vertically integrated mill is owned and operated by Formosa Textiles, an international company that supplies major apparel brands and operates in Taiwan, Mexico, and Nicaragua. There is generally scarcity of fabric knitting mills and dye houses, and this results in dependence of fabric imported from China with long lead times for knit garment manufacturing, at a time when buyers are demanding shorter lead times. This constrains the expansion of exports to regional and international markets (AGOA, SACU, EU, SADC). The absence or insufficient backward and forward integration raises input prices, increases production lead times, and limits diversification of both products and markets. Thus, an opportunity exists to establish a knit mill to support the local garment industry. Vertical integration will become increasingly necessary for satisfying international markets that demand flexibility and short time leads. The country plans to establish the Special Economic Zone at Ha Tikoe and Ha Belo Industrial Estates, with the possibility of establishing knit mill under these special zones. Such a mill could potentially supply the region's garment producers at a reduced import cost.



The Lesotho's manufacturing establishments do not yet have a very high carbon footprint like those of other countries. Although high carbon print is not yet an issue in the sector, there is a need to provide systematic consideration of the ecological, economic and social effects of climate change in sector planning. Since climate predictions indicate that manufacturing sector will likely be adversely affected by extreme weather events (such as heat waves, floods, wind storms, etc), and the future is likely to witness an increase in the risk of damage to industrial plants, products and infrastructure, as well as more frequent supply chain disruptions. This could threaten the sustainable growth of the industry and formal sector employment. On the other hand, as a major GHG emitter, manufacturing is also considered to be a big contributor to climate change. Carbon emissions and chemical and waste water effluent discharges from manufacturing establishments are not only underlying causes of climate change but sources of toxins that are dangerous to human and animal health. They have also been associated with extensive ecosystem damages and high levels of toxicity in local riverine ecologies as such the country will have to deal with these challenges head-on.

7.3.2.1 Opportunities, Constraints and Achievements

213. During the plan period Lesotho will take advantage of opportunities stemming from existing free trade agreements such as SACU and SADC, or preferential ones such as AGOA and EU GSP to increase and diversify its export products and markets. The SACU market gives Lesotho access to a combined GDP of over \$400 billion, while the CMA arrangement offers duty rebates on imports that are inputs for manufacturing. The country will also negotiate free trade agreements with countries that it enjoys bilateral relations with, which offer increasing opportunities for trade such as China. In recent years, China has been shifting its development model from a production-based to a consumption-based model. The government will strategically identify and exploit opportunities that are offered by this change in China's development model. There are a number of emerging investment opportunities in the country that will be explored to diversify export basket for Lesotho. These include:

	Investment Opportunity	Brief Description
1	Organic and fortified foods, and grain production	❖ There is an existing cannery infrastructure that requires rehabilitation.
2	Water Bottling	❖ The country has abundant water and it is already a major bulk exporter
3	Processing sandstone for building	❖ Lesotho has substantial deposits of sandstone and requires to scale production, processing of sandstone for local and exports
4	Brick making	❖ Significant clay deposits provide an opportunity to manufacture bricks, ceramic tiles for local and export markets
5	Packaging materials	❖ The textile industry consumes more than 20 million pieces of packaging materials annually, most of which are imported.
6	Leather products	❖ Footwear components, and leather goods including car seat covers, wallets, belts, gloves, and other accessories that can be made from locally sourced leather.
7	Waste Management and recycling	❖ This remains another viable opportunity since production of items such as fertilizers, bricks, and garments industry produce significant amount of solid waste, and general



		consumption by households produce a lot of items that could be recycled.
8.	Electronics and car parts	❖ This offers a niche opportunity given the country proximity and the integrated and global nature of the large South African Industry.
9.	Medicaments	❖ These are potentially important products with South Africa base and an expanded market into Botswana.
10.	Food processing	❖ The country currently processes very few consumable products and a lot of them are imported from South Africa. This offers the best opportunity for processing different food items.

214. However, competitiveness in manufacturing is undermined by limited access to finance, low productivity and limited technical, marketing and financial skills, inadequate business development services, limited industrial and logistics infrastructure, bureaucratic government regulations, lack of quality assurance and accreditation, technical barriers to trade in the international markets, government policies that favour FDI instead of domestic firms, limits on foreign ownership of land, and limits on the size of plots available for commercial and industrial use. Moreover, while the application of Lesotho's labour laws is regulated by the inspectorate of the Lesotho Ministry of Employment & Labour, there remain challenges on the working conditions and treatment of employees in the sector³⁰. However, many retailers and brands that source garments from Lesotho also monitor factory conditions in vendors, and persistence of the challenges can affect the sector as an ethical sourcing destination. Therefore, compliance with local and global standards on sustainable development and production needs to be fostered³¹.

215. The government has established the Lesotho National Development Corporation (LNDC) and the Lesotho Tourism Development Corporation (LTDC) to serve as investment promoting agencies. The LNDC promotes foreign investment and larger scale national investment, and serves as an **Entry Point** to every foreign investor in the country. On the other hand, LTDC is the tourism promotion agency which strives to promote Lesotho as a preferred destination for tourism investment and is the entry point for tourism investment. There has been a good collaboration in recent years between these organizations which also includes the Ministry of Foreign Affairs and International Regional Relations through Lesotho's Missions abroad. Strengthening corporation and coordination between these organizations will remain important as the country enters into the new phase of growth path driven by the private sector.

216. The government has also established the Basotho Enterprises Development Corporation (BEDCO) as an agency that establishes and develops Basotho owned enterprises. BEDCO provide entrepreneurial capacity building for SMME's, business advisory services and support and networking. The corporation works in collaboration with the Ministry of Small Business Development, Cooperatives and Marketing which provide policy direction for SMME development and support.

217. During NSDP I implementation, the country made significant achievements in manufacturing which it will build upon during this second phase. These achievements are summarized in Box 7.3.2.1.

³⁰<https://www.tralac.org/news/article/11501-lesotho-s-textiles-apparel-and-footwear-manufacturing-industry.html>

³¹<https://www.equaltimes.org/>



Box 7.3.2.1: Major Achievements in Manufacturing

- GoL established the Technical Barriers to Trade Enquiry Point (TBT) and a rudimentary Metrology Laboratory which focuses on weights and measures in trade to help the business community and potential exporters to acquire market information and requirements.
- Lesotho approved the Lesotho Investment Policy which outlines government's policies in promoting and regulating investment.
- GoL developed the Consumer Protection Policy to protect consumers from traders and unfair treatment and stakeholder sensitization about the policy is being carried out throughout the country and preparations are under way for the enactment of the Consumer Protection Bill.
- GoL further undertook feasibility studies for development of Phase 3 of Ha Tikoe Industrial Estate and Ha Belo Industrial Estate, and construction of these sites will begin during the first year of NSDP II implementation.
- GoL has completed several studies to inform the future direction under trade and investment. The studies include: Industrial Upgrading and Modernization Program study, Commercialization of LNDC's Industrial Estates study, Diagnostic Trade Integration Study (DTIS), and the Lesotho National Quality Policy and Lesotho Standards Strategic paper.
- Consultations for the development of a comprehensive Trade Policy for Lesotho are at advanced stage.
- To strengthen institutions for trade capacity and efficiency, the LNDC was restructured and the new strategic plan that gives the institution a better direction has been developed. This strategy will enable LNDC to play a development finance role which includes financing of trade, equity, project preparation and lease. This is in addition to the trade and investment promotion, property development and management functions

Box 7.3.2.1: Major Achievements in Manufacturing

- **GoL** ratified the World Trade Organization Trade Facilitation Agreement. However, the National Steering Committee on Trade Facilitation is yet to be established.
- It formulated AGOA National Response Strategy to address the competitiveness constraints faced by Lesotho in order to unlock the country's full potential under AGOA.
- The country also acceded to SACU-MERCOSUR Preferential Trade Agreement which came into force on 21 April, 2016.
- The EU-SADC Economic Partnership Agreement was concluded and signed on 10 June, 2016, and the ratification process is yet to follow.
- The Industrial Licensing Act 2014 and Regulations which eliminate barriers to investment and industrial operations by facilitating speedy issuance of industrial licenses were enacted and are now in operation.
- Lesotho Enterprise Assistance Program (LEAP) under the Private Sector Competitiveness and Economic Diversification Project financed by the GoL and World Bank, and the LNDC's Partial Credit Guarantee Scheme (PCGS) were launched. Total loans disbursed under the PCGS since 2011 is M27,969,138.00, with a total of 48 enterprises supported by the Scheme and about 1016 jobs generated by the enterprises.
- GoL established two Skills Training Centres in Maseru and Maputsoe through Public-Private Partnership (PPP), to train locals in different skills including basic sewing, machine mechanics, computer literacy and supervisory skills.
- The Lesotho Standards Institution Act was passed in 2014 to pave way for an establishment of an independent body-the Lesotho Standards Institute which is to be responsible for strengthening and develop standards and quality assurance to ease market access and enhance the competitiveness of Lesotho's products.

218.NSDP II therefore will build of these achievements and will specifically target achievement of three basic outcomes: Diversification of products and building of business linkages between domestic firms and foreign firms and domestic firms and SMMES; Developed Industrial clusters and Integrated Supply chains; and improved Regulatory Framework that create Competitive Business Environment.



Intermediate Outcome 1.2: Diversified Products and Effective Business Linkages

To realize this strategic outcome, the following strategic objectives and interventions shall be pursued during the plan period:

Strategic Objectives	Interventions/Actions
[1] Improve manufacturing capabilities and move into knowledge intensive value chains	<ul style="list-style-type: none"> (a) Develop inclusive business linkage programme to improve backward and forward linkages. (b) Promote light manufacturing in both peri-urban areas and rural areas. (c) Promote domestic private participation in the regional and global value chains. (d) Develop incubation framework to support early stage start-ups with seed financing, R&D, and trade financing. (e) Establish manufacturing innovation hubs to promote product value chains and ensure equal participation by all. (f) Strengthen local business associations across the country. (g) Capacitate textiles and garment industry with managerial and business skills
[2] Strengthen business & trade facilitation for export promotion	<ul style="list-style-type: none"> (a) Roll out OBFC to all districts and expand its mandate to include registration of intellectual property rights. (b) Develop Industrial and Logistical Infrastructure programmes to promote local investment. (c) Upgrade key infrastructure for trade facilitation including the dry port. (d) Improve cross-border trade logistics. (e) Streamline import and export procedures. (f) Build an automated trade facilitation system. (g) Upgrade customs processing and clearance facilities to enable high speed boarder transit. (h) Improve provision of work and residence permits
[3] Expand the textiles and clothing hub to increase exports	<ul style="list-style-type: none"> (i) Enhance export promotion activities including market information on export opportunities. (j) Increase productivity in AGOA beneficiary sectors most notably textiles and apparel. (k) Intergrade textiles and clothing industry related curriculum in technical training institutions. (l) Improve availability of skills in industrial machine repair, maintenance and management. (m) Promote further investment in textile and garment sector. (n) Promote local ownership of the textile sector. (o) Introduce the supplier development program. (p) Develop a comprehensive export promotion program for manufacturing and service sector



Intermediate Outcome 1.3: Operational Industrial Clusters and Integrated Supply Chain

It is the country's desire to have operational industrial clusters that will promote an integrated supply chain. Industrial clusters have potential to benefit firms in the cluster by cutting transport costs, promoting shared inputs, and productivity spill-overs due to learning and technology transfer. Firms in the cluster will benefit due to their geographic proximity. Therefore, the country will:

Strategic Objectives	Interventions/Actions
[1] Promote industrial clustering and integrated supply chain	<ul style="list-style-type: none"> (a) Identify areas of competitive advantage and priority industries. (b) Promote investment in targeted industries including niche targeted products. (c) Develop an incentive framework to encourage research and development in manufacturing. (d) Promote partnerships in targeted industries including high-tech/high value products and agro-processing. (e) Expedite provision of adequate utilities (i.e. electricity, water, ICT, waste disposal, management facilities) to industrial sites (clusters). (f) Promote private sector led-expansion of green industrial infrastructure (i.e. factory shells & related industrial infrastructure). (g) Upgrade and climate-proof national access roads to production sites. (h) Develop a strategy for industrial & marketing infrastructure to support domestic manufacturing value chains.
[2] Improve regulatory framework to create competitive business environment	<ul style="list-style-type: none"> (a) Develop competition Law & regulations. (b) Develop policy framework for empowerment Basotho businesses. (c) Review and amend bilateral and Multilateral border movement treaties. (d) Build a marketing intelligence database. (e) Develop national trade promotion strategy. (f) Implement national brand strategy. (g) Formulate product/sector marketing strategies. (h) Promote consumer protection. (i) Promote an environmentally compliant and climate resilient manufacturing sector. (j) Approve and implement Lesotho's industrial policy and SMMEs policy. (k) Develop a policy on infant industry protection. (l) Develop a national skill transfer policy

7.3.3 Tourism and Creative Industries Sector

7.3.3.1 Opportunities, Constraints and Achievements

219. Lesotho's natural beauty, rich biodiversity, and absorbing prehistoric and cultural heritage offer a very different tourism experience, rarely found in more commercialized destinations. The tourism sector is estimated to have supported over 20,000 jobs in 2013, with 4,737 people estimated to be employed directly by the tourism industry³². The accommodation industry accounted for majority employment in the sector, estimated at 2,969 jobs. The food and beverages industry was the second largest employer in the sector, accounting for 733 jobs. The majority of people employed in tourism sector in the country are women and youth, both in formal and informal jobs. Tourism offers women and youth opportunities for employment, income-generation and entrepreneurship. The sector in the context of responsible tourism and local development can act as a vehicle for the empowerment of women and youth in the country³³. Most tourists

³² Lesotho Review and Tourism Employment Survey (2014).

³³ <http://ethics.unwto.org/en/content/global-report-women-tourism-2010>.



to Lesotho come from SADC countries (mostly South Africa), Germany, Netherlands, China, United Kingdom and the United States. The Lesotho Tourism Development Corporation (LTDC) promotes tourism investment by attracting foreign and national investors. Therefore, LTDC is an **ENTRY POINT** into the Tourism Sector.

220. Lesotho will be hosting the African Union Region 5 under-twenty games in 2020 as articulated under a section on Sports and Recreation, which will be a great opportunity for the tourism sector. It is ideal for Lesotho to take advantage of these games, especially because sport is increasingly being recognized as a tool for development at an international level. Sport can support development by generating income from sports-related sales and services, supporting business growth, entrepreneurship and job creation especially in the tourism sector, improving health and social well-being, and fostering universal values of fair play, mutual respect and friendship. Staging sporting events, whether at grassroots, national or international levels, can enrich the social and cultural fabric of communities, making them more attractive locations for investors and tourists. The other opportunities that hold potential to create jobs in the country are listed in the Table below:

Table 7. 3: Other opportunities

Product Investment Opportunity		Brief Description
1	Tourism Attraction Sites	- The potential of the sectors lies in the natural beauty of Lesotho. Lesotho tourism offers a unique tourism experience and its majestic beauty and serene can be enjoyed by tourists in different areas of the country. The management of the attraction sites need to be strengthened to better benefit the communities around them.
2	Accommodation and Conferencing	- The country has an opportunity in the development of accommodation and conferencing facilities in the country in strategic areas for tourism and conferring.
3	Creative Arts	- Lesotho currently exports its creative art products to the United States of America, Canada and European markets, and there is still potential for more markets and diversification.
4	Sports and Recreation	- Lesotho has potential to host high altitude sports because of its terrain, altitude and weather conditions.

221. In order to realize these opportunities Lesotho will develop well-functioning transport infrastructure, good sporting and hospitality facilities country-wide. However, the tourism sector's competitiveness and participation by the private sector is undermined by limited access to finance, insufficient infrastructure development and maintenance, poor inter-institutional coordination, limited tourism brand management and communication, lack of policy and regulatory frameworks, low quality standards and services, inability to aggregate sufficient land for tourism development and limited entrepreneurial skills, poor tourist product development, environmental degradation and associated impacts of extreme climate events.

5.1.3.2 NSDP I Achievements

222. To develop tourism products and circuits to their full potential, several tourism sites were identified and feasibility studies for Tourism Development Areas (TDAs) at Letša-la-Letsie, Semonkong and Sani Top were undertaken. Master Plans were developed for these areas, and four potential sites for development of visitor centres were identified at Morifi, Thaba-Tseka, Monontsa and Marakabei. In order to develop market outlets for local tourism products/local tourism value chains, 11 Tour Excursionists (based in Maseru) and 16 Tour Guides (based in Kome, Malimong, Thaba-Bosiu and Ha-Baroana) were trained. The



country also forged linkages with South African (Clarence, Vaal, Underberg and Bloemfontein) tour operators, and 20 Crafters and 89 Rural Homestay Owners from eight communities were trained.

223. With regard to improving quality and standards of services under the tourism sector, Lesotho star grading system was implemented and to-date 16 accommodation facilities have been graded. The system is currently being reviewed for improved implementation. To improve marketability and visibility of Lesotho as a destination of choice for tourists, the country developed the Lesotho Tourism Positioning and Communication Strategies. The country further developed the Lesotho Tourism brand and rolled it out, engaged a Public Relations agency to increase awareness of Lesotho in the South African market, facilitated and promoted key tourism events such as the Lesotho Sky, Afri-Ski King's Cup, Ultra Trail Marathon, Lesotho Tourism Festival (LETOFE) and Kome Beer Festival.
224. In 2013, the Sehlabathebe National Park was listed as a World Heritage Site, 65 other heritage sites documented, 20 crafts companies trained and empowered to export to the USA, the Lesotho Tourism brand developed and implemented, State of the Environment Report for 2014 produced, and 187 EIA certificates issued in the areas of mining, agriculture, business enterprises, roads, filling stations, factories and buildings. As a strategy to protect, conserve and manage cultural heritage resources, the country commenced the construction of the National Museum and Art Gallery in 2015, and its construction is anticipated to come to completion in 2018. The Maseru Cultural Centre (Information and Crafts centre) is ongoing and construction was expected to start in 2018. The country also launched the creative industries empowerment program, and trained 45 companies under this program, with 20 of them already exporting their products.
225. Copyright Regulations of 2015 were passed in order to protect arts innovations and the country is in the process of setting up a Copyright Society Board. The Community Conservation Forums have been formed in areas around Southern and Northern Lesotho Parks in order to manage biodiversity, and Herder groups from Ha Khohlooa and Lithabaneng Ha Kepi have been trained in range management and land rehabilitation. Furthermore, forums on Wetland Conservation and sustainable Management of Rangeland Resources have been established in Temaneng, Mokema and Semonkong.
226. While commendable progress has been made in the sector there are challenges faced by the sector that need to be addressed in order to realize its full potential for job creation and inclusive economic growth. The absence of the Inter-Ministerial Tourism Development Committee (for development of tourism-related infrastructure and services, visa facilitation for tourist arrivals) slowed down the implementation of activities, low private sector investment as a result of limited National Investment Incentive Packages, limited participation of accommodation facilities in the grading program, inadequate equipment that hindered the planned documentation kick-off under promotion of cultural activities, limited budget, staff and expertise as constraints in implementation of activities under bio diversity and cultural preservation, and the environmental concerns disregarded by other sectors remain as some of the sector's greatest challenges.

Strategic Objectives and Interventions

Intermediate Outcome 1.4: Improved and Diversified Tourism Products

227. The challenges notwithstanding, the Government continues to recognize the importance of tourism and the country's heritage portfolio which represents a significant tourism asset. The country's history, identity and rich biodiversity, and climate conditions as well as its location offer additional marvelous assets for tourism. Over the next five years the country will enhance the aesthetic beauty of the landscape in order to



increase opportunities for recreation and sustainable tourism, and will invest in targeted tourism activities through the following interventions:

Strategic Objectives	Interventions/Actions
[1] Increase tourism investment	<ul style="list-style-type: none"> (a) Enhance animation of tourism sites and upgrade visitor infrastructure at selected national tourism attraction sites. (b) Develop tourism products and circuits to their full potential and strengthen capacity for event tourism promotion and management (c) Promote sustainable eco-tourism. (d) Create platforms for innovation in tourism in collaboration with relevant stakeholders. (e) Develop community-based strategies for increased participation of local communities within the tourism value-chain. (f) Strengthen tourism research to inform products development, investment production and marketing initiatives. (g) Improve access to finance, and skills (i.e. business, tour guides skills) in the tourism sector. (h) Improve safety and protection of participants in the tourism industry
[2] Improve visibility of Lesotho as a Destination of Choice	<ul style="list-style-type: none"> (a) Roll out the Lesotho Tourism Brand to make Lesotho a destination of Choice for tourists. (b) Promote Lesotho as a preferred global movie location. (c) Establish tourist information centres and services at strategic locations. (d) Promote business linkages between tourism and creative arts (e) Develop a tourism marketing strategy and pursue it aggressively. (f) Promote key tourism events and incorporate them in global tourism events calendar.
[3] Improve Protection and Management of Heritage Resources	<ul style="list-style-type: none"> (a) Enhance documentation of Heritage resources. (b) Improve public awareness on importance of culture and heritage resources. (c) Develop guidelines for effective management of heritage resources. (d) Build capacity in the areas of Heritage Management such as archaeology, paleontology, rock art and zoology. (e) Improve maintenance of rock art and footprints. (f) Establish facilities for heritage management such as National Museum and Art Gallery.
[4] Improve Institutional Frameworks for Tourism	<ul style="list-style-type: none"> (a) Improve tourism data system to improve data reliability and marketing. (b) Improve regulations of the tourism sector and develop industry guidelines for tourism associations and tour guides. (c) Enact tourism enterprise bill, develop tourism policy and finalise tourism levy framework. (d) Develop Tourism Sector Master Plan (e) Review legal frameworks for cultural heritage. (f) Improve tourism hospitality grading and accreditation standards.
[5] Build Sustainable Infrastructure for Tourism	<ul style="list-style-type: none"> (g) Upgrade and digitize documentation system. (h) Identify and develop tourism-related infrastructure to create circular routes linking tourism attractions and facilities. (i) Improve access to tourism products and destinations. (j) Improve accommodation and hospitality facilities. (k) Establish facilities for heritage management such as museums and art gallery. (l) Identify sites for tourism investment, declare as special development areas (SDAs) and exempt from any land taxation.

Creative Industry³⁴

228. Apart from the existing popular attractions, Lesotho's landscape provides a great potential for the country to become a site for adventure movies, multi-sport, high-altitude training and a wider range of traditional leisure and adventure activities. The creative industries remain largely informal, therefore, there is no baseline data on the industry employment. The industry is composed of fine arts, films, theatre productions,

³⁴ This include: television and film, music, theatre, Book publishers and authors, Crafters, Fine arts (painters, sculptors, graphic designers), Cultural sports and games, Sesotho Academy – language rights, Beauty pageants and models.



music, fashion and literary arts. Participation in the music industry is skewed towards men, while crafts are dominated by women. Most artists export their products to South Africa, United States, Kazakhstan and Canada. The creative arts industry competitiveness is undermined by piracy and poor protection of intellectual property rights and indigenous knowledge, lack of coordination by agencies supporting creatives industries, low quality products since most artists do not have formal arts or crafts training and thus rely on natural talent, limited business and marketing skills, Inadequate infrastructure support, limited sources of funding, marginalization of creative arts in policies and plans, the industry is also characterized by fragmented production and no organized collection centers.

Intermediate Outcome 1.5: Improved Creative Industry

229. Lesotho remains committed to improve the creative industry to create a number of jobs through arts [visual arts (i.e. films, animations)] and crafts, fashion industry, performance arts, music. During the plan period, Government will improve legal framework governing the industry and will increase its level of investment in the industry. Specifically, the following strategic objectives and interventions will be implemented:

Strategic Objectives and Interventions

Strategic Objectives	Interventions/Actions
[1] Improve legal frameworks and regulations to create competitive creative industry	<ul style="list-style-type: none"> (a) Review /and develop laws affecting the creative sector (including the Film Act, Language Act). (b) Develop collective management systems. (c) Encourage inclusion of Intellectual Property education in Enforcement Agencies and government officials (LMPS, LRA, Judiciary, Prosecution, gov. departments). (d) Improve compliance to laws in the creative industry. (e) Review Copyright Order of 1989 and develop Copyright Policy. (f) Develop content policy and enforce locally produced content quotas on all content service providers (cell phone, television, radio, satellite providers, etc.)
[2] Increase investment in creative arts	<ul style="list-style-type: none"> (a) Introduce incentives such as tax rebates and tax breaks to grow the industry. (b) Develop creative industries strategy (c) Facilitate private sector participation in creative industry to solicit support. (d) Facilitate access to finance.
[3] Improve the functioning of the creative industry	<ul style="list-style-type: none"> (a) Build capacity of creative practitioners and support industries (b) Support the development and engagement of associations as key industry players. (c) Build a grading, classification and licencing system of industry professionals and (d) Review and develop national creative industry database. (e) Establish an internationally accredited Creative Arts Academy that will be supported by incubation programmes. (f) Incorporate Creative arts in school curriculum at all levels
[4] Market Lesotho creative industry internationally and locally	<ul style="list-style-type: none"> (a) Raise awareness on the business aspect behind the Creative Arts Industry, so that it becomes profitable and self-sustaining (b) Utilise platforms such as international conferences, workshops, screenings to raise awareness about Lesotho and our cultural heritage (c) Establish creative centres for the Creative Arts industry, to be operated by local creative practitioners



7.3.4 TECHNOLOGY AND INNOVATION

Introduction

230. NSDP II prioritizes technology and innovation, and the sector forms one of the four productive sectors that holds potential to create thousands of jobs and enables the achievement of the outcomes of the newly designed growth model. If the country needs to transit to an information-oriented society, it must build a culture of innovation. Boosting digital development would give Lesotho a chance to leapfrog into the fast-growing global digital economy, and achieve the promises of the current growth strategy. The other prioritized productive sectors under NSDP II will rely largely on technology and innovation for them to generate employment and inclusive growth. The transformative potential of technology and innovation in production systems promise greater speed and precision of production and could help Lesotho leapfrog over older development and business models, thereby making way for more value-added activities. Furthermore, growth of SMMEs into viable business ventures will largely depend on the National Innovation System envisaged in this plan.
231. However, the technical change and innovation that determine the country's overall competitiveness, productivity and hence economic growth depends not so much on being the first in the world in developing radical innovations, but more on efficient diffusion of technology and innovations. Technologies developed elsewhere can be imported, adapted and diffused to users who can in turn develop businesses that not only generate income, but also create jobs. This will depend entirely on innovation models and policies that Lesotho will adopt. Although, there are often fears that technology adoption and process innovation³⁵ can destroy jobs, the latter will be a good thing as it will improve efficiency in the country. For instance, instead of producing one Basotho hat a day and using wool to brand the product by hand, by improving the process, five hats could be produced and a more professional process used to make the labelling attractive. The process is not only limited to developing countries, job destruction can likely happen in developed countries when for instance the process of making cars is progressed from human labour to robotics. Product innovation definitely implies the emergence of new firms, new sectors, and thus new jobs.
232. However, for process innovation, the final impact on labour demand is shaped by market mechanisms that compensate for the direct job-destroying impact if market and institutional rigidities do not impede them. Thus, technology and innovation policies have to maximize the job-creation effect of product innovation and minimize its direct labour-saving impact. Although, several models exist globally for support of technological innovation and industrial development, in order to improve countries' competitiveness in the globally competitive markets, such models have not been efficiently utilised in Lesotho. Some of these models are: Public-Private Partnerships in innovation and technology; Triple Helix model of University-Industry-Government partnership; the University-Industry Innovation model, and Public-led innovation and technology models. However, all successful models worldwide have had qualified technical teams at their core with technologies coming from Universities, Industrial Research Laboratories, Technology and Innovation Centres.

Opportunities and Constraints

³⁵ Process innovation entails the introduction of a new or significantly improved production or delivery method, whereas product innovation is the creation of or introduction of goods or service that is new or an improved version of its previous form.



233. Over the past decade Lesotho followed a sound model for the ICT sector development, with the basic recipe of market competition, private sector participation and independent sector regulation, in place from an early stage. Still, the country is not yet benefitting from the expected digital dividends. Although the internet infrastructure is available, the usage is still significantly less developed than the mobile communication market. Affordability in terms of price and device accessibility is a major reason behind low internet usage. Among other reasons, lack of awareness on the potential of ICT, low digital skills among the population, and limited relevant application content impact internet usage.

234. International experience suggests that digital success stories all started with the government acting as a champion of the digital agenda, and providing a strong example through establishment of a far-reaching digital government. Through establishment of the Lesotho Government Data Network (LGDN) and two data centres, Lesotho has taken steps to establish promising foundations for the development of digital government. However, further policy action is needed in this area. The GoL is implementing the e-government project to improve the country's online public service delivery, but due to lack of a clear policy framework; insufficient skills among public officials; and poor interoperability among government platforms, progress towards effective delivery of online public services has been slow.

The level of technology adoption, innovation and support for Research and Development (R&D) remains relatively low in the country. The 2017 Global Competitiveness ranking shows that Lesotho respectively ranks 115 and 125 out of 137 economies on innovation and technological readiness. These rankings place the country lower than Botswana which ranks 90 on both technological readiness and innovation, and Namibia which ranks 89 and 78 on the two indicators.

Table 7. 4: Lesotho's Level of Technological Readiness and Innovation in Global Competitiveness Ranking compared to that of Botswana and Namibia in 2017/2018

	Lesotho		Botswana		Namibia	
	World Ranking	Score	World Ranking	Score	World Ranking	Score
Technological Readiness Indicators	125		90		89	
<i>Availability of latest technologies</i>	134 (126)	3.0	95	4.3	58	4.9
<i>Firm-level technology absorption</i>	133 (127)	3.2	98	4.2	69	4.4
<i>FDI & Technology transfer</i>	132 (133)	2.9	91	4.0	76	4.3
<i>Internet Users</i>	103 (130)	27.4	92	39.4	98	31.0
<i>Fixed-Broadband Internet Subscribers</i>	126 (135)	0.1	97	2.8	102	2.2
<i>Internet Bandwidth</i>	121 (120)	4.5	114	7.9	103	15.9
<i>Mobile-broadband subscribers</i>	98 (103)	36.9	54	67.9	62	66.1
Innovation	115		90		78	
<i>Capacity for innovation</i>	134 (119)	3.0	108	3.7	77	4.0
<i>University-Industry Collaboration in R&D</i>	133 (132)	3.2	82	3.3	83	3.3
<i>Gov procurement of advanced tech. products</i>	132 (133)	2.9	30	3.8	65	3.3
<i>Availability of scientists and engineers</i>	103 (142)	27.4	99	3.5	103	3.5
<i>PCT patents</i>	126 (87)	0.1	119	0.0	96	0.1
<i>Company's spending on R&D</i>	121(126)	4.5	91	3.0	63	3.4
<i>Quality of scientific research institutions</i>	98 (138)	36.9	92	3.5	87	3.5

N.B. Scores are on a scale of 1 to 7 where 7 indicates best score. The number of countries scored are 137 across the world and in parenthesis are the 2012/13 rankings per indicator.

235. In 2012/13 when NSDP I implementation started, Lesotho ranked more favourable on a number of indicators such as the availability of latest technologies, firm level technology absorption, capacity of innovation, and PCT patents. However, the country seems to have slipped back in 2017/18, which might be due to other countries moving up the ladder faster or a result of actual decline on the indicators.



236. However, it is encouraging to note that there is a lot of small-scale innovation activities on the ground. For instance, the collaboration between Universities, Government and the Industry has commenced and is likely to intensify in the future. There have been a number of University-Industry product exhibitions since 2015/16. Local Higher Learning Institutions have started efforts and activities to encourage innovation and commercialise research in a variety of products that have potential to create employment and promote inclusive growth. This is in response to an increasing trend among institutions to deviate from traditional teaching methods and research through notable engagement of actors in the industry; with a focus to be results and innovation oriented. For instance, the National University of Lesotho (NUL) started its efforts to commercialise research on practical products since 2010.
237. The Innovation Hub is already established at NUL and the University has experimented with a number of products, some of which have been launched and commercialized while others are in the early phases of experimentation. A number of products ready for commercialization include: *Engineered stone, Waste paper based cladding, Mamathe wonderland, Yoghurt, reed products, App-store and Chicken incubator*. There are also other products that need to be exploited from various geological formations and deposits together with biomass resources such as *marbles, glass fibre, geopolymers, Portland cement, high value ceramic tiles, masonry, decorative cladding, natural fibre composites, bio-fuels and bio-chemicals*.
238. Although employment creation through these products has not been evaluated, there is recognisable potential. Commercialization of these products, therefore, has potential to change the country's economic dynamics. It is through the continuous introduction of these products into the markets that will kick-start a process of industrialization in the country, which has not been effective over the past 50 years. Unless the economy effectively industrializes, employment creation and poverty reduction would not be achieved. The cooperation between university and private sector is crucial to achieve this. The government commits to initiating university-private sector cooperation where the stakeholders - government, university and private sector - will work together to create innovation hubs and incubation centres. LNDC has been working with the University in promoting innovation and this collaboration will be intensified during NSDP II implementation.
239. There are also a few small-scale initiatives that offer both potential and room for improvement from the private sector. The Vodacom Innovation Park, based in Maseru, offers business training, mentorship and link to local financial investors to selected entrepreneurs aged 18-35 (including, but not limited to, digital entrepreneurs). The few beneficiaries (the program accepts approximately 6 applicants per year) highlight a very positive effect of the program, especially in terms of business training, increased access to information, reputational signalling to investors, and peer learning.
240. While there are other new products and process innovations taking place in the country side, they remain uncoordinated and fragmented due to poor coordination and working in silos, and lack of clear policy direction in terms of guiding innovations and technology adoption. Such process innovations remain unknown and they hold potential to turn the industrialization landscape in Lesotho. These include Agave gels and creams, and aloe gels and creams. Some of these products are being exploited yet agave plants used are not being replaced by planting, rendering such products unsustainable. The production methods used for their exploitation up-to labelling do not meet international standards, and this is further exacerbated by lack of National Standards. However, there are moves to institute standards. There is the Standards Institution Act 2014, and a Board has been appointed. The NSDP II, therefore, aims to implement a standards regime.
241. Although opportunities abound, the private sector consultations revealed a number of challenges that beset the sector to create jobs and change Lesotho's industrialization landscape. These challenges are summarized below in the Table 7.5:



Table 7. 5: *Technology and Innovation Challenges*

Research and Development Challenges	Incubation Challenges	Industrialization Challenges
<ul style="list-style-type: none"> • Lack of finance for Research and Development • Limited Research in the area of product development • Poor collaboration between institutions of higher learning offering courses in Science and Technology • Poor linkage between Research Institutions, Government and Industries • Lack of accredited Product testing labs • Lack of diverse knowledge and skills 	<ul style="list-style-type: none"> • Lack of collaboration between the University, the Industry and the Government • Lack of Mentorship • Lack of grooming of technological entrepreneurs • Limited incubation funding, space and support • local investors lack the expertise to properly evaluate the potential and financial viability of ICT business opportunities • International business networks for digital entrepreneurship are still underdeveloped 	<ul style="list-style-type: none"> • Lack of Industrial Parks • Slow or non-growing industries • Lack of start-up capital • Limited small and medium scale factory shells • Lack of testing laboratories to ensure quality assurance • Lack of appreciation of technology and innovation by society
<ul style="list-style-type: none"> • Lack of institutional frameworks to promote innovation and research and lack of policy implementation that protect and support innovation, the education system that does not support innovation and knowledge economy; and protection of Indigenous Knowledge Systems. 		

242. Young ICT entrepreneurs and professionals in Lesotho face many constraints as articulated in Table 7.2.4.1 above. As a result, Lesotho has not participated in the recent flourishing of TechHubs across Africa, and no such structure is present in the country. However, the availability of home-grown mentors and meetups for digital-related business is increasing (thanks to initiatives such as the Maseru HookUp Dinner), but still limited. No institutional channels exist to link local digital start-ups to the international community. The challenges are worsened by Lack of Business Incubation Centres in all their varieties (product development, community and accelerators incubation). Although ICT graduates match employers' expectations in terms of technical skills level, local opportunities for professional development are limited. Ministries and government agencies, Vodacom Group, EcoNet, and Standard Lesotho Bank are the four major employers for ICT graduates (Mosola, 2018). Unemployment among ICT graduates is generally very low, as demand is growing with supply limited. This has resulted in the phenomenon named Talent War-low supply of ICT expertise versus very high demand for ICT services. There is also some low customer confidence on native ICT developed solutions. Nevertheless, many ICT graduates end up being absorbed by the South African labour market that offers more competitive wages, and a more sophisticated and developed digital sector.

NSDP II Strategic Objectives and Interventions

243. Despite the constraints, young Basotho entrepreneurs are creating some inspiring ICT applications. A few examples include an online business training platform featuring a virtual chat with international mentors; an Uber-like platform linking local drivers to patients travelling to clinics; a digital app to improve school management; a web-based app to support clinics in the stock management of drug supplies; and the use of drones to provide photo-mapping services for different uses, from monitoring of construction works, to disaster-management programs. All these products and services, developed by young Basotho, are currently being marketed in the country, and offer the potential to compete in international markets.

244. During NSDP II implementation, cost effective and incentive-based mechanisms involving the private sector will be explored to promote scientific research, development of technology-based solutions to



address the challenges that Lesotho faces today, and enhancement of innovations and operations of productivity centres will be explored. Central to inventions and innovations, is an effective integration of Intellectual Property Rights (IPRs) in products. Knowledge that is developed has to benefit the developer and the country. Technology diffusion, therefore, goes along with the sale of rights, and this has been proven in many advanced economies as an important component of economic success. Technology Business Incubation model is a working model in promoting technology transfer and assisting in nurturing the development of technology base and knowledge-driven enterprises through an array of business resources and services. At the same time productive processes need to be geared towards enhancing well-being by taking into consideration sustainability and inclusion. Technology policies will be prioritised with a view towards enhancing long-term growth prospects through subsidies and tax concessions. It is evident that without appropriate platform, people will not be innovative. The following strategies are therefore proposed:

Intermediate Outcome 1.6: Strengthened research for policy making and product development

Strategic Objectives	Intervention/Actions
[1] Enhance the Institutional Capacity for Research	<ul style="list-style-type: none"> (a) Support research and development in niche areas that support the private sector's competitiveness. (b) Provide supportive infrastructure for product development and innovation in institutions of higher learning. (c) Improve skill base by introducing new programmes and improving the existing ones.
[2] Enhance Collaborational Between Institutions of Higher Learning, Industry and Government on learning and Research	<ul style="list-style-type: none"> (a) Promote online feasibility of researchers to instill a culture of information sharing among institutions of higher learning. (b) Develop a framework for collaboration between institutions of higher learning and research. (c) Strengthen the Tertiary Institutions-Industry-Government Collaborations in research and Innovation. (d) Establish a National System of Innovation to address coordination and collaboration challenges

Intermediate Outcome 1.7: Functioning incubation centers and industrial parks

Strategic Objectives	Intervention/Actions
[1] Establish National Incubation Centres and Industrial Parks	<ul style="list-style-type: none"> (a) Provide support to sector specific incubation centres such as IT in banking, manufacturing industries, agriculture targeting small, micro and medium enterprises. (b) Provide incubation funding and mentorship. (c) Establish Knowledge Based Industrial (research, science and technology) Parks to support job creation (d) Develop a funding model for national incubation centres and technology hubs in collaboration with the private sector (e) Develop a technology and innovation database of all players in the sector



	(f) Explore incentive mechanisms to enable companies to afford students an opportunity to exercise their innovation potential
[2] Establish Cottage Industries and Support Locally Developed Products	(a) Support growth of rural based cottage industries in the country. (b) Establish trade linkages between rural based cottage industries and urban retailers to create markets for rural produced products. (c) Promote use of appropriate indigenous technologies in the cottage based production systems across sectors.
[1] Strengthen Legal and Institutional Frameworks for Innovation	(a) Enact the science and technology law. (b) Develop policy on Innovation. (c) Strengthen and enforce Intellectual Property Rights Regime to protect innovation

Intermediate Outcome 1.8: Improved use of ICT

Strategic Objectives	Intervention/Actions
Improve capabilities for ICT use	(a) Increase access to information on science and technology based careers and existing labour market opportunities. (b) Support training of scientists and engineers in particular women and girls. (c) Provide digital skills training to youth out of school ³⁶ . (d) Promote local and international networking on digital issues. (e) Promote equal opportunities in participation and use of ICT in priority sectors (f) Support a digital mentorship program (g) Increase competition in the ICT market to reduce costs (h) Develop ICT labs. (i) Establish data centres/hub to attract data locally and internationally. (j) Establish an international call centre to promote youth employment. (k) Facilitate smooth migration from analogue to digital.

³⁶ Models proposed by companies like Digital Data Divide, Laboratoria or Andela provide students with digital skills training, and matches them to demand for their skills in the international market. Students get on-the-job training and formal job opportunities working remotely for international clients





Support Sectors



Strengthening Human Capital

Key Priority Area II

8.1 Introduction

245. To support the productive sectors with greatest potential for job-creation and inclusive economic growth that will reduce poverty, the Government will build human capabilities through investment in health, nutrition, education and skills development. It will provide social protection to safeguard society against emerging vulnerabilities and other disasters. The country will provide the skills much needed by the productive sectors given the fact that human capital stock built through education and health form a critical component for improving human capabilities which booster investment and economic growth. And thus plays an important role in complementing private sector investments through boosting productivity. Economies with higher human capital stock grow faster: Healthy, educated and skilled workforce have the potential to enhance the firm level productivity, as such determine market's investment appeal (attract private investment). In addition, good nutrition throughout all life time cycles forms a critical component of human stock. Education, health, nutrition, water and sanitation complement each other, with investment in any one contributing to better outcomes in the others³⁷. It is important to ensure the quality of investment in these areas for better outcomes which should also be aligned to the specific private sector's needs.
246. In addition, Lesotho has a young population, with youth comprising 39.6 percent of the total population. This population presents an opportunity since it gives the country a distinct advantage in the global market as it provides potential for reaping large dividends in terms of an educated workforce capable of meeting the brainpower demand of the local and global economy. This will be a challenge if the education sector fails to meet the demand for appropriate skills requirement for the national and global economy.
247. Consultations with the Private Sector, Government officials, Development Partners and other stakeholders indicated that shortage of skills in certain areas is a major constraint facing the country. This is also supported by the World Bank³⁸. These consultations further revealed that while firms can easily recruit plant and machine operators; craft and trade; skilled agricultural, forestry, and fishery workers; service and sales workers; and clerical support workers, it is harder to recruit managers, professionals, and technicians. Employers and AID agencies further find it harder to recruit engineers, quantity surveyors, construction managers, financial experts, specialized lawyers, project managers, monitoring and evaluation experts, managerial and supervisory skills and climate change experts. An analysis of the number of work permits issued by the Ministry of Labour during NSDP I implementation reveals that indeed the country has skills shortages in construction, wholesale, retail trade, manufacturing and health professional (specialist medical doctors). There is also a shortage of entrepreneurial skills in sector-specific activities and other skills such as textile engineering and design despite the country's more than 25 years of textile and garment manufacturing.

³⁷ World Bank (2016)

³⁸ World Bank (2014a, 2012b)



248. Anecdotal information has also revealed that skills development in Lesotho is gendered. Girls tend to train in social, education and craft skills, and are underrepresented in the science, technology, engineering and maths (STEM) subjects, but are lately breaking into information technology. Boys are attracted to more technical skills; they dominate in the technical schools around the country. The challenge is the existing curricula or syllabi at all levels that are not oriented to skills development required by the private sector. This situation translates to labour market mismatch and it calls for government's defined policy that clearly mainstreams gender after a skills audit and dialogue between education suppliers and users to reach a consensus on the national requirements and manpower planning that are gender conscious and responsive.
249. The entrepreneurial skills and technological skills transfer from the textiles industry did not take place over the past two decades of Asian run textile industry. Few Basotho manage or own textile firms (there is only one Mosotho owned textile factory to date). The detrimental effect of the failure to develop local skills in the textile and garment industry will be particularly feasible when the preferential arrangements currently supporting the industry expire and workers who are predominantly female need to find employment elsewhere. The country has also lost billions of Maloti of surplus generated in the industry due to lack of entrepreneurial skills to allow ownership of the industry by local business people. Such surplus could have changed Lesotho's business landscape as surplus would have been ploughed back to generate more jobs in the country.
250. Lesotho ranks position 122 on the quality of primary education (very low quality) and position 118 in terms of higher education and training on global competitiveness ranking index done for 135 countries where the highest rank is for the worse performing country.

Education Sector

8.1.2 Situation Analysis

251. Therefore, NSDP II recognizes the education subsector's role embedded in the Education Sector Plan (ESP) 2016-2026 which is a long-term instrument that targets that every Mosotho has the opportunity of being literate and productive, with grounded moral and ethical values. The ESP focuses on building a strong economy by enhancing the skills base, technology adoption which is a foundation for innovation.
252. Over the past five years of NSDP I implementation, the country has consistently invested up to 18 percent of GDP on education towards this outcome. In the past, the sector budget largely prioritized basic education activities to ensure that education coverage becomes gradually universal and that the level of students learning outcomes is high, however in the current ESP concern is on matching the production of graduates with labour market demands. During the recent Joint Education Sector review (2018), the MoET announced key priority interventions for the next three years that included: introduction of the three-tire model, introduction of AS and A' Levels in secondary schools, evaluation of the phasing out of the PSLE, development of TVET funding model and implementation of centralized and automated application system in order to regulate entry and funding of tertiary students. The sector is also focused on developing comprehensive teacher policy and intensifying teacher development.
253. The overall coverage of education in Lesotho is in the same range as comparative countries, however there remains considerable room for improvement. Both boys' and girls' access to secondary education is deprived, and while the geographical character of the country greatly influences this inequality, it is worth noting that the unique cultural and social stratification patterns of the country are also considerable factors. Basotho children continue to observe cultural norms and practices such as herding; traditional initiation and taking care of the family; in addition, they are affected by orphanage and being victims of poverty. Consequently, boys remain lifetime herders with no apparent economic prospects while girls drop out of



school due to a range of factors including high rates of early and unintended pregnancy, early age marriage, gender-based violence, assisting with household chores or providing home-based care and being engaged as child labourers (e.g. Domestic workers). Therefore, they miss the knowledge and skills development that would lift them out of poverty and contribute to their economic prosperity. Although enrolment rates in primary education have improved (81.1 per cent) over time because of Free and Compulsory Primary Education policy, in 2016 they dropped to 75.8 percent. In secondary schools, net enrolments improved from 36.5 percent in 2012 to 38.7 percent in 2016. Net enrolments targets of 100 percent and 50 percent of primary and secondary education respectively were missed by end of NSDP I implementation, while in TVET institutions the net enrolments increased from 3,229 in 2012 to 4,410 in 2016 thereby surpassing NSDP I target. At tertiary level, one university was introduced but that did not increase enrolment significantly; upgrading of Lerotholi polytechnic which hasn't happened was envisaged to increase enrolment at this level.

254. Access to education especially secondary education continues to be skewed towards urban areas and higher income groups while rural areas continue to suffer disproportionately. This is reflected in huge disparities across districts. A number of learners have dropped out of schooling after completing their primary education and have not been able to enter the secondary education cycle while others have dropped during the cycle. To address issues of access, much attention was given to improving retention, dropout rates and completion rates; the GoL continued to implement free and compulsory primary education and developed several other complementary education policies³⁹; GoL continued with the construction of additional classrooms and schools in remote areas, and further constructed and equipped science laboratories in public, church and community schools. In addition, it attached reception classes in existing primary schools (where priority was given to the deprived schools) and provided equipment, teaching and learning materials for learners including those with special educational needs, and special education training was introduced in Lesotho College of Education.
255. To improve relevance and applicability of skills, the GoL revised TVET policy, introduced flexible and multiple entry points in industrial and skills training centres, developed TVET instructor's programme of pedagogy, revamped Recognition of Prior Learning (RPL) and students' attachment and resuscitated TVET board. To improve the quality of curriculum and assessment, the government phased out PSLE and introduced new learner based-approach integrated curriculum at primary, localised Ordinary level LGCSE subjects (including Maths, Science and Geography) and finally integrated ICT, business studies and economics in teaching and learning at secondary level. In addition, GoL intensified inspection of schools at all levels and continued to provide continuous professional development and pre-service training of teachers (including mainstreaming of special education). Furthermore, the GoL implemented programme accreditation standards at tertiary education level through Council on Higher Education (CHE) to safeguard education standards, currently eight programmes have been granted full accreditation and all new programmes are reviewed before being offered by HEIs. At the same time, a number of post graduate programmes was increased to develop innovative culture and capacity for scientific research.
256. Despite this considerable progress made in improving education outcomes (net enrolments, literacy rates and learners' attainments and retention across different levels of education) and implementation of strategies to improve the quality of education, student performance and quality of education has continued to decline at all education levels. The quality of educational services may be defined by resources, school inputs and operational modalities, however a better assessment is the consideration of what students have learnt. Concerning Lesotho, the international comparison of the quality of education refers mostly to the

³⁹ IECCD Policy, Curriculum and Assessment Policy, School Feeding Policy, Higher Education Policy, TVET policy and HIV and AIDs Policy



participation of the country in the assessment of student learning made by the sacmeq⁴⁰. In international comparative terms, the level of learning of Lesotho students in primary education is considered low since the average figure for the country is 472 points, while the average for 13 countries used as comparators stands at 514 points (SACMEQ III). At ECCD level, GoL has yet to regulate establishment of ECCD schools; currently there is no system of quality assurance and accountability, and due to the different nature of preschools, services provided experience a varying quality.

257. A gender gap is pronounced throughout the system of education in favour of females at all levels, apart from primary level. The percentage of boys to girls is 49.7% and 50.3% at primary while it is 68.7% and 31.3% at Tertiary. Conversely, there are strong gender disparities in favour of males in STEM subjects at tertiary and vocational education levels. Socialization and gender norms still affect the selection of educational and occupational specialties, even though there are no limitations based on gender in the policies and laws. This is compounded by a lack of guidance for proper career development and planning in schools and of information on career paths, especially in rural areas.
258. The delivery of educational services in Lesotho has not been spared the adverse impacts of climate change. Long distances that both teachers and students have to travel over rugged terrain to go to school, often encountering impassable rivers, cause frequent disruptions to the schooling system. Despite the investments made on expansion of access infrastructure in recent years, extreme weather events, particularly flooded rivers and snow storms, often translate into lower attendance and poor performance. The damage to educational infrastructure by these extreme events has also become more frequent in recent years, so is the damage to some of the access infrastructure such as footbridges. Several drowning incidents have also been reported, particularly in the Mountains region. These challenges are exacerbated by inadequate education and information dissemination about climate change and its predicted impacts and possible adaptation strategies to be adopted at the local level.
259. Lesotho's challenge in building adequate national resilience to the adverse impacts of climate change has been blamed on a nation-wide shortage of climate experts that carry the requisite experience and climate modelling skills, and have the ability to institute vulnerability and risk assessments in various sectors of the economy, leading to the formulation of successful adaptation strategies and programmes. During NSDP I, a few induction courses were held for members of the National Climate Change Committee. These were, however found to be too short-term and therefore inadequate. There is clearly a need for long-term training in climate science and related areas at formal institutions in order to meet the demands of climate sensitive productive sectors of the economy. There is also a need for capacity building through short-term, in-service courses for staff in these sectors, as well as for information sharing on climate change with regional and international institutions. In addition, one of the factors that determine the magnitude of the impacts of climate change and extreme weather events is lack of knowledge of climate and its impacts, and strategies that the public can implement to minimize the impacts thereof. Lesotho's education system (formal and informal) should incorporate climate literacy in order to build national resilience to the impacts of climate change.
260. Studies⁴¹ indicate that the GoL is investing in education and has a good network of technical and vocational training institutions. Hence Lesotho's population is one of the most highly literate in the Southern African region; however, this has not translated into employable skills. The matter is further aggravated by lack of skills development policies, non-alignment with requirements of the labour market, absence of adequate skills training facilities for those youth who drop out of school before completing secondary and primary

⁴⁰ Southern and Eastern Africa Consortium for Monitoring Educational Quality

⁴¹ EU 2016 Gender Country Profile for Lesotho Report



education. The very small further education sector providing vocational skills allows very few non-academic young people to get vocational skills qualification.

261. The country has also suffered serious skills mismatch between skills supply and labour market requirements; the calibre of graduates of education institutions does not match the demands of what the country needs. Consultations revealed that this is attributed to limited inter-sectoral coordination, relevance of curriculum and non-involvement of private sector input in curriculum development. This imposes additional costs on firms and ultimately hamper job creation and inclusive economic growth. The inability of Lesotho's education system to produce the relevant skills is concerning from a development perspective since it hinders the growth of private sector employment.
262. Both skills mismatch, low education quality and inadequate attention given to Technical and Vocational Education and Training (TVET) intended to facilitate opportunities for entrepreneurship and requisite employment skills in both private and public sectors has impeded the country's long-term development. The interventions that were implemented during the NSDP I period focused exclusively on students in the education system while ignoring those that have either graduated or dropped out from the system. This segment of society represents a larger group in the population. It includes both those that dropped out of school and those that graduated with irrelevant skills. Therefore, NSDP II will build on the achievements of NSDP I but more importantly address the challenges that were detected during the plan implementation. NSDP II proposes that all education interventions support development of human capabilities to support the four productive priority sectors.
263. In this context, the GoL will transform its education system from the current fair level to good level and finally to level of excellent, to ensure quality and relevance of skills and knowledge that meets globally competitive standards; inclusiveness in terms of access and equity; efficiency in the use of education inputs while achieving significant, sustained and widespread gains in students' outcomes; career mobility and high earning potential. Finland, Iceland, Singapore and South Korea provide examples of the best education systems in the world and these countries education systems rank in the top 10 best systems on international competitiveness index.
264. In support of the productive priority sectors the GoL will lay a foundation for long-term sustainable employment creation and inclusive growth within and across generations through improving the quality and coverage of Early Childhood Care and Development (ECCD); improving the quality and access to basic education and tertiary education; matching training with sector/industry specific needs; retooling of skills in areas that have been identified as critical to improve the performance of the economy especially under priority sectors, including climate change; increasing utilization of ICT by all; promoting mathematics and science education at all levels of education and across gender; promoting climate change by introducing climate studies into schools curricula; promoting financial literacy and entrepreneurship skills; expanding, and upgrading TVET institutions to support productive sectors, and improving their accreditation status from only eight out of 35 registered institutions; expanding infrastructure and improving teaching capacity and raising calibre of existing teachers and principals; transforming tertiary institutions to offer more postgraduate programmes to enable the economy move from factor-driven economy to knowledge based economy; offering incentives for high performance in schools, and strengthening governance and accountability at all levels of education system. As a strategy to ensure inclusiveness of skills development, the GoL will support short-term training programmes for those already out of school, strengthen certification for skills acquired on the job and will intensify advocacy for TVET and out of school education.



Intermediate Outcome 2.1: Enhanced Skills for Employment and Sustainable Inclusive Growth

Strategic Objectives	Intervention/Actions
<p>[1] Improve Relevance and Applicability of Skills</p>	<ul style="list-style-type: none"> (a) Undertake manpower needs assessment (skills audit) and prepare a national human resource (manpower) medium to long-term development plan. (b) Promote programmes review and introduction of new programmes in tertiary institutions in order to align curricula with national and market needs. (c) Incorporate climate change in school curricula at tertiary institutions, including offering post-graduate scholarship in climate change and related fields (d) Transform tertiary institutions to offer diversified and relevant programmes (e) Promote competence based education at all level of education (f) Review student scholarship support under NMDS to make it more targeted towards more relevant programmes. (g) Mainstream entrepreneurship, managerial and business skills at all levels of education (h) Promote quality assurance in tertiary institutions through clearly defined programme accreditation (i) Develop national qualifications framework Conduct regular labour market research and establish mechanisms for skills forecasting.
<p>[2] Improve Access and Quality of ECCD, Primary and Secondary Education</p>	<ul style="list-style-type: none"> (j) Strengthen provision of quality comprehensive Early Childhood Care and Development Education (ECCD). (k) Expand climate resilient school infrastructure that is child friendly and conducive for people with disability (l) Build human capital in Basic Education particularly at ECCD level (m) Develop induction and mentoring programs for teachers and principals (n) Integrate and increase utilization of ICT in teaching especially in STEM subjects (o) Improve Governance & Accountability of Schools
<p>[3] Promote Inclusive and Equitable Education System</p>	<ul style="list-style-type: none"> (a) Promote short-term community level training programmes targeted at members of society that are not in the formal education system. (b) Strengthen Open and Distance Learning education (c) Improve access to educational material and information by all social classes including people with disability. (d) Create conducive environment that promotes Climate Change, Science, Technology, Engineering and Mathematics (e) Invest in deliberate measures to increase proportion of girls and people living with disability enrolment in STEM and ICT subjects at all levels. (f) Create a one stop shop to help students with application and placement into different institutions of higher learning (g) Upgrade and adapt facilities and equipment for learning and research. (h) Enforce implementation of Free and Compulsory Primary Education Policy. (i) Review curriculum to address areas that perpetuate different forms of inequalities in schools.
<p>[4] Expand and upgrade TVET institutions and programmes to support growth sectors</p>	<ul style="list-style-type: none"> (a) Diversify and modularize TVET programmes to match industry needs. (b) Enforce TVET quality standards to meet national, regional and global standards. (c) Introduce climate change into the TVET curricula at all levels. (d) Promote private sector participation in provision of TVET and other skills development (e) Institutionalize industry led work experience (f) Develop short courses to support the four productive sectors (g) Ensure equal access for all to affordable and quality TVET (h) Promote entrepreneurship skills in TVET (i) Encourage enrolment of females in traditionally male dominated TVET programmes and vice-versa (j) Develop a retention strategy for TVET human resource base (k) Promote trade skills and their accreditations



Health Sector

8.1.3 Situation Analysis

265. The cornerstone to developing a contemporary workforce with capabilities to advance inclusive economic growth led by the private sector requires strengthening the resilience of the health system⁴². It also requires vigorous public health response and a highly proactive and functioning health-care delivery system. Developing such workforce further requires a mass of strong and committed health professionals, characterised by health personnel committed to work that might be difficult and risky. Establishing such a workforce begins with training and deploying a sufficient number of doctors, nurses, managers, and outreach workers—an immense task in a country such as Lesotho with a population of about 2 million people and fewer than 200 medical doctors (1:10 000 physicians to population ratio) and limited financial resources—but also building and banking a stock of social capital in the health system, especially given the crisis of HIV/AIDS, TB and non-communicable diseases (Diabetes, Cancer etc) that have befallen the country. Just as strong social capital in communities promotes individual psychological resilience, social capital in the health system promotes system-wide recovery.
266. Over the past five years of NSDP I implementation, the Government of Lesotho invested around 13.4 percent of GDP on health care system. This spending on health is almost close to the mark stipulated in the Abuja declaration of 15 percent of GDP spending on health. This investment has resulted in positive outcomes in some health areas: Maternal mortality rate (per 100,000 live births) decreased from 1155 in 2009 to 1024 in 2014 through to 618 in 2016, thereby falling short of NSDP I target of 300 and MDG target of 75 percent decrease; the under-five mortality rate declined substantially from 117/1000 live births in 2009 to 85/1000 live births in 2014 thereby nearly meeting the NSDP I target of 82; malnutrition prevalence declined from 39 in 2009 to 33 in 2014, and this nearly met the NSDP target of 30; Contraceptive prevalence rate increased from 46 percent to 60 percent in 2014; Antenatal care offered by skilled providers increased from 92 percent to 95 percent in 2014; Deliveries conducted by skilled personnel increased to 78 percent in 2014; Post-natal care within 2 day increased from 48 percent to 62 percent in 2014. With regard to addressing morbidity and mortality, vaccination coverage increased from 62 percent to 68 percent in 2014 thereby resulting in infant mortality rate decreasing from 91/1000 live births to 59/1000 live births in 2014.
267. Between 2014/15 and 2015/16, GoL intensified HIV/AIDS prevention campaigns to reduce new infections, established the Cancer Treatment Centre, and the procurement of drugs at distinct health centres. During the same period, the government introduced free primary health services for the primary health services (Government and CHAL) at health centres in order to further improve health outcomes.
268. With regard to nutrition, NSDP I implementation achieved the following milestones: Exclusive breast feeding increased from 54 percent to 67 percent in 2014; Stunting decreased from 39 percent to 33 percent in 2014; tertiary institutions introduced and offer nutrition courses and thus increasing nutrition qualified personnel. The GoL enacted Nutrition policy (2017) and developed Food and Nutrition Strategy and launched the Cost of Hunger Study and the Zero Hunger Strategic Review Study. The climate change related drought and resulting food shortages coupled with rising food prices during the year 2015 have

⁴² Health systems are resilient if they protect human life and produce good health outcomes for all during a crisis and in its aftermath. Resilient health systems can also deliver everyday benefits and positive health outcomes. This double benefit—improved performance in both bad times and good—is what has been called “the resilience dividend.



brought nutrition to the forefront for Government, also gender inequalities and climate change and building resilience have brought the focus of attention to nutrition.

269. Despite this notable progress on health outcomes, HIV/AIDS pandemic remains the greatest challenge which saw an increase in the prevalence rate from 23.1 percent in 2009 to 24.6 percent in 2014 (one in four people in Lesotho live with HIV) among adult men (20.8%) and women (30.4%) aged between 15 and 49⁴³. This has affected the overall labour productivity, particularly in the agricultural sector, and impacted nutrition and livelihoods of individuals as well as the viability of institutions⁴⁴. With this prevalence rate, the country is ranked second highest in the world and HIV is a major cause for high morbidity and mortality in the country. According to the 2014 DHS, HIV prevalence is significantly higher in women (29.7 per cent) than men (18.6 per cent)⁴⁵, pointing to the importance of social and gender determinants with a negative impact on health outcomes. HIV and AIDS cuts at the fabric of the most productive segments of society. Several national reports note that about 43 percent of textile workers and 72 percent of sex workers are HIV infected respectively⁴⁶, and majority of these workers are female, which is indicative of the feminisation of the pandemic. The situation calls for continued need for education, prevention, testing and treatment. There is slow progress in reduction of new infections due to inadequate focus, scale and quality of implementation of HIV prevention programmes, policy gaps, cultural behaviour and human rights-related barriers, that is age-of-consent policies and practices that restrict access of adolescents to contraception. The implementation of policies and laws that protect against HIV-related discrimination sends important messages, helps to change harmful behaviour, and provides redress to those affected. Strong accountability mechanisms are also important for elimination of discrimination.
270. On the control of HIV/AIDS, the LePHIA results from the population based study conducted by **Ministry of health with support from PEPFAR** between November 2016 and May 2017, show HIV viral load suppression—a key marker of the body successfully controlling the virus—has reached over 67 percent among all HIV-positive adults ages 15-59. This finding suggests that Lesotho is on track to achieve epidemic control by 2020, through reaching the UNAIDS 90-90-90 targets and expanding HIV prevention. According to the target, full achievement of 90-90-90 is equal to viral load suppression among 73 percent of all people living with HIV. Thus, the health system's success in managing the epidemic over the past five years is commendable. Yet there is no room for contentment. There is a continuing need for education, prevention, testing and treatment, and positive transformation in gender and social relations. Lowering the rate of new infections will reduce the demand on the public health system. Yet even if there are no new infections, there will still be a sizeable number of HIV-positive people requiring treatment, posing continuing challenges for the tuberculosis infection rate and the risk of drug-resistant HIV strains developing. The epidemic and its implications for public policy are likely to persist for at least another one or two generations to come.
271. Parallel to these interventions the Government of Lesotho should take seriously the need to undertake reforms to address structural inequalities that make women and girls more vulnerable to HIV infections and gender based violence. With gender analysis in health there is observations that biological differences alone cannot adequately explain health behaviour and outcomes. Behaviour and health outcomes also depend upon social and economic factors that, in turn, are influenced by cultural and political conditions in society. To understand health and illness, both sex and gender must be taken into account. The biological differences can be amplified or suppressed by socialization and how society responds to sex-specific

⁴³ This is according to the LPHIA study undertaken in 2016 and results released in November, 2017.

⁴⁴ MDGs Report (2013).

⁴⁵ LDHS

⁴⁶ MoH (2015) and UNAIDS Country Profile (2014).



behaviour. Social norms endorsing particular kinds of behaviour may exacerbate negative tendencies, such as violence, or reinforce positive propensities, such as nurturing. Relatively, little information is available on the cumulative economic impact of domestic violence, but there is growing evidence that it adversely affects women and children's mental and physical health and opportunities for a productive life. By contrast, socialization can suppress innate negative or positive tendencies⁴⁷. The generally poor health outcomes and relatively high incidence of HIV and violence among women and girls than in men and boys illustrates that gender interacts with the social, economic and biological determinants, with consequence that the inequality in these areas create different health outcomes for males and females. Whereas previously this link was not obvious, it has become more pronounced with riskier behaviour to cope with poverty and deprivation among vulnerable groups resulting from a discriminatory policy and legal framework in areas critical for women and girls' empowerment and protection.

272. The country has resuscitated National Aids Commission (NAC) to coordinate HIV/AIDS interventions, developed HIV/AIDS response strategy and adopted test and treat strategy. At the same time a lot of financial and human resources continue to be channelled towards combating HIV/AIDS prevention, cure and treatment by the GoL, Development Partners, Private Sector, Civil Society Organizations and Communities.
273. During the implementation of NSDP II, the GoL will build on these earlier notable gains. It will particularly address the current challenges in the Health system that include: Maternal and Infant Mortality, HIV/AIDS, TB and other non-communicable diseases (hypertension, cancer, diabetes, obesity substance abuse), Limited Access to Essential Medicines; and malnutrition especially stunting, wasting and micronutrient deficiencies. Addressing these challenges remains critical to the development of human capital in Lesotho. The GoL will improve sectorial coordination; improve monitoring and evaluation, systems strengthening and build human resources capabilities in order to address these challenges. According to Lesotho Bureau of Statistics report (2016) life expectancy remains low at 56 years (51.6 years for men and 56% for women) due in part to both high HIV/AIDS incidence and poor nutrition. The root cause analysis revealed that HIV/AIDS prevalence is a result of unprotected sexual practices such as multiple and concurrent partners and transactional sex; early sex debut; mother to child transmission and low male circumcision. These risky behaviours are in turn driven by poverty, unemployment, lack of knowledge, cultural beliefs and practices. Therefore, the GoL will promote social transformation targeting in particular people at risk and the cultural practices that undermine HIV/AIDS interventions and other health interventions over the next five years. Other health challenges that were picked during consultations include: low uptake and coverage of TB primary prevention programme; Inadequate capacity of laboratories systems; limited access to high impact interventions such as genexpert machine to support the detection, diagnosis and treatment; unsustainability of HIV/AIDS and TB Programmes due to their heavy dependence on the donor support.
274. The increasing frequency of climate change related extreme events such as droughts, floods, snowstorms and dust storms continue to threaten the resilience of health systems in Lesotho, with the possibility that the situation will worsen with increases in future frequency. The challenges include possible damages to health infrastructure and associated disruptions to health services, increases in physical injuries to humans and animals, water pollution and increases in waterborne diseases, outbreaks of zoonotic diseases, droughts related food insecurity and malnutrition, deterioration of the quality and coverage of traditional medicine, air pollution and related respiratory tract infections and diseases associated with low water security and sanitation. In developing the health sector, therefore, it will be necessary to integrate climate change issues

⁴⁷ Vlassoff, C. (2007). Gender Differences in Determinants and Consequences of Health and Illness. *Journal of Health, Population, and Nutrition*, 25(1), 47–61. Accessed at <https://www.ncbi.nlm.nih.gov/pmc/articles/PMC3013263/>



into policies, strategies, plans and regulatory frameworks and build climate change resilience amongst communities through the strengthening of primary health care systems and preventive care.

Strategic Objectives and Interventions

Intermediate Outcome 2.2: Resilient Health Care Systems and Improved Health Care Outcomes

275. Building on the achievements and drawing upon the above challenges, the NSDP II Strategies outlined below are aimed at improving Human Capital Development in the medium term. Thus strengthening resilience of health care systems and building health capabilities will remain a priority to the GoL and it will follow a five pronged strategic approach that composes of strengthening prevention interventions; increasing access to quality health care services for all; increasing effectiveness and efficiency of health care service delivery; increasing demand creation for rights health services; strengthening rehabilitation services, sustaining health care services for all. In order to facilitate, improve effectiveness and efficiency of health care services and sustain better health outcomes **for achieving universal health coverage**, the sector will embrace ICT innovative and transformative solutions.

Strategic Objectives	Interventions
[1] Strengthen Diseases Prevention Interventions	<ul style="list-style-type: none"> (a) Improve vaccination/immunization programmes. (b) Improve health education and promotion. (c) Strengthen environmental health interventions at all levels. (d) Intensify implementation of the test and treat strategy for HIV/AIDS and TB screening (e) Promote organized screening programmes (f) Promote a healthy environment that encompasses safe food and water, adequate sanitation, shelter, ventilation and hygiene; (g) Promote equal involvement of both men and women in family planning and health decision making
[2] Increase Access, Coverage and Effectiveness of Quality Health Care Service Delivery for All	<ul style="list-style-type: none"> (a) Decentralize health care services in line with decentralization Act (b) Strengthen the referral system and emergency preparedness and response services (c) Improve data management for health planning and decision making (d) Strengthen patient follow-up and tracking systems to enhance adherence to treatment (a) Integrate programmes addressing health needs, rights, and choices of adolescents, young people, men, women, and people with disabilities (b) Improve access to mental health services and rehabilitation (c) Promote men's health clinics (d) Provide universal access to sexual and reproductive health care services to all people (particular focus be on adolescents, young people, and other vulnerable groups)
[3] Sustain Health Care Services	<ul style="list-style-type: none"> (e) Explore and develop innovative health care financing options (f) Reform the public health system with focus on improved management, especially at Institutional level. (g) Maintain health care facilities at all service levels (primary care, secondary and tertiary level) (h) Strengthen health human resources.
[5] Embed a culture of high performance and retain health professionals	<ul style="list-style-type: none"> (a) Implement the retention strategy for health professionals. (b) Implement effective performance management system. (c) Inculcate desired organizational values-based culture. (d) Enhance training and development of health professionals. (e) Improve linkages with external institutions on human resource development through bilateral agreements on exchange programmes. (f) Explore the possibility of establishment of medical school



Intermediate Outcome 2.3: Reduced Malnutrition

Nutrition

8.1.4 Situation Analysis

276. Malnutrition is recognized to not only negatively impact on the affected individuals, but also on families, communities and on the socio-economic development of a country. Malnutrition is still a challenge despite the fact that it has improved. About 33 percent of children are stunted, and 7.4 percent of those are under five years old, while 35.4 percent of adults are overweight, 3 percent are wasted and 10 percent are underweight. Stunting is a major concern for development in Lesotho, as it is associated with under developed brain and with long lasting consequences; including diminished mental ability and learning capacity, poor school performance in childhood, reduced earnings and increased risks of nutrition related chronic diseases, such as diabetes, hypertension and obesity in future. The Cost of Hunger Assessment (2017) report indicates that annual costs associated with child under-nutrition are estimated at 1.9 Billion Maluti or 7.13% of the GDP.

277. During the NSDP I implementation, the following milestones were achieved: exclusive breast feeding increased from 54 percent to 67 percent in 2014; Stunting decreased from 39 percent to 33 percent in 2014; tertiary institutions introduced and offered nutrition courses and thus increasing nutrition qualified personnel. The GoL enacted Lesotho Food and Nutrition Policy (2016), developed Food and Nutrition Strategy and launched the Cost of Hunger Study and the Zero Hunger Strategic Review Study and the National School Feeding Policy 2015. Lesotho has been a member of Scaling Up Nutrition (SUN) since 2014. The country is also part of regional efforts on nutrition. These include the Comprehensive African Agriculture Development Programme and the Renewed Effort against Child Hunger, among others. Furthermore, whilst hunger and malnutrition remain major challenges in Lesotho, the political commitment to end hunger has been highly reflected in the adaptation of the SGDs, especially SDG 2 and the involvement of His Majesty King Letsie III at National, Regional and Global levels.

278. The country has identified key challenges to controlling malnutrition and these are; inadequate capacity to coordinate programmes, limited resource allocation and support to programmes, insufficient monitoring, evaluation and accountability, as well as poor research that then translates into paucity of information which guides planning and setting priorities for national nutrition agenda. The outcome to these weaknesses is poor and fragmented services, paucity of skills, and weak food supply chain including lack of enforcement of standards and regulations. The paucity in human and other resources also exacerbates the situation.

Strategic Objectives and Interventions

Strategic Objectives	Intervention/Actions
1. Strengthen and scale up nutrition interventions	<ul style="list-style-type: none"> (a) Promote breastfeeding and optimal complementary feeding practices (b) Reinforce implementation of the hospital breastfeeding policy and guidelines (c) Increase health education to all women of child bearing age on ante -natal care services (d) Enhance community participation on maternal and child health care services (e) Intensify growth monitoring and promotion. (a) Promote home and industrial fortification of foods (b) Develop and endorse food fortification standards and ensure compliance (c) Promote consumption of fortified foods including iodised salt (d) Capacitate ECCD centres, and village health workers on Micronutrients supplementation (e) Scale up iron folate, vitamin A and deworming (f) Promote production and consumption of vitamin A and iron rich foods (g) Promote bio fortification of micronutrient rich crops



	(h) Scale up food preservation, crop diversification, homestead gardens and income generating activities.
2. Strengthen Nutrition Governance and Capacity Development	<ul style="list-style-type: none"> (a) Mobilize resources for nutrition interventions. (b) Review and mainstream nutrition into all national plans, sector policies and strategies (c) Promote nutrition education, curricula and institutional capacity (d) Upgrade and establish the Commission / Authority to provide strategic leadership in the scaling-up of nutrition. (e) Establish, strengthen and empower the multi-sectoral food and nutrition coordinating institutional frameworks at national, district and community levels. (f) Train and deploy a nutritionist cadre in every sector ministry. (g) Promote institutional and community-based nutritional care and support to vulnerable women and children; (h) Mount child nutrition screening, counselling and support, and promote breast feeding

Social Protection and Vulnerability

8.1.5 Situation Analysis

279. Lesotho's vulnerability situation has worsened lately due to high rates of unemployment, climate change, poverty, inequality, and HIV/AIDS. Destitution has increased particularly among men, women and children. People living with disability due to illness are reported to be around 45,607. The number of elderly people (60 years and above) is reported to be around 171,742 and that of double orphans, in 124,485 households, is reported to have declined from 221,403 in 2006 to 210,712 in 2016. The decline may be an implication that a policy is responsive (on track) although greater gains could be realized in the long-run with more programme targeting.

280. Since the majority of the households in Lesotho derive all or part of their livelihoods on rainfed agriculture which itself is highly determined in any one year by weather conditions, this makes them vulnerable to climate change conditions. This is particularly so for households in rural areas. Because crop production is mainly characterized by low input, low output traditional rain-fed farming systems, recurring droughts of recent years and land degradation have made several households food insecure. In fact, the majority of rural households in Lesotho seldom grow enough food to meet their own food requirements, even in years of good rainfall. Dependence on food imports has also been blamed for driving food inflation upwards, exacerbating food insecurity in the country. Those households that face chronic food deficits depend on donor funded food assistance packages or from public assistance for livelihoods. The Disaster Management Authority' (DMA's) through the Lesotho Vulnerability Assessment Committee carries annual assessments of the food situation and makes recommendations on regions to be assisted. Despite offering recovery packages, it is clear that climate change is making recovery a pipe dream for many rural households, with many having exhausted their coping strategies. The majority of these households are either women or child headed.

281. During NSDP I implementation, the GoL established the Ministry of Social Development (MoSD) to be responsible for coordination of all social protection interventions and policy formulation, and drafted the social protection policy and implementation framework. Through MoSD, the GoL further administered four major social assistance programmes; Child Grant Programme, Public Assistance Programme and OVC Bursary Programme. The child grants programme covered around 47 community councils in 2016 from a low of 6 community council during its inception, where around 26,681 households were reached in 2016, while Public Assistance Programme covered around 12,000 clients in 2017. The OVC bursary from ECCD through to secondary schools realised an increase to 21, 304 in 2017, since its inception in 2000.

282. The social protection mechanism improved, coordination committees were established and approved by cabinet in 2016, with the aim of shunning double dipping. In addition, more than 630 000 beneficiaries



were covered under various social protection programmes administered either through other government line ministries or development partners. These include: Old Age pension (85,245), School Feeding Programme (450 000), Child Nutrition Support Programme (24,600), Blanket Feeding Programme (22 000), EDC feeding (50000), Food for Work (*likhakelets*) and Horticulture seedling assistance programme administered under Ministry of Agriculture and Food Security, and Ministry of Range Management.

283. While it is true that social protection sector in Lesotho is well-resourced, it remains poorly organised and managed. It is wide-ranging in scope, funded from numerous sources and spread across many ministries. This situation presents opportunities and challenges to government. Opportunities in terms of resource availability from different partners, but challenges relating to government capacity to coordinate these partners towards one goal of effective and responsive sector. National response to vulnerability is also limited by lack of coordination of social protection programmes and poor programme targeting and this has resulted to double dipping. As a result, the impact of social protection is reduced since each programme uses its own packaging, and the transfer grants are low, covering only 25 percent of needs of beneficiaries. Furthermore, lack of M&E mechanisms; being prone to fraud (lack of verification means), is also another challenge. This is despite high public spending on social protection programme (Lesotho spends about 4.5 percent of GDP on social protection and is one of the highest in SSA). A number of beneficiaries continue to languish in poverty with no signs of graduating. Efforts are, however, underway to strengthen social protection coordination at different levels of government and to make it more targeted so that it becomes more efficient, equitable and transformative.
284. People living with disability still have unequal access to social services and economic opportunities including access to labour markets. This is mainly because disability is not yet mainstreamed in the national agenda, and the disability policy of 2011 was never implemented. Boys and girls with disabilities still face significant challenges accessing education due to lack of appropriate assistive devices, limited teachers with requisite skills to teach the children and related stigma towards disabilities. Women and girls with disabilities are among the most vulnerable to GBV and human trafficking as their conditions make them easy targets. No social security for unpaid work mostly performed by women in performing their productive roles. The country still lacks legal framework to provide for paternity leave necessary for shared responsibility.
285. During NSDP II implementation, the GoL will build on the earlier strides and achievements and will reform its social protection strategy to make programmes more targeted and better coordinated. The reform process will ensure that social protection programmes are implemented at three levels of generality: preventive social protection programmes which basically composes measures to avert poverty and food insecurity; promotional income enhancement social protection measures which are measures targeted at skills promoting, vocational and agriculture training to ensure graduation of social protection beneficiaries to self-reliance that increase and promote the ability of people to secure a livelihood, and Transformative social protection measures targeted at addressing inequality and social exclusion and thus sever existing socially binding relation and constraints. On a world scale, the latter intervention would reduce the number of hungry people in the world to 17 percent, or to 150 million people.
286. Social expectations placed on women and girls about their household responsibilities and biological disposition result in gender-specific risks and vulnerabilities. These are accentuated when pre- and post-natal care, family planning, reproductive rights and sanitary protection are absent; and when there is lack of social care services for the disabled and those suffering from protracted illness. In their older age, unless they have access to a pension income, they are destined to live in abject poverty or continue to work despite physical ailments. They continue to carry disproportionately heavy care responsibilities where prime-age adults are absent due to distress migration, lost to violent conflicts, HIV/AIDS or other fatal and severely



disabling illnesses. However, women more than men are beneficiaries of social protection programmes because they receive family cash transfers due to their household roles and responsibilities which can be empowering. Therefore, they need to equally take part in decision-making related to these programmes.

287. The Government will facilitate the completion and implementation of National Information System for Social Assistance (NISSA) to improve efficiency and effectiveness of social protection programmes and avoid double dipping. It will specifically strengthen social protection for emergency responsiveness by ensuring synergies between social protection and Disaster Risk Management; improve capacity for disaster risk management through NISSA system that will include case management, and protocols for use in emergency situations; consolidate social protection programmes and integrate them into contingency planning to respond to shocks; promote appropriate interventions (Food Aid, Food for Work, Cash Aid, Cash for Work, Aid for increasing Productive Capabilities) that target the fundamental causes of vulnerabilities in society.

Intermediate Outcome 2.4: Efficient social protection programmes and reduced vulnerability

Strategic Objectives and Interventions

Strategic Objectives	Intervention/Actions
1. Improve the Efficiency of the Social Protection System	<ul style="list-style-type: none"> (a) Implement the National Information System for Social Assistance (NISSA) to make social protection assistance efficient. (b) Institutionalize NISSA as a national registry and a harmonised targeting, integration and coordination tool for social assistance. (c) Consolidate social protection programmes and enhance their coordination. (d) Link social protection programmes with other sustainable livelihoods programmes. (e) Undertake periodical evaluation and impact assessment of social protection programmes (f) Strengthen institutional capacity for social protection programme design, resource mobilization, and service delivery. (g) Institutionalize all social protection programmes. (h) Protect the rights of recipients of social protection programme.
2. Promote Income Enhancing Social Protection Programmes	<ul style="list-style-type: none"> (a) Promote environment friendly and less climate dependent social protection interventions to enable recipients become self-reliant. (b) Promote life skills programmes for vulnerable children and youths in and out of schools.
3. Improve socioeconomic conditions of people living with disabilities and protect their rights	<ul style="list-style-type: none"> (a) Protect the rights of persons with disabilities (PWDs) and facilitate the realization of their respective potentials (b) Empower people with disabilities to participate actively development processes and economic activities to become self reliant (c) Promote disability mainstreaming and inclusion in all sector frameworks of the country (d) Improve access to public services for people with disabilities (e) Strengthen coordination among key disability stakeholders

Migration and Diaspora

8.1.6 Situation Analysis

288. The geographical location and the socio-economic characteristics of both Lesotho and its neighbour have induced employment-related mobility of Lesotho nationals. Lesotho has relied on labour migration towards South Africa for decades under bilateral labour agreements which have benefitted employers. The economic context of the 1990s and South Africa's policy to phase out foreign labour on its mines played a major role on the emerging trends as more females started to go to South Africa to look for jobs in domestic work and farms. For decades, remittances from migrant labourers, continued to be a vital source of income in Lesotho. The importance of remittances at both macro and micro-economic levels cannot be



overemphasized. To date, 15% of Lesotho's GDP comes from remittances. According to The Trafficking in Persons (TIP) report of 2016, Lesotho is ranked in Tier 2. The rank indicates that the Government of Lesotho does not fully meet the minimum standards for eliminating TIP. The incidents of TIP happen within the country and beyond. This needs immediate attention to avoid dire consequences which include freeze of donor support, exchange programmes and the country's reputational damage.

289. Environmental factors have long had an impact on national, regional and global migration flows, as people have historically left places with harsh or deteriorating climate conditions. Moreover, due to accelerated climate change, the scale of such flows, both internal and cross-border, is expected to rise, causing unprecedented impacts on lives and livelihoods.
290. During NSDP I implementation, a Migration Consultative Committee was established with the mandate of coordinating migration related issues in the country. The following legal frameworks have been developed to improve coordination and management of migration and development: the draft National Migration and Development Policy; the Implementation Framework for the sequenced Short Term Return of Basotho Health professionals in Diaspora; a Framework for Managing Migration data; National Remittances framework for migrant labours; and a framework for Engaging Diaspora in Development; the National Strategy for Reintegration of Basotho Mine Migrant Workers; Migrant Domestic Workers Lesotho – South Africa Corridor; Anti-trafficking in Persons Strategic Framework; and Action Plan and Anti-trafficking regulations of 2015; the National Labour Migration Policy; the Bilateral Labour Agreement Guidelines; and the Lesotho Labour Migration Assessment.
291. Regardless of this remarkable progress made there are, however, challenges. There is lack of consistency between migration policies and legislation of various government ministries and reliable migration data. The weak labour migration structures contribute to ineffective labour migration management. There is no systematic structure to engage diaspora, there is no reliable data and no legislation. Dual citizenship is not allowed hence diaspora obtain citizenship elsewhere. As a result, the country experiences massive brain drain. The specific vulnerability and issues of extensive unskilled Lesotho migrant presence in South Africa is not adequately addressed. When South Africa and Lesotho introduced the Lesotho Special Permit (LSP) in 2015, over 100,000 Basotho nationals who were (at that time) classified under 'irregular' status in South Africa applied for the LSP. There is, however, a looming situation of potential expiring of LSPs which may result in massive returns of low skilled labour.
292. The burden on the health system in the country, the burden of occupational diseases and dependency on remittances are notable negative consequences on former Basotho mineworkers. There is a high level of migration including irregular migration between Lesotho and South Africa through community crossing points. The community crossing points are also used by trans-national criminals. Availability of smugglers and fraudulent practices to illegally obtain the necessary documentations, inefficient and ineffective flow of goods and people across border are also challenges. In addition, there are emerging migration trends which require immediate attention; increasing number of asylum seekers and refugee issues, statelessness, child mobility within Lesotho and across the borders, internal displacement due to large scale development project, environmental factors and localized violence. Lack of effective remedies, just and fair compensation, the exploration of feasible alternatives to displacement, information-sharing and consultations with affected persons/households, and a prior socio-economic and environmental impact assessment are further highlighted as challenges.



Intermediate Outcome 2.5: Improved Migration Management

Strategic Objectives and Interventions

Strategic Objectives	Intervention/Actions
[1] Strengthen Labour Migration Management	<ul style="list-style-type: none"> (a) Develop labour market information system (LMIS) (b) Explore unique opportunities for skilled Lesotho migrants. (c) Improve the bilateral labour agreements and regularize the LSP framework with SA (d) Strengthen portability of Social Security benefits for migrant workers (e) Develop policy framework for managing recruitment agencies and migrant workers. (f) Adopt and implement Lesotho National Labour Migration policy (g) Establish a Labour Migration Management Bureau.
[2] Strengthen Diaspora Engagement	<ul style="list-style-type: none"> (h) Develop appropriate frameworks for diaspora engagement and raise awareness on investment opportunities in Lesotho (i) Create Diaspora Directorate to strengthen coordination between the Diaspora, Government, and other stakeholders (j) Develop legal and policy frameworks for the diaspora to (i) remit payments, (ii) invest, (iii) short/mid-term skills/knowledge transfers and (iv) return and integration of inclusive incentives
[3] Combat irregular migration, human trafficking and smuggling	<ul style="list-style-type: none"> (a) Enhance border control management and streamlined processing. (b) Reduce irregular migration (c) Develop shared information and operational platforms with SA and other destination countries. (d) Review the Anti-trafficking in Persons Act 2011 to align with international conventions (e) Establish and Decentralise Anti Trafficking Units within the Police Services. (f) Improve protection of trafficked victims in compliance with the Anti-trafficking in persons Act 2011
[4] Strengthen Integrated Border Management / Cross-border Issues Management	<ul style="list-style-type: none"> (a) Strengthen national laws regulating migration (e.g. migration policy and visa policy). (b) Improve the border management system (automate all the borders) with new border management technologies. (c) Strengthen capacity of frontline immigration officials. (d) Strengthen inter-ministerial cooperation and coordination at the national level. (e) Improve cross-border health referral systems for migrant populations.
[5] Improve Management of Internal Migration	<ul style="list-style-type: none"> (a) Develop a national strategy to manage internal migration. (b) Introduce appropriate measures and interventions to manage project-induced displacement of households. (c) Address the issue of statelessness in coordination with SA and other countries (d) Establish migration data management system



Building an Enabling Infrastructure

8.2 Key Priority Area III

8.2.1 Introduction

293. In order to achieve inclusive economic growth, the Government has committed to provide a minimum infrastructure platform that will serve as an incentive for the private sector agents to invest in the economy. Infrastructure is expected to affect growth at least through two classic channels of drivers of economic growth: directly through capital accumulation and indirectly through raising total factor productivity gains. Infrastructure investments will facilitate private investments by lowering production costs and opening new markets, thereby creating new production, trade and profit opportunities. In this context, roads will reduce transport costs and ports reduce transaction and trade costs. Both are expected to expose local firms to the innovative pressures of international competition. The absence of good quality infrastructure raises the cost of doing business and dampens production by the private sector. Thus, infrastructure will remain the backbone of a Lesotho economy, as it will enable trade, empower businesses and industries, connect workers to their jobs, and connect communities to opportunities for employment, healthcare and education.
294. A need for synergy in approaching infrastructure development for specific economic or geographic areas makes an integrated strategic plan more valuable. This synergy can also be an added-value when developing multi-purpose infrastructure (for example; a hydropower dam for electricity, agriculture, tourism and forestry conservation). Evidence is strong from successful economies such as Asian Tigers (Hong Kong, Singapore, South Korea and Taiwan) that without quality public infrastructure it is difficult to allure private investors to the economy. These economies had sustained rapid economic growth since the 1960s, driven by rapid industrialization and exports, which were facilitated by high investments in capital accumulation through infrastructure, and quality of labour through education during early days of development.
295. In NSDP I, the Government intention was to increase access to clean water, basic sanitation and ICT, improve power generation, road networks and plan human settlements. Progress has been uneven and remains limited as infrastructure development remains one of the binding constraints hindering private sector growth, which ultimately affects the country's job creation potential. Furthermore, insufficient connectivity to rural areas reduces accessibility and participation to potential economic opportunities and social services by communities. Employment in infrastructure related sectors shows gender gap as these are male-dominated. Under-representation of females talks to the social construction of girls and curriculum they are exposed to in the system.
296. It was also government's intention during NSDP I to build climate change resilience by developing climate-proof economic and social infrastructure, including transport systems, and to comply with international conventions to create low-carbon economies by developing clean-energy and energy-efficient economic and social infrastructure and transport systems. Unfortunately, not much was achieved in this direction. Recently, extreme weather events continue to undermine infrastructure development, thereby limiting access to socioeconomic services by large segments of the rural population. The limited distribution of the transport infrastructure isolates a substantial part of the population, particularly in the remote Mountains region, from business opportunities and markets that are concentrated in the Lowland towns. The same is



true for the distribution of social and communications infrastructure and the designs of housing infrastructure, both of which reveal high climate vulnerabilities and risks for rural populations.

297. During NSDP I, a number of infrastructural development projects were completed under different sectors such as water, energy, tourism, transport, as well as in education, health, safety and security. However, the review of evidence shows that there is fragmented infrastructure development in the country, resulting from lack of integrated planning of projects, which in some cases do not follow projects appraisal procedures. This has led to waste of resources through duplication of work. At the same time the quality of infrastructure has been low, due to: lack of political will to enforce standards and quality control; low Economic Rate of Return (ERR) on some projects that depend on donor support, which has resulted in construction of sub-standard infrastructure. In the long run, however, the ERR of such infrastructure projects would have increased with the implementation of the project, as the project unlocks potential users; lack of sound implementation and M&E strategies; and encroachment and vandalism of public property. Therefore, during NSDP II, the GoL will develop an Integrated Infrastructure Policy and Infrastructure Master Plan that encompasses all infrastructure sub-sectors. It will endorse the draft Construction Industry Regulatory Policy that will also address assessment of vulnerabilities and risks to extreme weather events. The Government will review and enforce laws, standards and quality controls, including climate proofing against extreme weather events; improve the M&E systems for infrastructure development, and mainstream assessments of vulnerabilities and risks to extreme weather events to develop climate-proof economic and social infrastructure.
298. Focus will be given towards mainstreaming gender and disability as well, to make infrastructure projects more gender-responsive and non-discriminatory by addressing the needs and constraints of both women and men. Measures to be embarked upon will include quotas for project jobs to enhance women's opportunities in formal sector employment; investments in skill training, market information, and improved market access; social mobilization for greater "voice" for women; decision making roles for women and vulnerable groups; and promoting enterprise development facilitation. These interventions will provide a more reliable indicator of the projects that are taking steps to support women's as well as men's full access to project benefits. The analysis below looks at each sub-sector under infrastructure.

8.2.2 Public Works and Transport Infrastructure

299. It is increasingly understood that transport infrastructure and services are critical elements towards achieving poverty reduction, gender equality, resilience to climate change impacts, low carbon emissions and sustainable development. The overall responsibility of Government is to ensure reliable and efficient provision of public transport in Lesotho by all modes, though the transport system is dominated by roads as the main mode with limited air and rail transport services.
300. During NSDP I, the goal was to provide infrastructure that will support private sector development, inclusive growth, service delivery, job creation and also enhance trade between districts. Under the Road Sub-sector, the following milestones were achieved: 231 kms of roads were upgraded across the country to bitumen standard and this included the Mokhotlong-Sani road (42km), Roma-Ramabanta-Sekake road (80.3km) and Oxbow-Mokhotlong road (109km). These upgrades provided safe, faster and all-weather roads and reduced the travel time between Botha-Bothe District and Mokhotlong District, and allowed easy and improved access to Letšeng Diamond Mine and Polihali Dam. The Roma-Ramabanta-Sekake bitumen road reduced the travel time by half between Maseru and Qacha's Nek. During the same period, 214 kms of roads were rehabilitated and resealed and these included Mafeteng-Thabana Morena road, Nyenye-Makhorona road (37km), Teyateyaneng- Sefikeng road, Kolonyana-Rakolo road, Old



Teyateyaneng road, Mafeteng Van Rooi road, Motsekuoa-Rants'eli road and, Quthing-Mount Moorosi road.

301. Furthermore, 18 footbridges and 7 drainage structures were constructed, which include two major bridges (Koma-Koma Bridge & Bethel Bridge). The upgraded roads and footbridges provided access to more than 360 000 people around the country and created more than 14 200 jobs to unskilled labourers. However, NSDP I review has noted that the rugged highlands covering three quarters of Lesotho's land area pose a major challenge for road infrastructure development. The total Road network in Lesotho is approximately 6906.26 KMs in length of which 1798.76KMs are paved. The remainder is made up of 3830.52km of gravel roads and 1276.98 km of earth tracks. Currently the subsector faces multiple challenges. The condition of the road network is sitting at an average of poor condition, and is deteriorating over time due to lack the exposure to and intensity of extreme weather events such as floods, resulting in backlog of maintenance and reconstruction. About 42 percent of paved roads are in "poor" and "very poor" conditions, 30 percent in "fair" and 29 percent in "good" and "very good" conditions, while 85 percent of unpaved roads (gravel) are in "poor" and "very poor" conditions, 11 percent in "fair" and only 4 percent in "good" and "very good" conditions.
302. In terms of financing, the current funding levels are insufficient to recover the lost assets, as well as building new roads. The rural parts of Lesotho stay inaccessible and the aspirations of Vision 2020 that every Mosotho must live within 2 km radius of an all-weather standard road, seems difficult to attain with the current level of financing. The present demand for road access in support of various sectors outweighs the available limited budget in the sector. Financing of maintenance is made through Road Fund, whilst upgrading and new roads are financed under the capital budget and donor funds. Furthermore, planning of infrastructure is not well coordinated. Land allocated for building of roads is rapidly being allocated for private and business purposes, and this makes it difficult to expand roads when the need arises. Two agencies are responsible for management of the road network in Lesotho; Roads Directorate, which is responsible for urban roads, and the Ministry of Local Government and Chieftainship, which is responsible rural roads. For a long time, these agencies have been operating in silos, resulting in considerable resource wastage.
303. The quality of work undertaken by the Construction Industry is of low standard, due to lack of capacity and lax regulation of the industry. Standards of roads are also lowered as a requirement to meet the Economic Rate of Return (ERR), without considering the potential of good roads to generate more traffic once constructed, and the rapid influences of climate change, the mountainous terrain and international protocols on road safety. The NSDP I Review notes that the quality of roads network has deteriorated due to exposure and intensity of extreme weather conditions, such as floods, resulting in a backlog of maintenance and reconstruction. At the local level, women are more active in resource-based activities such as agriculture, food and energy provision (biomass), and in health services, and children need continuous access to educational services. These two social groups have, therefore, borne the brunt of inadequate transport infrastructure development. Therefore, priority to road infrastructure should be given to maintenance and climate proofing of these roads as strategies are devised on which other new roads should be supported. Consideration must also be given to environmentally sound road construction practices.
304. Pertaining to traffic management and transport, during NSDP I, Government started constructing a One Stop Shop Facility for Vehicle Registration and Driver Licensing at Ha Foso, Maseru, and is scheduled to be complete by October, 2018. This facility will simplify processes related to vehicle registration and licensing in Lesotho, and cut the time and costs involved, by putting these services under one roof. Furthermore, a Transport Infrastructure and Connectivity Project intended to automate traffic services and processes has commenced and computerization of traffic services will be undertaken under NSDP II.



305. Moshoeshe I International Airport (MIA) was commissioned in 1985 as the only gateway into Lesotho through air transport. The airport meets the standards of International Civil Aviation Organization (ICAO) for regular use by aircraft of up to Boeing 727 size, the design aircraft whose characteristics were used when the airport was built. Currently, SA Air-link is the designated carrier running daily flights between MIA and OR Tambo Airport. Maluti Sky, owned by a local private businessman, was at one stage another designated carrier for Lesotho, but it has since notified of suspension of scheduled services with effect from 1st June, 2017. There is an increasing demand for use of MIA by Large cargo aircraft from the neighbouring farming communities in South Africa.
306. However, due to the limited runway length, this demand cannot be met. Furthermore, a number of airlines, such as the United Arab Emirates and Qatar seek to operate their aircrafts from MIA, whereas Com Air, which code-shares with British Airways has made a request to use MIA as an alternative airport. The following upgrades are, therefore, required: extension of the runway and rehabilitation of the existing pavements - strengthening of the runway, taxiways and aprons; Improving safety and security of MIA - though MIA has recently installed new navigational aids equipment; Instrument Landing System (ILS), Doppler Very High Omni-Directional Radio Range (DVOR) and Distance Measuring Equipment (DME); the runway is still rated as category I, which allows minimum visibility operation and improvement and modernization of equipment - Rescue and Fire Fighting Services (RFFS) is category VI, with a complement of only three firefighting trucks, of which one is old, as it was acquired in May, 2011. Furthermore, the airline industry is very dynamic and requires regular training to keep up with the modern-day challenges e.g. terrorism, drug trafficking and human trafficking. The courses are costly and offered outside Lesotho. Due to financial constraints, the staff lacks adequate training. There is also a high vacancy factor on critical positions. NSDP II will, therefore, aim to address these challenges.
307. Lesotho experiences road safety challenges of high fatality rates in densely populated districts and high road accidents in the mountainous terrains. Contributing risk factors include speeding, driver factors, such as drunk driving, use of mobile phones while driving, driver fatigue, inadequate visibility and defects on road environment. This is also due to challenging driving conditions, winding roads and illegal removal of road signs by communities in the mountain areas. The major cause is road collisions, which claims lives of the youth mainly, aged 15-29, thus robbing the country of an able productive human resource base. In 2009-2012 annual fatalities fluctuated at around 300 people, representing a rate of 15 deaths per 100,000 population. To address this problem, during NSDP I, the Road Safety Department continued to conduct annual public campaigns on risk factors, such as speed management, drinking and driving and use of seat belts. As a result, there has been a decline in fatalities per 100,000 population from 21.4 in 2007 to 15.9 in 2016. However, road deaths rose again to 318 in 2017, and on average 360 people are currently killed on the roads per year, translating to 1 person being killed every day. A National Road Safety Council has been established in 2018, which is an advisory body on road safety issues in Lesotho, with a mandate to promote road safety throughout the country.
308. The fact that disabled people very often have different transport patterns and similar to women have different transport needs is slowly being recognized worldwide, but at present it is fair to argue that there are no systematic inclusion procedures for transport either in terms of training of professionals, the participation of users or the design and planning of systems, services and equipment for the disabled people in Lesotho. No protocols are in place and no sanctions are applied to those who fail to consider the transport needs of the disabled. Among these are issues related to social concerns in transport. For purposes of this analysis, social issues are herein addressed in the context of gender, and more specifically women. The purpose is to draw attention to the need to include social and gender considerations in the design, implementation and monitoring/supervision of all public and private sector transport projects and



programs. In this regard, GoL will factor into transport sector increased employment of women and other marginalized social groups in the commercial and public sectors, increased contribution of women to economic development, and increased participation of women in the designated rural and urban roads as well as along each link of the transport chain.

309. However, there is notable adverse impact on the environment emanating from road construction activities with various intensity and destruction levels. There is also evidence of destruction of wetlands, croplands and other infrastructures caused by collected runoff, siltation and lack of maintenance thereof. Infrastructure development does not encourage zero emission/clean mobility.

310. During NSDP II, Government will strive to build climate change resilience by developing climate proof economic and social infrastructure, and transport systems. It will also embark on developing clean energy and energy-efficiency in infrastructure in accordance with international obligations to build a low carbon economy and to develop human resources capacity for this purpose.

311. Moving forward and building on these achievements and to overcome the above-mentioned challenges, the GoL will undertake the following interventions to provide an enabling infrastructure for private sector investment, and long run socio-economic development of Lesotho:

Intermediate Outcome 3.1: Sustainable Quality Transport Network

Strategic Objectives and Interventions/Actions

Strategic Objectives	Intervention/Actions
[1] Enhance an enabling environment for road infrastructure development	<ul style="list-style-type: none"> (a) Review Roads Act of 1969 and its subsidiary laws (b) Develop Road Infrastructure Asset Management Policy (c) Develop the Road Infrastructure Financing Policy & Strategy (d) Review and update the Lesotho Design Standards (e) Formulate the Construction Industry Development policy and enact the Construction Bill and develop Axle Load Control Policy (f) Harmonize land allocating legislation to observe road reserve. (g) Develop an early warning system to provide for reliable detection, and response plan (h) Improve the M&E systems for infrastructure development.
[2] Maintain existing roads and access routes	<ul style="list-style-type: none"> (a) Rehabilitate and maintain the existing transport infrastructure (main arterial roads) as asset recovery to climate proof standards (b) Construct new infrastructure that conforms to environmental, clean mobility and climate proof standards (c) Introduce performance and output-based maintenance contracting system on all primary roads
[3] Improve Access to Main Towns, Key Border Posts and Productive sectors	<ul style="list-style-type: none"> (a) Design, upgrade and construct main corridors that conform to environmental, clean mobility and climate proof standards to key productive sectors (b) Build/or upgrade new roads to connect main towns, border posts and communities
[4] Improve Urban & Rural Transportation Systems	<ul style="list-style-type: none"> (a) Design major intersects along main arterial roads (b) Construct climate-proof footbridges and rural roads from earth to gravel
[5] Improve management of Government physical assets	<ul style="list-style-type: none"> (a) Develop an information management system for government assets (b) Develop a Government buildings maintenance plan



[6] Improve systems and legal frameworks in Traffic and Transport Sub-sector	<ul style="list-style-type: none"> (a) Review and enforce traffic and transport legislation. (b) Automate the services and processes for vehicle and driver licensing, including permit procedures (c) Develop the national transport master plan and a traffic management plan. (d) Develop the cross-border policy and the law (e) Develop targeted enabling policies and legal frameworks to empower and support the population in particular women and youth.
[7] Improve air transport to support international trade and tourism	<ul style="list-style-type: none"> (a) Revamp air transport services and rehabilitate strategic airstrips to support agriculture, health, manufacturing, trade and tourism development. (b) Establish Civil Aviation Authority to enhance the sub-sector's institutional capacity for effective operation and regulation. (c) Upgrade Moshoeshoe I International Airport infrastructure and facilities to meet ICAO standards and make it climate change resilient and carbon neutral.
[8] Improve road safety	<ul style="list-style-type: none"> (a) Develop road safety audit and inspection guidelines (b) Develop strategies for road safety and install/renovate quality road safety signs. (c) Set and enforce standards and specifications for the importation of vehicles. (d) Review existing legislation on Vehicle Modification and Conversion to ensure safe operation of such vehicles. (e) Implement road accident data management system to improve systematic recording and reporting of road accidents, (f) Strengthen capacity of the Road Safety officers and the National Road Safety Council to effectively discharge their mandates. (g) Raise awareness on road safety

8.2.3 Energy

312. In terms of energy access, during NSDP I implementation more than 60 000 households were successfully connected to the main power grid in four years, thereby exceeding the NSDP I electrification target of 1500 per year. During the same period, an energy policy and a **Renewable Energy Investment Plan** were developed and approved by Cabinet (in 2015 and 2017 respectively), although the Lesotho Electricity Master Plan lagged: this assignment is taken up in NSDP II. With the support of AfDB, LEC rehabilitated the 2MW Mantšonyane mini-hydro power plant in 2013, and in 2016 GoL completed the Japan-funded 280 kW MIA48 Solar generation facility that was commissioned in 2013. The Government of Lesotho and LEC signed in early 2018 a Power Provision Agreement (PPA) with Electricidade de Mozambique to provide Lesotho with up to 30 MW of power, which has secured LEC's electricity supply and sustained the quality of electricity service. By 2015/16, total electricity connections to the main grid had increased to 235,000 thus translating to more than 200,000 households connected to electricity. This is equivalent to about 39 percent of Lesotho households connected to the main grid using the 2016 population census⁴⁹.

313. However, access to electricity is concentrated mainly in urban areas and new connections have not been based on targeted industrial clustering or sector clustering that would have stimulated further industrialization and quickened production processes. Despite progress in electricity access, Lesotho energy balance continues to be characterised by huge dependence on biomass fuel contributing 66 percent of primary energy needs (cooking, lighting and space heating) of the majority of the rural poor (60% of the population). This has made the country vulnerable to extreme weather events that are associated with climate change. Collection of biomass for household cooking and thermal needs from animal kraals, open field, wood lots, forests and merchants - is done almost exclusively by women and children, and use of

⁴⁸ Moshoeshoe I International Airport

⁴⁹ The Government's long-term goal is that the connection rate should be at 50% of all households by the year 2020.



these biomass fuels for cooking almost exclusively by women. This has a tremendous impact on women-led economic development and entrepreneurship, education and health in rural Lesotho. Moreover, the extensive use of wood fuel has a cascading effect on deforestation (loss of biodiversity), soil erosion, water availability, hence on Lesotho's overall resilience to climate change effects (extreme dry seasons).

314. The remaining 34 percent of primary energy demand in Lesotho is made up of imported petroleum products, hydroelectricity, coal and Liquid Petroleum Gas (LPG). While part of electricity produced is based on hydropower (Muela plant with capacity to produce 72 MW, and the other four mini-hydro plants with combined capacity of 3.25MW), the country continues to run an electricity deficit that is offset by electricity imports from neighbouring countries - South Africa and Mozambique. At present the country's average power demand is around 145 MW, peak demand being around 152 MW (mostly in winter). Despite its abundant renewable energy resource, Lesotho power infrastructure supply has not kept pace with rising demand in the country. With the proposed new industrialization plans meant to drive private sector jobs and the likely increase in personal incomes as more jobs are created, energy demand is likely to surge and reach 200 MW.
315. All the above facts and trends show the need to address simultaneously during NSDP II (i) the rural energy needs to provide sustainable energy solutions to the 62% of Lesotho population without electricity, (ii) the on-grid power generation using private investment for RE power development and (iii) the demand side management to have more efficient and cost-effective use of energy available.
316. Business consultations and several studies⁵⁰ have shown that electricity is a major constraint to doing business in Lesotho. According to the World Bank Enterprise Survey (2016) this constraint is particularly acute for large industries (76.5%) and medium enterprises (25.2%). Large firms are concentrated in mining and manufacturing and they usually use heavy, energy intensive industrial processes. With better access to reliable and affordable energy sources, large manufacturers could envision installing or expanding their businesses in Lesotho, rising opportunities for economic growth zones and jobs creation.
317. Energy poverty nexus has a major impact on social development, particularly to women, youth and other vulnerable groups who are very dependent on climate vulnerability biomass energy sources. Energy is a critical input for agriculture, food processing, water piping and irrigation and for individual businesses / micro-enterprises. Moreover, because energy is also a factor for other sectors, it also implicitly affects access to mobile phone services and financial inclusion, education and health.
318. The energy sector remains very vulnerable to climate change related extreme weather events (strong winds, rainstorms, snowstorms, thunderstorms and lightning, increased flooding etc.). These are likely to lead to damages to power generation equipment and distribution infrastructure, leading to increased power outages, higher infrastructure maintenance budgets and reduced economic activity. These risks will grow as the frequency and intensity of certain types of extreme weather events increase. On the other hand, recurring droughts, rising temperatures and suboptimal rainfall that are also predicted under various climate change scenarios will result in lower water levels and reduced hydropower generation in the face of a rising demand for both water and energy from a growing population. These dry and hot conditions will also result in low energy availability for rural populations that are heavily dependent on biomass fuel sources to meet their basic household energy needs. This scarcity will translate into longer collection journeys for biomass

⁵⁰ Doing Business 2017, BOS Household Energy survey 2017.



energy sources and therefore higher exertion for rural women. It is therefore imperative for Lesotho to move towards a climate change resilient energy sector.

319. Therefore, NSDP II proposes to change course in terms of energy supply for economic growth and rural electrification. During the next five years, the GoL will promote renewable energy by harnessing energy from wind, solar, and water. The country has set itself a target of 35 percent of electrification rate in rural areas from renewable sources by 2020. As mentioned in the Lesotho SREP Renewable Energy Investment Plan (2017), Lesotho has the potential to produce up to 6,000 MW from wind and solar, 4,000 MW from pump storage, and 400 MW from conventional hydropower and more than 1,200 MW from hydropower. The GoL has received financing from World Bank to the tune of M240 million (equivalent of US\$ 20 million at exchange of US\$1 to M12.00) to undertake feasibility studies for hydropower projects. In order to stimulate job creation and inclusive growth, the GoL will base all new connections on integrated planning with more focus on growth enhancing sectors, both in grid-connected and off-grid rural areas.

Intermediate Outcome 3.2: Sustainable Energy Production and Use

Strategic Objectives and Interventions

Strategic Objectives	Interventions/Actions
[1] Improve energy production	<ul style="list-style-type: none"> (a) Develop and implement Energy Master Plan (b) Improve renewable energy generation capacity. (c) Review energy investment portfolio to allow private sector participation in energy supply through other sources of renewable energy. (d) Adapt the institutional regulatory framework to enhance Lesotho's security of energy supply (e) Increase private sector participation and modernize the power system management tools (f) Integrate social and gender measures and strategies in all programmes and initiatives of the energy sector (g) Construct fuel storage facilities that conform to environmental and climate proof standards
[2] Improve access to energy and promote sustainable use	<ul style="list-style-type: none"> (a) Promote efficient bio-energy resources and appliances, and renewable energy technology and services. (b) Establish a public entity duly mandated to lead, supervise and monitor the rural electrification development; (c) Promote use of low carbon footprint fuel and energy efficient technologies (d) Promote renewable energy use (e) Promote energy savings and environmentally friendly appliances, equipment and vehicles

8.2.4 Water, Sanitation and Hygiene (WASH)

320. With regard to improving access to clean and safe drinking water, sanitation and hygiene during NSDP I implementation, the Metolong Dam and Water Supply Programme (MDWSP) under the Lowlands Water Supply Scheme was implemented and resulted in increased accessibility and reliability of water supply to Maseru City and its surrounding peri urban areas as well as the neighbouring towns of Roma, Morija and Teyateyaneng. The project also made provisions for tertiary lines emanating from the Downstream Conveyance System (DCS) to supply rural areas that the DCS passes through and enhance improving access for water supply in those areas. The Government of Lesotho also implemented water and sanitation projects in all the ten districts of Lesotho under the Rural Water Supply Project and also implemented pilot bulk water and sanitation projects in Pitseng, Tsikoane and Mount Moorosi. More than 250 community



water systems and over 29, 000 household-level ventilated improved pit (VIP) latrines were constructed thereby addressing sanitation challenges. Over 150 000 beneficiaries gained from these rural based projects.

321. Through the above-mentioned initiatives, an estimated of 88 percent of the households have access to improved water sources, showing a 14.5 percent improvement from the 2011 inter-census survey. On the other hand, 44 percent of the households use safely managed sanitation services, and the commonly used types of toilet facility by households are VIP and pit latrine, however, about 19,6 percent of the households still use open defecation.
322. In 2015 the Government of Lesotho established the Ministry of Water in order to increase efficiency in water and sanitation provision. Subsequently Water and Sanitation Strategy of 2016 was developed which operationalize the Water and Sanitation Policy of 2007. The Ministry of Water further undertook a review exercise into its Water and Sanitation Policy and the Water Act 2008. The new water connections increased the number of people with access to clean and safe drinking water for both rural and urban areas to around about 77 percent of households in the country. 72 percent of them travel less than 30 minutes from water sources. This has made Lesotho rank third among 24 countries in Africa that have made huge progress in moving people from untreated surface water to higher levels of clean water services.
323. The GoL also expanded sewage lines through WASCO to cover a number of urban and peri-urban areas and new water connections in urban areas. By the end of 2015/16 there were more than 25, 200 new water connections and more than 1,138 new sewage connections (see Table 1). These new connections increased the number of people with access to clean and safe drinking water for both rural and urban areas to around 77 percent of households in the country. 72 percent of them travel less than 30 minutes from water sources. This has made Lesotho to rank third among 24 countries in Africa that have made huge progress in moving people from untreated surface water to higher levels of clean water services.

Table 8. 1: *Water and Sewage Connections between 2012/13-2015/16*

Year	No. new water connections	No. New sewerage connections
2012/13	6218	79
2013/14	7248	101
2014/15	6348	369
2015/16	5386	359

324. The consultations with the private sector and other stakeholders, as well as NSDP I review has revealed that efforts to provide adequate water and sanitation are frustrated by lack of integrated planning; poor land use planning; delays in implementation of plans and policies, poor maintenance of water and sanitation infrastructure and climate change impacts. These challenges are in turn exacerbated mostly by persistent and in adequate coordination and working in “silos” among Government Ministries and other Sectors. Some of these challenges are compounded by lack of enforcement and non-compliance of existing regulations, controls and laws, encroachment into servitude services and non-adherence to maintenance plan.
325. Whilst there has been a nationwide improvement with safe water supply during NSDP I, coverage in rural areas has remained stagnant because of reduced investments and climate change and reduced yields or drying out of many water sources. Alternative strategies of dealing with climate change impacts on rural water supplies need to be devised, with bulk water, gravity-fed supply seemingly becoming a viable proposition. Recurring droughts, extreme weather events and changing precipitation patterns that are



predicted by various climate change scenarios paint a gloomy picture in the water sector that may result in the drying up of wetlands, reduced surface and ground water resources, increased water pollution in watercourses, reduced supply reliability across water use sectors, increased vulnerability of rural communities who are dependent on groundwater for drinking and cooking, and threats to economic growth and development. The other factors that have undermined provision of adequate water in the country include: urban sprawl. Poor land management and degraded environment (soil degradation, and soil erosion) and siltation. These factors have affected ecological functions of wetlands which are sources of continued river flows and subsequently water availability. Sedimentation has also decreased the lifespan of dams, thus exacerbating the unavailability of water for different uses.

326. Women and girls are most often the primary users, providers and managers of water in the households and are the guardians of household's hygiene, their participation and involvement in decision making in water related issues is limited though they are the once bearing the heavy burden of care . If the water systems are not working, women are forced to walk long distances over many hours in order to meet their water needs.

327. In view of the aforesaid issues the Government of Lesotho is committed to ensuring effective and efficient management and development of the water resources in order to maximize socio-economic benefits. This needs to be achieved in an equitable manner without compromising the sustainability of vital environmental systems. Proper planning, conservation, development and management of water resources, require a shared vision and ownership. At the Apex of Lesotho's development agenda is the alleviation of poverty through a sound programmatic approach aimed at increasing access to water, improved sanitation and hygiene. The proposed strategies will strive to ensure that the available water resources of Lesotho will contribute to economic development in the county and improved livelihood of Basotho while also ensuring water security. Furthermore, measures will be put in place to take advantage of the unique geographic location, high altitude and pristine natural quality of the mountain areas that position Lesotho as the 'Water Tower' of the southern Africa region. It is against this background, and in order to guarantee effectiveness and efficiency in implementation strategies have been developed and clustered into the following six Key Focus Areas as per the Water and Sanitation Strategy of 2016:

Intermediate Outcome 3.3: Sustainable Production and use of Water Resources, and Improved Sanitation and Hygiene

Strategic Objectives and Interventions

Strategic Objectives	Interventions/Actions
[1] Increase Access to Sustainable Water, Sanitation and Hygiene	<ul style="list-style-type: none"> (a) Improve integrated planning in infrastructure sub-sectors across all stages. (b) Install water and sanitation infrastructure to increase access (c) Protect springs and other water sources (d) Ensure affordability of water resource and sanitation services (e) Fast track the connectivity of water and sanitation to industrial zones, commercial centres and businesses. (f) Improve main sewage system to connect industries, commercial centres, households and institutions. (g) Develop pre-treatment and wastewater recycling systems. (h) Promote integrated catchment management. (i) Promote hygiene practices in both rural and urban areas



[2] Expand Water Harvesting Infrastructure	(a) Facilitate development of water harvesting infrastructure mainly for irrigation, fisheries and other purposes among households and communities. (b) Mobilize communities, women and vulnerable groups to participate fully in the management of water and irrigation schemes. (c) Promote efficiency in the use of water (d) Develop bulk (multi-purpose) water infrastructure
[3] Implement integrated catchment management	(a) Improve integrated catchment management framework and its implementation. (b) Improve institutional capacity for integrated catchment management
[4] Strengthen water resources and environment management	(a) Improve national resilience and adaptability to climate change (b) Improve operational and institutional capacity to curb environmental degradation (c) Improve data collection and analysis capacity for monitoring water resources, climate change and aquatic environment
[5] Strengthen water and sewerage services regulations	(a) Review service territory for water and sewerage services (b) Enhance WASCO institutional capacity for improved operational efficiency and effectiveness (c) Strengthen water and sanitation national regulatory framework
[6] Strengthen coordination, Monitoring and evaluation in the water sector	(a) Strengthen monitoring and evaluation for water sector (b) Improve Institutional Capacity for sector coordination

8.2.5 Information and Communication Technology (ICT)

328. Information and Communication Technology (ICT) plays a critical role in enhancing efficiency in production processes, and improving access to markets thereby facilitating regional and global integration. In fact, the efficiency of the service sectors such as health, education, finance and general trade in services depend largely on ICT. Thus, ICT offers solutions for e-services and for reaching all social groups, including the poor communities in remote areas, and other marginalized groups. In rural areas, where isolation and poor infrastructure services are common, access to telecommunications can also play an important role in enhancing social and economic development. At the same time, ICT solutions have a potential to create significant income-earning opportunities for end-users, who most often are women and youth.

329. While Lesotho has made some strides in ICT development, there are opportunities that the country can take advantage of to gain the most from the digital revolution. There are, however, constraints that the country must manage to improve its ICT development. In terms of opportunities, Lesotho has a high mobile network coverage, above 90% of inhabited land. This means that in most areas, citizens have the possibility to communicate with others, and to access information and services through use of internet or internet-based applications such as over-the-top-application. In addition to the high coverage of 3G, most towns and areas of economic activity such as the mining areas have high-speed mobile network coverage based on Long Term Evolution (LTE) technology.

330. On the side of challenges, it has been observed that there is limited utilisation of mobile broadband (MBB). While at least 90 percent of the country's inhabited areas have 3G access, capable of supporting most applications that require high speed connections, and while the mobile ownership rate is about 76 percent,



only 36 percent accessed the internet⁵¹. This means that the 3G and LTE network infrastructure are underutilised. Furthermore, more people use 3G services compared to those using LTE even in areas that have LTE. The reason for these demand gaps for internet access (3G and LTE) is the ownership of capable devices. There are few LTE capable devices on the market compared to 3G capable devices. Furthermore, there are more basic phones capable of making calls and simple data (2G phones). One of the reasons is that the 3G and LTE capable devices are still priced above the capability of most people. The cheapest mobile phone in Lesotho is M100; the cheapest 3G capable smartphone is M400 while the cheapest LTE capable smartphone is M1,000.00.⁵² The cheapest laptop is M2,500 and the cheapest LTE modem is M1,000⁵³.

331. Fixed broadband (FBB) is critical for any country looking to transform its economic and embrace the Fourth Industrial Revolution (4IR). FBB is commonly deployed using optical fibre networks of different technology generations, collectively referred to as Fibre to the Home (FTTH) or Fibre to the Curb (FTTC), and collectively (FTTx). The deployment of this crucial technology is very low in Lesotho, at 0.10 per 100 inhabitants (ITU 2017).⁵⁴ FBB is important for business and home applications that require high-speed, such as video conferencing for home and business, and for large volume transactions common in electronic commerce and electronic government applications. Apart from the low penetration, high capacity, high reliability infrastructure, such as dedicated internet and leased lines remain highly priced compared to peers in the region. The cost of a dedicated internet connection of 1Mbps costs between M10,000 and M20,000 per month, with a connection fee of between M2,000 and M10,000 (once-off). Published prices for business packages on offer in Lesotho, compared to South Africa, are also significantly higher. For instance, in South Africa, it is possible for a business to obtain unlimited/uncapped 10 Megabits per second (Mbps) connection for M1,600 per month. In Lesotho, on the other hand, 1 Mbps, uncapped, costs M2,500, compared to the neighbouring market in South Africa where it is possible to obtain a dedicated internet access service for M1,600 for a 10 Mbps connection. Thus, the penetration and affordability of FBB remains a critical point for the economy.
332. The prices of leased lines, which are often needed to provide dedicated transmission for the government and business, are also priced among the highest in the world. The high prices of domestic leased lines (e.g. between two offices in Lesotho), coupled with the high cost of dedicated internet, which is needed by small ISPs in order to sell to end-users, renders the Lesotho market unattractive for business, compared to its neighbours such as South Africa and Botswana, where data services are priced much lower.
333. Other factors limiting Lesotho from realising the benefits of the digital economy (digital dividends) is the low rates of digital literacy skills, lack of access (not coverage) and lack of general literacy skills. ICT infrastructure development and expansion are constrained by financial, physical and social challenges, particularly in the remote Mountains region. For instance, installation of ICT infrastructure across difficult mountainous terrain remains very costly, and often climate change related extreme weather conditions cause damage to infrastructure. The vandalization of ICT infrastructure is also common, although mitigated through educational programmes, including handing out free hand sets. Key social hindrances to ICT infrastructural development include limited ICT specialities among girls and women due to social construct and lack of role models, and inadequate involvement in decision-making levels in the sector. Lack of

⁵¹ ITU ICT Development Index: <http://www.itu.int/net4/ITU-D/idi/2017/>

⁵² <http://www.vodacom.co.ls/ls-personal/offers/specials/prepaid-deals>

⁵³ Exchange rate US\$ 1: 14 Maloti by end of March, 2018.

⁵⁴ <http://www.itu.int/net4/ITU-D/idi/2017/>



adequate infrastructure and access to ICT limit access opportunities to labour markets, resources and other economic activities.

334. During NSDP II implementation, the GoL will continue to restructure the ICT sector and support the applications of ICT in all productive sectors, to enhance efficiency and promote private sector-led job creation and inclusive economic growth. This strategic support will take three forms. The first will be to improve an enabling environment by fostering the development of innovative sector policies, strengthening public institutions, and developing ICT facilities and related infrastructure and networks. Second, to build human resources to improve knowledge and skills in particular for women and girls, and promoting ICT-literacy and lifelong learning of citizens through e-Learning and awareness programs, thus reducing digital divide. The third strategy will be to promote development of ICT applications and information content of all NSDP II projects/activities, and those of the private sector.

Intermediate Outcome 3.4: Economic friendly ICT infrastructure

Strategic Objectives and Interventions

Strategic Objectives	Interventions
[1] Improve ICT Access and Use	<ul style="list-style-type: none"> (a) Facilitate the build out and sharing of strategic ICT infrastructure (b) Facilitate a conducive environment to attract more players into the market to encourage competition in the ICT market (c) Invest in the extension of LECC's optical fibre network to strategic areas in order to promote competition in the retails internet access services. (d) Improve penetration and the price/quality performance of the Fixed Broad Band (FBB) market in Lesotho.
[2] Improve regulation in the ICT sector	<ul style="list-style-type: none"> (e) Develop competition policy to regulate anti-competitive behaviours in the telecommunication market and digital financial services market. (f) Review interconnection arrangements to promote competition in the sector, including making it attractive to entry virtual mobile network operators. (a) Remove any barriers to market entry or effective competition by existing players. (b) Promote competition in the retail internet market by removing regulatory and financial barriers for small payers. (c) Develop the necessary legal and institutional framework for establishment of a broadcasting signal distributor out of existing assets. (d) Develop guidelines/rules for facility leasing to ensure that players in market have cost-based access to existing facilities.
[3] Enhance e-government services	<ul style="list-style-type: none"> (a) Develop an appropriate institutional framework for e-governance (b) Improve coordination and cost-efficiency in procurement of technologies to enhance e-governance. (c) Support the establishment of a Research and Education Network (REN) to enable the research and education fraternity access to internet-based resources globally on affordable terms.
[4] Improve digital economy uptake	<ul style="list-style-type: none"> (a) Develop a national digital policy and an implementation strategy (b) Integrate digital skills in the national curriculum, from ECCD to tertiary (c) Stimulate demand to drive broadband take-up. (d) Promote ICT-literacy and lifelong learning of citizens through e-Learning and awareness programs and reduce the digital divide.
[5] Improve Governance of the ICT sector	<ul style="list-style-type: none"> (a) Develop a framework for divesting off Government stake in different parastatals including in ETL, and West Indian Ocean Cable Company (WIOCC) (b) Develop Data Centre infrastructure (c) Develop cyber security strategy and enact relevant laws to protect data and information for online users from cyber security attacks. (d) Promote research and development in the ICT sector.



8.2.6 Built Environment

335. Human settlements and urbanization are leading issues for Lesotho's economic and social transformation. At independence in 1966, the level of urbanization in Lesotho was estimated to be 7 per cent but, by 2006, it was 23 per cent. UN-HABITAT estimates the level of urbanization at nearly 27 per cent in 2010 and future levels of urbanization are likely to be 34 per cent by 2020 and nearly 60 per cent by 2050. While urbanization may be a positive trend, an inability to manage it will lead to chaotic development and urban sprawl. Already Lesotho's urbanization has resulted in expansive unplanned development of low densities and sprawling suburbs which are extremely expensive to service with basic infrastructure. These developments have often encroached on agricultural land which currently stands at about 9 percent of total land cover, and other valuable land which compound environmental problems such as soil erosion and land degradation. Upgrading of such settlements become expensive due to the scale and the densities of such areas.
336. One reason for the ad hoc pattern of settlement in Lesotho is that acquiring land through proper formal channels is cumbersome and expensive. The formal real estate market is in its infancy stage and land market generally is weak with land pricing system remaining rudimentary. This affects land use efficiency and productivity. Consequently migrants and other users of land acquire land through informal means thus exacerbating unplanned settlements which lack basic services. Land regulation is also very weak with spread of real estate agents who seemingly operate unfettered thereby sometimes fixing land prices at levels above those that would be determined by market forces under well-functioning land markets. Although land Act of 2010 was enacted to overcome some of these challenges and to stimulate land market, the implementation of the Act has remained a challenge in areas relating to agricultural land in both urban and rural areas.
337. The management of urban settlements is now the responsibility of urban councils across the country. However, with exception of the Maseru Municipal Council, urban councils are very recent. They are therefore, inexperienced and lack sufficient resources to implement policies and manage urban developments. The construction industry also remains weakly regulated to an extent that construction practices often add to environmental problems facing the country. Although the basic institutional and regulatory framework is in place for secure ownership of property and systematic planning of urban development in the country, much of it is outdated and therefore ineffective. There is also lack of resources to implement some of the planned activities under built environment.
338. It is anticipated that the scale of challenges facing urban development over the coming two decades is considerable. For instance, by 2030 the Maseru Planning Area and its immediate hinterlands' population will double to some 550 000 (over 85% within the Maseru urban Area only), and this will require the construction of approximately 80, 000 new units to house the population. This in turn will require planning for 126, 000 new units. Over 100 000 new jobs will need to be created. If urban areas are to develop in particular the Maseru Urban Area, then the Business Sector has to be facilitated and the industrial sector has to be significantly upgraded, and the Construction Industry has to be enabled to triple its scale and extend its local capacities. Large scale Commercial Agriculture, and possibly Forestry, has to be introduced and enabled to protect agricultural land and constrain sprawl, to diversify the industrial sector and to contribute to demographic balance by providing employment for unskilled male labour.
339. It is also anticipated that school enrollments will more than double as such new modern high standard schools and academic institutions will have to be built and appropriately located. Health services will need



to be provided on a city-wide scale with a minimum of 20 new clinics. Access to the health facilities in fast growing urban areas has to be assured. Community services have to be introduced and some 50 community centres developed. High value natural assets have to be protected and development in high risk areas prohibited. Some 6.0 km² public open space has to be developed and maintained. Maseru should boast some 1.2 million trees requiring the planting of at least 1.8 million saplings. Demand for other amenities such as electricity and water will triple or even quadruple and distribution has to be assured⁸. City-wide sanitation services have to be introduced and sewage services significantly upgraded and extended. Additional economic incentives will probably be required. Communication infrastructures will be continuously challenged to keep up to international standards required to enable entry and competitive advantage for the higher order economic activities essential to achieving rapid balanced economic growth.

340. Over the past decades considerable progress has been made in land administration which has reduced the costs and time for registering title by large margins such that registering of title, that used to take between six (6) and ten years (10) years, now takes eleven (11) days with a ninety (90) year lease issued in a month. However, there are still challenges that pertain to registering land in rural areas and decentralization services for land administration authority, and timely collection of land fees. During NSDP I about 65,958 leases have been issued by Land Administration Authority, with 48,016 and 17,942 under systematic and sporadic regularization respectively. With the support of the World Bank and Private Sector Competitiveness and Economic Diversification Project, government improved the construction permit process by moving from the manual to electronic and automated system thereby reducing the time and cost of issuing the permits.
341. Other achievement attained during NSDP I period included, the provision of affordable housing however the National Housing Policy has not been reviewed. The policy is the main framework for guiding housing development in the country. It aims at achieving progress realization of the right to adequate housing which will be achieved by promoting housing as a social good, an economic investment; a job creator and a strategy for poverty reduction. Government allocated a budget of 16 million, for the construction of 60 low income houses at Linakotseng low income area, for Basotho working both in the informal and formal sectors. Additional budget will be allocated for the provision of basic services such as water, sewerage, and electricity to the project. Government has facilitated construction of houses, sites and services for all income groups through the Lesotho Housing and Land Development Corporation. Government has also facilitated land acquisition by some private developers for the provision of middle and high income housing. Furthermore in partnership with some non-profit organizations such as Habitat for Humanity Lesotho, the country has been able to provide hundred percent subsidized housing to vulnerable groups and 881 two-roomed houses have been constructed to date.
342. The Maseru Master Plan Readiness Study has been completed. This study has inter –alia highlighted the need for the development of a National Urban Policy and the National Spatial Development Framework. With the current urbanization rate, these frameworks will be important in guiding the spatial distribution of people, resource, as well as the use and consumption of land.
343. Lesotho has facilitated the development of a coherent framework for implementing the New Urban Agenda in the African Region. The framework highlights the synergies of the New Urban Agenda with other international commitments such as the Sustainable Development Goals particularly Goal 11 and the 2036 African Agenda Goals.
344. In order to further improve built environment and achieve the urban aspirations of Sustainable Development Goal 11 “make cities safe, resilient and inclusive”, Agenda 2063 and the New Urban Agenda, the Government of Lesotho will address challenges related to land, housing, basic services, infrastructure and climate change.



Strategic Objectives and Interventions

Strategic Objectives	Interventions
[1] Improve land management	<ul style="list-style-type: none"> (a) Upgrade and develop well-planned and serviced human settlements. (b) Develop a national land-use plan and implementation strategy. (c) Review and/or develop town and local physical plans and implementation strategies. (d) Implement land banking programmes to guide the growth of towns and safeguard agricultural land, and to conserve open spaces and other valuable urban biodiversity sites. (e) Promote densification/up zoning and infill development in the inner areas of all urban centers’. (f) Develop real estate agents regulatory framework to regulate real estate market. (g) Develop the National Urban Policy and the National Spatial Development Framework. (h) Adopt – Sectional Title Bill, and develop the Maseru Urban Master Plan. (i) Review - Development Control Code 1989, Building Design and Construction Regulations, 1988/89, Planning standards 1990.
[2] Improve the institutional capacity for human settlement and urban development	<ul style="list-style-type: none"> (j) Improve financial, human and material resourcing for national bodies and Local Authorities to carry our development control, building control, physical planning, surviving, and housing construction. (k) Review and if necessary redesign Protocols within parastatal intuitions such as Land Administration Authority and the Lesotho Housing and Land Development Corporation.
[3] Promote innovation and cost effective technologies in the build environment	<ul style="list-style-type: none"> (l) Improve settlement planning process using cost effective modern technology. (m) Review and enforce building standards and codes to be climate responsive. (n) Promote innovation in design and building process. (o) Promote and expand production of local building materials. (p) Conduct research and encourage development of domestic materials. (q) Build capacity of producers in entrepreneurial, managerial and competitive skills.

8.2.7 Solid Waste Management

345. The present situation concerning solid waste generation and handling in the country is unknown as no comprehensive solid waste surveys have been conducted over the past decade. At present, it is only observed that problems arising from generation of solid waste are visible in Maseru and in other big towns such Mafeteng, Leribe, Mhales’hoek, Quthing and Berea. Regular collection of solid waste by public authorities in these other big urban areas is virtual non-existent, leaving the responsibility for waste collection and disposal to individual households, shops, industry, etc. Only the city centre-Maseru is serviced on a regular basis.

346. The volume of solid waste collected in urban areas – though appears small at present – is typically transported to illegal and uncontrolled dump sites situated near the urban areas. Often old pits or similar spots are used for dumping, i.e. no proper selection criteria such as distance to residential areas, topography and morphology, soil and geology, risk of ground water contamination, etc. are taken into consideration when disposing waste. As a result, these dump sites have become major potential environmental hazards. Another problem is the irrational operation of the dump sites. Solid waste is dumped and left without any treatment or covering except for the City of Maseru, resulting in risk of self – ignition and odour problems, although at present, the latter problem seems not so acute due to the relatively small content of easily degradable organic compounds in the disposal solid waste. However, with anticipated rural-urban migration and growth of cities in the near future, this problem will be compelling and has to be managed from the onset. There is also a challenge of littering and waste which is dumped on the sides of the main roads and dongas. This is basically due to lack of law enforcement and non-compliance by various stakeholders.



347. Since dump sites are open access and often located near residential areas, residents (adults as well as children) scavenge at them collecting recyclable materials. This however poses a danger to human health, and potentially spreads diseases. The country has nonetheless introduced through the private sector some form of recycling primarily located in Maseru. Currently private agents collect solid waste such as paper, cardboard, cans, metals, etc from industries for recycling. Car wrecks are also collected for metal recycling. All recyclable materials are exported to South Africa due to underdeveloped recycling industry in the Country. These companies also deal with hazardous waste which is shipped off for treatment facilities in South Africa.

348. During the implementation of the NSDP I, environmental studies, design of a new landfill, design of transfer station, and acquisition of land for both landfill and transfer station were undertaken. However sustainable recycling projects still have to be identified and implemented in order to manage solid waste in the country. During NSDP II implementation, the following strategies will be pursued to address the solid waste challenges:

Strategic Objectives	Interventions/Actions
(1) Improve management of solid waste in the country	<ul style="list-style-type: none"> (a) Prepare a national solid waste resource management strategy (waste diversion), and guidelines for solid waste treatment and disposal. (b) Promote public participation programmes on waste management in cooperation with local NGOs. (c) Establish a solid waste management system in Maseru with focus on sustainability based on cost recovery and the users / polluter-pays-principle⁵⁵. (d) Establish a new modern landfill at Maseru – being the location with the most urgent problems – and simultaneously closing the old dump site. (e) Establish financing options for the local governments to initiate a sustainable solid waste handling system. (f) Improve compliance of solid waste laws, regulations., and environmental standards. (g) Ensure equitable and consistent enforcement of solid waste regulations. (h) Promote private-municipal partnerships on issues on waste management and recycling.
(2) Improve societal capabilities for solid waste management and handling	<ul style="list-style-type: none"> (a) Build capacity both at a national and local level to make executing institutions able to manage and operate future solid waste handling (b) Improve public education and raise awareness on solid waste generation, handling and recycling (solid waste as a resource). (c) Improve working relations with the informal sector & communities on solid waste management to enhance shared responsibility and stewardship. (d) Improve environmental performance at disposal facilities, in an efficient and cost effective manner.

⁵⁵ The system is to act as a model which may be duplicated by councils at districts level.



Strengthening Governance and Accountability Systems

8.1 INTRODUCTION Key Priority Area IV

349. Governance⁵⁶, rule of law and credible leadership are critical for the achievement of NSDP II strategic objectives. These three provide a conducive environment for private investment (both domestic and foreign investment) hence inclusive growth. Investors will invest where property rights are well defined and clear, and there is little risk of loss of property, and public goods/services that support the private sector are provided efficiently and effectively. NSDP II therefore places at the centre of the new growth path the strengthening of governance and accountability system to ensure protection of private investment, and public sector reforms to guarantee efficient and effective provision of public sector goods/services that support the principle of market-led economy while at the same time accelerating economic and social transformation of Lesotho.
350. NSDP I had identified promoting peace, democratic governance and effective institutions as strategic objective to serve as bedrock for accelerated economic and social transformation of Lesotho. However, during the five years of its implementation, Lesotho experienced some governance setbacks which to some extent have impaired achievement of the desired socio-economic outcomes and discouraged potential foreign and domestic investment in the country. The institutions of governance have weakened, and the 2013-2017 unprecedented events that culminated into frequent elections and change of government due to unstable governing coalitions resulted in disruptions and discontinuity of national priorities and policies.
351. While these events increased uncertainty in the country during NSDP I period, they provided lessons and brought to the fore weakness in the country's institutional infrastructure. These lessons have formed the base for the newly public sector reforms meant to increase effectiveness and efficiency of the state. They have also formed a foundation for the proposed institutional reforms meant to provide stability in the country and usher in the lasting peace and security for the People of Basotho. Investors and society at large feel safe and secure by having confidence in their national security structures, law enforcement and judicial systems equipped with capabilities to deal with emerging threats.
352. Despite the 2013-2017 setbacks, the country continues to rank relatively favourable on the Mo Ibrahim Index of African Governance (IIAG). Its overall score on governance in 2016 was 58.2 out of 100 (the top score), and ranked position 15 out of 54 countries in Africa⁵⁷. However, this score shows the country has slightly slipped from the 2015 scores. While the country still demonstrates positive overall governance; the rule of law, accountability, national security, citizens' participation and human rights protection have slightly

⁵⁶ Governance in this context is conceptualized as the manner by which the state is organized for efficiency and effectiveness of resource management and service delivery through a set of processes, policies, behaviours, and institutions. This entails how public administration is organised for effectiveness and efficiency of the state. It includes both political governance, economic and resource governance.

⁵⁷ 2017 IIAG Index. *The Ibrahim Index of African Governance (IIAG) is an annual statistical assessment of quality of governance in every African country by Mo Ibrahim Foundation. Presently the IIAG consist of more than 90 Indicators (mo.ibrahim.foundation/.../2017/progress-african-governance-last-decade); IIAG, 2017.*



plummeted between 2015 and 2016. Lesotho has also exhibited negative trends in Human Development.⁵⁸ Table 2 shows Lesotho's trend in overall governance since 2011 based on IAG Index.

Table 8. 2: Lesotho Annual Rating on Governance 2012 -2016

Governance Indicator	2011	2012	2013	2014	2015	2016
Overall Governance score	58.2	58.9	60.7	61.5	61.1	58.2
Safety and rule of law	63.6	64.9	66.1	65.8	66.7	66.6
Rule of law	63.9	63.0	63.2	64.0	65.9	64.1
Accountability	54.3	53.6	56.1	57.2	59.5	55.0
Personal safety	46.3	47.9	50.1	46.8	51.2	59.8
National security	90.0	95.0	95.0	95.0	90.0	87.4
Participation and human rights	62.9	62.3	68.1	71.2	70.9	64.6
Participation	62.1	62.1	77.9	82.4	82.4	68.8
Rights	54.1	54.0	55.1	60.1	58.8	52.6
Gender	72.5	70.8	71.1	71.2	71.5	72.4
Sustainable Economic opportunity	49.9	50.6	51.3	51.3	50.5	46.5
Public Management	54.6	53.5	55.8	55.1	60.3	54.9
Business environment	53.7	55.4	56.0	55.1	47.2	38.2
Infrastructure	37.6	38.2	38.5	37.9	40.1	39.9
Rural Sector	53.7	55.4	54.9	57.3	54.3	52.8
Human Development	56.4	57.7	57.3	57.6	56.4	55.1
Welfare	49.4	51.1	50.6	50.6	51.1	46.6
Education	51.8	51.2	50.1	51.2	53.1	50.9
Health	68.0	70.9	71.0	71.1	65.1	67.9

Source: ILAG, 2017

353. In terms of women representation in politics and administrative posts, although the country has made huge strides, this has not necessarily come with improvement in service deliver and change in the lives of the majority of women and girls. Voices of majority of women and girls in rural areas in particular are still marginalized and they are unable to influence policies that can improve their lives. Notably, the Government's commitment to governance reforms ushers in an opportunity to increase women, girls and other vulnerable groups' participation in policy making and other decision-making structures. Thus, strengthening social dialogue mechanisms is urgently needed to ensure that voices of all groups are heard in the formulation of economic and social policies affecting them and this will ensure inclusiveness of reforms.

354. The country has established key policies and legislation for a conducive business environment and to transform society, and embarked on public-sector reforms and modernization to enhance institutional effectiveness. It also boasts of a relatively free media compared to other countries in Sub-Saharan Africa as evidenced by its ranking on World Bank indicators on voice and accountability which has hovered around 48% (although this represents a slight decline from 50% observed in 2015) but effectiveness of the state in delivering services to the nation has reduced. The media's oversight role of checks of balances on the state has not be driven by the desire for better service delivery.

8.2 Public Finance Management and Accountability

⁵⁸ Ibid.



355. Lesotho has slipped back from rank 60.3 to 54.9 between 2015 and 2016 on Public Finance Management. However, this ranking remains positive and shows there is a room for improvement. The Country enacted the Public Finance Management and Accountability (PFMA) Act 12 of 2011 which has been amended through the Public Finance Management Bill of 2018⁵⁹. This legislative instrument introduces processes and standards to guide the use, management and control of public funds. In 2014, the country issued the Public Finance Regulations of 2014 to support the PFMA Act, and started implementing the Public Financial Management Reform Project (PFMRP). The project is aimed at supporting modernization of financial regulatory framework and strengthening public finance systems to enhance accountability in the Government.
356. The new Integrated Financial Management Information System (IFMIS) has been stabilized and is being implemented to improve accountability, minimize fraud and improve efficiency for settlement of payments. Currently the system is being upgraded and the Electronic Financial Transactions (EFT) protocol for government payments is successfully running in five pilot ministries. The system has improved transparency and efficiency although its functionality is constrained by capacity gaps due to loss of trained personnel to other institutions. Through the Office of the Accountant General (OAG), GoL has implemented the revised structure on the accounting cadre and is introducing the cash and procurement spending plans across line ministries to enhance both cash management and efficiency in public procurement system. The Bill is underway to allow for use of digital signatures in order to enhance effectiveness and efficiency in service delivery. As a result of the systems improvements, the Office of the Accountant General has been able to submit the Annual National Accounts to OAG within the required statutory time. In recent years, the collaboration between the Office of the Auditor General and the Parliament of Lesotho through Public Accounts Committee has also improved.
357. The GoL is also implementing a number of public finance management reforms to enhance public financial management through the Public Sector Improvement and Reform Programme (PSIRP). Measures underway include: (i) developing and implementing integrated planning and budgeting processes based around Medium Term Expenditure Framework (MTEF) approach; (ii) strengthening the Accountant General's office through reorganization, training and replacement of the financial management system; (iii) fast tracking reforms of the procurement system to introduce standard procurement documentation, decentralizing the procurement function to line ministries and transform the Central Tender Board (CTB) to a regulatory body; (iv) rolling out the Government Human Resource Information Management System (HRIMS); executing the Public Service Biometric and Payroll Census in order to improve payroll management under the Public Sector Modernization Project (PSMP) which is targeted at enhancing public service delivery and accountability.
358. The GoL has also enacted the Audit Act of 2016 to strengthen audit function in the country. Although this Act provides for the full autonomy of the Office of the Auditor-General in line with the Constitution of Lesotho, the Office of the Auditor General still does not have powers to present audit findings directly to parliament, and has to do so via Minister of Finance. The other major challenges besetting the audit function are: weak internal audit and absence of internal audit committees in line ministries which have impacted the development of risk management and processes and reduced internal audit independence as internal audit is still answerable to Chief Accounting Officers (CSOs) of line Ministries.
359. To strengthen procurement processes and systems in public service, the GoL has approved three policies namely, the Public Private Partnership (PPP) policy, Public Procurement policy and the Unsolicited Proposals policy. The Procurement regulations were also amended in 2018 and the Procurement

⁵⁹ This Bill is awaiting enactment into Law by parliament.



Amendment Bill of 2018 is awaiting parliamentary enactment into law. The annual procurement plans have been upgraded in the IFMIS system to enable monitoring of procurement processes. The government has also started the rotation system of procurement staff in order to curb systematic fraud by public officials. The following strategic actions meant to strengthen the procurement system are also in pipeline: establishing the price catalogue on goods and services supplied to government, signing in the framework agreement under common users' transactions, and suppliers' re-registration. These strategic actions notwithstanding there has been some non-compliance to procurement controls and protocols and in some cases unwarranted interference, as well as delays in payment of suppliers due to continuous decline in fiscal space.

360. Despite the achievements in public financial management several challenges remain which if resolved will bring further benefits to the country. These include: non regularization of excess spending by line ministries which contravenes Public Finance Management and Accountability Act of 2011, improper maintenance and non-reconciliation of government bank balances by year end and month end, Non-compliance to requirements of International Public Sector Accounting Standards under the cash basis accounting system; Inadequacy of IT controls in IFMIS, and non-closure of accounts at commercial banks after projects' completion by line ministries which makes it difficult to have Treasury Single Account, and slow pace of producing procurement plans by line Ministries; lack of an effective system for monitoring and evaluation of expenditure in the current budgeting system as well as non-participation of citizens in the budget process.

Intermediate Outcome 4.1: Improved Public Financial Management and Accountability

Strategic Objectives and Interventions

Strategic Objectives	Interventions
1. Strengthen financial Management and reporting systems	<ul style="list-style-type: none"> (a) Enforce financial accountability measures. (b) Implement Public Private Partnership Policy. (c) Improve coordination across line ministries to contribute to a more prioritized and sequenced PFMR. (d) Implement performance-based budgeting (PPBB). (e) Migrate from cash base to accrual base frameworks. (f) Improve coordination of National Asset management (g) Enhance interface of National Data Systems (e.g IFMIS system with LRA, and Home affairs, police systems etc)
2. Improve Public Procurement systems	<ul style="list-style-type: none"> (a) Raise awareness on procurement tribunal (b) Finalize and implement procurement Act (c) Promoting efficiency of procurement systems (d) Strengthen public procurement advisory (e) Build capacity for public procurement in line ministries (f) Review and enforce adherence to procurement regulations (g) Strengthen capacity for budgeting implementation at national and sector levels
3. Strengthen Public Accounts Audit	<ul style="list-style-type: none"> (h) Establish audit committees in line ministries. (i) Develop a risk management policy (j) Strengthen internal audit processes across government ministries and state-owned enterprises.
(h) Develop gender/social responsive budget system	<ul style="list-style-type: none"> (a) Establish sector teams on social and gender responsive budgeting techniques as part of costing, budgeting and resource allocation systems (b) Increase awareness and appreciation of gender and social inclusion budgeting in the PFMR. (c) Ensure capacity building for Ministry of Finance and line ministries' officers in social and gender responsive budgeting management, and monitoring and evaluation (d) Sensitize Parliament and stakeholders including CSOs to guarantee support for gender mainstreaming initiatives.



4. Improve compliance and environmental audits	(a) Review frameworks for environmental audit. (b) Enhance compliance to environmental standards
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8.3 ACCOUNTABILITY AND EFFECTIVE OVERSIGHT INSTITUTIONS

361. Accountability flourishes under strong oversight institutions and the general public that is informed and demands accountability. Over the past decades Lesotho established key oversight bodies to increase accountability and good governance in both the public and private sector. These include the Office of the Auditor General, the Directorate on Corruption and Economic Offences (DCEO), the Office of the Ombudsman, the Human Rights Commission and the Police Complaints Authority, and Civil Society Organizations. However, overtime some of these bodies have weakened due to lack of resources (both technical and financial) and limited autonomy. This has basically compromised their effectiveness.

362. The legal framework establishing some of these bodies has also not provided for their full independence. This compromises their mandate of ensuring accountability. There is still a perception that the Executive interference in the selection of heads of these bodies although provided for in the constitution is the root cause to their weakening as well as lack of technical skills. At the same time demand for accountability from the general public has been weak due to the polarized nature of politics in the country, and the compliancy trait of society. Lack of access to information and poor coordination of institutions involved in oversight function has also been mentioned as a limiting factor towards demand for accountability. This is despite access to information being entrenched in the Constitution as a fundamental human right for all Basotho. The absence of legal framework that permits free access to information (Information Bill) has been cited as constraining factor for demand for accountability. In addition, Civil Society Organizations and the private sector in Lesotho are weak and hardly have the capacity to engage government on its programmes and intentions meant to enhance public sector efficiency and effectiveness.

363. In recent years the Parliament through the Public Accounts Committee (PAC) has been very effective in exerting their oversight role. It has publicized its parliamentary proceedings on public sector accountability and recommended the suspects of public funds misappropriation to the Executive for prosecution. The fact that PAC does not have an authority to directly prosecute delinquents limits their effectiveness.

Intermediate Outcome 4.2: Effective Oversight Institutions

Strategic objective and actions

Strategic Objectives	Interventions
Strengthen oversight bodies	(a) Promote independence (financial, legal and operational) of oversight institutions. (b) Enhance capacity of oversight bodies to deal effectively with corruption. (c) Develop a policy for non-state actors' engagement with the Government and institutionalize mechanisms for consultation and dialogue. (d) Promote civic education to stimulate demand for accountability. (e) Strengthen capacity of Parliamentary portfolio committees



8.4 Service Delivery and Decentralization

364. Since November 2015, some line ministries have started devolving their activities to local level but progress of implementing such activities has been slow⁶⁰. In terms of fiscal decentralization, no guiding framework has yet been developed and local government structures remain depended on central government for funding which is said to be inadequate, unpredictable and not based on any credible formula. Local councils cannot collect any revenues despite the great potential for revenue mobilization that exists at local level. Thus the relationship between the central government and decentralized structures in terms of funding, implementation and monitoring of development programmes and projects still needs to be clearly defined and operationalized for effective delivery of services and development in general.
365. A cabinet sub-committee chaired by the Deputy Prime Minister has been established to fast track the decentralization policy reforms. During NSDP I implementation the Government formulated and adapted the National Decentralization Policy of 2014 with the purpose of deepening and sustaining grassroots-based democratic governance and promoting equitable local development by enhancing citizen participation and strengthening the local government system, while maintaining effective functional and mutually accountable linkages between central and local governmental entities. The policy articulates more importantly strategies for achieving effective decentralization, and Lesotho's model for decentralized governance and service delivery; establishment of local governments administrative structures with autonomy and executive authority; development and implementation of strategic framework for participatory and integrated development planning; establishment of fiscal decentralization and prudent public financial management; and the development of a framework for exercising local autonomy and intergovernmental relations. However, this policy is yet to be fully implemented.
366. Therefore, there is a general discernment that the challenges of low technical and administrative capacity, leadership and management skills have led to poor service delivery in the country. This has affected the private sector operations and stalled its growth. Consultations with the private sector and other stakeholders have revealed that the root cause of Lesotho's public goods/services provision lies with the problems emanating from weak public sector systems and weak leadership and management at all cadres of authority in the public sector. At the same time the failure to implement the Decentralization Policy of 2014 has not been mentioned a root cause of poor service delivery. The power sharing struggles between the central government and local government has been cited as one of the reasons the policy was not implemented. The local government structures also lack financial and human resources capabilities through which to implement policies and programmes. The other challenge hampering local service delivery is that Local councils have low technical and administrative capacity and are also not able to meet the needs of the communities due to inadequate financing (the current government capital funding to councils is inadequate, unpredictable and not formula based). During financial year 2017/18, the allocation was 14.5% of the national capital development budget. These funds are meant for development of rural community roads, waste management for councils and a development fund for councils.

⁶⁰ At the time of NSDP II development only five line ministries had devolved their activities to local level but the progress of implementing such activities has been slow.



Intermediate Outcome 4.3: Improved Service Delivery

Strategic Objectives and Interventions

Strategic Objectives	Interventions
(1) Decentralize public sector services	<ul style="list-style-type: none"> (a) Develop fiscal decentralization framework and service decentralization framework to provide for vertical and horizontal allocation of resources for the local governments (b) Ensure that the fiduciary responsibilities of the councils match their capacity. (c) Improve capacity for planning, procurement, budget management, project cycle management and results-based management for local authorities. (d) Strengthen capacity of the District Development Coordination Committees (DDCCs) to enhance collaboration and coordinated implementation of programmes. (e) Raise awareness of Citizens' and non-state actors on local governance and service delivery to stimulate demand for accountability. (f) Harmonize central-local government and integrated development planning, budgeting, and performance monitoring and reporting.
(2) Deliver services to the public effectively and efficiency	<ul style="list-style-type: none"> (a) Build the culture of effective service delivery in public and private sector. (b) Strengthen planning, leadership and management at strategic-level. (c) Improve efficiency in human resource management systems, processes and practices. (d) Identify service delivery functions that can be outsourced, review and implement divestiture programme. (e) Review and implement national skills retention strategy (f) Introduce one stop shops for public service delivery and extend operating hours (g) Create and build capacity to conduct policy analysis and research to inform service delivery (h) Adopt Information Technology for better service delivery
(3) Strengthen institutions for public service delivery	<ul style="list-style-type: none"> (a) Improve coordination & communication skills at all strategic and other levels of government. (b) Develop service delivery standards for both public sector and private sector. (c) Review LIPAMs mandate, upgrade infrastructure, training capacity and curriculum to deliver key training programmes for all government ministries.

8.5 Peace, Security and Stability

367. Although Lesotho has held regular democratic elections since 1993 with varying degrees of success that were declared free and fair, since 2012 the country moved into coalition governments that saw the country holding three elections between 2012 and 2017. The number of parties has increased and during 2017 elections there were 29 political parties contesting elections, all of them off-shoots of the original three at independence. It is debatable whether emergence of many political parties is a sign of maturing democracy and has given society freedom of choice in politics or not. However, the collapse of two successive coalition governments (2012-2014 and 2015-2017) demonstrates the volatility of coalition politics while the election of yet another coalition government in 2017 points to the possibility of coalitions becoming a trend for the foreseeable future as long as the number of political parties continue to grow. Building and sustaining a



culture of internal party democracy, peaceful political negotiations and compromise is necessary for continued stability.

368. The period-2012-2016, saw SADC play a key role in Lesotho's stability following some episodes of political instability during this period⁶¹. The SADC Commission of Inquiry into the 2014-15 instability (Phumaphi Report) provided recommendations on maintenance of peace and stability as well as governance reforms necessary for stability in the country. Some of these recommendation have already been implemented and Lesotho's commitment to implementing various SADC decisions, as well as its own reform agenda, including a review of the constitution and reforming the security, public and other sectors will be crucial in creating a stable environment for NSDP II implementation. The Security Sector Reform (SSR) Roadmap presented to the SADC Summit in August 2016 captured such necessary reforms in Lesotho. This roadmap provides an important point of engagement between Lesotho and its development partners.
369. At the policy level the strategy should incorporate the application of ratified conventions into national development policies, strategies and programmes. In addition, there is a need to maximize information, advocacy and organizational skills, so that labour standards issues are not confined to one ministry but rather mainstreamed into the work plans of most government and national partners. That kind of interaction and the transmission of good practices will lead to a coherent and realistic set of measures for decent job creation with widespread support among national actors.

Intermediate Outcome 4.4: Peace, Security and Stability

Strategic Objectives and Interventions

(1) Promote Peace	<ul style="list-style-type: none"> (a) Improve inclusive conflict resolution mechanisms. (b) Improve capacity for conflict resolution. (c) Establish effective social dialogue mechanisms. (d) Uphold the culture practices that unite families, communities and societies together. (e) Promote social cohesion and patriotism⁶². (f) Promote national service programmes. (g) Promote women involvement in peace making processes. (h) Devise strategies to monitor and prevent hate speech. (i) Strengthen civic education, and social dialogue to improve social cohesion and stability
(2) Enhance National Security for all	<ul style="list-style-type: none"> (a) Expedite the security sector reforms. (b) Promote participation of all sections of society, including disadvantaged groups such as youth, women and people with disabilities in the security sector reforms and other decision-making processes. (c) Improve governance (leadership and management etc.) of security sector agencies. (d) Improve human security (i.e. GBV) (e) Strengthen law enforcement agencies.

⁶¹ Kapa, 2015; 2016.

⁶² These could include promoting cultural events and other mechanisms for cultural preservation as a way of promoting social cohesion.



8.6 Human Rights, Political Rights and Civil Liberties, and Political Participation

370. Inclusive human development embraces protection of the rights of citizens and their freedoms. During NSDP I, the country identified enhancing protection and fulfilment of human rights as a strategic objective. Therefore, the country with support from Development Partners supported the Human Rights Unit within the Ministry of Law and Constitutional Affairs, on the establishment of an independent national human rights institution namely the National Human Rights Commission, and in 2016, the Human Rights Commission Act was enacted into law to provide for the establishment of Human Rights Commission that would be responsible for among others, investigation of complaints of violation and abuses of human rights and make binding decisions. The corresponding regulations to implement the law were also developed. The commission's objectives include to promote, protect, monitor and sustain human rights in accordance with the constitution and other laws of Lesotho, Regional and International human instruments which Lesotho is party to.
371. Lesotho is currently State Party on reporting on International and Regional Human Rights instruments. It is in the second cycle of the Universal Periodic Review (UPR) on Human Rights instruments. It has rectified the African Charter on Human and People's Rights including the Rights of Children. It also supported the other governance agencies, in particular the Office of the Ombudsman. A number of frameworks towards human rights protection were also developed. These include domesticating international conventions such as Convention Against Torture (CAT); Convention on Civil and Political Rights (ICCPR), Convention on Economic, Social and Cultural Rights (ICESCR); Convention on Elimination of Racial Discrimination (ICERD) and African Charter on Human Rights and State Party Reports on International and Regional Human Rights Instruments (CEDAW and CRC). Nevertheless, respect for human rights was a challenge particularly since 2014 following serious security incidences. There have been incidents of human rights violations in particular those targeted at members of political class and armed forces which the country will address during NSDP II implementation.
372. In terms of gender, leadership and political participation Lesotho remains committed to implementation of measures under the United Nations Convention on the Elimination of All forms of Discrimination against Women (CEDAW), the African Union Protocol on the Rights of Women (2003), and the SADC Protocol on Gender and Development (2008). The country has made it legally mandatory for political parties to ensure equal representation on the PR party list submitted to the IEC during elections, and to reserve a third of seats in local council elections for women since 2005 which has also been enabled by the adoption of the MMP system at local government level. During NSDP I implementation, the country continued to implement the Legal Capacity of Married Persons Act No. 9 (2006) which is targeted at addressing gender inequality in the family and the social sphere. In addition, appointment of women in key positions in the public sector has been promoted during the plan period. Trends in women representation in Cabinet and parliament although has declined lately, it remains observable. For instance, in 2011, there were nine women out of 25 ministries (or 40.9%) in cabinet; eight women out of 30 places (or 26.7%) during the post-2012 All Basotho Convention (ABC) party-led coalition government; and eight women out of 35 places (or 22.85%) in the post-2015 elections coalition government. However, this trend indicates a steady worrying decline in the representation of women in the country's executive arm of the state. The figure still remains far below the SADC quota of 50% women in legislative assembly.
373. In parliament, the total number of women has remained around 25% of the entire legislature. Thus Lesotho's performance in this regard is not impressive. However, it's worth to note that at least there are impressive exceptions when women are in leadership positions such as the Central Bank Governor, the



Chief Justice, Chief Executive of LHDA etc. However, women participation in leadership in both the public and private sector remains relatively low. This is attributed to mainly the patriarchal nature and values of society, attitudes and perceptions, and the nature of politics that tend not to attract women to compete for elective positions.

374. At the same time youth participation in politics although remained relatively low during NSDP I period, the situation has been improving to an extent that Lesotho scores 0.583 - just above average - in terms of youth political participation and ranked 14th out of 54 Commonwealth countries (CWC). The key dimensions for assessing political participation in determining Youth Development Index (YDI) are the existence of youth policies and level of representation in political structures, voter education and opportunities to express political views. With regards to civic engagement, Lesotho scores low at 0.336 and ranked 21 out of 54 CWC. This is attributed to limited programmes and interventions by the political parties targeting the youth to participate effectively in party and the country's politics, leadership and decision-making processes.
375. Lesotho is a relatively young democracy, however, participation of those at voting age in national elections has been increasing although it declined from 52% (2015) to 46.2% (2017). The decline signalled societal fatigue with frequent elections under coalition governments. The available data shows that the number of women elected to Parliament compares well with old democracies in the developed world. Despite some pre-election violence and a deeply divided result, the parliamentary elections are declared free and fair. The integrity of Lesotho's elections, under the auspices of the Independent Electoral Commission (IEC), was ranked 65 globally (out of 139 countries that held elections in 2017 and fifth in Africa (out of 35).
376. The challenge today as reflected during the consultations is the proliferation of small parties as they become deciding factors in determining which of the big parties could form a government. Furthermore, it creates intra-party conflicts, as there are cases where small party members gain seniority over party stalwarts in big political parties in the coalition government despite having very small representation.

Intermediate Outcome 4.5: Respect of Human Rights and Protection of Civil and Political Rights for All

Strategic objectives and actions

Strategic Objectives	Interventions
Protect Human Rights and Civil Liberties	<ul style="list-style-type: none"> (a) Enhance protection and fulfilment of human rights for all. (b) Operationalize National Human Rights Commission to promote, protect and monitor human rights. (c) Develop a Human Rights Action Plan to coordinate efforts of institutions and civil society in the furtherance on human rights. (d) Align policy and legislation with Government's commitments to human rights as expressed in international and regional treaties. (e) Strengthen citizen participation and reporting on international instruments and commitments. (f) Institutionalize mechanisms to address the issues/concerns of minority and vulnerable groups. (g) Introduce formal street law programmes with essential legal information, including procedures and rights to reduce incidences of crime. (h) Enhance training of security agents and relevant institutions on human rights. (i) Strengthen capacity and extend the mandate of the Police Complaints Authority to make it accessible to the public and to become more effective. (j) Expedite constitutional reforms including repeal of laws that are discriminatory and clawback .



8.7 Law Enforcement and Administration of Justice

377. NSDP I had identified several strategic actions meant to enhance rule of law and administration of justice. Some progress has been made in a number of areas within the justice system although several challenges remain. The country has developed case management system which is meant facilitate management of cases hence reduce the backlog of court cases thereby facilitating effectiveness of the justice system. Between 2012 and 2016, total directives and indictments processed equalled 1809, and 12039 criminal cases were completed. The country introduced alternative dispute resolution mechanisms and enhanced legal drafting. The number of bills passed by parliament between 2012 and 2016 totalled 45 while 57 bills were drafted in this period, and only 12 bills were awaiting parliamentary enactment.
378. By 2014 Lesotho had indexed all laws up to 2014 to enable easy access to laws in the country by both local and international consumers. Law indexing was part of modernization, harmonization, consolidation and indexing of laws project which is ongoing project. As part of promoting registration for Intellectual Property for Innovation works, the country raised awareness to the public on intellectual property laws and property rights, and offered specialized training on IP. Although developing IPR database has been partially done through automation of IP registration in the RGs office, the IP registration system is already functional. This should be able to protect private sector innovations.
379. However, despite these achievements a number of challenges still exist in the justice sector which have to be dealt with during NSDP II implementation. Cases still take long to be concluded due to systems that are weak, with limited transparency and poor record/case handling. In addition, the process of summoning witnesses often fails such that other parties attend court without resolution; prisoners are held on remand for long periods and rehabilitation centers are unable to perform their functions effectively, since they are over-crowded. Moreover, vulnerable groups do not have adequate access to the justice system due to low capacity of legal aid unit and limited skills to deal with disabled and juvenile cases in particular, within the court system. The crime rate is not high by regional standards, but some petty crimes appear to be increasing (e.g. burglary, organized livestock theft, traffic rules violations, gender violence, and targeted politically motivated killings), and the police fail to respond promptly to crimes and so make relatively few arrests and convictions are even fewer. Consequently, communities' resort to extra-judicial killings. The lack-lustre performance of the police force in particular is mainly attributed to understaffing, poor access to basic tools, equipment and transport, limited technical capacity, corruption, poor accountability and oversight. The Gender balance in the police service is not yet achieved although the situation is relatively better than in the past decades as more women and girls are being recruited into the employ of police services. The legal frameworks and cooperation in the region for handling cross-border criminal activities is still weak. Several laws are also dated which leads to poor application. Moreover, even when laws have been reviewed, it takes a long time to get amendments through Parliament due to limited capacity for drafting bills. Modernization and Consolidation of Lesotho laws and indexing to reduce time and cost to find laws on particular subjects, remains critical. The other challenges in this sub-sector that beset law enforcement are Limited training in the police force, ineffective oversight, limited resources and low public knowledge on human rights.
380. In addition, the full operation of the commercial court and training of the legal professionals in handling commercial cases still constrain business climate. There is a need therefore to expedite judicial reforms that



include capacitating judges to handle commercial cases to improve business climate and to ensure speedy and transparent processing of cases. There should be a balanced mix of legal professionals with specialized skills and training for Attorneys in Lesotho should also be initiated.

Intermediate Outcome 4.6: Justice System that is Effective, Transparent, Efficient and Equitable

Strategic Objective and Interventions

Strategic Objectives	Interventions
(1) Improve access to justice	<ul style="list-style-type: none"> (a) Promote restorative justice. (b) Enhance legal drafting capacity. (c) Improve case management system. (d) Improve the local courts infrastructure and services. (e) Promote Intellectual Property Rights. (f) Promote inclusive and gender sensitive justice processes. (g) Strengthen the legal aid system and decentralize it to district level. (h) Improve training for law enforcement and national security agencies. (i) Enhance and formalise community policing strategy. (j) Improve coordination between all stakeholders in the justice sector.
(2) Enhance Efficiency of the Justice System	<ul style="list-style-type: none"> (a) Develop alternative dispute resolution mechanisms to reduce the backlog of cases in higher courts. (b) Facilitate the effectiveness of small claims court. (c) Facilitate the smooth operation of the commercial court and training of judicial personnel. (d) Improve the juvenile case management system and the capacity of probation unit services. (e) Harmonize laws (customary law and civil law)
(3) Strengthen justice institutions	<ul style="list-style-type: none"> (a) Develop an effective system for monitoring ex-offenders and promote alternative rehabilitation programmes (b) Review legal training system/programmes to improve quality and relevance (c) Modernise laws indexation into electronic data base following best practices.

8.8 Corporate Governance

381. The Government of Lesotho has noted that without strong corporate governance⁶³ it is difficult to achieve sustainable inclusive economic growth. It has further taken cognizance of the increasing demand of its citizens for better control and accountability on the part of Public Enterprises and other government supported agencies. This relates to the mandates of these Agencies, and to their effectiveness and efficiency in the delivery of services to the public. Government is aware of the need for a subtle balance between the desired level of autonomy and commercial independence of these enterprises and agencies on the one hand, and the need for a reasonable level of conformity and effective control by government on behalf of the public, as well as Parliament in its oversight role, on the other. A lot of these enterprises continue to be financed through public purse yet do not account for use of such monies. At the same time, those enterprises or entities in which the Government either wholly own or hold majority shares or has some

⁶³ Corporate governance is defined in this context as encompassing ethical principles, values and practices that facilitate securing an acceptable balance between economic and social goals on the one hand, and between individuals and communal objectives on the other. The aim of corporate governance is to align as closely as possible, the often diverse interest of individuals, corporations and society within a framework of sound governance for a common good of a country as a whole. The emphasis is basically on accountability, transparency, responsible operations, efficiency and effectiveness. Simply put, corporate governance is all about compliance, ethics and truthful engagement.



shares have failed over years to declare dividends. The failure to observe basic corporate governance principles and shortfalls in regulation and oversight as well as undue interference by principals are singled out for blame.

382. It is as a result of these considerations that corporate governance in Lesotho must be given urgent and serious attention. It is given impetus more so if businesses are to compete effectively in the economy, and thereby creating jobs. It is also essential for probity because investors require confidence and assurance that the management of any business behave honestly and with integrity in regard to their shareowners and other stakeholder in particular if Lesotho is to rely on partnership businesses between local and foreign businesses; it is also essential if leadership with responsibility as businesses are increasingly called upon to address legitimate social concerns relating to their activities; and for business leadership that is both transparent and accountable, otherwise business leaders cannot be trusted and this will lead to the decline of businesses and the ultimate demise of a country's economy.
383. In 2010, the GoL received assistance from the Institute of Directors Southern Africa (IoDS) and developed a policy on corporate governance for Lesotho public enterprises, government agencies and entities. This policy outlined the codes and guidelines that were to apply to all Public Enterprises, Government Agencies and Entities with the aim of enhancing their corporate governance thereby providing for a healthier, competitive and transparent environment. This policy was accompanied by a code of corporate governance practices and conduct guidelines from the Institute Itself. This code provided for roles and responsibilities of Accounting Authority and its Members; Integrated Sustainability Reporting including disclosure requirement of corporate governance, Risk Management and Internal Audit functions & codes; Accounting and Auditing. Subsequently a number of enterprises defined their board charters, established risk committees and some perhaps defined their risk profiles and audit committees. Despite the availability of the policy and code of corporate practices and conduct, and various attempts at improving corporate governance in amongst state assisted companies, the state of corporate governance in the country continued to weaken.
384. Consultations with the private sector, state owned enterprises, and government officials revealed that during NSDP I implementation public enterprises suffered undue political interference in Board selection and dismissals, and this stifled business continuity in some of these organizations. In many enterprises, Boards' performance is also not assessed and members of boards are often selected based on their political affiliations without possessing necessary competences. This compromises corporate governance principles and codes. While risk management and audit have become a very central component of strategic planning in some enterprises, it still lacks in others. Financial independence remains a serious challenge to many of these enterprises which subjects them to undue interference from the political principals. Although the systems integrity committees have been formed in different line ministries through DCEO assistance, ministries do not use them and the auditors' expertise and recommendations. Chief accounting officers' compliance to audit findings is wanting. In the light of these challenges, NSDP II proposes the following strategies to enhance corporate governance in the country:

Intermediate Outcome 4.7: Improved Corporate Governance and Protection of Rights of Investors

Strategic Objectives and Interventions

Strategic Objectives	Interventions/Action
Strengthen corporate governance practices	(a) Develop code of corporate governance for Lesotho (or adopt latest King framework of corporate governance) (b) Promote the adoption of codes of corporate governance practices and guidelines in public sector enterprises and the private sector. (c) Promote corporate governance principles and codes in the Public Sector.



	<p>(d) Review Lesotho corporate governance policy of 2010 and align it to latest King framework.</p> <p>(e) Enforce compliance to corporate social responsibility and environmental sustainability.</p>
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8.9 Governance of Labour Markets and Social Dialogue

385. Lesotho has commendably ratified 22 international labour standards including those concerning freedom of association and non-discrimination. This is to ensure that all women and men work in conditions in which basic human rights are respected. The application of international labour standards provides a normative framework for labour market governance, employment and social policies.

386. During NSDP I, the Country developed the Decent Work Country Programme with support from ILO. The Programme created modest employment opportunities for women and the youth through the cooperative sector, and significant achievements were made regarding policy reform in the cooperative sector and for vocational and technical education and curriculum development. The DWCP also increased the textile industry's level of compliance to national and international labour standards through Better Work Lesotho (BWL), although additional effort is required to sustain BWL outcomes. It has also caused the prioritisation of the initiatives to formalise the informal sector, through the development of an Action Plan, supported by the Office of the Prime Minister amongst a wide range of stakeholders.

387. Furthermore, the DWCP was successful in facilitating the formulation of the draft National Social Security Policy and the draft new Labour Code. It has caused the adoption of the Action Programme on the Elimination of Child Labour (APEC), caused the establishment of a Child Labour Unit, and has capacitated labour inspectors to assess and report on child labour abuses in the country. The labour inspection capacity was built, in institutionally embedding Occupational Safety and Health (OSH). At the same time progress was made in supporting efforts for workplace OSH programmes, including those related to HIV and AIDS. However, the on-going Strengthening of Labour Inspection Lesotho Project (SLIP) should result in better outcomes. The Country through Ministry of Labour and Employment services raised awareness about the importance of social dialogue through training and other engagements, although this is only the case amongst the social partners. There is the need for greater awareness about the purpose of social dialogue amongst other government and non-governmental organisations and the public at large, and scope for more inclusive participation in dialogue platforms.

388. However, challenges in the governance of labour markets continue to be the dysfunction on the part of some of the key social dialogue mechanisms, namely the Wages Advisory Board (WAB), which sets minimum wages and working conditions and the Industrial Relations Council (IRC). Whilst the National Council on Occupational Health and Safety (NACOSH) was largely inoperative during NSDP I, the National Advisory Council on Labour (NACOLA) continued to function, but its efficiency and effectiveness was constrained by the manner in which it is constituted and operates, for which reforms have been recommended. The Labour Market Information System (LMIS) has not been significantly strengthened and planning frameworks and strategies for employment creation continue to be weak.



Intermediate Outcome 4.8: Stable labour markets

Strategic Objectives and Interventions

Strategic Objectives	Interventions/ Actions
(1) Strengthen Social Dialogue Mechanisms	<ul style="list-style-type: none"> (a) Strengthen social dialogue institutions. (b) Promote alternative labour Dispute Resolution mechanisms. (c) Enhance mechanisms for collective bargaining and freedom of association for all.
(2) Promote decent work for all and protect rights of workers	<ul style="list-style-type: none"> (a) Promote social security for all working class. (b) Strengthen Labour Market Information System (LMIS). (c) Promote transition of labour from informal economy to formal economy (d) Enforce international labour standards that Lesotho is signatory to. (e) Eliminate compulsory labour, forced labour and worst forms of child labour.
(3) Improve occupational health and safety, and promote social security for all working class	<ul style="list-style-type: none"> (a) Strengthen Labour Inspection in the country. (b) Develop guidelines and standards for health and occupational safety in all sectors, especially productive sectors. (c) Promote effective maternity (and paternity) protection, maternal health care and women's rights at work in line with ILO Maternity Protection Convention, and other conventions. (d) Extend legal social security coverage to include working population under minimum wage categories. (e) Raise awareness on occupational health and safety

8.10 Policy, Planning and Monitoring

389. Accountability and planning for results would require very thoughtful sectoral plans which are entirely aligned to the National Strategic Development Plan. Development policies often fail because of misalignment between the sectoral plans and the national development plans, and lack of Monitoring of such plans. Monitoring for results becomes difficult unless statistics are produced timely and with accuracy. A national strategy for development of statistics has been prepared. Implementation of this strategy will contribute to improvements in efficiency of data collection; functioning of quality assurance procedures; relevance, accuracy, credibility, comparability, timeliness of publications and accessibility. In addition, monitoring and evaluation of policy implementation and programmes will improve and this will create essential feedback for review of strategies in order to achieve the required results more efficiently. Public awareness and education also need to be heightened on the available statistics and their interpretation.

390. Similarly, coordination between Government and Development Partners is essential for the achievement of meaningful results and avoidance of duplication of work. Although the Government has established mechanisms for aid coordination and management, there is still duplication of effort and some programmes do not necessarily address national development priorities. In addition, there is poor reporting of donor activity as some programmes are implemented outside Government's budgeting, accounting and monitoring systems. This is despite Lesotho's main development partners supporting the principles of the Paris/Busan Declaration on Aid Effectiveness. In 2013, the Government of Lesotho developed the Lesotho Partnership Policy which aimed to: improve the effectiveness of development cooperation through greater government ownership and leadership; increase transparency and accountability between the government and its citizens on the one hand and between the government and Development Partners



(DPs) in the management of development cooperation on the other; accelerate progress towards policy harmonisation in Lesotho's relationships with its Development Partners. The implementation plan and aid effectiveness targets were henceforth developed, although progress on these targets is yet to be evaluated. However, policy compliance by line ministries and development partners remains a challenge, and coordination between the Government and Development partners, and between development partners themselves continue to be a problem. This has eventually led to duplication of activities and in some instances waste of resources. There is also a policy gap in that the policy leaves out other stakeholders who are recipients of development aid such as non-governmental organization and civil societies. The Public Sector Investment Database (PSID) system has also become dysfunctional hence monitoring of development assistance is difficult.

391. It is also important that all development partners' activities be well coordinated and reported to the Government as they form part of the implementation for the NSDP II. Coordination of Aid will also increase predictability of Aid.

Intermediate Outcome 4.9: Improved Planning, and Reliable Statistics for Monitoring and Evaluation

Strategic Objectives and Interventions

Strategic Objectives	Interventions/ Actions
(1) Improve National Statistics	(a) Implement the National Strategy for Development of Statistics (b) Strengthen statistical capacity of statistics agency (c) Harmonize statistics produced by different stakeholders (d) Improve statistical data management and provide wider disaggregation of information
(2) Improve Aid Coordination and Project Cycle Management	(a) Resuscitate Public Sector Investment Database (PSID) (b) Implement Lesotho Partnership Policy (c) Identify and implement measures to improve resource mobilization (d) Improve absorptive capacity of development projects (e) Improve project planning and appraisal
(3) Strengthen National Planning and Coordination	(a) Improve National Planning System and resuscitate National Planning Cadre (b) Draft the National Planning Bill (c) Improve policy coordination (d) Develop coordination mechanisms between Government, and Non State Actors. (e) Develop national Non-State Actors policy (f) Improve capacity for planning
(4) Strengthen M&E national systems	(a) Develop the national M&E policy (b) Develop the National M&E system and institutionalize M&E. (c) Develop medium and long-term sector programmes with periodic reviews (d) Improve capacity for M&E

8.11 Regional Integration, International Relations and Cooperation

392. Lesotho is a member of a number of regional blocs, which include SACU, SADC and AU, which offer great opportunities for cooperation and trade. It is important to establish an appropriate institutional infrastructure and the capacity to participate effectively in the negotiations on regional integration and developing trade agreements with third parties as well as other international policy making processes, such as the WTO and the UN system. The opportunities offered by the other countries or political and economic configurations such as the EU, USA, Canada, China, India, Japan, and the Commonwealth should be tapped much more effectively. The policies and programmes adopted at the regional and international



levels need to be domesticated through adaptation and integration into national policies, plans and legislation. Lesotho has strong economic links with RSA as our only neighbour and the largest economy in the region. However, Lesotho has not adequately exploited the opportunities offered by this location. Approximately, 179,000 (PH Census 2016) Basotho of Lesotho origin live in South Africa and 55 percent is employed full time while 11 percent is engaged in casual labour activities.

393. While recognising that remittances make a major contribution to GNI, the skills of migrants could be deployed for the economic development of Lesotho. Since traditional sources of employment for Basotho in RSA, such as mining, are declining, it is desirable to negotiate new Labour agreements and enhance industrial integration. It is also important to work towards the creation of seamless borders between Lesotho and RSA to facilitate fluid movement and reduce transit times. Ways of reducing time and cost for application and processing of Visas for Lesotho citizens travelling abroad and for tourists coming to Lesotho should be explored. The cultural similarities and ties between Basotho and the larger Sotho community offer enormous opportunities for cultural cooperation in art, writing, films and tourism including religious tourism. There are also opportunities for regional cooperation over a number of natural resources and products, notably water and energy. Lesotho is a member of a number of multilateral organisations and has diplomatic relations across the world. Although it is important to maintain these relations, the need for embassies has to be reviewed and rationalized, whilst ensuring that our strategic objectives are met. In particular, the country needs to identify innovative ways to promote Lesotho as a Destination of Choice for Foreign Investment, Trade and Tourism. During NSDP II period, Lesotho will undertake the following strategies and actions:

Intermediate Outcome 4.10: Improved cooperation and relations between Lesotho and other nations

Strategic Objectives and Interventions

Strategic Objectives	Interventions/Actions
(1) Increase regional and global integration and cooperation	<ul style="list-style-type: none"> (a) Build capacity for negotiations and diplomacy (b) Establish mechanisms to ensure speedy implementation of projects and commitments under Joint Bilateral Commission of Cooperation (JBCC) framework(s) (c) Facilitate ease of international travel for nationals travelling abroad, and international visitors coming to Lesotho. (d) Develop a strategic cooperation framework that is forward looking and is in the interest of the nation
(2) Increase effectiveness and stakeholder participation in regional and international negotiations & policy forums	<ul style="list-style-type: none"> (a) Institutionalize mechanisms to increase participation of stakeholders in regional and international negotiations. (b) Raise awareness on international treaties and other instruments and ease their access by businesses, individuals and other stakeholders (c) Build capacity of non-state actors to participate in regional and international negotiations & policy forums
(3) Increase cost-effectiveness and efficiency in dealing with international affairs and cooperation	<ul style="list-style-type: none"> (a) Review the architecture of foreign missions, institutional capacity and coordination (b) Rationalise foreign mission to deal effectively with international affairs and cooperation (c) Appoint career diplomats in foreign missions (d) Identify new opportunities for cooperation and collaboration with other countries and develop cooperation agreements. (e) Improve information exchange between foreign missions, line ministries and business community



(4) Improve the national image and safeguard reputation of the country	(a) Develop national branding strategy (b) Develop frameworks for dual citizens Act of 2018
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8.12 Media and Accountability

394. The media industry is relatively large with some 18 weekly and fortnightly newspapers and a similar number of monthly, quarterly or irregularly published periodicals and magazines. There are also two state run radio stations and eight private stations, three of which are owned by churches. Radio is still the dominant platform for public debate. There are external media sources. However, all newspaper publishers and media outlets are in or close to Maseru. As a result, there is very little coverage of remoter rural areas and the main language of the press (but not of the radio stations) has switched from Sesotho to English, although many of the English papers also include a small Sesotho supplement in the centre pages. Lesotho Government Newspaper, Lesotho Today/Lentsoe la Basotho published tete-beche in English and Sesotho. Despite Lesotho being a Kingdom, there is no Court Circular showing the official calendar of the King, such as bills signed to indicate that they are finally enacted, ambassadors received and those commissioned, acts of clemency and amnesty, awards granted, and other official engagements. In this way the media could exploit better the image of Lesotho as a Kingdom. Furthermore, there are no good bookstores in strategic locations to buy basic Government periodicals, maps, publications and books in general. The key challenges include delays in adopting and subsequently implementing the media policy which would result in the establishment of the relevant institutional infrastructure and legal framework that would systematically address issues related to professionalism, ethics and conduct as well as improvement of media content and coverage.

Intermediate Outcome 4.11: Informed nation

Strategic objective and actions

Strategic Objectives	Interventions/Actions
Promote free and accurate information sharing	(a) Enhance capacity of the media sector (b) Facilitate the adoption and implementation of the media policy and review related laws and regulations (c) Ensure content that is accurate, objective, sensitive and responsible (d) Develop legal frameworks to govern social media (e) Review and update the media studies curriculum of local training institutions (f) Establish communication framework and procedures for media interaction with Government, and policy makers and other state actors to improve access to accurate information (g) Expand media coverage