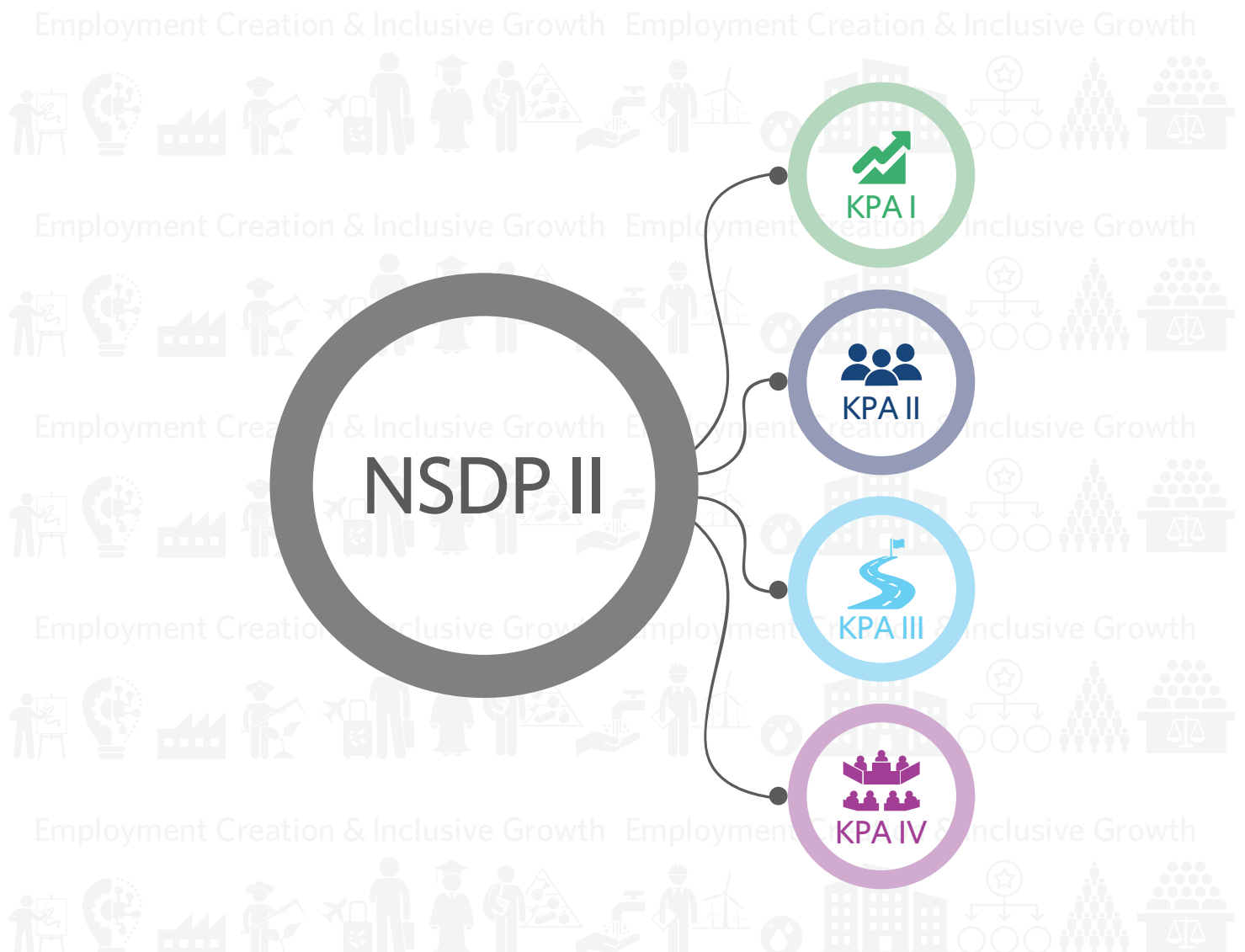




The Government of Lesotho

National Strategic Development Plan II

2018/19 to 2022/23



*In Pursuit of Economic and Institutional Transformation for
Private Sector-led Jobs and Inclusive Growth*



National Strategic Development Plan II

2018/19 to 2022/23



new photo

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Acronym List

AGOA	— African Growth and Opportunity Act
AIDS	— Acquired Immune Deficiency Syndrome
CBL	— Central Bank of Lesotho
CMA	— Common Monetary Area
FBB	— Fixed Broadband
FDI	— Foreign Direct Investment
GDP	— Gross Domestic Product
GNI	— Gross National Income
GoL	— Government of Lesotho
HIV	— Human Immunodeficiency Virus
ICT	— Information and Communication Technologies
IFMIS	— Integrated Financial Management Information System
IIAG	— Ibrahim Index of African Governance
KPA	— Key Priority Area
LEC	— Lesotho Electricity Corporation
LHDA	— Lesotho Highland Development Authority
LHWP II	— Lesotho Highlands Water Project Phase II
LNDC	— Lesotho National Development Corporation
LTE	— Long-Term Evolution Technology
M	— Maloti
Mbps	— Megabits Per Second
MIA	— Moshoeshoe I International Airport
MSM	— Maseru Securities Market
MTFF	— Medium-Term Fiscal Framework
MW	— Megawatts
M&E	— Monitoring and Evaluation
NISSA	— National Information System for Social Assistance
NSDP	— National Strategic Development Plan
SACU	— Southern African Customs Union
SADC	— Southern African Development Community
SDG	— Sustainable Development Goals
TB	— Treasury Bills
TVET	— Technical and Vocational Education and Training
UN	— United Nations



Message from His Majesty

The second National Strategic Development Plan (NSDP II) encapsulates foresight and a development path that Basotho choose to take to realize the development goals that they seek to achieve—employment, poverty eradication, shared prosperity, lasting peace and security, strengthened human capital base, and the protection of the fragile ecosystems and cultural heritage.

The plan has ambitious targets that, if achieved, will transform the development landscape in our favor and bring us closer to the realisation of the National Vision 2020 goals. I share the view that the real wealth of a country is its people. Basotho’s survival, resilience, and the level of economic progress we make depend on the corresponding will and effort we put as a people to make the historic change we want.

I have particular interest in seeing Lesotho make significant strides in relation to reducing poverty, hunger, malnutrition and elimination of stunting, and human capital development as they are intricately linked to productivity growth and development. I will use my positions as African Union Champion for Nutrition, Food and Agriculture Special Ambassador on nutrition and Human Capital Champion of the World Bank to advance human capital development in Lesotho, as well as across the continent and the globe to encourage governments to strengthen political will and promote best practices and investments to end the burden of malnutrition and advance human capital development.

I wish to call on the Government of Lesotho to lend their weight on addressing the critical issues that impede economic and human development in Lesotho and provide the necessary leadership to realise the development objectives set in this plan.

We must harness our compassion, peace-loving nature, and wisdom which are interwoven in the architecture of our culture to get the results and the future we want.

KHOTSO, PULA, NALA

His Majesty King Letsie III





Foreword

It is with great pleasure that the Government of Lesotho presents the second National Strategic Development Plan which is a blueprint for the transformation of Lesotho’s economy for job creation and inclusive growth. It builds on the achievements and lessons learned from the implementation of the first National Strategic Development Plan. This plan also serves as an implementation framework for the National Vision 2020, the Sustainable Development Goals, the African Union Agenda 2063, the Regional Indicative Strategic Development Plan of the Southern African Development Community, and other international policy instruments.

NSDP II represents the mandate given by our people. It articulates the hopes, opportunities, pressing concerns, and the preferred course of action to address them. I, therefore, have the responsibility with the Cabinet to lead and deliver on His Majesty’s call. I will champion various high-level platforms to provide necessary impetus towards the implementation of the plan and form strategic partnerships, facilitate constant dialogue, and find innovative delivery mechanisms with the private sector, development partners, labour, academia, youth, women groups, people with disabilities, and civil society organisations.

I will seek to consolidate efforts and deepen consciousness for an urgent need to accelerate economic growth and job creation as a quick and sustainable way to reduce poverty, whilst protecting vulnerable groups. We also need to defend democratic governance and stand for the protection of human rights, inclusion, peace and security, environmental protection, and build resilience to climate change.

I also wish to emphasise that collaboration and timely and decisive action between and across levels of government is important to ensure a coherent and integrated approach to deliver on the objectives and targets set in this plan. Achieving the planned results and leaving no one behind will ossify the trust in government and political institutions. We remain committed to adopting the necessary political, economic, and social reforms, whilst building resilience to shocks and operating in a complex and volatile external environment.

I, therefore, invite all sections of society to come together and work with the government that they elected to change the development landscape for the better.



KHOTSO, PULA, NALA

Dr. Motsoahae Thomas Thabane
THE RIGHT HONOURABLE PRIME MINISTER



Preface

The second 5-year National Strategic Development Plan 2018/19-2022/23—with the theme, “In pursuit of economic and institutional transformation for private sector-led job creation and inclusive growth”—is intended to communicate the need for change of mindset and cultivate the understanding that the key role of the government in accelerating economic growth is about investment facilitation. The government should ensure appropriate regulatory regimes and conducive investment climate, whilst leaving no one behind. Therefore, all the key public investments will be prioritised to support the lined up private sector investments in all the districts. The national budget will be in concert with this policy direction, to improve allocation efficiency and value for money. We have very little time remaining now towards the terminal year of our National Vision 2020 and, therefore, improved implementation of NSDP II is imperative.

NSDP II is organised into three parts and 12 chapters. Part I covers the development context, which provides the background on the political and socio-economic landscape, a demographic profile, and an analysis of national strengths, challenges, threats, and opportunities. Part II discusses the Medium-Term Fiscal Framework and the Growth and Employment Strategy. Part III is the strategic framework which defines the key objectives and strategies for the four key strategic goals that will lead towards the realisation of employment creation and inclusive growth. The key priority areas are: (i) pursuing inclusive and sustainable development, (ii) strengthening human capital, (iii) building enabling infrastructure, and (iv) strengthening national governance and accountability systems.

Our history shows that—even though Lesotho has a long history of national development planning—the implementation of plans has been weak or progress made is slower than anticipated. Therefore, special attention was given to this issue, thus, strategies and institutional innovations for addressing core implementation challenges are covered in Part III “Strategic Framework.” The implementation of NSDP II is also supported by the costed Public Sector Investment Plan with flagship projects and programmes, the Financing Strategy, and the Monitoring and Evaluation Framework to direct tracking of progress, assess sector and national performance, and ensure accountability.

On behalf of the Government of Lesotho and the Ministry of Development Planning, I wish to sincerely thank the NSDP II secretariat and sector technical working groups for their dedication and hard work in the production of this important policy instrument. A very special thanks also goes to all who provided input, including the voices of the communities who participated in the development of the plan. I would also like to express my appreciation to the technical and financial support provided by the World Bank and the United Nations family, as well as various development partners of Lesotho. In addition, I am deeply grateful for their commitment to align development support with NSDP II.

KHOTSO, PULA, NALA

Dr. Tlohelang Peter Aumane, MP
MINISTER OF DEVELOPMENT PLANNING

new photo coming
on Monday





Highlights

NSDP II Highlights

NSDP II aims to transform Lesotho from a consumer-based economy to a producer- and export-driven economy. It will serve as the blueprint for all development efforts over the next five years, and will implement the SDGs, the African Union Agenda 2063 Goals, and Vision 2020.

NSDP II emphasises private sector development and gives priority to pursuing people-centred development. This strategy re-enforces the Government of Lesotho’s commitment to directly engage citizens, empowering individuals and encouraging participation in the development process. Four key strategic goals, referred to as key priority areas (KPAs), are articulated to foster job creation and inclusive growth and further reduce poverty: KPA I: Enhancing Inclusive and Sustainable Economic Growth and Private Sector Job Creation; KPA II: Strengthening Human Capital; KPA III: Building Enabling Infrastructure; and KPA IV: Strengthening National Governance and Accountability Systems.

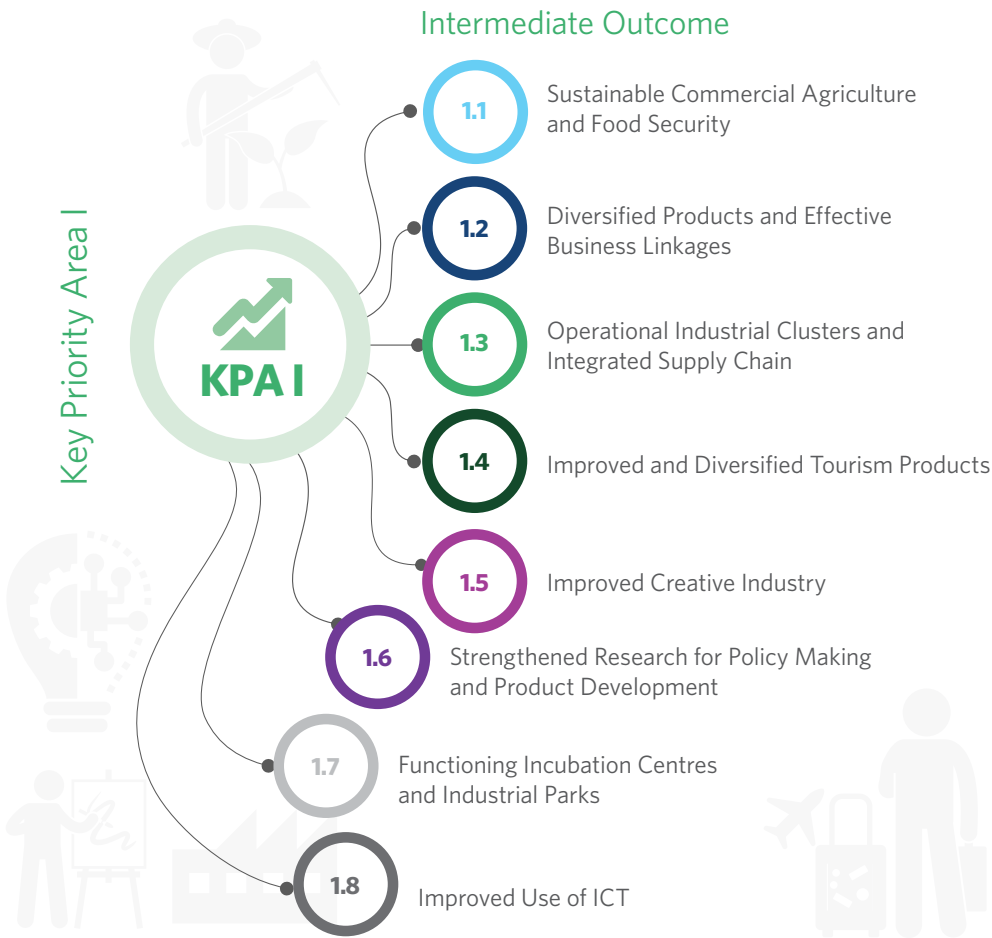
NSDP II underscores sustainable inclusive growth as the most effective route for poverty reduction. It sets out the jobs and growth strategy anchored on the four productive sectors—agriculture; manufacturing; tourism and creative industries; and technology and innovation.

NSDP II sets the growth and development strategy and provides strategic direction to all stakeholders. Resource allocations and budgeting decisions will be based upon this strategy, and outcomes will be integrated into the annual Medium-Term Expenditure Framework and NSDP II Public Sector Investment Plan and Annual Implementation Plan by all stakeholders. All national development programmes should be aligned with outcomes articulated in NSDP II.



KPA I: Enhancing Inclusive and Sustainable Economic Growth and Private Sector Job Creation

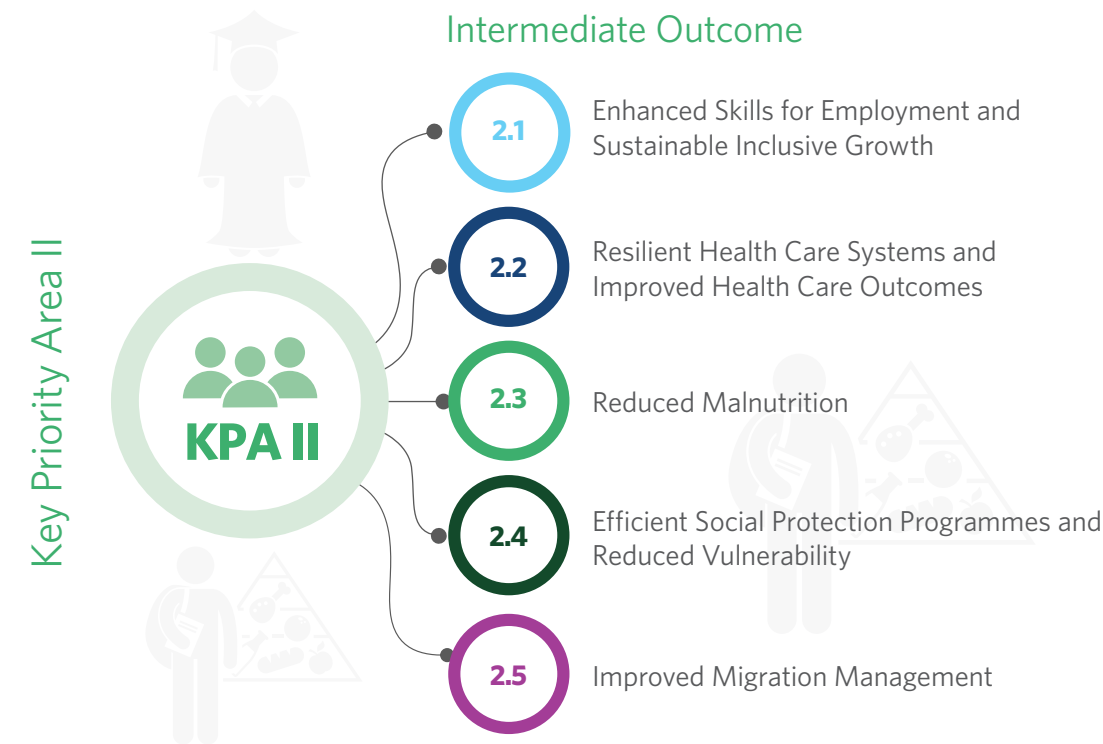
Promoting inclusive and sustainable economic growth and private sector-led job creation is paramount. NSDP II anchors jobs and inclusive economic growth on the four productive sectors: agriculture, manufacturing, tourism and creative industries, and technology and innovation. Public investment will be aimed at unlocking private sector investment opportunities in these sectors. NSDP II targets the creation of 49,319 jobs (23,096 jobs in the four productive sectors and 26,223 jobs in the rest of the economy), which is nearly 9,900 jobs created annually. This target will be achieved through gradual economic growth, from 0.4 percent realized in 2017/18 to about 5 percent to be realized in 2022/23. This growth target will reduce the number of people living below poverty line by 6 percentage points from 49.8 percent to 43.8 percent. It will increase household consumption from Maloti (M) 27,813 million to M38,210 million. It will increase real gross domestic product (GDP) from M34,820 million to M51,245 million by the end of NSDP II. If the 5 percent growth is maintained for the next 14 years, it would double the size of the Lesotho economy. NSDP II provides the framework for such a transformation and will serve as a foundation for long-term growth and development. Interventions under this KPA will also address the cross-cutting areas of environment and climate change, youth and children, and gender. Successful delivery of interventions under this KPA will result in the following outcomes:





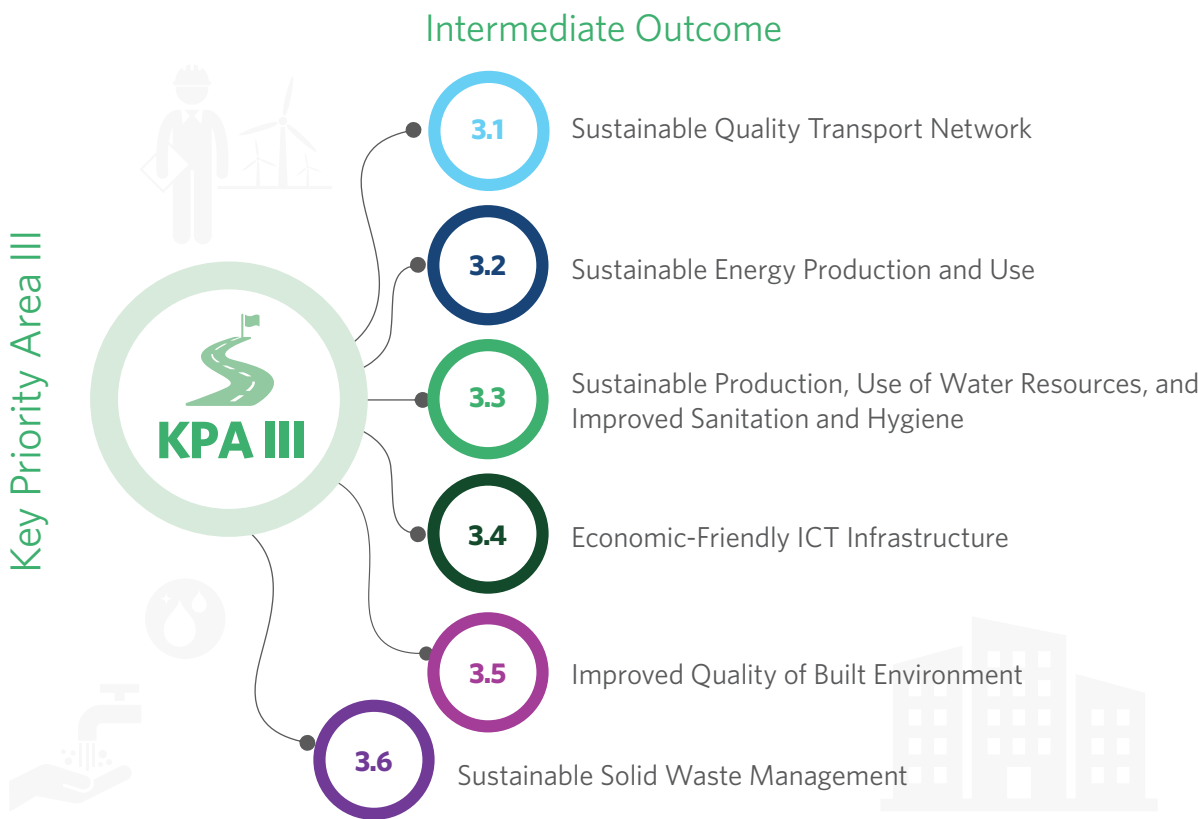
KPA II: Strengthening Human Capital

The Government of Lesotho (GoL) will build human capabilities through investment in health, nutrition, education, and skills development to support the productive sectors with the aim of job creation and inclusive economic growth. It will provide social protection to safeguard society against emerging vulnerabilities and other disasters. Specific targets under KPA II include: reducing HIV/AIDS prevalence by 5 percentage points from the current 25 percent of sexually active population to 22 percent by the end of NSDP II; reducing maternal mortality rates from 1024:1000 to 300:1000 ; reducing stunting levels from 33 percent to 28 percent; further increasing access to health services by 10 percent especially for rural households; increasing technical and vocational education and training (TVET) enrolments by at least 20 percent; introducing minimum of five short-term training programmes per year; and accrediting a minimum four programmes in higher education institutions per year. Interventions under this KPA will also address the cross-cutting areas of environment and climate change, youth and children, and gender. Successful delivery of interventions under this KPA will result in the following outcomes:



KPA III: Building Enabling Infrastructure

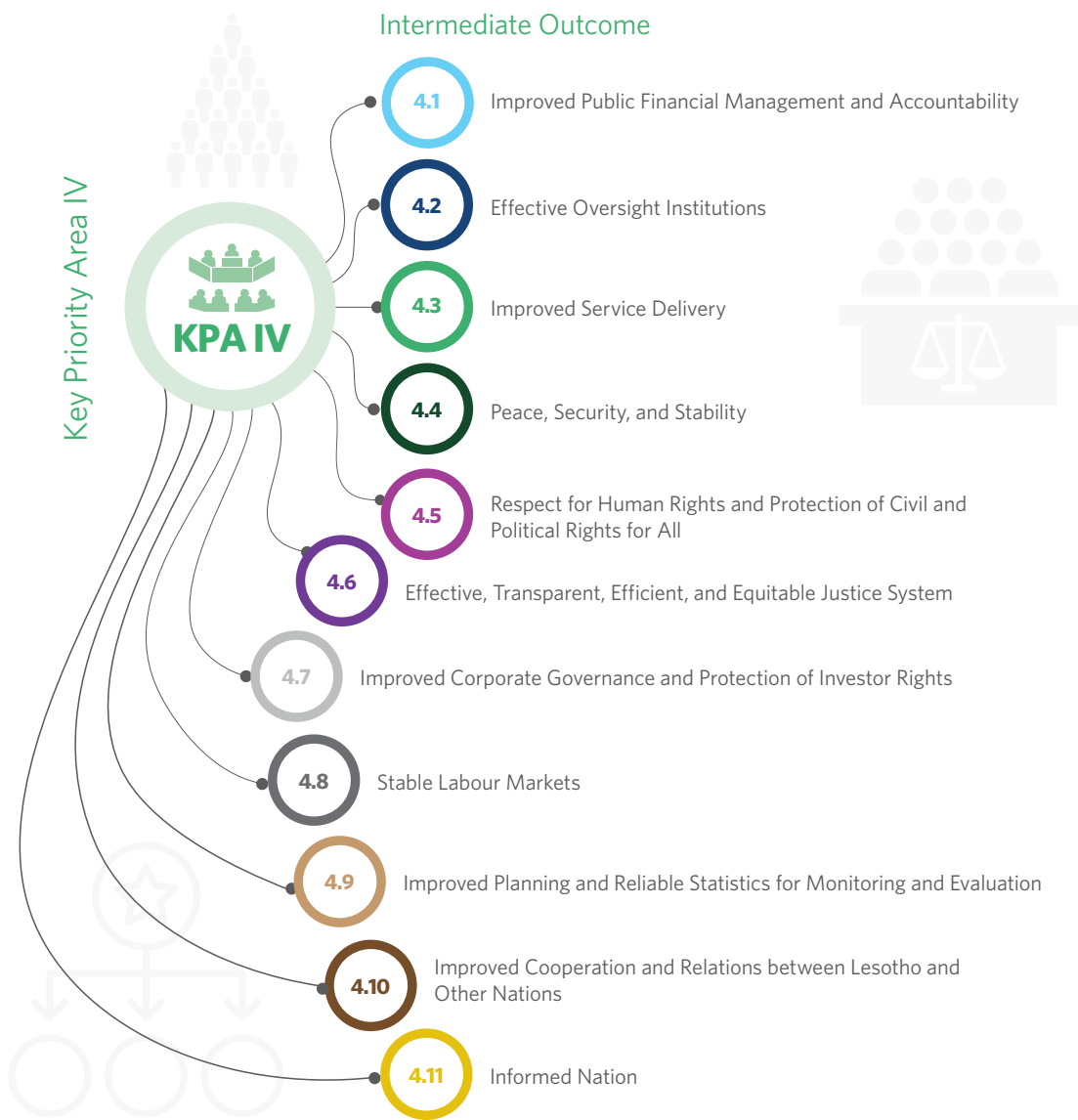
In order to achieve inclusive economic growth, the GoL has committed to provide a minimum infrastructure platform that will serve as an incentive for private sector agents to invest in the economy. Infrastructure is expected to affect growth at least through two classic channels of drivers of economic 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. Effective infrastructure will remain the backbone of the economy, as it will enable trade, empower businesses and industries, connect workers to their jobs, and connect communities to opportunities for employment, health care, and education. The GoL will commit more than M30 billion in infrastructure development that will support economic activities during NSDP II. More than M1.5 billion will directly support the four productive sectors to help facilitate and stimulate job creation. Interventions for this KPA will also address the cross-cutting areas of environment and climate change, youth and children, and gender. Successful delivery of interventions under this KPA will result in the following outcomes:





KPA IV: Strengthening National Governance and Accountability Systems

Good governance, rule of law, and credible leadership are critical elements in ensuring successful delivery of NSDP II. They provide a conducive environment for private investment and inclusive growth. Investors prefer locations with clearly defined property rights, low risk of property loss, and availability of public goods and services that efficiently and effectively support the private sector. The new growth path will strengthen national governance and accountability systems to ensure protection of private investment. It will also ensure that public sector reforms guarantee efficient and effective provision of public sector goods and services that support a market-led economy, while accelerating the economic and social transformation of Lesotho. Interventions for this KPA will also address the cross-cutting areas of environment and climate change, youth and children, and gender. Successful delivery of interventions under this KPA will result in the following outcomes:



Introduction

Key Lessons from NSDP I (2012/13 to 2016/17)

NSDP I implemented Vision 2020¹ between 2012/13 and 2016/17 with the strategic goals of: facilitating economic growth through employment; developing key infrastructure; enhancing skills and adopting new and innovative technology; improving public health, including combating HIV/AIDS and reducing vulnerability; reversing environmental degradation and climate change adaptation; and promoting peace and democratic governance, and building effective institutions. NSDP I was implemented through the alignment of plans and budgets of ministries, departments, and agencies, integrating relevant components into planning, budgeting, and monitoring and evaluation (M&E) systems across all sectors. Unfortunately, effective M&E processes were not built into NSDP I, contributing to weak implementation. In 2016, the GoL commissioned a strategic review of NSDP I to inform development of NSDP II. Key lessons from NSDP I formed the basis for NSDP II and the successes, challenges, and lessons learned are summarised.

Overarching Successes

- Emerging dynamism in Lesotho’s private sector;
- Broadening consensus on embarking upon public sector modernization;
- Effective interface between development partners and ministries;
- Incremental progress at ministerial level (e.g., social protection).

Challenges

- Chronic political uncertainty and politicization of civil service management;
- Institutional fragmentation and lack of coordination;
- NSDP I design flaws concerning poverty reduction and employment generation;
- Poor alignment between NSDP I priorities and spending patterns;
- Decrease in donor support;
- Ineffective M&E and insufficient implementation management.

Lessons Learned

NSDP II should focus on:

- Increasing employment creation and inclusive economic growth;
- Stimulating private sector growth;
- Reforming public service to ensure it both effectively supports the private sector and facilitates “people-centred” development;
- Establishing good governance and accountability systems.

¹ The first National Development Plan was developed in 1970/71 and covered a five-year period. This was followed by subsequent plans covering five-year intervals up to the sixth National Development Plan (1996/97-1998/99). From 2000/01 and 2010/11, the Poverty Reduction Strategy and the Interim National Development Framework served as the national development planning frameworks. The National Development Plan was resuscitated in 2012/13 leading to NSDP I.

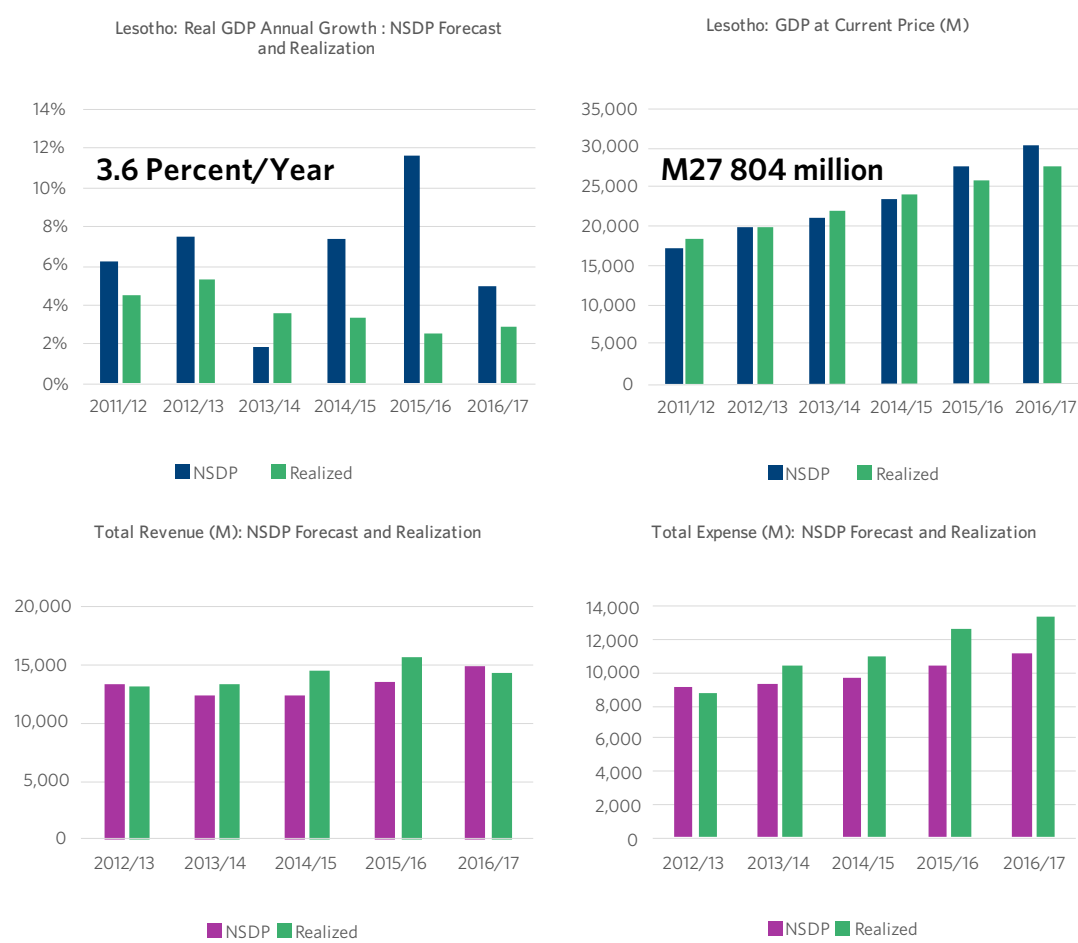


Macroeconomic Performance

Political uncertainty was a key hindrance in the successful implementation of NSDP I. NSDP I achieved economic growth of 3.6 percent per annum on average, and GDP at current prices grew from M19,783 million at the start to M27,804 million by end of implementation. This did not represent a significant difference between the nominal GDP forecasts and the realized forecasts (figure 1.1).

Real economic growth experienced a downward trajectory since NSDP I implementation started—from 5.3 percent per annum to 2.9 percent. Lack of a clear implementation plan, poor coordination, and limited dialogue between the GoL and partners were the primary causes. Successful outcomes did exist, though typically from ongoing programmes operating alongside NSDP I. The general lack of baseline and accumulated relative data made it difficult to ascertain progress.²

Figure 1.1: Key Indicator Forecasts and Realizations for NSDP I, 2011/12- 2016/17

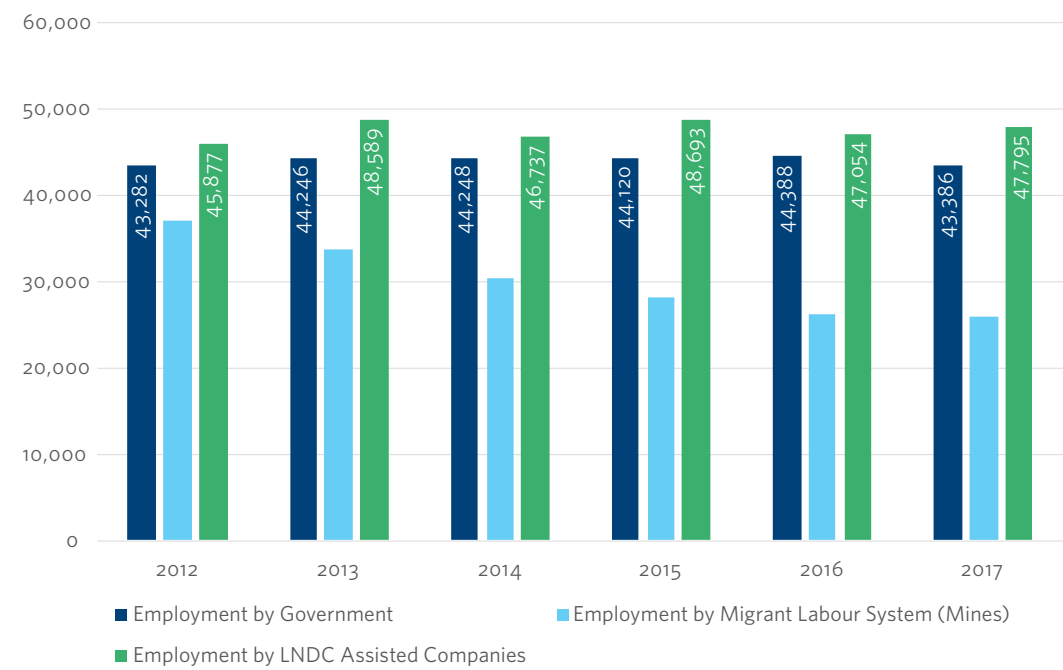


2 Refer to NSDP Implementation Progress Report. The lack of data is noted in the report. The dearth of current statistical information related to charts and graphs further indicates lack of data.



Real economic growth increased by an average of 3.6 percent per year over the past five years. Figure 1.2 indicates that employment by Lesotho National Development Corporation (LNDC)-assisted companies stagnated at around 48,000 during the plan period with a slight decline in some years, and by end of the period it stood at 47,795. GoL employment fluctuated between 43,282 and 43,386. The wage bill continued rising due to inflation adjustments and the salary structure review implemented in 2014. The migrant labour employment declined further with falling remittances during the NSDP I period.

Figure 1.2: Employment by GoL, LNDC-Assisted Companies, and Migrant Labour System, 2012/13-2016/17



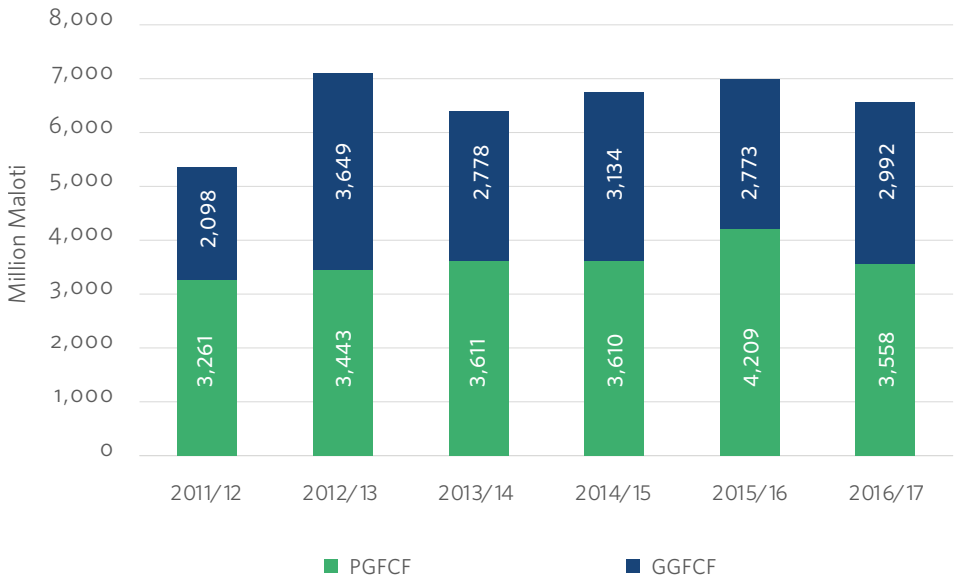
Household income increased by 2.8 percent on average per year. This led to a reduction in poverty from 57.1 percent to 49.8 percent. The poverty gap similarly declined from 30 percent to 22.1 percent between 2010/11 and 2016/17. Inequality, as measured by the Gini coefficient, although remains high at 0.45 in 2016/17, declined from 0.53 observed in 2010/11. However, poverty in rural areas remains virtually unchanged. Significant growth and jobs are still needed to address poverty. The improvement in poverty levels and inequality are a result of significant investments in the social sectors that the government, with support of development partners, has made and is continuing to make. Better targeted interventions will have greater impacts on reducing poverty.

Public sector employment rose from 43,282 to 43,386 and employment in the private sector only increased from 45,877 to 47,795. Despite economic growth and macro stability achieved in the first three years of NSDP I, overall unemployment may have risen to a high (25 percent) with unemployment of youth over 36 percent.

Projects implemented under the public sector were driven by social considerations. Private sector investment declined from 3,649 million in 2012/13 to 2,992 million in 2016/17, potentially resulting in fewer jobs created.



Figure 1.3: Private Investment and Public Investment, 2011/12-2016/17



Note: Excludes Lesotho Highland Development Authority investments.

Major Public Sector Investment Projects

The three major capital investment projects implemented during NSDP I include:

- Metolong Dam and Water Supply Programme worth M1,761 million (US\$157.2 million);³
- Millennium Challenge Corporation-supported programme worth M4,011million (US\$358 million) that included construction of health care centres, land administration reforms, civil and legal reforms to support private sector development, and support to water infrastructure;
- Construction and upgrading of more than 300km of access roads to bitumen standards worth M14, 521 million (US\$1,296.1 million).

While the rate of capital budget utilization improved from 2010/11 to 2016/17, as evidenced by more 80 percent of budget outturn at aggregate (combining all funding sources of GoL, grants and loans), the higher rate of utilization does not necessarily imply a more efficient and effective project cycle management. The high outcome in outturn often results from last-minute disbursements at the end of a fiscal year. This may indicate spending on non-capital expenditure items or rushing capital projects without following protocol. As such, capital resources may have not been spent in accordance with the intended purposes (table 1.1). This is a challenge that will be addressed during NSDP II implementation.

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



Table 1.1: Capital Budget and Outturn (Million Maloti), 2010/11-2016/17

	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: Medium-Term Fiscal Framework and World Bank (2018).

Strategic Direction Over the Next Five Years

NSDP II aims to transform Lesotho from a consumer-based economy to a producer- and export-driven economy. NSDP II will become the blueprint for all development efforts for the next five years. It will implement the SDGs, the African Union Agenda 2063 goals, and Vision 2020, as reflected in figure 1.4. Root causes of underdevelopment have been identified and risks will be mitigated to help transition Lesotho off of the list of least developed countries.

An emphasis is placed on private sector development, giving priority to pursuing people-centred development. This strategy re-enforces the GoL’s commitment to directly engage citizens of Lesotho, empowering individuals and encouraging participation in the development process. Four strategic goals are articulated to foster inclusive growth and further reduce poverty (figure 1.4).

NSDP II goals will only be achieved if the economy is supported by macroeconomic stability—a pre-condition for economic growth and private sector development. NSDP II emphasizes sustainable inclusive growth as the most effective route for poverty reduction. It sets out the growth strategy focused on four sectors (agriculture; manufacturing; tourism and creative industries; and technology and innovation) with the greatest potential for:

- Creating jobs;
- Facilitating inclusive economic growth;
- Realizing comparative advantages;
- Impacting multiple sectors through a multiplier effect.

NSDP II sets the growth and development strategy for Lesotho and provides strategic direction to all stakeholders pursuing Lesotho’s development aspirations. Resource allocation and budgeting decisions will be based upon this



Figure 1.4: NSDP II Goals



strategy, and outcomes will be integrated into the GoL's annual Medium-Term Fiscal Framework (MTFF) and NSDP II Public Sector Investment Plan and Implementation Plan which form part of NSDP II companion documents. All national development programmes by stakeholders should be aligned with outcomes articulated in NSDP II.

NSDP II is informed by key challenges impacting Lesotho's development over the past decades, as well as global mega trends including geopolitics and the world disorder; geo-economic shifts, emerging trade protectionism and new trade order; trade in the digital era; climate change; resurgence of populism; and accelerating technological innovations including robotics.

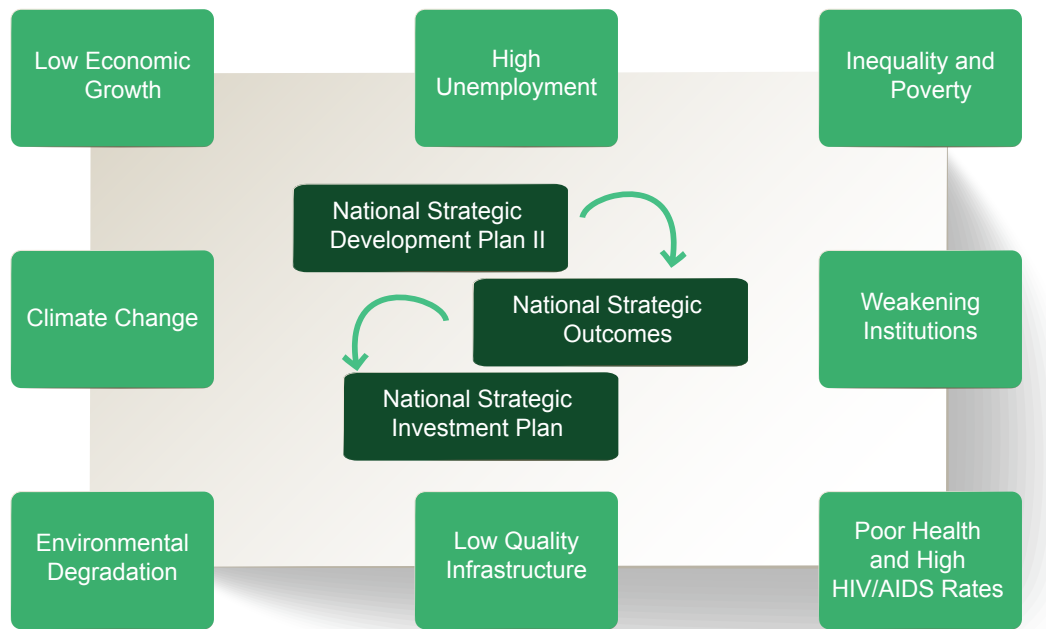
Inclusive economic growth is only attained if sustainable jobs are created. NSDP II targets the creation of 49,319 jobs (23,096 jobs in the four productive sectors and 26,223 jobs in other sectors), which is 9,864 jobs annually. This employment target will be achieved if the economy grows gradually from the current low growth position (0.4 percent) to about 5 percent in 2022/23. This growth target is the minimum required to sustain poverty reduction and achieve NSDP II objectives. If the 5 percent growth can be sustained for 14 years after the end of NSDP II, it would double the size of the economy. NSDP II provides the framework for such a transformation and will serve as a foundation for long-term growth and development.

Substantial increases in investment from the current 28.1 percent to at least 50.3 percent will be required to meet the target level of employment and economic growth. NSDP II recognizes the importance of the private sector, and the GoL will support private sector growth. NSDP II proposes strategies under investment climate reforms and



other reforms to create a conducive environment that is supportive and conducive for inclusive economic growth. Reforms currently underway (e.g., political and constitutional, public sector, judiciary sector, parliamentary security, and socio-economic reforms) will support NSDP II in employment creation and inclusive growth. An increasingly efficient and effective public sector will remain essential in supporting private sector growth.

Figure 1.5: Contextual Environment of NSDP II





Part I: Development Context





1: Background

By the Numbers

- **Land Size:**
30,355 km²
- **Population (2016):**
2,008,801
Rate of growth: 0.68
Males: 49%
Females: 51%
Density: 66 people per km²
349.8 people per km² on arable land
- **Regions:**
Senqu River Valley, Lowlands, Highlands, and Foothills
- **Administration:**
10 districts
80 constituencies
129 local community councils
- **Altitude:**
Lowest point 1,400 metres above sea level; 80 percent lies above 1,800 metres
- **Climate:**
Rainy summers (between October and April) and dry winters (between May and September) with significant snowfall
- **Natural Disasters:**
Periodic droughts and flooding
- **Natural Resources:**
Water and diamonds, followed by coal and clay deposits

Lesotho is a landlocked nation surrounded by South Africa (figure 1.6). It has shown continued growth since gaining independence in 1966. Lesotho suffered greatly during the height of the HIV/AIDS epidemic, but from 2006 onward 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 is largely attributed to the significant scaling-up of antiretroviral therapy and prevention of mother-to-child transmission services country-wide.

The majority of the population (58 percent) is concentrated in rural areas and are dependent on subsistence farming for survival. Recurrent droughts have impacted agricultural productivity, 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 in rural areas. The four largest districts (i.e., Maseru, Leribe, Berea, and Mafeteng) hold 65 percent of Lesotho’s population, which must be recognized during allocation and decentralization of resources.

Figure 1.6: Lesotho’s Geographic Location



1.1 Political Context

Lesotho is constitutional monarchy, with a mixed proportional parliamentary system that consists of a senate and a national assembly. The king is the head of state and the democratically elected prime minister is the head of the government and has executive authority. The country has held regular democratic elections since independence with varying degrees of success. In recent years, Lesotho has experienced political instability emanating from fractious coalition governments. This has disrupted 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 two years in power. The culmination of events subsequently led to 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, including the All Basotho Convention with 48 seats, the Alliance of Democrats with 10 seats, the Basotho National Party with five seats, and the Reformed Congress of Lesotho with one seat. Propensity for instability of coalition governments remains a potential threat to NSDP II implementation. However, Lesotho is moving forward with constitutional reforms that, if endorsed by all key stakeholders, will help stabilize Lesotho, reducing uncertainty that deters investors. Prior to 2012, Lesotho enjoyed a stable political environment for two decades, with stability anchored on the rule of law, respect for human rights, and effective institutions.

The review of NSDP I revealed that one of the key factors that led to the sub-optimal implementation of NSDP I was chronic political uncertainty and the politicization of civil service management. Therefore, a strong political consensus is essential to enact reforms needed to promote political stability and lay the foundation for broad-based growth and poverty reduction. NSDP II was developed alongside the preparation for constitutional and security sector reforms—which are critical in building a firm foundation for political and economic stability. These reforms will help to ensure that successive governments maintain policy continuity and sustain the economic reform agenda to preserve the country’s focus towards long-term strategic goals.

1.2 Social Structure

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 community.⁴ 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 which, at times, undermines gender and social equality, as well as livelihoods of, and economic opportunities for, groups affected by discriminatory customary laws. Substantial progress has been made in the review of legal instruments and implementation of reforms that provide for equal opportunities for men and women. In 2016, the Global Gender Gap Report ranked Lesotho 57 out of 144 countries on gender inequality. However, female representation in key decision-making roles (e.g., politics) is lacking. NSDP II will pursue gender-sensitive strategic interventions as outlined in the strategic framework. Programmes and projects will specifically target female participation, and build their leadership skills for social, economic, and

4 Lesotho Millennium Development Agency. (2014). Compact Foundation Studies.





political development. The GoL will ensure that gender is mainstreamed in public policy. Through the NSDP I, several strategies were implemented to promote and mainstream gender, and these will be further developed in NSDP II.

1.3 Economic Structure

Lesotho’s economic development has been shaped largely by its unique geography. 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, 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)⁵ through which Lesotho’s currency is fixed at par with the South African Rand. This has resulted in Lesotho losing its monetary policy independence, and its real effective exchange rate being closely tied to the commodity cycles, especially metal exports from South Africa. Exchange rates and monetary policy cycles driven entirely by the South Africa Monetary Policy and Exchange Rate Policy impact Lesotho’s economy. Lesotho is unable to use demand management policies to its advantage.

Lesotho’s membership in Southern African Customs Union (SACU)⁶ has largely determined Lesotho’s fiscal policy operations since a large portion of the country’s expenditure is financed through SACU tariff revenue. Reliance on SACU tariff revenue has made trade liberalization difficult, as Lesotho cannot make a unilateral decision on trade liberalization.

Given the macroeconomic policy constraints, Lesotho can only overcome poverty and unemployment by transitioning to a highly efficient economy, competing with others in the region. For example, if it takes 40 days to get a trading license in South Africa, it should take less than five days to get one in Lesotho. If it takes 10 processes and procedures to obtain a work permit in South Africa, it should take less than two processes and procedures (and lower costs) to obtain a work permit in Lesotho. At the same time, the country must maintain political stability, and effectively apply technology and innovation to meet societal needs to ensure a successful transition to a more developed economy.

Over the past 30 years the structure of Lesotho’s economy has changed significantly from one dominated by agriculture, 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 (figure 1.7). The sector remains critical for supporting the livelihoods of those living in rural areas, with more than 70 percent of households dependent on subsistence farming.

Manufacturing of textiles and apparel became a dominant sector in the 1990s, driving growth and employment. Its contribution to GDP increased from 8.2 percent in 1984 to 23 percent in 2014. The expansion in the textile and apparel industry was boosted by the African Growth and Opportunity Act (AGOA) in 2000, which entitled Lesotho (and 40 other Sub-Saharan Africa countries) to duty- and quota-free access to the United States market. 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 United States 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. The service sector

5 Other members of CMA include South Africa, Eswatini, and Namibia.
6 Other members of SACU include South Africa, Eswatini, Namibia, and Botswana.

Figure 1.7: Decomposition of Growth by Sector, 2003/17

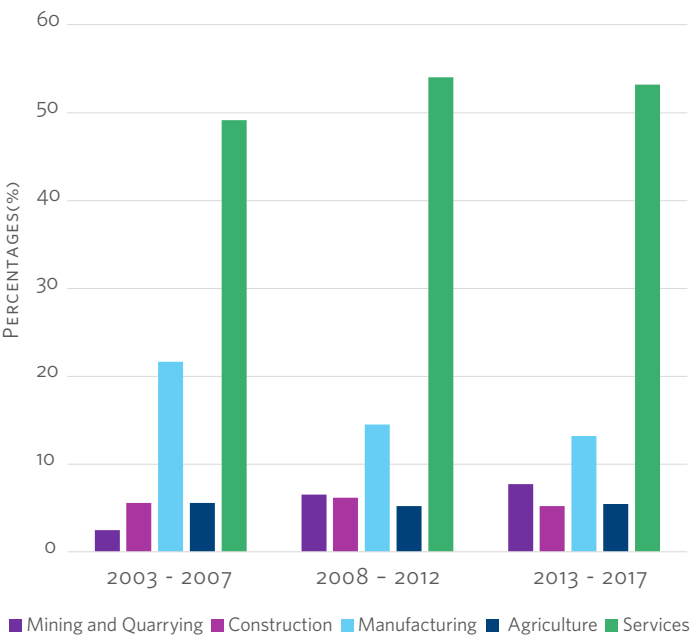
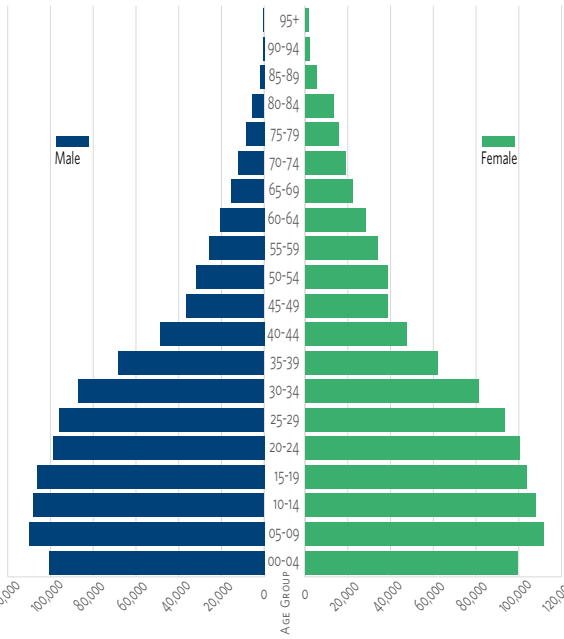


Figure 1. 8: Lesotho Population Pyramid, 2016

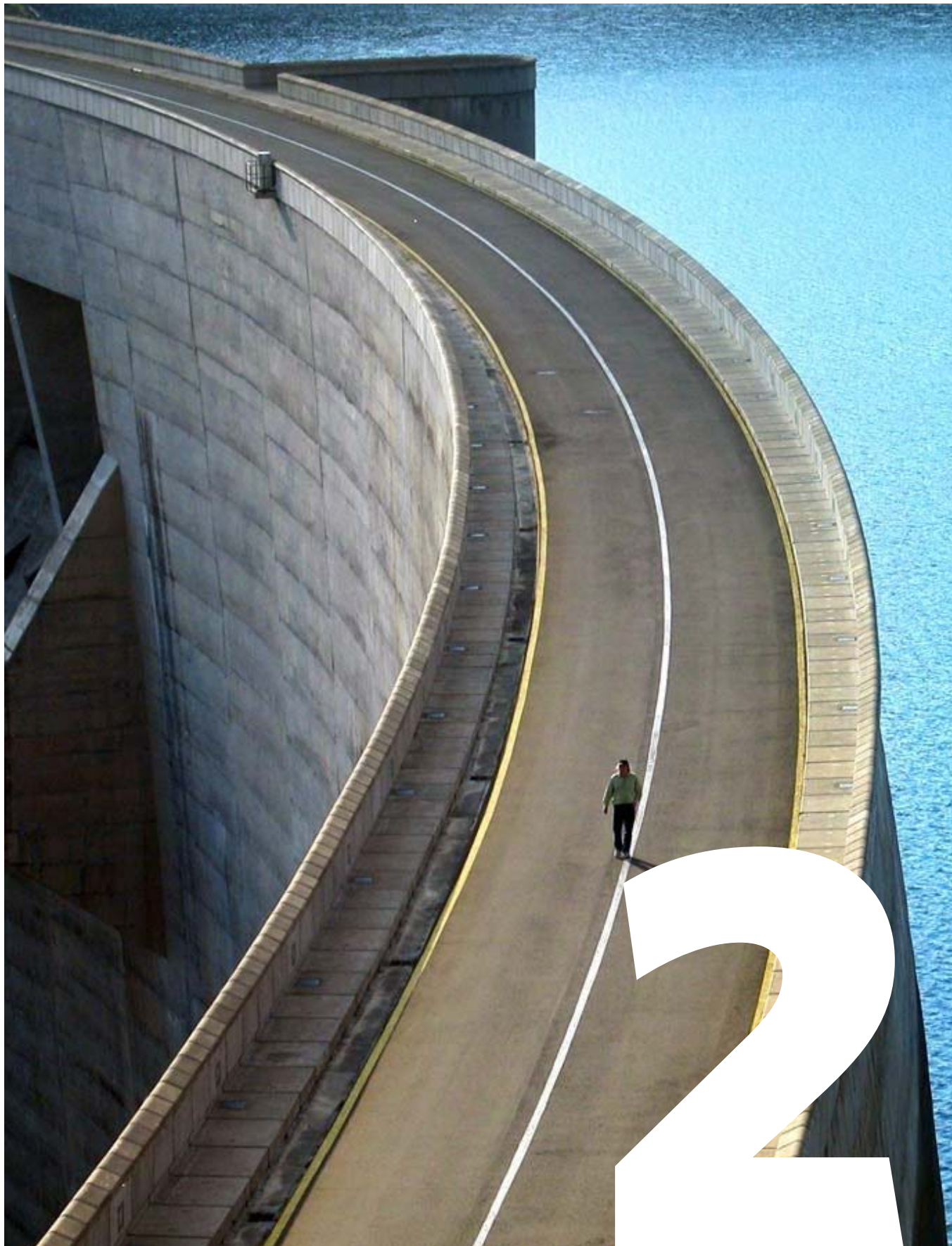


Source: Bureau of Statistics, Population and Housing Census (2016).

has also played an increasingly important role in Lesotho’s growth, and this trend is expected to continue during implementation of NSDP II.

1.4 Demographic Profile

Lesotho’s youth comprise 39.6 percent of the total population while the elderly (aged 65 years and above) comprise only 6.1 percent (figure 1.8). This youth bulge presents unique challenge and opportunities discussed in Chapter 11, including tremendous potential for producing educated generations to substantially contribute to Lesotho’s development. Other key segments of the population are the elderly and disabled. The 2016 census estimates that 2.5 percent of the population live with 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. This represents an increasing need for social protection services and safety nets to care for vulnerable members and uphold Lesotho’s commitment to the United Nations Post-2015 Development Agenda of “leaving no one behind.” For every 100 people in the productive age group (15 to 64 years), there are 60 people who are depending on them. In addition, the majority of dependents are under 15 years, so while the working population has been shrinking over years, the number of dependents has been rising (between 2006 and 2016). Challenges and strategies to further enhance social protection are discussed in Chapter 8, however, it is important to note that progress towards mainstreaming disability has been slow.



2: Challenges, Threats & Opportunities

2.1 Challenges & Threats

2.1.1 Development Challenges

Slow Economic Growth

Real GDP is estimated to have grown at an average rate of 4 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 the past four decades, 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 contribution is 5.2 percent, but remains an important sector supporting lives of more than 70 percent of total rural population. The manufacturing sector, on the other hand, 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 United States market from Asian producers and has subsequently declined in export volumes. This decline has seen manufacturing's contribution to GDP fall from about 23 percent in 2004 to 10 percent in 2016.

Persistent Poverty & Growing Inequality

The Bureau of Statistics 2017 Household Budget Survey results indicate that poverty levels and inequality have declined in recent years. Poverty has reduced from 57.1 percent to 49.8 percent of the population living below the national poverty line between 2010/11 and 2017/18. The poverty gap is estimated at about 22.1 percent which is a decline from 30 percent in 2010/11. However, significant growth and jobs are still critical in alleviating poverty. About 61 percent of the rural population remains poor, while only 28.4 percent of the poor live in urban areas. Inequality, as measured by the Gini coefficient, remains high at 0.45 in 2017/18, but has declined from 0.53 in 2010/11. Social sector investment from the GoL, with support of development partners, is a critical driver in this shift.

Unemployment

Lesotho continues to experience high rates of unemployment, estimated at 32.8 percent according to the Bureau of Statistics 2017 Survey. Unemployment incidence is higher for females and youth, estimated at 39.7 percent and 32.3 percent, respectively, compared to males at 26.2 percent. The majority of the working population (38.4 percent) is engaged in occupations which consist of simple and routine tasks that require the use of hand-held tools and physical effort. Lesotho has not yet been effective in creating jobs in more productive and higher paying areas. Limited private sector job opportunities placed the public sector under pressure to provide employment, which bloated the public sector and public expenditure, crowding out private investment.

High unemployment rates, chronic poverty, and rising inequality are unusual for an economy which has experienced an average growth rate of 4 percent per year for the past decade, until 2012/13 when the economy slowed down to a growth rate of 2.5 percent. The failure of economic growth to translate into poverty reduction and employment



calls for revisiting the growth and development model. NSDP II will require adopting integrated measures that deepen the inclusiveness of growth and improve the targeting and efficiency of the social safety net.

Human Development

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. Lesotho ranks lower than all other SACU countries on human development. Although the 2016 Population and Housing Census indicates some improvement on Lesotho’s life expectancy to 56 years, mortality and morbidity remain critical challenges in the country (table 2.1). Since 2005, HIV/AIDS, tuberculosis, and lower respiratory infections are the three biggest causes 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: Bureau of Statistics (2016).
Note: *Population and Housing Census estimates. (2016).

HIV/AIDS & Morbidity and Mortality

Lesotho’s HIV/AIDS prevalence rate hovers around 24 percent. It has the third highest prevalence rate globally. Interventions are underway to halt the spread, including scaling-up prevention of mother-to-child transmission activities. In addition, pregnant and lactating mothers, HIV/tuberculosis co-infected clients, and malnourished under-5 children are being provided with food supplements. The GoL has also launched the “test and treat” campaign. Every infected person should get treatment regardless of their CD4 count. The Child Grant Programme is an example of a successful intervention which has reached at least 25,000 households and provided benefits for more than 70,000 children across 10 districts. However, significant challenges still remain in the health sector and are discussed in Chapter 8.

Malnutrition & Food Insecurity

Lesotho is experiencing a triple burden of malnutrition—under-nutrition, over-nutrition, and micronutrient deficiency across all age groups. Under-nutrition is characterized by wasting, stunting, and being underweight. Low birth weight also remains a critical challenge. Food insecurity and malnutrition remain chronic challenges and are key obstacles to Lesotho’s development agenda.⁷ The Lesotho Demographic and Health Survey 2014 indicates that one-third of under-5 children are stunted. However, the prevalence of stunting, wasting, and being underweight have all declined over the past decade. These improvements suggest that food security at the household level is improving due to targeted interventions such as the Blanket Feeding Strategy and comprehensive training for pregnant and lactating mothers on proper nutrition for child feeding.

7 This challenge remains a concern since the cognitive abilities of undernourished children are impaired, leading to lower academic performance and possibly difficulties acquiring employable skills.



An estimated 39 percent of households remain vulnerable to food insecurity, despite implementation of agricultural support programmes including input subsidy and crop sharing schemes supported by the GoL. Food insecurity affects nearly 70 percent of the population in rural areas who depend on subsistence farming. Food security is exacerbated by low productivity in agriculture and the absence of other economic opportunities. Poor agricultural productivity is a result of low adaptation of high-yielding technologies, poor adaptation to climate change, and land loss due to erosion.

Low Quality of Education, Skills Mismatch & Shortage of Critical Skills

Lesotho has strong literacy rates—97 percent of women and 85 percent of men aged 15-49 are literate, though only half of women and 40 percent of men attended some secondary school, and only 9 percent of women and 8 percent of men have more than secondary education. In addition to education, other significant challenges include efficiency and effectiveness of public spending in education, skills mismatch, shortage of critical skills (e.g., entrepreneurship, medicine, engineering, and management).

Expenditure on education as a percentage of GDP is the highest in Sub-Saharan Africa. 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 3,296 registered in 2012, 3,303 in 2013, and 4,223 in 2014.⁸ Unlike primary and secondary schools, TVET institutions are only in seven districts with most students in Maseru (45 percent), Leribe (20 percent), and Mophale’s Hoek (18 percent).⁹ This bias has implied that learners in other districts who could enroll 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. In tertiary education, the relevance of curricula, 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.

These challenges are worsened by gender stereotypes, social norms, and practices. Although Lesotho continues to perform better than many 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 private sectors. In order to keep momentum on gender equality and achieve inclusive development, Lesotho must 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 economic opportunities.

Low Competitiveness

Lesotho’s international competitiveness ranking is relatively low in comparison to SACU countries, but with successful implementation of reforms during NSDP II, Lesotho will likely move to the top-ranked country for Ease of Doing Business in SACU and CMA (table 2.2). Lesotho’s economy is highly dependent on trade, making it particularly vulnerable to international and regional shocks. To reduce this vulnerability, Lesotho must diversify into new economic activities and remain competitive on the ease of doing business in the region. This will require

8 Education Statistics Bulletin. (2014: 52).
9 Education Statistics Bulletin. (2014: 54).



Table 2.2. International Competitiveness of Lesotho and Other SACU Countries, 2017/18

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

strong transformational leadership and strategic governance to encourage the discovery of new sectors and the establishment of new industries. Lesotho’s international competitiveness is of critical importance for inclusive growth.

It is important to note that production costs might be higher for small landlocked economies due to importation of raw materials and other inputs into production processes, so the costs of doing business must be reduced in other areas, notably the business environment. The GoL should work to create a business environment that is superior to those of its larger peers.

2.1.2 Structural Challenges

The GoL is the main driver of economic activity through high levels of public spending estimated at around 60 percent of GDP. The large public sector leaves little room for the private sector (which accounts for only 14.6 of GDP¹⁰) resulting in limited private sector job opportunities. This has exacerbated poverty and inequality. As a result, the public sector has become the de facto employer resulting in a bloated public sector, leaving limited fiscal space for government to pursue other development objectives. Government expenditure is also 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 job creation.

Lesotho has the opportunity to utilize external private capital to meet the development-finance gap by tapping into private companies with interest in economic activities (e.g., infrastructure). This will require the GoL to remove impediments to private sector investment, ranging from development of policy frameworks (e.g., public private partnership frameworks) to reforming weak technical and institutional capacity.

10 Molapo. (2016).

2.1.3 Threats

Global Threats

Shifting Geo-Political Power

A new global economy is emerging defined by complex and continually shifting economic relationships. As this shift takes place, new key players emerge, and policies are reimagined. The effectiveness of multilateral trade agreements is deteriorating, and regional agreements are becoming increasingly popular.

This transition has created new risks and uncertainties, military tension, and economic and commercial disruptions. Lesotho will likely be affected by the shifting geopolitical power through interdependence and interconnectedness in trade in capital and goods.

Lesotho’s economic position should be reevaluated as it enjoys close ties to both the United States and China. For instance, the country currently depends on the United States for international aid (HIV/AIDS control assistance and promotion of economic development through African Growth and Opportunity, Millennium Challenge Account, U.S. President’s Emergency Plan for AIDS Relief), and on China for infrastructure and education exchange programmes. It is critical that Lesotho critically assesses the situation and makes relevant international relations and foreign policy adjustments as needed.

Increasing Global Competition in Trade and Investment & Rising Levels of Protectionism

Lesotho aspires to amplify its production base, diversify products and markets, and increase export shares in the global trading system through several bilateral and multilateral agreements. However, the shifting landscape of increased competition and the rise of protectionism pose serious threats.

Although Lesotho’s membership of other multilateral organizations and its diplomatic relations across the world will continue to offer opportunities for foreign investment and trade, including duty-free access for its goods to major world markets, there are still challenges. Bilateral and multilateral negotiations are led by people with limited expertise to negotiate and promote Lesotho’s interests. This is compounded by inconsistency of negotiating delegations; lack of well-documented information on the country’s needs and offers from different trade agreement negotiations; and limited coordination and engagement between delegation members and other in-country stakeholders especially the private sector. It is critical for the GoL to establish an appropriate institutional infrastructure and capacity to participate effectively in the negotiations on regional integration, and to develop trade agreements with third parties and other international policy making processes, such as the World Trade Organization and the UN system. Private sector and non-state actor engagement will remain critical at all levels of trade negotiations.

Domestic Threats

Uncertainty from Frequent Political Regime Changes

Lesotho has experienced political regime changes in recent years as a result of unstable coalition administrations. Unstable coalition governments remain a threat to policy stability and economic development. According to a review of the NSDP I, political uncertainty and politicization of civil service management were key factors that led to sub-optimal implementation of NSDP I. Political uncertainty has negative effects on private investment, families,



and communities. Anecdotal evidence show that political uncertainty (and possible instability) and conflicts largely affect women and children and increases their vulnerability to violence. The political uncertainty affects investor confidence negatively and slows economic development, as experienced since 2014. A strong political consensus is essential to make reforms needed to promote stability and build a foundation for broad-based growth and poverty reduction.

▪ **Deteriorating Land Quality & Increasing Environmental Degradation**

Land quality is deteriorating and this is caused by excessive or inappropriate human exploitation and climate change. High environmental degradation 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. Lesotho has also lost vast amounts of land due to the fast-paced encroachment of settlements onto arable lands. This is attributed to poor implementation of land appropriation policies and legislation and lack of enforcement. As a result, the country has experienced low production in agriculture. The declining land quality and land encroachment remain critical threats to food security and general development of the nation.

In addition, the country continues to experience land pollution due to inadequate and ineffective waste management measures and poor compliance. 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 commercial centres and urban areas across the country. In addition, the influx of second-hand imported vehicles is another source of pollution. These vehicles emit hazardous gases into the atmosphere and their disposal on land cause further pollution. Lesotho has no clear laws and policies for management of scrap car disposals. 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**

Lesotho experiences extreme weather conditions characterized by recurrent droughts, heavy rain falls, and floods, strong winds, early/late frosts, hail, snowstorms, 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. These hinder sustainability of agriculture and land productivity, water resources, health, and human development. Lesotho is facing severe consequences of climate change. The occurrence of extreme weather conditions requires Lesotho to use already scarce financial (and other) resources for relief efforts instead of financing interventions for economic growth and employment.

▪ **Internal Migration & Urbanization**

In recent times, Lesotho has experienced rural-urban migration—primarily women—due to shifting occupational choices as the textile and garment industry gained momentum. The 2016 census indicated that over 90 percent of the population had moved from their districts of birth. It is anticipated that, if the four productive sectors job creation strategies are successful, the country will experience further rural-urban migration. Lesotho must develop a clear strategy for rural development and urbanization to manage anticipated migration. The 2016 census has further indicated that 179,579 household members are currently out of the country which represents 8.1 percent of the total population, with 124,386 in South Africa, and others in the rest of Africa and the United Kingdom. Out-migration should not be viewed as a pressing challenge as diaspora brings back skills and remittances. A small



Most households in Lesotho practice 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, farmers seldom produce enough food to meet household food requirements, even in good years.

Farming households are experiencing food deficits even when farming in ideal conditions. Reliance on crop agriculture as a main provider for household livelihoods is 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 was made in early 2017.

Labour Organization conventions including conventions on forced labour, labour inspection, and minimum wage fixing machinery. During NSDP II implementation, the GoL 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 also continue to strengthen harmonious labour relations.

number of asylum seekers have also settled in South Africa, estimated at 1,437 in 2016.¹¹ Migration also takes place through irregular channels which is difficult to quantify.

2.2 Job Creation Opportunities

Inclusive growth and employment creation remain largely dependent on Lesotho's comparative and competitive advantages—population, location, access to international markets, clean energy, and clean technologies. The small carbon footprint continues to offer further opportunities to develop a sustainable green economy. If these opportunities are effectively managed, the result will be meeting goals set forth in NSDP II, Vision 2020, SDGs, and the Southern African Development Community (SADC) Regional Indicative Strategic Development Plan 2005-2020.

2.2.1 Labour Force

Lesotho has an abundant literate labour force (more than 80 percent of total population is literate¹²). This provides a distinct advantage in both domestic and global markets 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 economies. The Lesotho workforce is largely English speaking allowing for easy communication with the rest of the world. The Basotho people are humble. Labour strikes are rare, and labour costs are low compared to South Africa.

Lesotho also has a well-established tripartite wage negotiation structures that comprise of representatives of workers, employees, and the GoL across sectors. These structures have served Lesotho well over the past decade, maintaining competitive wages and ensuring alignment with labour productivity without production disruptions. Lesotho has ratified 23 International

11 Department of Home Affairs. (2017).

12 Education Statistics. (2016).



Lesotho is experiencing a rapid change in demographics. This presents an opportunity, as the country will have a large labour force, currently around 40 percent of total population. The demographic transition can positively impact development, as experienced in many Asian countries between 1965 and 1990 as they transitioned from poverty to prosperity. It will be critical for Lesotho to recognize the youth bulge and proactively address the skills mismatch and skill shortages. During NSDP II implementation, the GoL will reform the educational system and develop a skills development strategy to be responsive to emerging labour market demands.

2.2.2 Access to International Markets

Lesotho is a member many multilateral organizations and has diplomatic relations across the world, which offer opportunities for foreign investment and trade. Lesotho is also a member of the World Trade Organization. As a least developed country, Lesotho enjoys duty-free access for goods to major world markets such as the United States through AGOA and the European Union’s Generalised System of Preferences. In addition, Lesotho has signed an Economic Partnership Agreement with the European Union, and is a partner of the European Free Trade Association (which includes Iceland, Liechtenstein, Norway, and Switzerland). In the region, Lesotho is a member of the SADC free trade area, SACU, CMA, and the African Union, which offer great opportunities for regional cooperation and trade. Finally, a Preferential Trade Agreement is in place between the Common Market of the South and SACU. SACU and CMA are key influences on trade, exchange rate, and monetary policies of all member countries. These regional and unilateral trade agreements shape Lesotho’s trade with the rest of the world and they offer huge markets for Lesotho’s products.

There are 6,500 product lines offered under AGOA. However, Lesotho has not effectively leveraged the trade preferences made possible through the membership. This is largely due to supply constraints, lack of a national brand, and low bargaining power on bilateral and multilateral negotiations. During NSDP II implementation, the GoL will establish an appropriate institutional infrastructure and build capacity of its negotiating teams. It will also strengthen coordination between internal stakeholders to participate effectively in negotiations on regional integration and develop trade agreements with third parties as well as other international policy making processes, such as the World Trade Organization and the UN system.

2.2.3 Location

Lesotho’s geographic location surrounded by South Africa—a more industrialized country with a 2016 population estimate of 55.91 million and relatively good infrastructure—offers huge opportunity for integrating main economic centres. Durban Port is easily accessible from Maseru (558 km), Botha-Bothe (435 km), and Qacha’s Nek (361 km). Johannesburg, South Africa’s industrial hub, is 574 km from Durban Port and goods are still shipped through Durban Port to Johannesburg or through Cape Town Port to Johannesburg. Lesotho’s location is even closer to the port than many trade centres in South Africa and other African countries. Lesotho’s location also provides better road access than some parts of South Africa, such as Mpumalanga and Eastern Cape. During NSDP II, Lesotho will explore these comparative advantages and pursue an export-led strategy to achieve inclusive economic growth and employment creation.

2.2.4 Clean Energy & Clean Technologies

While Lesotho has a small carbon footprint, it is affected by climate change and must play its part in mitigation efforts. The country will promote a green economy during its development trajectory. Lesotho’s current energy

production is amongst 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. Lesotho could potentially produce 450 MW in hydropower and several hundred more with wind power. In addition, the pre-feasibility studies have indicated that Lesotho has the potential for producing about 6,000 MW from wind and 4,000 MW from pump storage. Yet, Lesotho is currently exploiting only about 17 percent of this potential, 96 percent of it at the Muela Hydropower Plant and the rest from mini-hydropower plants in Mantsonyane, Mokhotlong, Tsoelike, and Semonkong.

During NSDP II implementation, the GoL will promote both private and public investment in energy provision. Energy demand is growing in South Africa—and across 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.

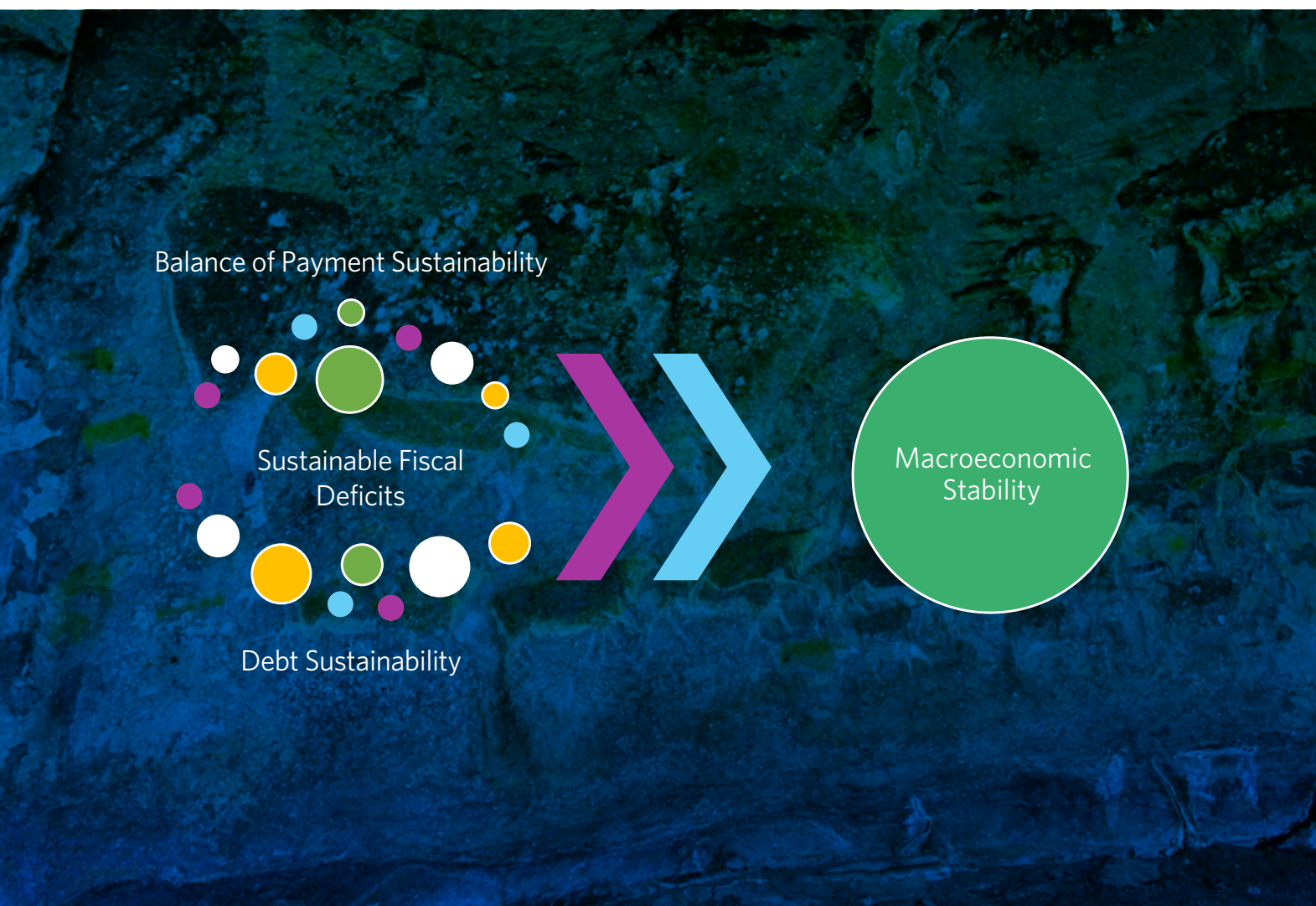
Investments in green energy technologies will reverse the trends in deforestation and soil erosion and enable society to heat homes and cook using cleaner, more efficient technologies. Adoption of green technologies will help rebuild Lesotho’s natural capital. This will be particularly beneficial for poor populations whose livelihoods and food security depend on nature. Additional employment creating and inclusive growth opportunities are discussed in Part III: Strategic Framework.





Part II:

Medium-Term Fiscal Framework & Growth and Employment Strategy





3: Macroeconomic Framework & Prospects

Strengthening macroeconomic resilience for inclusive growth and employment creation

3.1 Macroeconomic Policy Framework

NSDP II’s targets and intermediate outcomes are based on the assumptions that Lesotho will maintain macroeconomic stability and deliver sound macroeconomic policy 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 inefficiencies in spending; ensuring low and stable inflation rates which are 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, while at the same time supporting private sector development. Growth in aggregate public spending will be kept below the forecast economic growth to achieve fiscal consolidation. This will provide fiscal space to implement 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. Lesotho will further strengthen domestic resource mobilization and strengthen tax collections. Tax policies and expenditure policies will be set with caution to protect the income of the poor and other vulnerable groups. These policies will provide beneficial impact on the distribution of wealth. It will be critical to build a strong foundation for the medium-term fiscal framework and growth and employment targets for NSDP II.

3.2 Recent Macroeconomic Performance

Recent macroeconomic performance highlights deeply rooted structural challenges facing the economy. At the end of NSDP I, real economic growth had declined to 2.9 percent from 5.3 percent realized in 2012/13. In 2017/18, the economy slipped into the lowest growth trajectory with real economic growth rate registering 0.4 percent per annum for the first time after a decade of positive growth. However, GDP at current prices grew from M19,783 million at the start NSDP I implementation to about M27,804 by end. 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 percent per year on average between 2012/13 and 2016/17 (i.e., from M32,701 million at the start to M44,837 million at the end). However, the majority of the population—especially in rural areas—did not benefit from increasing incomes as evidenced by stagnating poverty levels.

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 percent per annum since 2012/13. The increase in GNI per capita is mainly attributable to the increase in incomes from abroad, in particular, increases in remittances and interest earned. Although there was an increase, Lesotho did not move from the least developed countries classification. Opportunities are discussed in Part II, Chapter 4: Growth and Employment Strategy.



Table 3.1: Aggregate Economic Indicators, 2012/13-2016/17 (percentage changes, 2012=100)

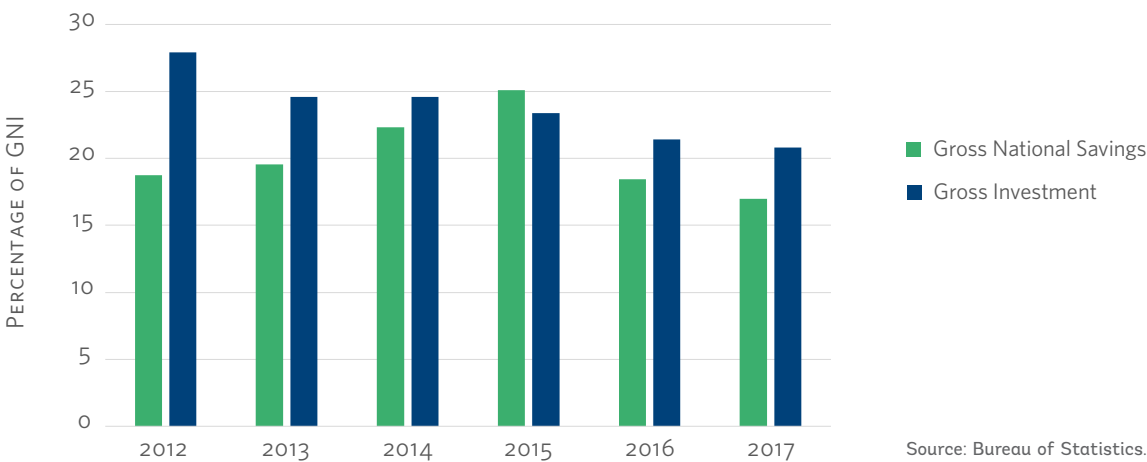
Aggregate Economic Indicator	2012/13	2013/14	2014/15	2015/16	2016/17
Gross Domestic Product	6.0	1.8	3.1	2.5	2.4
Gross National Income	-1.0	2.4	5.9	7.1	1.6
Gross Domestic Product per Capita	5.7	1.5	2.8	2.1	2.0
Gross National Income per Capita	-1.3	2.0	5.6	6.7	1.1
Gross National Disposable Income	13	9.8	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).

In recent years economic growth has been driven by the mining and quarrying industry, manufacturing, and service sectors, particularly telecommunication and financial intermediation . The manufacturing sector has grown by 4 percent on average and the service sector grew by more than 28 percent between 2012/13 and 2017/18. Although mining and quarrying continues to contribute to growth, it contracted by 4 percent during NSDP I. In 2017/18, the mining and quarrying industry showed signs of recovery as evidenced by 34.4 percent growth. The agriculture sector has shown signs of recovery, although growth remains volatile. In 2016/17, growth in the agriculture, forestry, and fishing sub-sector grew by 7.2 percent, while in 2017/18 it grew by 3.4 percent. Given the relatively small size of the private sector, the GoL continues to dominate economic activities and remains the primary contributor to growth, accounting for about 50 percent of GDP. Government consumption increased by 5 percent per year on average during NSDP I.

The gross national savings, as a percentage of GNI, declined from 25 percent in 2015 to 17 percent in 2017. The decline in national savings per GNI reflects a decline in national savings driven by declining GoL 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 percent in 2013 to 3.8 percent in 2017. The decline in GoL investment outweighed the decline in private sector savings. The savings and investment rates recorded at 17 percent and 21 percent of GNI, respectively, remain far below the levels considered necessary to generate sustained growth (figure 3.1).

Figure 3.1: Savings and Investment (Percentage of GNI), 2012/17





3.3 Financial Sector Stability

Overview

Lesotho’s financial sector is relatively stable, though it is small and lacking in financial inclusion. The Central Bank of Lesotho (CBL) plays a crucial role in promoting financial stability in Lesotho. In addition to the primary objective of achieving and maintaining price stability, CBL performs a number of other functions including fostering liquidity, solvency and proper functioning of a stable market-based financial system, and promoting financial system development.

CBL continues to advance its efforts to promote a stable financial system by enhancing its financial stability function. It is expanding macro prudential surveillance indicators—including financial soundness indicators—and increasing coverage to include the non-bank sector. This facilitates regular reporting on the financial system stability through quarterly and annual reports. The reports review and analyze international and domestic macro financial developments and financial soundness indicator trends and assess and mitigate potential risks. In addition, in enhancing early warning systems, CBL conducts banking sector stress testing semi-annually to assess resilience to both external and internal shocks.

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, CBL conducts research central to the development of a macro prudential policy framework which will be used to shape the macro prudential policy toolkit. Similarly, CBL is conducting ground work to establish robust and effective bank crisis management and financial safety nets, in line with international standards. Topics include bank recovery and resolution planning, deposit insurance and emergency liquidity assistance, and domestic and cross-border coordination.

Promoting well-managed financial deepening can enhance resilience and capacity of the financial system to cope with shocks, improve policy effectiveness, and support growth. 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 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 service delivery costs.

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.

The banking system is stable, and highly capitalized (relative to the minimum capital requirements) and maintains a good quality of assets. The level of liquidity within the banking system is adequate to withstand shocks to bank balance sheets, 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 assumed shocks.

However, banks face a number of challenges. They are exposed to credit concentration risk, which poses a threat to capital positioning. Household credits constitute 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.

The non-bank sector—insurance, pension funds, collective investments schemes, and microfinance institutions—is relatively stable and continues to grow (table 3.2). The non-bank sector is an integral part of the financial system and impacts stability. It is relatively small compared to the banking sector but plays an important role in closing the intermediation gap left by banks.

Table 3.2: Banking Sector Financial Soundness Indicators

			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
		Non-performing loans net of provisions to capital	11.0	8.0	7.8	7.4	13.5
	Asset Quality	Non-performing 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
		Non-interest 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: Central Bank of Lesotho (2018).

The payment and settlement system and infrastructure is an important anchor of financial stability when it operates effectively and efficiently. CBL continues to strengthen and maintain the safety and efficiency of the national payments system infrastructure. To date, a number of reform projects have been implemented to increase up-times of systems and promote financial system stability. The payment system has, 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, though, a large share of the market remained untapped during the period ending in December 2016. Nonetheless, active agents, customers, and transaction volumes and values continue to grow and offer potential to bridge the financial inclusion gap. Vulnerabilities related to mobile money operations are minimal and pose few systemic threats.

Trends in Fiscal Operations

Lesotho’s only instrument of macroeconomic management is fiscal policy given the confines of the CMA agreement.¹³ Prudent exercise of fiscal policy is therefore essential. Public sector investment must be well-targeted, efficient, and effective.

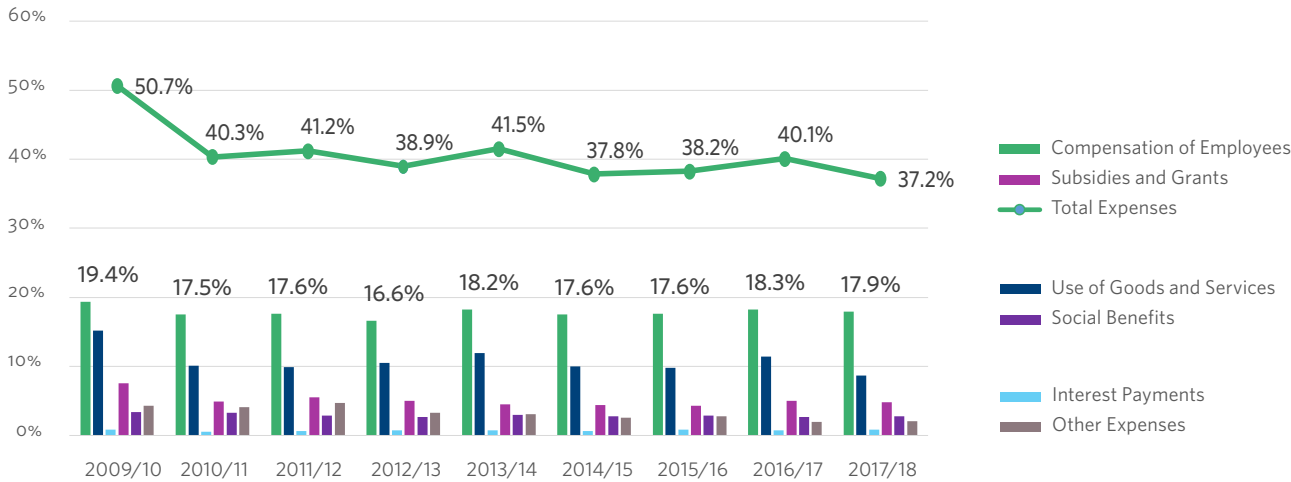
¹³ Fiscal policy is limited by volatile SACU revenue.





From 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 percent. In 2016/17 aggregate spending as a proportion of GDP amounted to 51.4 percent. This composed of 40.1 percent recurrent spending and 13.4 percent on non-financial assets (capital expenditure). However, in 2017/18, the GoL total expenditure is projected to have declined to 44.8 percent of GDP in a fiscal consolidation attempt aimed at restoring macro fiscal stability. The high recurrent expenditures on compensation of employees, which are linked to improper intertemporal revenue management, are a source of macro fiscal challenges. In 2016/17, government recurrent expenses as a share of GDP stood at 38.2 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 Eswatini. Spending on goods and services has fluctuated between 10.6 percent and 11.4 of GDP between 2012/13 and 2016/17 which is also high by regional standards (figure 3.2).

Figure 3.2: Government Expenses, 2009/10-2017/18 (Percentage of GDP)

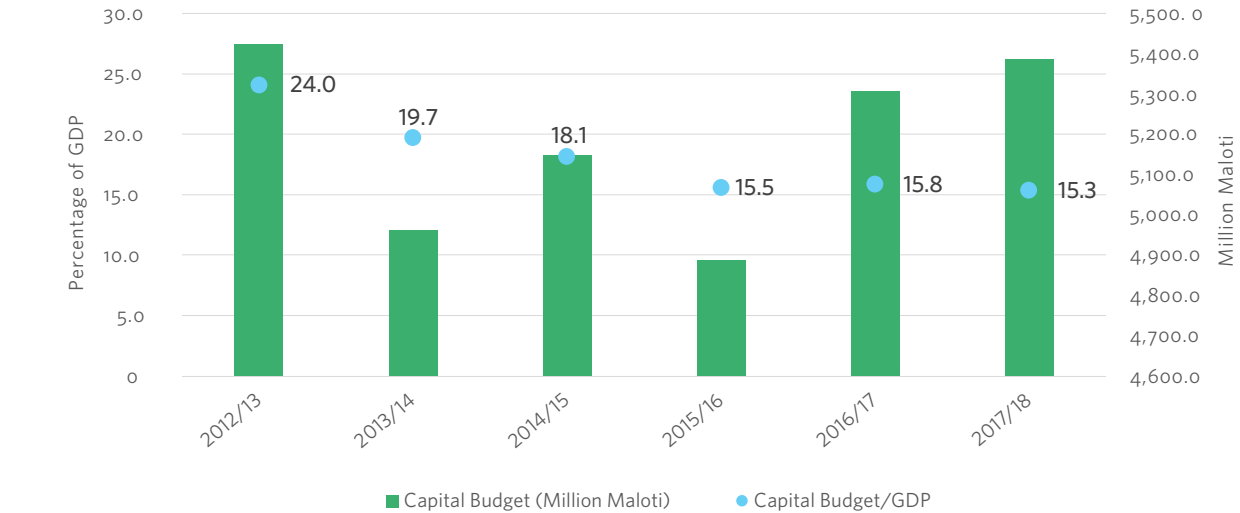


Lesotho spends a sizable amount of its budget on non-financial assets (capital expenditure) supported by government and development partners through grants in line with its lower-middle income developmental needs (figure 3.3). However, the fiscal consolidation path that the GoL will undertake in 2018/19 will likely be achieved through capital budget cuts due to limited options to restore fiscal stability. The capital budget will be allowed to rise gradually once the economy is back on a sustainable growth path. Caution will be exercised in case the country experiences another macro fiscal crisis.

Lesotho previously experienced a dismal macro fiscal outlook as a result of declining SACU receipts and improper intertemporal revenue management. In 2009/10 Lesotho's recurrent spending reached a record high of 50 percent of GDP, an increase of 8.7 percent of GDP from 2009/10. Although 2.3 percent of the increase was due to increased capital spending, the wage bill rose from 15 percent to 19.4 percent of GDP, accounting for half of the increase. With the onset of the global financial crisis, SACU revenues declined from 30 percent of GDP in 2009/10 to 14.4 and 13.3 percent of GDP in 2010/11 and 2011/12, respectively, leading to a call for sharp fiscal consolidation.



Figure 3.3: Capital Expenditure, 2012/13-2017/18 (Figures in Million Maloti and as GDP Share)



Because of the drop in SACU revenues, the GoL had to cut recurrent spending by 10 percent of GDP in 2010/11, embarking on a fiscal consolidation programme, supported by the International Monetary Fund's Extended Credit Facility, in response to rising fiscal pressures. Expenditures were cut by 11 percent of GDP in 2010. However, capital spending was mostly preserved. As SACU revenues rose again in 2012/13, expenditures also rose.¹⁴

NSDP II is similarly implemented at a 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 to 13.6 percent of GDP between in 2014/15 and 2016/17, primarily due to slower growth in South Africa. The decline in SACU revenues has narrowed fiscal space and led to a considerable decline in fiscal buffers. The country missed an opportunity to make a gradual adjustment in 2016/17. Lesotho's fiscal deficit reached 8 percent of GDP in 2016/17. Due to limited borrowing opportunities, the GoL financed the deficit through a drawdown of government deposits at CBL. The reserve coverage declined from 6.1 months of imports in 2015/16 to 4.2 months of imports at the end of 2016/17. To maintain fiscal sustainability and preserve buffers, Lesotho will have to considerably adjust spending downwards over the next three years. 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 made, Lesotho's reserve coverage may go below three months of imports by the end of 2019/20, risking macroeconomic stability and exchange rate sustainability.

Overall revenue has declined from 56 percent of GDP at the beginning of NSDP I to 43 percent of GDP at the end. This reflects declining SACU receipts while tax revenue was 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 2012/13 and 2016/17 before declining back to 4 percent of GDP in 2017/18. Given the levels of expenditures that remain relatively high, Lesotho registered fiscal deficits of around 1.1 percent of GDP over NSDP I. There was a surplus of 4 percent of GDP and 3 percent of GDP in 2012/13 and 2014/15, respectively, which resulted from sluggish project

¹⁴ World Bank. (2018).



implementation, whereas in 2016/17 a deficit of 8.2 percent of GDP was attained, resulting from a dramatic fall in SACU receipts while expenditures maintained high.

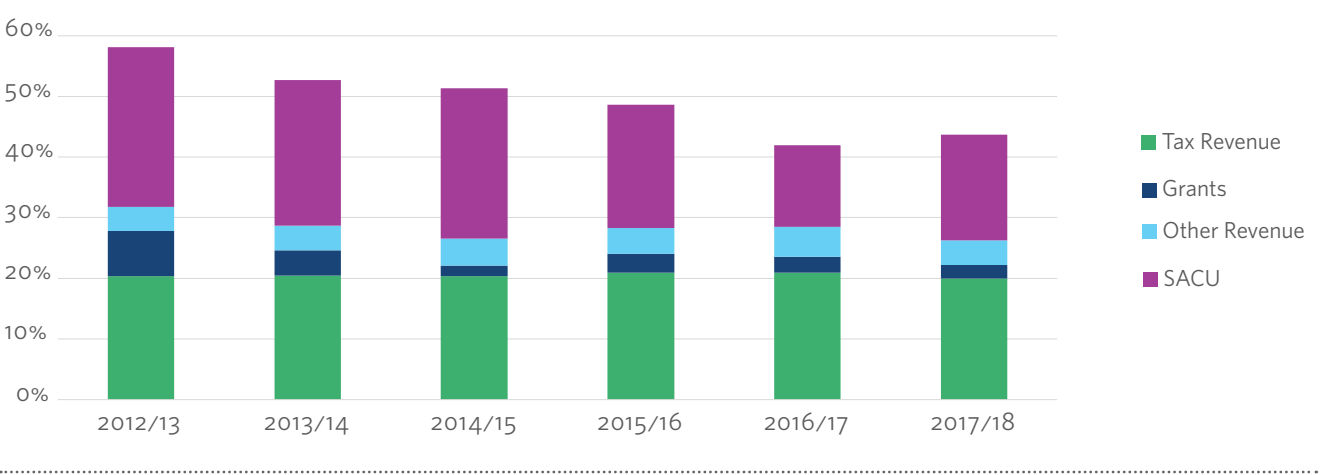
The declining revenues imply that the fiscal space for further capital expansion is limited and Lesotho must undertake a difficult consolidation exercise which should involve expenditure realignment and re-prioritization to return to a sustainable economic growth path.

Several lessons have been captured from recent fiscal experience that underpin macroeconomic stability, sustainable growth, and the fiscal framework outlook (box 3.1).

Box 3.1: Lessons Learned from Recent Fiscal Challenges

- Lesotho must restore macroeconomic stability through fiscal consolidation. The current level of expenditure (e.g., 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 primarily from limiting large spending inefficiencies.
- Reducing the inflated public wage bill is critical in achieving fiscal sustainability. The long-term nature of contracts is challenging. Growth in the wage bill should be restricted below GDP growth until macro fiscal sustainability is achieved. Given prior experience with fiscal adjustment in 2010/11, and SACU revenue shortfall, when a reduction on spending for goods and services provided a major source of adjustment that restored fiscal balance, the GoL will cut goods and services, while exercising caution to avoid crippling public service delivery.
- Public financial management reforms must be strengthened to reduce spending inefficiencies. Opportunity for expenditure reductions includes ongoing poorly-performing projects.
- The GoL will implement measures to improve domestic resource mobilization, including selective measures to broaden the tax base and further improve tax administration.

Figure 3.4: Sources of Government Revenue, 2012/13-2017/18 (Share of GDP)



Debt Sustainability

The country’s public debt position was recorded at M12,603.83 million in 2017/18 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 Lesotho’s total public debt represents external debt which is primarily contracted with multilateral creditors. Domestic debt comprises about 19 percent of GDP, and in 2017/18, it amounted M2,426.25 million (table 3.3). The stock of domestic debt could be increased if the GoL finances fiscal deficits during NSDP II, and to avoid further depletion of its balances with CBL. Given the relatively small size of domestic debt, Lesotho’s total public debt trajectory is driven by external debt developments and exchange rate fluctuations.

Table 3.3. : Lesotho’s Stock of Public Debt, 2013/14-2017/18

	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).

A comprehensive debt sustainability analysis undertaken by the International Monetary Fund in 2017 shows that Lesotho’s risk of external debt distress is “low” which is a revision from the “moderate” status of 2015. This is primarily 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 International Monetary Fund show that external debt vulnerabilities would increase only with a large shock to exports (e.g., trade shock). However, the present value of external public and publicly guaranteed 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 analysis shows 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. Lesotho will possibly remain below its debt thresholds of 40 percent of GDP throughout NSDP II.

The Lesotho Highlands Water Project Phase II will likely export water to South Africa upon completion, thus increasing the value of exports and reducing external vulnerability. The debt sustainability findings illustrate that Lesotho has the scope to address challenges from the severe cyclical downswing of 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. Lesotho could still borrow around US\$50 million per year for the entire plan period to finance major capital projects meant to unlock private sector investment. In addition, Lesotho’s eligibility for the Millennium Challenge Corporation, which was approved in December 2017, will provide access to significant grant financing, as discussed in Chapter 4.

3.4 Monetary Policy & External Stability

External Sector Trends

Lesotho’s trade balance has been consistently negative over the last decade, at over 60 percent of GDP. Imports comprise almost 100 percent of GDP while exports have hovered around 40 percent. Although imports and exports have steadily increased in nominal terms over the past decade, their performance as share of GDP has remained stable. While Lesotho has increased export volumes in recent years, they remain largely concentrated on a few products and markets. In 2016, the main exports were: apparel and textiles (44 percent), diamonds (35 percent), water distribution to South Africa (7.2 percent), and agriculture (2 percent). Lesotho’s exports are concentrated on limited markets, including the United States (90.9 percent [apparel]), the European Union (8.9 percent [diamonds]), and the remaining exports to SACU with the majority 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.

In 2016/17, Lesotho’s external position weakened because of a decline in SACU revenues and lower diamond exports but remained broadly in line with medium-term fundamentals and desirable policies. Given high import volumes which represent about 90 percent of GDP, and whose financing is dependent on SACU transfers, low performance in the South African economy directly affects the ability to finance imports. Imports are expected to decline in 2018/19 in line with South Africa’s sluggish performance. Over the medium-term, the large current account deficit is expected to persist as the GoL manages vulnerabilities associated with South Africa. Rand volatility and weaknesses in competitiveness will continue to pose economic challenges.

In recent years, Lesotho has also experienced declining trends in external financing as foreign direct investment (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 around 3 percent of GDP and other financing options have been declining in recent years. This will pose a challenge moving forward.

However, imports are expected to recover starting in 2019/20 in line with the cyclical upswing in South Africa’s economy. 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 partly offset by imports of capital goods. Over the long-term, the project will contribute to export. 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. The growth prospects of Lesotho remain largely foreign exchange constrained, as Lesotho is not able to generate adequate foreign currency to finance its capital outlays.



Table 3.4: Balance of Payments Summary

	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
Reserves in Months of Imports	5.1	5.5	6.1	5.1	4.1

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

Monetary Sector Trends

Lesotho, as a member of CMA, operates a fixed exchange rate regime in which Loti is pegged at par with the South African Rand. Lesotho keeps an adequate level of net international reserves in order to maintain the peg. The purpose of the reserves is largely to enable meeting foreign financial obligations which includes financing imports of goods and services, making debt repayments, and meeting the foreign exchange demands of travelers. In recent years, the level of net international reserves has taken a downward trajectory. In 2014/15, international reserves reached a peak at US\$1.1 billion yet by the end of 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 cover. 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 120 percent of broad money) as they cover 185 percent of short-term debt and more than 100 percent of broad money. During NSDP II, Lesotho will undertake fiscal adjustment to preserve the Loti/Rand peg.

Given CMA restrictions, Lesotho 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. Lesotho imports more than 80 percent of goods and services, and inflationary pressures are influenced by price developments in South Africa. The CMA arrangement has benefitted the country greatly. Domestic inflation is anchored to South African and regional inflation. Since inflation has been well-managed in South Africa under the inflation targeting regime which set target inflation between 3 and 6 percent, Lesotho’s inflation has remained within the target range for the past five years. In 2017, inflation was 5.2 percent with moderate changes during the year that were influenced by the Rand/Dollar depreciation. Low inflation in Lesotho, as a result of South Africa’s credible monetary policy, has enabled Lesotho’s exports to remain competitive in international markets.

3.5 Macroeconomic Outlook

NSDP II projections are based on a 14-sector model customized to fit Lesotho’s economy. The model was used to generate the Medium-Term Fiscal Framework for 2018/19-2022/23 and the economic growth outlook. NSDP II forecasts three growth scenarios: baseline, moderate growth, and desired high growth. In the desired high growth scenario, growth recovery is expected starting in 2019/20 amidst the fiscal challenges and rising household debt



levels. During 2019/20, growth is projected at 2.5 percent and will increase gradually with the implementation of Lesotho Highlands Water Project Phase II (LHWP II) until it reaches 5 percent in 2022/23. This will also likely be driven by strong growth anticipated in the mining industry which is in line with the anticipated global economy upswing.

The wholesale and retail trade, and construction activities associated with implementation of LHWP II, will also underpin the strong medium-term growth outlook. The growth from mining and LHWP II will create temporary employment during the 5-year construction phase which the GoL should sustain through strong policies and resource allocation to the four productive sectors beyond LHWP II.

Although the manufacturing sector under textile and clothing exports to non-AGOA destinations is expected to grow, those destined for the United States market are set to be strained further by the gradual erosion of the country's competitiveness in that market and the structural challenges that have hampered productivity in the sector. NSDP II proposes measures to deal with structural challenges that affect productivity so the sector can realize relatively better growth during NSDP II. It is unclear if the South Africa-based value chain can offset these challenges. The signing of the Trans-Pacific Partnership agreement between several Pacific Rim countries and the United States 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. Some of these challenges will be managed during NSDP II implementation to increase prospects for growth in the manufacturing sector.

Additional work must also be done to improve the business environment and facilitate inclusive growth. Lesotho has made commendable progress in improving its World Bank "Doing Business" indicators, especially streamlining business and property registration processes that hinder growth of local businesses, as well as FDI..

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

The Medium-Term Fiscal Framework (MTFF) forecasted the resource envelope based on current and past expenditure patterns, projected growth, overall fiscal balance, and debt sustainability analysis. It will likely be challenging for the GoL to stimulate growth in the medium-term. As such, Lesotho's growth performance is expected to be driven mainly by growth accelerators—mining and construction, especially with LHWP II. The four productive sectors will be prioritized for budget allocation to facilitate inclusive growth in these sectors and aid in job creation. There are already indications that the agriculture sector will generate many jobs with new investments in medical cannabis, with the first harvest expected in 2018/19. The MTFF is presented under three scenarios corresponding to the growth scenarios presented in the next chapter.

MTFF Baseline Scenario

The baseline scenario forecasts real GDP growth of about 1.7 percent per annum over the plan period. In this scenario, the GoL will undertake fiscal consolidation to restore the macro fiscal stability. The scenario excludes LHWP II, loans, and grants (in particular the grant from the Millennium Challenge Corporation). Fiscal adjustments are undertaken through reductions in both recurrent spending and capital spending due to the size of adjustment required to achieve fiscal sustainability. Although the country is at low risk of debt distress, financial pressures will pose significant risks. Given the size of imbalances and few existing buffers for the GoL and the projected further



decline in SACU revenue during 2019/20, Lesotho will likely need to reduce capital spending as well. This will come at a premium in terms of growth and employment as indicated in the next chapter. This will ultimately contribute to restoring fiscal sustainability.

Revenue projections include a gradual improvement in tax administration. Revenues are expected to grow in line with potential GDP growth (table 3.5). As a result, under the baseline scenario, total revenue will grow from M14,987 million to M18,776 million during NSDP II. Increasing taxes in an economy that has entered a low growth trajectory would not be plausible as this will likely depress the economy further. There are other 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 such as insurance sector benefits from corporate income tax exemption for life insurance. The fiscal costs of this exemption might be quite large in view of the size of the insurance sector. The GoL will also consider increasing taxes on alcohol and tobacco, but a deeper analysis is required to estimate the fiscal contribution of such measures and to assess the impact on household expenditure patterns.

Table 3.5: Baseline Medium-Term Fiscal Framework Projections

(Figures in Million Maloti Unless Otherwise Stated)

Indicator	Actual			Projections		
	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
Total Revenue	14,914	15,479	16,925	17,776	18,646	19,540
Total Tax Revenue	6,359	7,293	7,921	8,519	9,199	9,947
SACU	6,154	5,538	6,226	6,353	6,405	6,403
Total Expenses	-15,522	-17,196	-16,860	-17,703	-18,548	-19,407
Goods and Services	-2,623	-3,342	-3,497	-3,507	-3,682	-3,866
Compensation of Employees	-5,436	-5,985	-6,409	-6,822	-7,276	-7,765
Subsidies	-310	-270	-284	-298	-313	-328
Social Benefits	-1,568	-1,803	-1,931	-2,055	-2,192	-2,339
Grants	-1,112	-748	-786	-825	-866	-909
Capital Assets	-3,453	-3,911	-2,776	-3,059	-3,181	-3,061
Fiscal Balance	-563	-1,717	65	72	99	133
Potential GVA in the 4 Sectors	9,420	9,689	9,913	10,170	10,404	10,644
Export Value	14,768	15,953	17,698	19,438	21,432	23,656
Import Value	28,943	29,774	31,889	33,282	35,708	38,009
Percentage (%) of GDP						
Total Revenue	43.0%	42.5%	43.1%	42.5%	41.7%	40.7%
Tax Revenue	18.3%	20.0%	20.2%	20.4%	20.6%	20.7%
SACU	17.7%	15.2%	15.9%	15.2%	14.3%	13.3%
Total Expenses	-44.6%	-47.2%	-43.0%	-42.4%	-41.5%	-40.4%
Goods and Services	-7.5%	-9.2%	-8.9%	-8.4%	-8.2%	-8.1%
Compensation of Employees	-15.6%	-16.4%	-16.3%	-16.3%	-16.3%	-16.2%
Grants	-3.2%	-2.1%	-2.0%	-2.0%	-1.9%	-1.9%
Fiscal Balance	-1.6%	-4.7%	0.2%	0.2%	0.2%	0.3%
Reserves in Months of Imports	4.2	3.4	2.9	2.9	2.8	2.8



The low hanging fruits for adjustment meant to restore fiscal sustainability may come from the expenditure side. The baseline scenario forecasts a moderate reduction in capital spending excluding grants and loans from M3,453 million to M3,061 million in 2021/22 to restore fiscal sustainability. However, in 2022/23, capital spending would be allowed to grow to the pre-crisis levels. The possibility of reducing recurrent spending is difficult due to the nature of contracts entered between the GoL and public servants that are long-term and difficult to adjust. Compensation of employees, although allowed to grow in nominal terms, will be capped by limiting the cost of inflation adjustment to half the rate of inflation, and is expected to decline in percent of GDP in 2018/19 and 2022/23. Total expenses as a ratio of GDP are expected to decline from 44.6 to 40.4 by the end of NSDP II. Expenses will be maintained at levels below growth in revenue given that SACU will likely recover in 2020/21 in line with import projections for South Africa. SACU receipts will remain broadly around 18 percent of GDP on average until the end of NSDP II. The baseline scenario projects a fiscal deficit of 1.6 percent of GDP in 2017/18 and a high deficit of 4.7 percent in 2018/19 which will subsequently be followed by moderate surpluses thereafter due to significant reductions in capital spending.

Table 3.6: Medium-Term Fiscal Framework Projections Under 3.5% Growth Target
(Figures in Million Maloti Unless Otherwise Stated)

Indicator	Actual		Projections			
	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
Total Revenue	14,914	15,566	18,128	18,312	19,361	20,476
Total Tax Revenue	6,314	7,146	7,878	8,904	9,731	10,662
SACU	6,154	5,542	6,226	6,353	6,405	6,403
Total Expenses	-15,566	-17,965	-18,605	-19,235	-20,201	-21,226
Goods and Services	-2,667	-3,317	-3,148	-3,214	-3,385	-3,564
Compensation of Employees	-5,436	-6,135	-6,674	-7,024	-7,498	-8,005
Subsidies	-310	-273	-184	-193	-203	-214
Social Benefits	-1,568	-1,804	-1,683	-1,697	-1,811	-1,934
Grants	-1,112	-812	-711	-710	-709	-708
Capital Assets	-5,386	-4,558	-5,177	-5,345	-5,519	-5,699
Fiscal Balance	-563	-2,403	-477	-923	-840	-750
Potential GVA in the 4 Sectors	9,420	9,689	9,919	10,215	10,552	10,993
Export Value	14,768	15,974	17,822	19,766	22,060	24,725
Import Value	29,008	30,223	33,389	36,579	40,363	43,052
GDP at Current Market Prices	34,820	36,461	39,438	42,405	45,879	49,852
Percentage (%) of GDP						
Total Revenue	42.8%	42.7%	45.9%	43.2%	42.2%	41.1%
Tax Revenue	18.1%	19.6%	19.6%	19.9%	20.1%	21.4%
SACU	17.7%	15.2%	15.8%	15.0%	14.0%	12.8%
Total Expenses	44.7%	49.3%	47.2%	45.4%	44.0%	42.3%
Goods and Services	7.7%	9.1%	8.0%	7.6%	7.4%	7.1%
Compensation of Employees	15.6%	16.8%	16.9%	16.6%	16.3%	16.0%
Grants	3.2%	2.2%	1.8%	1.7%	1.5%	1.4%
Capital Assets	9.9	12.5	13.1	12.6	12.0	11.43
Fiscal Balance	-1.6	-6.6	-1.2	-2.2	-1.8	-1.5
Reserves in Months of Imports	4.2	3.5	2.9	2.7	2.6	2.7

MTFF Moderate Scenario

The MTFF moderate scenario corresponds to a target growth of 3.5 percent per annum by the end of NSDP II. A critical assumption under this scenario is that LHWP II is implemented over a 5-year period. This will contribute to increased volume of imports from M29,008 million to M43,053 million. However, export volumes and value will also increase when Lesotho starts transferring water to South Africa (anticipated in 2021/22). In this scenario, the GoL continues fiscal consolidation by moderate reductions in the capital budget, which is counterbalanced by acquisition of loans and grants, thereby providing a cushion for the economy in terms of job losses and growth. Loans and grants will facilitate the GoL’s ability to increase the capital budget moderately from M5,386 million to M5,699 million by the end of NSDP II. In addition, this scenario includes a capital injection into the economy through LHWP II worth more than M27 billion to be channeled towards capital investment through construction. This will be spread over the NSDP II implementation period. The moderate growth scenario forecasts a fiscal deficit of 1.6 percent of GDP in 2017/18 which will increase to 6.6 percent of GDP in 2018/19 and remain at 2 percent of GDP to the end of NSDP II. The forecast deficit is anticipated to provide fiscal consolidation and allow the GoL to restore macroeconomic stability. Total expenses as shares of GDP are projected to decline relatively faster than in the previous scenario due to higher projected growth. They will decline from 44.7 percent of GDP to 42.3 percent by the end of NSDP II. In the moderate growth and baseline scenarios, the reserves import cover will decline gradually until it reaches 2.7 months of imports by the end of the plan, except in 2018/19 where it is projected to be 3.5 months of imports. This level of international reserves will put the Rand/Loti under immense pressure which will require an effective management of fiscal policy to avoid a breakdown of the peg.

MTFF Desired Growth Scenario

The third MTFF scenario corresponds to the desired 5 percent growth target per annum. This represents stronger outcomes in terms of jobs and economic growth. The basic assumption under the desired growth scenario is that both LHWP II and Millennium Challenge Corporation-supported projects are implemented over a 5-year period. This scenario includes loans and grants that are acquired to lessen the reduction in GoL spending as the country goes through fiscal consolidation. LHWP II is projected to inject about M27 billion (US\$1.93 billion) while Millennium Challenge Corporation is projected to inject M7 billion (US\$500 million) into the economy during the 5-year span. It is assumed that the capital injections will relax foreign exchange constraints facing the economy today. However, it must be recognized that achieving positive results in the desired plan projections will depend on: successful implementation of a coordinated package of investment climate reforms that will improve business environment (5 percent growth target requires additional investment by the private sector of not less than M5 billion annually); commitment by the GoL to ensure sustained political stability which is a necessary condition for investment; and strict aggregate government expenditure controls and improving the quality of expenditure through allocative targeting and operational efficiency.

The MTFF projections under the 5 percent growth target forecast total revenue to grow by M5,844.1 million between 2017/18 and 2022/23—an annual growth of 7.8 percent. The major contribution in total revenue will be tax revenue that is expected to increase due to LHWP II construction and Millennium Challenge Corporation projects. Tax revenue is forecast to increase from M6,314.4 million to M10,944.6 million during the implementation period. SACU revenue is expected to rebound in 2020/21 from the exceptionally low levels of 2018/19 of M5,542.2. From 2019/20 onwards, SACU revenue will maintain moderate growth until the end of NSDP II. However, given uncertainties about long-term SACU revenue, the GoL should adopt fiscal rules to enable SACU revenue to be spent on development projects and that higher than anticipated customs receipts, in the short-term, can



be used to rebuild reserves. This will increase fiscal resilience and improve the GoL's ability to mitigate future downward risks. Alternatively, the GoL could negotiate stabilization funds with member states to be used during economic downshifts.

In relation to expenditures, the GoL will continue fiscal consolidation through a moderate cut in the capital budget component financed by the GoL, while the Millennium Challenge Corporation grant, loans, and other grants will counter such reductions to avoid depressing growth and job creation. The public sector wage bill will be put under control, and the cost of living adjustment will grow by less than the rate of inflation. Total expenses in current GDP prices will decline from 44.7 percent to 41.1 percent which will be close to matching the revenue performance. This should create additional fiscal space by the end of NSDP II. The GoL will make efficiency savings through implementing public financial management reforms and implementing capital projects with the highest rate of return that unlock private sector investment.

Matching the resource envelope and expenditure ceiling shows that fiscal balance will remain similar to that under the previously discussed two scenarios with no surpluses generated during NSDP II. However, a deficit of less than

Table 3.7: Medium-Term Fiscal Framework Projections Under 5% Desired Growth Target
(Figures in Million Maloti Unless Otherwise Stated)

Indicator	Actual			Projections		
	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
Total Revenue	14,914.4	15,561.5	18,134	18,350	19,481.8	20,758.5
Total Tax Revenue	6,314.4	7,141.0	7,884.1	8,942.0	9,852.1	10,944.6
SACU	6,154.2	5,542.2	6,226.2	6,352.9	6,405.2	6,402.7
Total Expenses	-15,566.5	-17,965	-18,605.3	-19,235	-20,201	-21,226
Goods and Services	-2,667.3	-3,317	-3,147	-3,213.8	-3,384.1	-3,563.5
Compensation of Employees	-5,436	-6,134.6	-6,673.8	-7,024.3	-7,498.4	-8,004.6
Subsidies	-310.3	-272.6	-183.9	-193.4	-203.5	-214.0
Social Benefits	-1,568	-1,803.6	-1,683.3	-1,697	-1,812	-1,934
Grants	-1,112	-812.2	-711.1	-710.1	-709.1	-708.1
Capital Assets	-5,385	-4,558.3	-5,177.2	-5,345.5	-5,519.2	-5,698.6
Fiscal Balance	-563	-2,403.1	-471.3	-884.7	-719.3	-467.4
Potential GVA in the 4 Sectors	9,420	9,689	9,928	10,272	10,715.9	11,290.6
Export Value	14,768	15,974.4	17,835.6	19,856.9	22,351.5	25,418.4
Import Value	29,008.5	30,517.1	34,897.3	40,069.9	46,713.8	50,301.3
GDP at Current Market Prices	34,820	36,461	39,468	42,597	46,482	51,245
Percentage (%) of GDP						
Total Revenue	43.0%	42.7%	45.9%	43.1%	41.9%	40.5%
Tax Revenue	18.1%	19.6%	20.0%	20.9%	21.2%	21.4%
SACU	17.7%	15.2%	15.8%	14.9%	13.8%	12.5%
Total Expenses	44.7%	49.3%	47.1%	45.2%	43.4%	41.4%
Compensation of Employees (Wage Bill)	15.6	16.8	16.9	16.5	16.1	15.6
Fiscal Balance	-1.6	-6.6	-1.2	-2.1	-1.5	-0.9
Reserves in Months of Imports	4.3	3.5	2.7	2.5	2.3	2.5



2 percent of GDP implies that Lesotho will satisfy critical debt sustainability indicators. NSDP II forecasts a deficit of around 6.6 percent of GDP in 2018/19 before going into deeper fiscal consolidation in 2019/20. Projections of economic growth generate a fiscal framework that allow for fiscal consolidation during 2019/20, after which spending on non-financial assets will increase from M5,177.2 to M5,698.6. The GoL will preserve capital spending to safeguard jobs and growth.

Favourable outcomes will reduce the GoL size relative to the private sector but will require a serious commitment to maintain a fiscal sustainability path and to increase NSDP II's absorptive capacity so that budget allocations are spent as intended. It will require commitment to contain the wage bill and increase public sector efficiency. Line ministries must adhere strictly to hard budget ceilings and elimination of arrears. Recent concerns include delayed payment from the GoL to the private sector for good and services. This will require urgent attention to avoid suppliers charging the GoL high premiums for delayed payments.

3.7 Risks to Growth & Outlook

The slow-down in South Africa's economy has resulted in a decline in Lesotho's expected SACU revenues, though an upswing is expected in 2020/21. This decline poses a challenge to Lesotho's fiscal outlook, as SACU revenues fell from 25 percent to 17.7 percent of GDP between 2014/15 and 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 1.2 percent of GDP in 2017/18. Although SACU revenues recovered slightly in 2017/18, the shortfall is projected to deepen further in 2018/19 and only recover in 2019/20. It is expected to maintain moderate growth through the end of NSDP II. However, SACU revenue as a share of GDP, is expected to decline from 17.7 percent of GDP to 12.5 percent of GDP by the end of NSDP II. The GoL will be faced with significant adjustment needs as buffers will be reduced drastically.

While SACU revenue projections are subject to a large margin of error beyond 2018/19, due to positive effects of currency depreciation on customs duties, and several tax reforms proposed by the South African government—especially the proposed hike in excise taxes—current projections anticipate a recovery by 2020/21. The government's fiscal position has deteriorated significantly, posing a risk of unsustainable fiscal policy. With an overall fiscal deficit of 6.6 percent in 2018/19, Lesotho is above the 3 percent benchmark recommended by SADC and the International Monetary Fund. The current elevated government expenses against lower tax revenue and SACU receipts has led to a significant drop in foreign reserves and threatens the sustainability of the Rand/Loti peg.

With public spending at more than 44.7 percent of GDP in 2017/18, and a wage bill of 17.7 percent of GDP, the GoL'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 slow growth over the medium-term. There is also a risk that a delay in expenditure reduction measures could force a drastic and disorderly fiscal adjustment later, creating a negative spillover in the real economy. To drive growth further, the GoL 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 CBL deposits 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.



Financing the deficit will be a challenge given that the GoL deposits with 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 balance between domestic and foreign borrowing. Issuing of bonds has served Lesotho well, but may face limitations due to the market size and concentration, as well as low market appetite. Preliminary analysis indicates that although borrowing space exists, Lesotho's deficit is driven by an already elevated recurrent expenditure. As part of the budget bill for 2018/19, the GoL proposed interventions to reduce 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, the GoL intends to reduce public expenditure and support a conducive environment for private sector-led growth. The expected increase in external financing—with a sizable grant element for high-quality public infrastructure projects—would likely mitigate fiscal adjustment drains on growth in the medium-term.





4: Growth & Employment Strategy

4.1 Introduction

Lesotho will embark upon a new growth model to ensure inclusive growth and job creation. The current growth model, driven by the GoL consumption is inadequate, non-inclusive, and unsustainable. To create private sector jobs and eradicate extreme poverty, the new model will shift from a state-led to a private sector/export-led growth model; from public consumption-driven growth to investment-driven growth (public and private); from macro imbalances to pro-growth macro fiscal stability; from the inefficiency and ineffectiveness of state interventions to a more effective public sector management;¹⁵ and from a high climate risk-exposed economy to a climate change resilient and sustainable growth economy. Achieving these structural changes will require investing in human capital and institutions and fostering private sector growth.

For Lesotho to become more inclusive, more people must be employed. At any presently recorded wage rate, a rise in the proportion of people employed will have a significant impact on overall poverty and income distribution. A clear example of marginalization in the economy is between employed and unemployed. Employment creation represents the best way of making progress towards poverty reduction, reducing inequality, and achieving SDGs. Job creation strategies must be coupled with specific interventions targeted at the most vulnerable members of society (i.e., youth, elderly, women, and people with disabilities) so that no one is left behind during the growth processes. NSDP II has set the target of achieving at least an additional 49,319 jobs (23,096 from productive sectors and 26,223 from the rest of the economy) by the end of the implementation period. This translates to 9,863 jobs created each year.

The 49,319 jobs forecast in this plan will be attained alongside a gradual economic growth from 1.2 percent which will be realized in 2018/19 to 5 percent growth per annum to be realized by the end of NSDP II. This will require a gradual increase in average propensity to invest in capital formation from the current 28.2 percent to 50.3 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 private sector investments. It will also require removing bottlenecks that constrain private sector investment. This will be achieved through implementing the investment climate reforms. Since job creation and inclusive economic growth are anchored to private sector participation, the GoL's role will be to provide public goods and services that support private sector investment and growth. The number of jobs created and achievement of 5 percent economic growth will be indicators of success in the overall strategic objective of NSDP II.

The GoL will implement strategies targeted at removing the six identified private sector investment constraints: access to land, access to capital and finance, access to skills, access to infrastructure, regulatory hassles, and poor health. The GoL will focus on increasing labour intensity of growth; mobilizing resources to fund investment; easing skill constraints; improving cost and efficiency of network support industries such as transport, logistics, communications, water and energy; improving the functioning of land markets; and removing unnecessary regulatory hassles that stifle private sector investment.

¹⁵ World Bank. (2015).



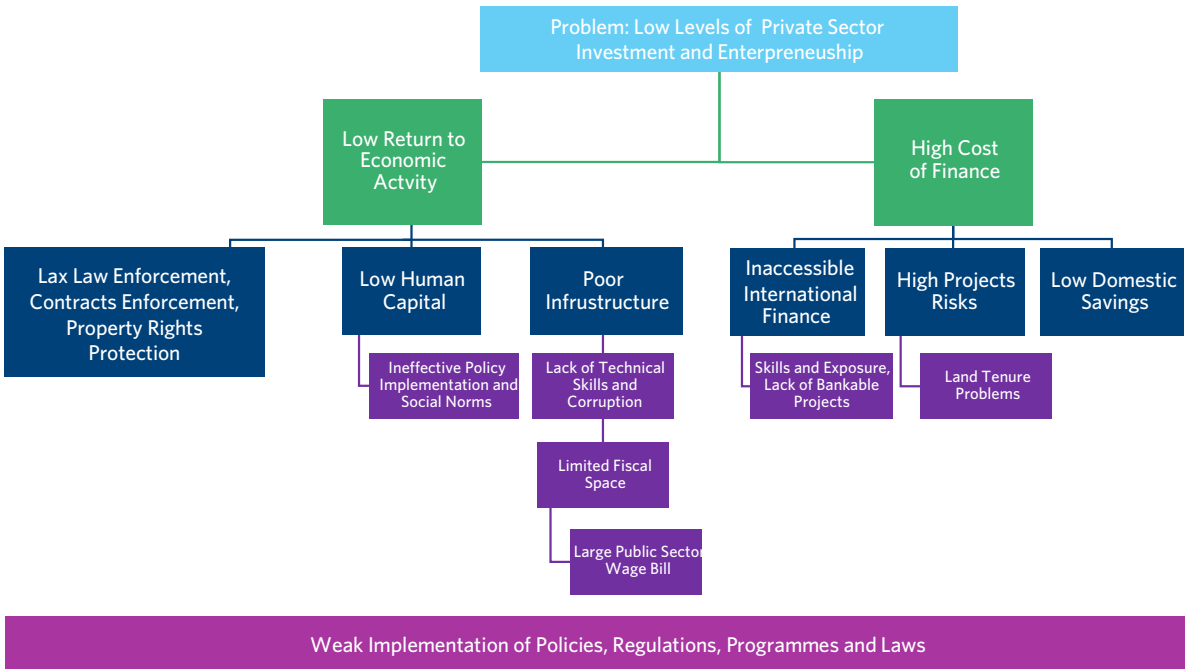
4.2 Growth Diagnostics

A growth diagnosis following Hausmann and Rodrik (2004) revealed four binding constraints to private sector investment in Lesotho and two other near binding constraints. The binding constraints were: GoL's failure to enforce laws, regulations, contracts, and protect property rights; failure to provide public goods and services that support private sector growth; 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 as: lack of access to land for productive use and regulatory hassles. The root causes of these constraints are weak governance and weak institutions, resulting in poor implementation of policies, regulations, and programmes, as well as lack of enforcement of laws that are supportive of private sector growth (see Figure 4.1).

Poor Law and Contract Enforcement & Poor Property Rights Protection (Ineffective Execution of Investment Enabling Strategies)

Local and foreign businesses enjoy the same rights and protections, and Lesotho's standards and protection of foreign investors are good in theory, however, the legal framework guaranteeing these norms remain weak. Lesotho does not have foreign investment law and there are limited bilateral investment treaties to protect foreign investors and ensure fair treatment. However, the commercial, legal, regulatory, and accounting systems are transparent and consistent with international norms. Lesotho's Land Act of 2010 allows foreign investors to hold land titles as long as local investors own at least 20 percent of the enterprise. The Companies Act of 2011 further strengthened investor protection by increasing the disclosure requirements for related party transactions and increasing company director liability (for abuse of power cases). The Consumer Protection Policy of 2013 and the Lesotho Investment

Figure 4.1: Growth Diagnosis Decision Tree





Policy of 2016 have also been developed. However, enforcement of these laws remains 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. Lesotho 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 enforcement of these structures remains relatively weak. The judiciary system is effective at enforcing property and contractual rights, but in recent years has experienced a backlog of cases and inefficiencies—the courts are overburdened, and cases take longer to resolve. Lesotho’s performance in attracting FDI has been credible by regional standards, particularly for landlocked nations. During NSDP II implementation these challenges will be dealt with under the investment climate reforms.

Low Human Capital

Human resource capacity is lacking in both skills and health. There is a shortage of qualified artisans and people with technical and managerial skills, as well as low entrepreneurship capacity. This gap exists despite Lesotho’s significant investment in education with an 80 percent literacy rate. Lesotho has supported education at all levels from early childhood care and development to tertiary education. However, it is noted that TVET and early childhood care and development have received relatively less attention. Skills mismatch also exists where educational institutions have not provided skillsets required by labour markets. Low levels of entrepreneurship have led to low emergence of businesses owned by local people.

Poor health is reflected in the high incidence of HIV/AIDS and tuberculosis which account for the highest mortality rates in Lesotho. New HIV/AIDS infections remain high, and women account for 30 percent of new infections due to economic and socio-cultural issues. Economic factors include lack of employment and livelihood opportunities in rural and urban areas, leaving women and girls vulnerable to engaging in transactional sex and other risky behaviours. Socio-cultural factors include social norms that limit women and girls from negotiating safe sex, gender-based violence, and other negative health-related behaviors. The low rate of male circumcision is also a factor. The health system cannot adequately cope with new infections. This is further discussed in Chapter 8.

Low-Quality Infrastructure

Low-quality industrial infrastructure in industrial estates, effluent treatment, and lack of maintenance of existing infrastructure is a serious concern. For example, removing the backlog of road maintenance is estimated at M4,130 million. Challenges also exist with trade facilitation infrastructure such as national roads and access roads to production sites and border posts. Inefficient customs and border services result in long delays between production and markets. The cargo handling facilities in Lesotho are also inadequate and inefficient. There is limited infrastructure for irrigation and water harvesting to support enterprising youth and people at different localities.

Over the past years, the infrastructure was not specifically targeted at unlocking the private sector under productive sectors and was influenced by political demands. The lack of coordinated and integrated planning led to low-quality projects and outputs. Poor infrastructure is also a result of limited fiscal space due to the high wage bill that leaves few resources to support capital expansion. Infrastructure was a weak link between NSDP I priorities and public spending which often did not target NSDP I priorities. Limited infrastructure resulted in low private sector investment because social returns were low and unemployment and poverty were high. This is further discussed in Chapter 9.



Inaccessible Finance

Limited access to finance also constrains private sector investment, particularly for micro, small, and medium sized enterprises. However, the financial sector indicators suggest that low rate of return of economic activity is a more binding constraint. Loan to deposit interest spreads remain very high compared to other countries in the region leading to the possibility of high profitability and also high risk to investment projects. Lesotho’s private credit to GDP is relatively low as banks historically invested excess liquidity in South Africa. 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 (table 3.4 in Chapter 3). Financial sector discussions emphasize 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 Lesotho launched a stock market in 2014 and a leasing framework as a way to provide alternative sources of finance for businesses, the uptake in these two financing sources is sluggish. Lesotho lacks development finance, so many potential projects by the local private sector have not secured 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. This is further discussed in Chapter 6.

Lack of Access to Land for Productive Use & Regulatory Hassles

Although the Land Act of 2010 provided for land ownership by foreign investors if local investors owned at least 20 percent, land and physical planning and enforcement has remained a challenge to private sector investment. The land market remains largely under-developed and large parcels of land remain under control by people who do not use it optimally. Often, the land remains fallow. There is a legal clause that states if land is fallow for more than three years it will return to the Basotho nation, however, it is not enforced. Poor land and physical planning has also not provided for land zoning. This has affected private sector investment, especially in agriculture. There is 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 has affected private investments, especially foreign investors. Lesotho needs to develop a clear model of partnerships between local land owners and foreign companies interested in investing in land markets. In some instances, there are 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.

4.3 Growth Strategy

Sustainable economic growth and employment creation will be anchored on four productive sectors. The creation of such growth and jobs will require: political stability and resilient institutions; stable macroeconomic environment; stable labour markets characterized by a competitive, flexible, healthy, and skilled labour force; stable and efficient public sector that is insulated from undue political interference; access to minimum infrastructure; savings and investment; access to technology and capacity for innovation; and access to markets through global and trade integration. Sustainable economic growth and jobs require a private sector that is supported by the GoL. The GoL will largely provide essential public goods and services such as infrastructure, regulation, and a policy environment that enhances the private sector capacity to leverage existing and upcoming opportunities. The GoL will remain



entrusted with supporting vulnerable members of society, including people with disabilities, children, and the elderly, as these populations will likely not participate directly in labour markets. If these prerequisites are met, the private sector will grow and diversify its products and markets, creating thousands of jobs during NSDP II and beyond.

Savings & Investment

Economic growth is driven by investment. High levels of investment will require strategies that improve business environments, especially at the sectoral level. It will also require strategies that mobilize domestic and foreign resources for investment but minimise risk and enable conversion of domestic savings into productive investments. Savings are a leakage from the system and 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 (e.g., FDI, concessionary loans, grants, and official development assistance) to support investment in the economy. Given the current foreign exchange constraints faced by the economy, attracting more FDI will remain central. High levels of investment will increase Lesotho's productive capacity for economic diversification and exports.

Political Stability & Stable Institutions

Investment requires a predictable political environment, rule of law, low corruption, strong institutions that are resilient to shocks, and enforcement of regulations and laws. It requires credible leadership that can commit to stability and maintain peace and security. It is critical that the political and constitutional reforms, security sector reforms, and public sector reforms meant to provide for security and long-lasting peace for Lesotho be implemented without delay. Institutions that fight corruption, crime, and disputes should be strengthened and empowered to ensure that society and businesses are protected against offenders. Security of property and investment will remain critical for further economic growth.

Macroeconomic Stability

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

Minimum Infrastructure Platform

Private sector investment depends on the provision of minimum infrastructure in the form of road networks to enable easy distribution of goods and services; energy, water, and ICT infrastructure; and soft infrastructure. 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. Lesotho has also identified energy and water provision to industrial areas/zones as critical and should be given priority during implementation. Efficient borders will be critical for trade facilitation and the GoL will continue its engagement with the South African government



to improve the handling of transit cargo in South African ports. Modern dry ports and one-stop borders may also be established to enhance trade between Lesotho and other countries. The electricity distribution networks will be modernized to ensure safety and reliability, and to expand connections to potential growth areas—in particular those areas that are off the grid. NSDP II also proposes hydropower generation be installed in Polihali Dam during Phase II construction. This will likely cut the cost of electricity for productive activities. Land and water management will also be critical as it relates to infrastructure to reduce environmental degradation and increase productivity in the natural resource sector.

Stable Labour Markets

Growth will require stable labour markets characterized by a competitive, flexible, healthy, and skilled labour force. NSDP II proposes skills development and strengthening the human resource base through investments in health, education, social protection, and migration. Migration management will be improved to enable easy importation of skills not available in the local economy. Lesotho has already enacted a dual citizenship law. During the NSDP II special attention will be given to development of legal frameworks that facilitate leveraging expatriate skills in the development trajectory. Stable labour markets will be maintained through strategies that reduce labour disputes and industrial actions. Lesotho has strong labour relation institutions and dispute resolution mechanisms and will continue to strengthen these institutions and tripartite structures so labour markets remain stable. The GoL will facilitate permit acquisition through improvement in labour market information systems.

Global Integration, External Trade & Domestic Trade

This growth strategy is based on export promotion to meet regional and international market demand, thereby stimulating further growth in the country. Lesotho will continue leveraging niche market opportunities offered in the domestic market and building linkages between foreign and local firms to maximise domestic content of production as well as linking to global industrial value chains and marketing chains. Historically the rural/urban divide has been exacerbated by low trade between rural areas and urban centres. The growth strategy proposes identification of growth poles in the rural areas and urban centres and promoting such trade. Agricultural markets and agribusinesses will continue to be developed to serve as the primary link between rural and urban centres. Lesotho will support growth of rural based cottage industries and facilitate linkages between rural economy supply and urban centre demand. The development of industrial and service sector nodes and hubs, including tourism circuits linked to agriculture, manufacturing, and services will require a significant 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 products from the other sectors.

Stable and Efficient Public Sector

To support the successful delivery of NSDP II goals, the GoL will transform public service to become more citizen-centric, efficient, and effective in-service delivery. The goal is to embark on public sector reforms to enhance efficiency and productivity of public service in a less bureaucratic, hierarchical, and centralised manner. The private sector will only grow if support services are delivered efficiently and effectively. The transformation of public service will call for: rationalization of public sector institutions for greater productivity and performance by reducing overlapping roles and functions amongst agencies, right-sizing the public service, and introducing an exit



policy for underperformers; strengthening talent management for public servants by providing a more conducive working environment including flexible working arrangements; empowering ministries and agencies, and upgrading public sector training institutions; enhancing service delivery through decentralization, eliminating unnecessary bureaucratic processes, expanding the outreach of services, and increasing accountability.

4.4 Growth & Employment Scenarios

NSDP II models three possible scenarios for a job creation and growth trajectory during the 5-year implementation period. The starting position is unfavorable as the economy is just exiting low economic growth (real growth rate of 0.4) in 2017/18. Economic growth has been on a downward trajectory since 2012/13 until the low growth of 0.4 percent in 2017/18. The low growth was a result of multiple factors which included: reduction in SACU receipts which affected GoL buffers and spending; improper intertemporal revenue management; and sluggish performance of the South African economy which fueled reductions in SACU customs pool. In 2017/18, Lesotho was also recovering from El Niño which badly affected agriculture production. The decline in SACU receipts has had adverse effects on all major supplies to the GoL. By 2017/18, there was more than M1.2 billion in outstanding liabilities from the GoL to suppliers. At the same time, the GoL had depleted its buffers at CBL with the consequence that net foreign assets had declined from 6.1 months of import cover in 2014/15 to 4.4 months of import cover in 2017/18. While fiscal consolidation could not be avoided, a need for expansionary fiscal policy was warranted to pull the economy out of recession and create much needed jobs and stimulate economic growth. Pursuance of these two conflicting objectives has become a major challenge. It requires a cautious fiscal adjustment path that will preserve growth and jobs, while at the same time restoring macroeconomic stability which is a necessary condition for growth. Three possible growth scenarios are presented: baseline growth, moderate growth, and desired growth.

Baseline Growth Scenario

The baseline growth scenario extrapolates macroeconomic outcomes under the conditions that Lesotho has undertaken fiscal consolidation without external support (i.e., no development partners, no LHWP II, and no Millennium Challenge Corporation grant). This scenario also excludes loans and other grants. The baseline scenario extrapolates the outcomes if economic performance and fiscal outcomes continue along the same path. Given that Lesotho is faced with fiscal conditions, the GoL undertakes a major cut in recurrent budget and in capital spending which declines by M2 billion from 2016/17. Public expenditures decline from 44.6 percent of GDP to 40.4 percent of GDP due to fiscal consolidation. Total factor productivity remains constant and does not impact growth over the plan period. This scenario also assumes that investment climate reforms and political reforms fail to be implemented which place significant uncertainty on foreign investment and private sector investment. At the same time, tax administration reforms and other reforms meant to place the economy on a sustainable growth path fail to be implemented. Under these circumstances, the scenario shows that growth in real GDP would average 1.7 per annum over the plan period, and only 29,378 jobs would be created (16,363 from the four productive sectors and 13,015 from the rest of the economy), which equates to 5,876 (1 percent) jobs created each year on average. This growth rate would have little impact on poverty reduction or current unemployment rates.

The baseline scenario indicates that while fiscal consolidation will have been achieved, it is achieved at a very high premium in terms of jobs and inclusive growth. The required average propensity to invest will have declined from the current low level of 28.2 percent to 22.8 percent (table 4.1). Although the economy would have realized surpluses between 2019/20 and the implementation period and maintained the international reserves level above



Table 4.1: Baseline Scenario: Restoring Fiscal Sustainability
(All figures in Million Maloti Unless Otherwise Stated)

Key Indicators for NSDP II Projections under Baseline Scenario, 2018/19-2022/23						
	Actual		Projections			
Macroeconomic Indicators	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
Real GDP (Mm)	24,393	24,659	25,154	25,582	26,060	26,553
Real GDP (% annual change)	0.4	1.1	2.0	1.7	1.9	1.9
GDP at Current Market Prices (Mm)	34,820	36,438	39,247	41,797	44,746	47,992
Household Consumption at Current Prices (Mm)	27,813	29,391	31,006	32,995	35,283	37,470
Total Employment	569,282	571,504	578,980	584,776	591,615	598,660
Employment in the Four Productive Sectors	114,826	119,289	121,729	125,021	128,126	131,189
Employment in the Four Productive Sectors (change)		4,463	2,440	3,292	3,105	3,063
Employment in Rest of Economy	454,456	452,215	457,251	459,755	463,489	467,471
Employment in Rest of Economy (change)		-2,241	5,036	2,504	3,734	3,982
Required Average Propensity to Invest (%)	28.2	24.7	25.5	23.5	23.2	22.8
Private Sector Investment at Current Prices (Mm)	5,739	4,394	4,598	4,837	5,231	5,585
Lesotho Highland Development Authority Investment at Current Prices (Mm)	0	0	0	0	0	0
Public Sector Investment at Current Prices (Mm)	3,013	3,977	3,457	3,510	3,601	3,680
Fiscal Balance (Mm)	-563	-1,717	65	72	99	133
Fiscal Balance/GDP at Current Market Prices (%)	-1.6	-4.7	0.2	0.2	0.2	0.3
CBL Net Foreign Assets: Months of Import Coverage	4.2	3.4	2.9	2.9	2.8	2.8

2.5 months of import cover, the premium in terms of jobs and growth is too high. However, the Loti/Rand peg would remain threatened because the level of reserves would be below the recommended level by the International Monetary Fund and SADC. The baseline outcomes are damaging, and the GoL would be forced to undertake severe and sustained adjustment measures by reducing expenses and strengthening domestic resource mobilization.

Moderate Growth Scenario

The moderate growth scenario incorporates more plausible assumptions about investment outlays of private agents in the economy. It considers the possibility of having both the private sector commitments and the GoL commitment to support the private sector in economic activities. This scenario assumes that LHWP II is implemented and the Millennium Challenge Corporation provides grants to support the four productive sectors. It also assumes that LHWP II has commenced and the construction of access roads, bridges, accommodation, and telecommunications infrastructure has started. This scenario further assumes that the mining industry will experience expansion, especially the Mothae Diamond Mine following the takeover by Lucapa Diamond Company that started operations in 2017, as well as further purchasing of equipment and extension the Lets'eng Diamond Mine footprint, worth M753 million over a 3-year period. The operations of these mines will contribute towards growth. Mothae Diamond Mine is expected to inject M450 million in investment and generate about M1,114 million in revenue during phase one of the project. Phase two is expected to run from 2022 to 2031 and will likely inject more than M500 million and generate about M9,758 million during the second phase. These mining activities will increase total revenue, but it will be important to review the mining policy and laws in order to safeguard the interest of the nation.



With regard to investment by LHWP II, this scenario anticipates capital injection of more than M27 billion during the Lesotho Highland Development Authority (LHDA) phase II which includes spending on phase II construction and pump storage facilities. This capital injection is expected to create more 3,000 jobs through support services such as agriculture, transport, and other management services. However, the majority of these jobs are temporary, and the challenge is sustaining them once construction is complete. With these basic assumptions in place, the moderate growth scenario forecasts: net impact of M3,185 million on real GDP with real GDP growing from M24,393 to M27,578; real growth rate increasing from 0.4 percent to 3.5 percent by the end of NSDP II; employment rising by 38,882 over the plan period resulting in 7,776 jobs per annum; household consumption increasing from M27,813 million to M37,958 million. These forecasts require M22,946 million in private sector investments and M25,959 million in capital investments by the GoL over the NSDP II implementation period. The economy would have to improve its average propensity to invest from 28.2 percent to 35.2 percent by the end of NSDP II (table 4.2). This scenario is plausible, and the pattern of growth is key to ensure it would benefit poor households.

LHWP II will increase imports but the overall balance of payments will not fluctuate given the expected inflows into the financial account. The moderate growth scenario forecasts the value of imports to increase from M29,009 million to M43,052 million while exports would rise from M14,768 million to M24,725 million, creating current account deficit throughout NSDP II implementation. The surging current account deficit will be financed through inflows into financial accounts, in particular the expected FDI and net transfers. The overall outcome on the balance of payments is that net foreign assets will remain positive and import cover will stay close to three months throughout NSDP II. The challenge under this scenario is that the number of jobs created is lower than desired. The ideal growth scenario is 5 percent real growth.

Table 4.2: Moderate Growth Scenario: Real Growth Target of 3.5%
(All figures in Million Maloti unless otherwise Stated)

Key Indicators for NSDP II Projections, 2018/19-2022/23 (Target Real Growth Rate of 3.5%)						
	Actual		Projections			
Macroeconomic Indicators	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
Real GDP (Mm)	24,393	24,674	25,275	25,952	26,717	27,578
Real GDP (% annual change)	0.4	1.2	2.4	2.7	2.9	3.5
GDP at Current Market Prices (Mm)	34,820	36,461	39,438	42,405	45,879	49,852
Household Consumption at Current Prices (Mm)	27,813	29,391	31,015	33,074	35,544	37,958
Total Employment	569,282	571,710	580,763	589,918	59,753	608,165
Employment in Four Productive Sectors	114,826	119,289	121,766	125,383	129,458	133,960
Employment in Four Productive Sectors (annual change)		4,463	2,477	3,617	4,075	4,502
Employment in Rest of Economy	454,456	452,422	458,997	464,535	469,296	474,204
Employment in Rest of Economy (annual change)		-2,034	6,575	5,538	4,761	4,908
Required Average Propensity to Invest (%)	28.2	24.8	37.7	30.5	33.3	35.2
Private Sector Investment at Current Prices Mm)	5,739	3,977	4,517	4,664	4,816	4,972
LHDA Investment at Current Prices (Mm)	0	64.6	722.7	2,436.6	3,713.8	4,754.4
Public Sector Investment at Current Prices (Mm)	3,013	3,977	4,517	4,664	4,816	4,972
Fiscal Balance (Mm)	-563	-2,403	-477	-923	-840	-750
Fiscal Balance/GDP at Current Market Prices (%)	-1.6	-6.6	-1.2	-2.2	-1.8	-1.5
CBL Net Foreign Assets: Months of Import coverage	4.2	3.5	2.9	2.7	2.6	2.7



Desired Growth Scenario

This scenario is largely similar to the moderate growth scenario but makes further assumptions regarding growth projections and job creation. It assumes the creation of 49,319 jobs (23,096 from the four productive sectors and 26,223 from other sectors including construction, mining, financial intermediation). The economic performance at the start is estimated to have been 0.4 percent and it is expected to rise to 5 percent in real terms by the end of NSDP II. Job creation and inclusive growth will be driven by the four productive sectors with additional investment outlays estimated at M8,580 million over the plan period and the possibility of 23,096 jobs created from these sectors. The total investment outlay required from the private sector to meet the gradual 5 percent growth target and 49,319 jobs is M26,259 million. This scenario requires that the average rate of investment (average marginal propensity to invest) in the economy rises from 28.2 percent to 50.3 percent by the end of NSDP II (table 4.3) It requires a public sector investment of M22,946 million over the 5-year period.

Much of the investment will come through LHWP II which is estimated to inject M27,000 million capital with the possibility of more than 3,000 jobs created over the plan period. Similar to the previous scenario, the Millennium Challenge Corporation grant is expected to inject about M7,000 million starting in 2020/21 which will partially fall within the NSDP II implementation period. This grant will support provision of necessary infrastructure and other public goods and services in the four productive sectors. Other investments will be through mining expansion, which is expected to inject M1,703 million into the economy.

Table 4.3: Desired Growth Scenario: Target Growth of 5%
(All figures in Million Maloti Unless Otherwise Stated)

Key Indicators for NSDP II Projections, 2018/19-2022/23 (Target Real Growth Rate of 5%)						
	Actual		Projections			
Macroeconomic Indicators	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
Real GDP (Mm)	24,393	24,674	25,293	26,068	27,064	28,345
Real GDP (% annual change)	0.4	1.2	2.5	3.1	3.8	4.7
GDP at Current Market Prices (Mm)	34,820	36,461	39,468	42,597	46,482	51,245
Household Consumption at Current Prices (Mm)	27,813	29,391	31,015	33,085	35,623	38,210
Total Employment	569,282	571,710	580,972	591,561	604,217	618,599
Employment in Four Productive Sectors	114,826	119,289	121,875	126,050	131,333	137,922
Additional Employment in Four Productive Sectors (annual change)		4,463	2,586	4,175	5,283	6,589
Employment in Rest of Economy	454,456	452,422	459,097	465,512	472,884	480,677
Additional Employment in Rest of Economy (annual change)		-2,034	6,676	6,415	7,373	7,793
Required Average Propensity to Invest (%)	28.2	25.7	32.3	40.5	50.3	50.3
Private Sector Investment at Current Prices (Mm)	5,739	4,394	4,610	4,942	5,651	6,662
LHDA Investment at Current Prices (Mm)	0	359	2,236	5,933	9,995	10,710
Public Sector Investment at Current Prices (Mm)	3,013	3,977	4,517	4,664	4,816	4,972
Fiscal Balance (Mm)	-563	-2,403	-471	-885	-719	-467
Fiscal Balance/GDP at Current Market Prices (%)	-1.6	-6.6	-1.2	-2.1	-1.5	-0.9
CBL Net Foreign Assets: Months of Import Coverage	4.3	3.5	2.7	2.5	2.3	2.5



Investment impacts expected are: increased household consumption from M27,813 million to M38,210 million by the end of NSDP II; increased real GDP from M34,820 million to M51,245 million; and increased employment. The net effect of increased growth will be reduction in poverty from the current 49.8 percent of the population living below the poverty line to 43.8 percent by the end of NSDP II. Sustaining the growth momentum after the end of NSDP II will be a serious challenge for Lesotho, and it will be critical to have a structural transformation of the economy, moving from a consumer-based to producer-based economy building on the momentum in the four productive sectors. This will require the GoL to improve the business climate including removal of unnecessary hassles to investment whose impact has not yet been quantified. These reforms should be able to channel more foreign investment into Lesotho while at the same time strengthening domestic business capacity. The GoL will also have to create alternative financing platforms to solve access to finance challenges faced by businesses. The constitutional reforms meant to provide stability will be necessary for further investment into the economy. The impact of these reforms will reinforce growth and contribute to poverty alleviation.

It is critical that strategies for job creation are coupled with specific interventions targeted at the most vulnerable members of society (i.e., youth, elderly, women, and people with disabilities) so that no one is left behind during the growth process.



Part III:

Strategic Framework





NSDP II Summary Programme Logic

NSDP II Goal: “Private Sector-Led Job Creation and Inclusive Growth”			
Key Priority Area Goal (Long-Term)	Outcomes (Medium-Term)	Number of Immediate Outcome/ Strategic Objectives (Short-Term)	Goal
KPA I: Enhancing Inclusive and Sustainable Economic Growth and Private Sector Job Creation	Outcome 1.1: Sustainable Commercial Agriculture and Food Security	9	NSDP II Goal: Private Sector-Led Job Creation and Inclusive Growth
	Outcome 1.2: Diversified Products and Effective Business Linkages	3	
	Outcome 1.3: Operational Industrial Clusters and Integrated Supply Chain	2	
	Outcome 1.4: Improved and Diversified Tourism Products	5	
	Outcome 1.5: Improved Creative Industry	4	
	Outcome 1.6: Strengthened Research for Policy Making and Product Development	2	
	Outcome 1.7: Functioning Incubation Centres and Industrial Parks	3	
	Outcome 1.8: Improved Use of ICT	1	
KPA II: Strengthening Human Capital	Outcome 2.1: Enhanced Skills for Employment and Sustainable Inclusive Growth	4	
	Outcome 2.2: Resilient Health Care Systems and Improved Health Care Outcomes	4	
	Outcome 2.3: Reduced Malnutrition	2	
	Outcome 2.4: Efficient Social Protection Programmes and Reduced Vulnerability	3	
	Outcome 2.5: Improved Migration Management	5	
KPA III: Building Enabling Infrastructure	Outcome 3.1: Sustainable Quality Transport Network	8	
	Outcome 3.2: Sustainable Energy Production and Use	2	
	Outcome 3.3: Sustainable Production, Use of Water Resources, and Improved Sanitation and Hygiene	6	
	Outcome 3.4: Economic-Friendly ICT Infrastructure	5	
	Outcome 3.5: Improved Quality of Built Environment	5	
	Outcome 3.6: Sustainable Solid Waste Management	1	
KPA IV: Strengthening National Governance and Accountability Systems	Outcome 4.1: Improved Public Financial Management and Accountability	5	
	Outcome 4.2: Effective Oversight Institutions	1	
	Outcome 4.3: Improved Service Delivery	3	
	Outcome 4.4: Peace, Security, and Stability	2	
	Outcome 4.5: Respect for Human Rights and Protection of Civil and Political Rights for All	1	
	Outcome 4.6: Effective, Transparent, Efficient, and Equitable Justice System	3	
	Outcome 4.7: Improved Corporate Governance and Protection of Investor Rights	1	
	Outcome 4.8: Stable Labour Markets	3	
	Outcome 4.9: Improved Planning and Reliable Statistics for Monitoring and Evaluation	4	
	Outcome 4.10: Improved Cooperation and Relations between Lesotho and Other Nations	4	
	Outcome 4.11: Informed Nation	1	
Mining and Financial Sector Development	Outcome 1: Mineral Resource Efficiency	6	
	Outcome 2: Stable and Efficient Financial Sector	5	
Total	32	113	
NSDP II Goal: Private Sector -Led Job Creation and Inclusive Growth			

16 For detailed statement of immediate/short-term outcomes for NSDP II, see NSDP II Sector Level Result and Monitoring Framework.



“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.”

– National Vision 2020





5: Overview of Strategic Framework

5.1 Economic Policy Direction

Lesotho must reposition itself to remain competitive in the current international environment. Since 1995, the nation’s focus has been on promoting free market enterprise through privatization of state-owned enterprises and taking opportunities offered by globalization and global value chains in textile industries. It 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. However, the manufacturing sector’s growth has stagnated, and few new jobs are created in this sector. The underlying causes of this stagnation are yet to be explored and Lesotho remains reliant on few products and few markets for exports.

While Lesotho has used trade to drive economic growth and employment creation, this growth has not contributed much to poverty reduction. Moreover, the Basotho-owned businesses have struggled to integrate into global value chains as suppliers, resulting in limited backward linkages to the economy. Lesotho’s market shares in 10 of its most exported products (apparel export products) to the United States have stagnated or declined over the past decade against the Asian and Latin American competitors such as Vietnam, Malaysia, Bangladesh, and Cambodia. A competitive environment and a slow pace of investment climate reforms pose a serious risk to Lesotho’s competitive edge in core sectors.

NSDP II remains concerned with the growth of the private sector, which is expected to deliver jobs, promote diversification of products, and help achieve inclusive economic growth. The GoL has identified four productive sectors to anchor job creation as articulated earlier.

The growth of firms across the productive sectors will depend on establishing business linkages and creating an environment characterized by macroeconomic stability and a conducive investment climate. Macroeconomic stability involves two key elements: rebuilding international reserves to support the exchange rate peg to the South African Rand; and fiscal consolidation through limiting the deficit to less than 3 percent of GDP by restraining public sector spending (particularly the wage bill), reducing non-priority outlays through stringent expenditure controls, and strengthening revenue administration. A conducive investment climate will involve removing impediments and restrictions to businesses and introducing new laws that support business operations, as discussed further in Chapter 6.1.

5.2 NSDP II, SDGs & Other International Development Frameworks

NSDP II is embodied in the National Vision 2020. As such, NSDP II has considered these development aspirations and builds on NSDP I that covered the period 2012/13–2016/17. NSDP II is also informed by the SDGs and the African Union Agenda 2063. It is also aligned with the SADC Regional Indicative Strategic Development Plan 2005-2020.



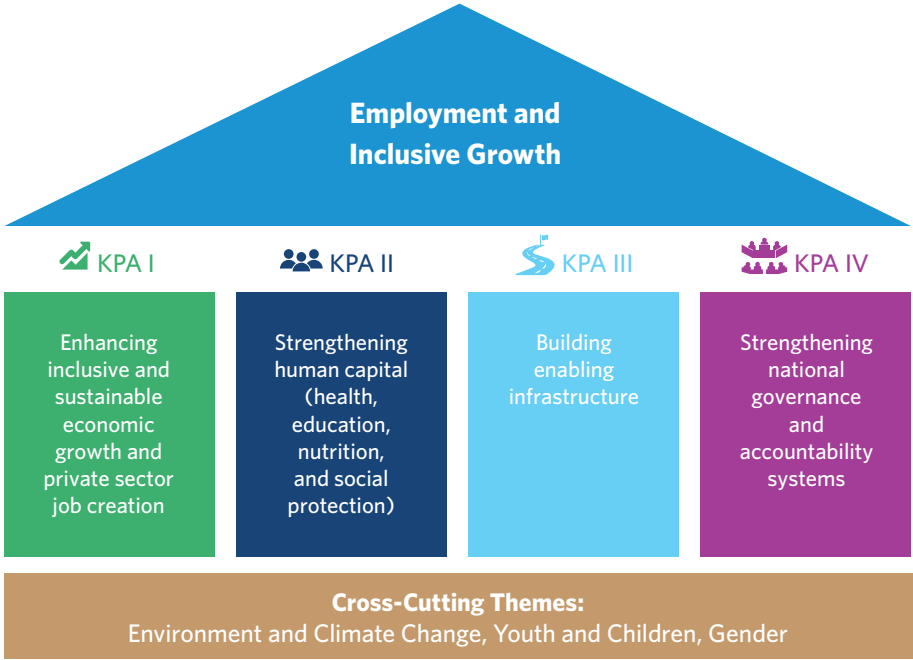
5.3 Key Priority Areas, Strategic Objectives & Key Policy Interventions

Overall strategies for NSDP II both at macro and thematic levels emanate from 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. Figure 5.1 presents the four key priority areas (KPAs)¹⁷ identified to anchor the NSDP II strategic framework. Implementation of interventions under these KPAs will address Lesotho’s main development challenges. NSDP II aims to achieve sustainable development both within and across generations entrenched in the concept of inclusive growth and employment creation. NSDP II further serves as a framework towards the implementation of SDGs, as well as African Union Agenda 2063 goals.

NSDP II focuses on 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 private sector-led growth. Lesotho cannot continue with business-as-usual. Employment and inclusive economic growth must be facilitated urgently. Lesotho has some of the highest unemployment rates globally, ranking in the top 12.

Lesotho must 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 emphasizes the need for Lesotho to tap into

Figure 5.1. Four Key Priority Areas



17 Key priority areas refer to the strategic pillars, which represent high-level objectives around which the NSDP II strategic framework is anchored.



NSDP II mainstreams climate change and the environment, youth and children, gender, and social protection across all sectors. Each is a crucial element in ensuring inclusive growth. Climate change, in particular, has wide-ranging implications on job creation and economic growth and climate change adaptation and mitigation are essential. In addition, gender and social issues must be appropriately addressed or inclusive growth will not be attained.

its existing comparative advantage and broaden sources of growth by supporting economic diversification and export competitiveness through developing industrial clusters under the productive sectors. Although the private sector is at its nascent stage, with a strong regulatory framework and support from the GoL and financing institutions, it will grow and create jobs. Lesotho has committed to establish special economic zones and draw synergies across sectors through clustering of GoL 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 NSDP II implementation. The GoL has committed to public sector modernization reforms to drive public service efficiency and better support the private sector and general public.

From the production side of the economy, NSDP II identifies agriculture, manufacturing, tourism and creative industries, and technology and innovation as employment creating and inclusive growth driving sectors. Mining and LHWP II are considered to be growth accelerators, as they significantly 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. NSDP II views political stability, investment climate reforms, and financial sector development as growth enablers—without such mechanisms it is difficult for private sector to commit funds in the economy.

Support areas for NSDP II include strengthening governance and accountability systems; building enabling infrastructure; and strengthening human capital. In addition, NSDP II aims to build climate change resilience across all sectors (both productive and support sectors) and facilitate low carbon footprints to further sustain development aspirations. Domestic resource mobilization for financing priority sectors will be achieved through further development of the financial sector.

From the demand side, employment creation and inclusive economic growth will be achieved by targeting the domestic goods and services market (currently served by imports from South Africa and elsewhere) and foreign markets. This will broaden growth and the economic base, and likely increase domestic tax collection. The broadening of Lesotho's aggregate demand will likely boost investor confidence leading to increased investments, economic growth, and more jobs. However, for a small landlocked country like Lesotho with low effective demand and per capita income, the domestic market will limit the extent to which it can absorb goods and services produced in Lesotho. Improving trade competitiveness and increasing regional and global integration are essential for growth and development. Lesotho will 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 exports.

In addition, Lesotho's memberships in SACU and SADC, and its multilateral and bilateral trade agreements with a number of countries, offer further market opportunities. Lesotho is part of the African Caribbean Pacific, a European Union Partnership Agreement, which grants non-reciprocal preferential access to the European Union market for some Africa Caribbean Pacific products. Lesotho is classified as a least developed country under the



Cotonou Agreement and its status is enhanced by the European Union's "Everything But Arms" initiative. Under this initiative, Lesotho enjoys quota-free and duty-free access to the European Union market for everything except arms. In addition, Lesotho has recently initialed an Interim Economic Partnership Agreement which will provide 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. Lesotho must take advantage of the regional and global value chains, and the favourable trade preferences in regional and global markets.

Since not all economic growth will be employment creating or poverty reducing, as evidenced by Lesotho's previous experience, it is important that social safety nets be strengthened. Some segments of society may be unable to participate in economic activities or take advantage of available economic opportunities due to incapacities and other vulnerabilities (e.g., people living with disabilities, orphans, and elderly). To realize inclusive economic growth and leave no one behind, Lesotho will continue to strengthen social protection programmes targeted at such groups. These programmes will continue to be improved at three levels: preventive social protection (i.e., measures to avert poverty and food insecurity), promotional income enhancement social protection measures (i.e., livelihood enhancement and self-employment promotion programmes, skills promotion, vocational and agriculture training measures), and transformative social protection measures targeted at addressing inequality and exclusion. Within this context, social protection programmes must contribute towards social inclusion, strengthening human capabilities, creating jobs through multiplier effects, and stimulating aggregate demand leading to increased economic production.



6: Growth Accelerators & Enablers

Investment Climate Reforms, Mining, and Financial Sector Development

6.1 Investment Climate Reforms

A conducive business climate that enables private sector development is critical to achieving job creation and inclusive economic growth. Empirical evidence shows that a good business environment can contribute more than 1.4 percent to annual GDP growth.¹⁸ The GoL is committed to implementing reforms to improve investment climate in Lesotho.

Over the past five years Lesotho has made commendable progress on business climate reforms. Major achievements include One Stop Business Facilitation Centre, 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. Lesotho became a member of Corporate Register Forum in 2013—a forum that provides market information and economic profiles. Automation of Company Registry in the One Stop Business Facilitation Centre was completed and online registration of companies started in 2014. The rollout of services to Maputsoe are partly operational. The Lesotho Trade Portal was launched and moved to the One Stop Business Facilitation Centre with the aim of providing investors information on internal and cross-border trade issues. Lesotho 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 the Cabinet.

The GoL enacted the New Companies Act of 2011 to strengthen investor protection by increasing the disclosure requirements for third party transactions and ensuring company directors would be held liable in the event of abusive transactions. It removed several restrictive requirements such as minimum capital, registration of companies by lawyers, and spousal consent for married women to become directors. It ensures compliance with the anti-money laundering protocols. As a result, the number of days to register a company dropped from 90 to 5 days, and time taken to issue licenses dropped from 35 to 5 days. Lesotho further passed land legislation and streamlined 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 for acquisition of building permits. Lesotho's Ease of Doing Business ranking moved more than 39 points from 143 in 2012/13 to 104 in 2017/18.

The country will continue to implement further reforms during NSDP II in order to rank better than its CMA and SACU counterparts on future rankings, especially since South Africa, Botswana, and Namibia have experienced poorer ratings between 2012/13 and 2017/18 (table 6.1). NSDP II targets reducing the current ranking by at least 30 points by the end of 2022/23. The matrix of investment climate reforms indicating strategic interventions and activities is provided in the annex.

¹⁸ World Bank. (2013).



Table 6.1: Ease of Doing Business Ranking, 2017/18

Countries	2012/13	2017/18	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
Eswatini	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 SAR	2	5	3	5	4	29	9	3	31	28	43
United States	4	6	49	36	49	2	42	36	36	16	3

During NSDP II, the focus will be on removing obstacles where Lesotho ranks unfavourably. Focus will be on obtaining construction permits (current rank of 167), getting electricity (current rank of 152), resolving insolvency which is expected to take 2.5 years (current rank of 124), paying taxes as it takes more than 150 hours to pay value-added tax and more than 41 weeks to get a refund (current rank of 111), protecting minority rights (current rank of 108), and starting a business (current rank of 119). The Maseru City Council will revisit the permit acquisition automation system, improve functionality, and reduce the number of days it takes to obtain a health certificate (currently 14 days).

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). Successful implementation of investment climate reforms will likely see further FDI. Lesotho has extended FDI to various areas of the economy including agriculture and tourism and creative industries. Parallel to these investment climate reforms, the GoL will focus on pursuing four strategies at the macro level under the productive sectors: the Business Incubation Strategy to build productive capabilities of domestic micro, small, and medium sized enterprises; the Economic Diversification and Deepening Trade Integration Strategy; the Export and Investment Promotion Strategy; and the Research and Innovation Strategy. These broad strategies will be implemented in a consolidated manner and will be supported by sector-specific strategies articulated under each support sector.

6.2 Mining

The mining and mineral sector is still at its nascent stage. The GoL, through the Minerals and Mining Policy of 2015, recognizes the potential for natural resource rents from the mining industry to transform the economy through supporting other employment creating sectors such as agriculture, manufacturing, tourism and creative industries, and technology and innovation. The rents 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. In addition, the transformation potential of the mining industry will be realized if Lesotho 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 other industries can supply the mining industry with basic consumables.

Situational Analysis

The Lesotho mining industry is dominated by diamond mining, though sandstone and dolerite are on the rise. Contribution to GDP hovered around 8 percent between 2012 and 2018. However, the artisanal and small-scale mining remains largely under-developed with no legal framework to guide mining prospects. In 2012, the GoL constituted a Ministry of Mining in recognition of the growing importance of this sector.

The major markets for diamonds and sandstone are in Belgium and South Africa, respectively, while dolerite is largely utilized by the 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 of 2005.

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 tax, value-added tax, sub-contract importation tax, and outside SACU customs and excise duties (from inland manufacturing). The taxation regime is considered investor-friendly on a global comparison. However, the debate continues on uncharged excess profit taxation assessed on 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. The valuation of extractive resources is a complex issue that requires urgent attention.

Lesotho continues to pay value-added tax refunds and rebates to investors, encouraging investment in the industry, thereby, further losing on collection opportunities. The mining taxation regime must evolve through innovation and global and regional best practices; however, the Lesotho tax regime appears not to have evolved with developments in the mining sector, both regionally and globally. The root causes include lack of coordination between the GoL's Ministry of Mining, Tax Authority, and the mining companies. The GoL does not hold an independent valuation facility or valuator on diamonds, and this is a challenge for reliable revenue collection. The GoL planned to institute an independent valuation facility but establishment has been delayed.

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 stakeholders and regulators. All diamonds must be cleaned and sorted into sales assortments to record value criteria prior to export to ensure transparency, accountability, and traceability from mine to final sale. The GoL has a long-term view that diamonds must be beneficiated to drive additional economic growth and possible job creation. Concerns exist about low production yields compared to Australia, Botswana, and India which have successfully implemented beneficiation processes. Lesotho will devote resources to explore further possibilities of mining beneficiation and establishment of an independent valuation facility.

Challenges remain related to issuance and management of contracts and licenses. For instance, due to Lesotho’s terrain, diamond prospecting can take up to five years, yet the diamond prospecting license is valid for two years, with a one-year possibility of extension. Although mines are not involved in taxable services during this stage, investors sometimes incur significant losses and do not continue to the next stages, instead focusing on financial

Intermediate Outcome GAE 1.2: Mineral Resource Efficiency

Strategic Objectives	Interventions
1. Promote Artisanal Mining	<ul style="list-style-type: none">▪ Increase local participation in mining.▪ Improve regulatory framework for artisanal mining.▪ Establish Lesotho diamond centre to assist artisanal miners to market diamonds.
2. Improve Geoscience Research and Innovation	<ul style="list-style-type: none">▪ Create an autonomous geoscience agency.▪ Develop geoscience laboratories.▪ Develop geochemical maps for the mining sector.
3. Improve Regulatory Framework for the Mining Sector	<ul style="list-style-type: none">▪ Review current mining legal and regulatory framework, including taxation bill, to align with Minerals and Mining Policy of 2015.▪ Review current mining contracts in line new mining law.▪ Review health and safety legal framework and ensure inclusion in current mining draft bill.▪ Enhance compliance to regulatory frameworks.▪ Improve diamond valuation and sales assortment (i.e., develop independent diamond valuation facility).▪ Create autonomous licensing and regulatory body for mining industry.
4. Enhance Skills Development for Mining Industry	<ul style="list-style-type: none">▪ Develop mining sector skills development plan.▪ Identify and establish training centres for technical and vocational skills in partnership with mining industry.▪ Review mining and extractive sector contracts, in particular the ‘transfer of skills’ clauses to ensure mining companies are compliant with skills transfer obligations (i.e., sorting and valuation skills).
5. Promote Inter-Sectoral Linkages between Mining Industry and Productive Sectors	<ul style="list-style-type: none">▪ Develop strategy for transfer of mining shares to private sector.▪ Review mineral sector value chains and develop plan for value addition.▪ Promote coordination between mining sector and other economic sectors.▪ Use rents from mineral resources to catalyse wider economic development opportunities.
6. Improve Corporate Governance in Mining Industry	<ul style="list-style-type: none">▪ Enhance compliance to risk management in mining industry.▪ Establish compliance function in Ministry of Mining to enforce environmental impact assessments, health and safety, and others.▪ Develop corporate social responsibility and compensation guidelines.▪ Appoint members of boards for mining companies based on corporate governance principles.▪ Build capacity of mining board members to enhance accountability.▪ Establish relevant board sub-committees.▪ Promote transparency in mining industry.



recovery. Monitoring prospecting companies to ensure production has not yet started is also a challenge. The contracts issued to diamond mining companies are designed to offer negotiability of royalties, which affects revenue collection since mines rarely pay 10 percent. At present only one diamond mining company pays up to 8 percent in royalties while the rest remain below 6 percent. Reduced royalty payments claimed as an operating expense further provide tax relief to the mining companies. There is general belief that amendment of the renegotiation of leases clause could drive away investors. There is a 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 advocate for mining lease agreements that are non-negotiable to bring both predictability and consistency to investors. It is imperative mechanisms be explored that will ensure Lesotho attracts and secures investment, while at the same time preserving high-quality minerals for greater national benefit and the future generation of Basotho.

A further challenge exists in the currency of payment. The Exchange Control Regulations between CMA countries require all payments within member states be made in local currency, resulting in mining royalties paid to GoL must be made in the local currency. The GoL, therefore, has to forego foreign exchange which could contribute to building the gross international reserves, if royalties were paid in U.S. dollars. Although the foreign exchange repatriation clause has been adhered to, the policy challenge is whether part of repatriated earnings should be converted by the state for local operations or by the commercial banks. To date, commercial banks convert the foreign exchange into local currency, thereby keeping the hard currency. If the state were to convert such hard currency and keep it, it would boost foreign reserves. This remains an area that requires further exploration in the current landscape of declining foreign reserves.

The industry is further characterized by limited infrastructure and the 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, increasing costs to private sector initial investments. Similarly, skills development remains a critical challenge as the country struggles to meet industry needs and effectively bridge the skills gap.

The GoL’s role as a shareholder and industry regulator complicates the industry’s corporate governance principles. The initial plan was to hold shares on behalf of the Basotho people, but the GoL needs to redefine its role and think critically about ways to relinquish shareholding to local industry. This could serve as a strategy to build the domestic private sector in the long-run.

In addition to sector-specific challenges, the inter-sectoral 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. The mining sector presents various opportunities for inter-sectoral linkages which have the potential to create jobs. Specific opportunities that would link the mining industry to other sectors are presented in box 6.1.

Strategic Objectives and Interventions

The mining industry has potential to accelerate economic growth both directly and indirectly by serving as an enabler to all productive sectors. The GoL, as a shareholder in the mining companies and the custodian of mineral resources for Basotho, will ensure the mining companies are acting in good faith, transparent, accountable for decisions and actions, comply with license conditions and agreements, and act in the best interest of Lesotho. During NSDP II implementation, the GoL will undertake clearly defined strategic interventions to ensure that the mining sector serves as a growth accelerator, enabler of the productive sectors, and meets its corporate citizenship.



Box 6.1: Inter-sectoral Opportunities in the Mining Industry

- Local producers could supply mines with agricultural produce such as milk, eggs, and fresh fruits and vegetables. Ministries involved in business development, agriculture development, and farmer associations will facilitate these opportunities.
- Local businesses could provide mining industry with protective clothing and other consumables such as toilet paper and stationery.
- Local businesses could explore supplying the mining industry with park homes and furniture which is currently sourced from South Africa.
- Local businesses could consider providing accommodation facilities to the mines. This would require strong collaboration and coordination with tourism sector.
- Local business could provide sewerage disposal services, and potentially other waste disposal services.
- Local business could use innovative means for scrap metal collection.
- Local business could provide professional services, including accounting and audit services, as well as health and safety auditing.

6.3 Financial Sector Development

NSDP I recognized the financial sector as the foundation for sustainable and broad-based economic growth that would make poverty eradication possible. Implementation of planned financial sector reforms aimed at increasing financial inclusion and improving access to finance were fast-tracked. The Financial Sector Development Strategy 2014-2017 was developed as a necessary vehicle for coordinated implementation of financial sector reforms. The strategy had four pillars: promoting financial inclusion; mobilizing financial resources and promoting savings culture; improving efficiency of financial services; and enhancing financial stability and soundness. Much progress was made in the reform process, but significant challenges remain in facilitating higher economic growth through productive sectors.

Lesotho Financial Sector: Evolution, Structure & Reforms

Lesotho's financial sector continues to be relatively small but has evolved significantly in the last five years, including development of institutions common in modern and well-functioning financial sectors. The sector includes a stock exchange, four commercial banks, seven insurance companies, two assets managers, a credit bureau, about 150 pension plans, mobile network operators, 120 savings and credit cooperatives, about 65 rural savings and credit groups, and 330 village and loan associations. The sector contribution to GDP was estimated at 7 percent in 2017, significantly up from 4 percent in 2010.

The banking sector contribution to GDP stood at 6 percent in 2017, compared to 3 percent in 2010, and it constitutes 42.3 percent of GDP. It is dominated by Pan African Banks. Three of the commercial banks (Standard Lesotho Bank, Nedbank Lesotho, and First National Bank Lesotho) are subsidiaries of South African banks while the other is government-owned (Lesotho Post Bank).¹⁹ This structure has implications for the domestic regulatory and supervisory regime although the subsidiaries are regulated by advanced methodologies in their home countries.

¹⁹ South Africa is a member of G20, which is spearheading the post-crisis financial sector reforms.

CBL is working towards the full implementation of Basel 2.5 in 2019, review of the Financial Institutions Act of 2012, and development of a crisis and resolution framework. This sector remains critical in increasing financial inclusion and improving access to finance. The banking sector has 49 branches in urban and peri-urban areas which will likely mobilize resources for investment under the productive sectors.

Some progress has taken place in rural areas, led by Lesotho Post Bank. Commercial banks primarily serve the formal sector of medium and large corporate enterprises and salaried employees. At the end of 2017, there were 217 automated teller machines and 1,561 point-of-sale terminals in Lesotho (table 6.2). Most access points are located in urban centres and lowlands, with rural areas lacking adequate coverage.

The insurance and pension industry contributed 1 percent to GDP in 2010. It is small but performs well against many other African countries, excluding South Africa. Relatively inexpensive funeral policies have led to high insurance penetration estimated at 62 percent, compared to 50 percent for savings products. Significant changes

Table 6.2: Lesotho Financial Sector Landscape, 2013/17

	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 Terminals	802	1,050	1,168	1,374	1,561
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 Bureaus		1	1	2	2
Leasing Companies					-
Number of Fund Managers	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	1,724	2,746	3,039	5,706
Number of Registered Mobile Money Accounts	448,740	742,922	1,064,028	1,137,903	1,345,114
Credit Bureau					
Number of Registered Credit Providers					21
Number of Customers			77,870	90,757	103,826
Maseru Securities Market					
Number of Brokers					2
Number of Advisors					4
Number of Listed Stocks					

Source: Central Bank of Lesotho.



are expected in the insurance industry as CBL begins to implement the Insurance Act of 2014. The Private Pensions Bill is still awaiting enactment by Parliament. The bill will be a major milestone in the Lesotho financial sector as it will facilitate the regulation of private pensions by CBL. 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.

The role of non-bank financial institutions has increased in the last five years. Major reforms include enactment of the Financial Institutions Act of 2012 which allows different categories of banking licenses such as banks, credit only institutions, money transfers, and large financial cooperatives. The Financial Institutions (Large Financial Cooperatives) Regulations of 2016 placed large financial cooperatives under the regulatory and supervisory authority of CBL. The regulations are intended to strengthen governance of large financial cooperatives and internal controls, as well as streamline regulatory relationships between CBL and the Commissioner for Cooperative Development. They are also intended to create a prudential, legal, regulatory, and supervisory framework for large financial cooperatives to protect depositors and member shares of these cooperatives, while preserving the ability to serve members. The financial institutions (credit-only institutions) created an opportunity for increased 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. There were only two money transfer and foreign exchange bureaus at the end of 2017, but 227 money lenders. Further reforms are still needed in the money lender 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 aimed at curtailing harmful practices.

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 has been sluggish with only two commercial banks receiving clearance. Little interest has been expressed in leasing as a product and as a business space by financial institutions, other credit providers, and prospective asset finance companies. Further strategies will be implemented to facilitate leasing market development that will directly benefit the productive sectors and other support sectors.

The establishment of Maseru Securities Market (MSM) in 2015 was a significant milestone and a major development in the financial sector landscape. Lesotho was amongst the few countries in SADC that did not have a stock exchange. The money and capital market development programme resulted in issuance of long-dated government bonds. Similarly, MSM facilitated development of the corporate bonds and equities market, while at the same time, bolstering secondary market development. Stock exchange progression is slow in terms of listing of equities, but other market makers have been issued with licenses. There are six market participants currently, and all are financial advisors (i.e., Old Mutual Lesotho Consulting Services, Matlotlo Group Lesotho, Cadiant Partners Consultants and Actuaries, and Nala Capital). Katleho Securities is a broker and sponsor for MSM while Motswedi Securities is both a financial advisor and a broker. Regulation of MSM is currently through Capital Markets Regulations of 2014, but the Principal Securities Law is being prepared.

The digital revolution has created opportunities for payment systems, while at the same time exerting pressure on CBL to strengthen legal and regulatory frameworks to achieve safety and efficiency of national payment systems. To date there are two mobile money systems, M-Pesa and Ecocash. At the end of 2017, M-Pesa and Ecocash jointly registered a total of 7,945 agents and had 554,092 active mobile money accounts. Payment systems have also contributed to the efficiency in the remittance market. Historically, the Lesotho economy depended on remittances, primarily from South Africa. Initially, remittances were from Basotho working in the South African mining sector, but recent evidence indicates that Basotho are employed in a number of sectors in South Africa. At the end of



2017, total remittances to Lesotho were recorded at 19.3 percent of GDP. The launch of 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 compelling evidence that digital payment systems have significantly contributed to the expansion of financial inclusion in Sub-Saharan Africa. During NSDP II, priority will be given to: improving access to credit, particularly by the business sector; improving financial inclusion; and improving domestic resource mobilization.

■ *Improving Access to Credit*

Access to credit has been identified as a major constraint to investment. NSDP II prioritizes increasing access to finance and financial inclusion as a major policy objective under financial sector development to support the productive sectors. Commercial banks will remain the main source of credit and that poses a challenge particularly to financing for the micro, small, and medium sized enterprises in the identified productive sectors. Significant progress has been achieved in improving credit extension through successful implementation of reforms such as: Legal Capacity of Married Persons Act of 2006, Land Act of 2010, and Credit Bureau of 2016. The impact of these reforms has been evidenced by the growth in loans-to-deposits and credit to GDP ratios. The loans-to-deposit ratio measures the extent of financial intermediation in the economy, and it increased from 36 percent in 2010 to 55.4 percent in 2017, while credit to GDP ratio increased from 11 percent to 24 percent during the same period. A concern is 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. Some household credit is directed towards micro, small, and medium sized enterprises, possibly due to stringent requirements for businesses to access credit. Mortgages more than doubled between 2010 and 2017.

The sectorial classification of credit continues to reflect the structure of the economy with mining, manufacturing, construction and transport, storage, and communication sectors continuing to dominate. In line with recent development, mining continues to be on an upward trajectory. However, two of the four sectors upon which job creation and inclusive economic growth are anchored during NSDP II—agriculture including hunting, forestry, and fishing sub-sector; and tourism and creative industries including wholesale, retail, hotels, and restaurants sub-sector—continue to receive low credit. At the end of 2017, agriculture stood at 1.2 percent of total credit, slightly higher than 1 percent recorded in 2013. This was mainly due to its subsistence nature, lack of de-risking, and slow implementation of reforms necessary to commercialize the sector. As such, the agricultural sector 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 traditionally depended on self-financing, government subsidies, and financing from development partners such as the World Bank, International Fund for Agriculture Development, and Food and Agriculture Organization. For example, from 2012 to 2018 the Small Holder Agriculture Development Project covered five districts (i.e., Mafeteng, Maseru, Berea, Leribe, and Botha-Bothe) supporting agriculture production, with a total value of M300 million.

Credit to the manufacturing sector remains relatively high, though it has been declining in recent years partly reflecting the turbulent conditions since the global financial crisis of 2008. At the end of 2017, credit to the sector stood at 12.7 percent of total credit. The bulk of the credit is directed to the textiles and apparel sector in the form of short-term smoothing facilities. The challenge remains for other forms of manufacturing, particularly in smaller categories. Availability of well-tailored trade finance facilities is also a challenge.



The tourism sector is classified under the wholesale and retail trade, restaurants, and hotels category. Credit has been on the decline despite an observable increase in the number of lodging categories in major urban centres. Credit to the sector declined from 14.5 percent of total credit in 2013 to 8.4 percent in 2017. The technology and innovation sector is proxied by the service sector which includes transport, storage, and communications, non-bank financial institutions, real estate and business services, and social and personal services category. Credit to this category has also been high. The share of credit to this sector was recorded at 28.61 percent (26.1 plus 2.21) at the end of 2017.

Innovators, entrepreneurs, and small businesses often do not meet commercial bank requirements and have difficulties accessing credit. This is a challenge, as they are at the epicenter of NSDP II for job creation. There are currently 76,000 micro, small, and medium sized enterprises in Lesotho, estimated to have created more than 118,000 jobs, primarily for women under the age of 35. The 2016 Finscope presents compelling evidence on the challenge of access to credit for micro, small, and medium sized enterprises. The survey shows that only 2 percent borrow from banks, 7 percent use informal financial services, and 91 percent refrain from borrowing due to concerns they will not be able to service the loans. Most of these enterprises do not have credit history because owners use personal bank accounts for banking. The three broad categories of business constraints are: obstacles inhibiting business incubation, obstacles inhibiting smooth operations, and obstacles inhibiting business expansion. The problem is more pronounced in rural areas compared to urban areas.

The partial guarantee scheme was an effort made by the GoL to assist business enterprises in meeting the collateral requirements of commercial banks. It provided some relief but has limitations. In 2017, about six

Table 6.3: Private Sector Credit and Partial Guarantee Scheme

	2013	2014	2015	2016	2017
Credit					
Private Sector Credit (Million Maloti)	4,556	5,121	5,502	5,665	5,455.6
Private Sector Credit (Percent of GDP)	21	21.9	22.2	22.9	23
Business (Million Maloti)	1,558	1,815	2,103	1,967	1,983.2
Households (Million Maloti)	2,998	3,306	3,398	3,698	4,148
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
Non-Bank Financial Institutions, Real Estate, and Business Services	13.1	23.6	21.1	26	26.4
Community, Social, and 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.



guarantees were provided, totaling M15.3 million and facilitating credit of M31.2 million. Going forward, the GoL will explore additional measures to address the shortage of much needed capital by micro, small, and medium sized enterprises. This includes additional guarantees to expand the credit guarantee scheme and exploring other risk-sharing instruments for diverse business ventures under the productive sectors.

■ *Improving Financial Inclusion*

Significant progress has been achieved in improving financial inclusion, including the introduction of mobile payments which helps overcome the challenge of geographic terrain. Mobile banking products have extended banking services to rural communities. The implementation of Lesotho Financial Inclusion through the Mobile Money Project is intended to build on these successes scale-up mobile money usage.

■ *Domestic Resource Mobilization*

Following the global financial crisis, domestic resource mobilization is a GoL priority due to changing external resource conditions. A well-functioning financial sector is critical for effective domestic resource mobilization. This is particularly important for Lesotho. As a CMA member, free capital mobility amongst member states is allowed.²⁰ Significant progress has been made in creating supportive infrastructure for domestic money and capital markets. The money market is mainly for liquidity management and monetary policy purposes and has four instruments 91-day treasury bills (TBs), 182-day TBs, 273-day TB, and 364-day TBs. The TBs are traded biweekly and are improving participation with the non-bank sector. At the end of 2017, the outstanding TB holdings was M724.7 million.

The bond market was launched in 2010 with the issuance of 3-year and 5-year bonds with the intention to finance major capital projects and fill fiscal gaps. The bond window is opened every quarter, and auctions are also every quarter. Participation in this market has been broad with a sizable number of institutional investors. At the end of 2017, the outstanding treasury bond holdings was M957.8 million. It is critical for successful domestic resource mobilization that companies list with MSM. The GoL offloading of shares in various companies to the stock exchange may facilitate this process. The availability of additional resources through the Insurance Act of 2014, enactment of the Pension Bill, and promulgation of the Collective Investment Schemes will also contribute to the development of the market. During NSDP II, Lesotho will undertake strategic interventions to further develop the financial sector making it an enabler of the productive sectors.

20 Other CMA member states include South Africa, Eswatini, and Namibia.



Intermediate Outcome GAE1.3: Stable and Efficient Financial Sector

Strategic Objectives	Interventions
1. Improve Access to Finance	<ul style="list-style-type: none">▪ Build technical and professional industry-specific capacity in identified productive sectors to enable access to finance.▪ Promote tailored credit products for micro, small, and medium sized enterprises.▪ Provide incentives to private financial institutions to target defined groups in value chains in productive sectors.▪ Promote leasing as financing source.▪ Establish Small Businesses Start Fund, primarily through public contributions, to support small business ventures.▪ Promote Basotho's participation in capital investment initiatives.▪ Promote short-term supply chain finance in partnership with private sector.▪ Expand partial credit guarantee scheme and ensure it covers four productive sectors.▪ Implement collateral registry.
2. Improve Resource Mobilization for Productive Sectors and Other Economic Sectors	<ul style="list-style-type: none">▪ Promote domestic equity market.▪ Explore more financing mechanisms to support productive sectors.▪ Promote joint ventures between Basotho-owned and foreign enterprises.▪ Establish development finance through capitalizing on institutional and contractual savings to finance long-term development projects.▪ Explore possibility of issuing diaspora bond.▪ Advocate for use of Lesotho's capital markets (e.g., venture capital funds, private equity market, asset management services, and others)▪ Develop ICT infrastructure to support financial sector.
3. Improve Regulatory Framework for Financial Sector	<ul style="list-style-type: none">▪ Enact legal frameworks to support financial sector and provide for financial innovations.▪ Establish institutional framework for integration of microfinance institutions into financial system.▪ Establish frameworks for agriculture financing and insurance.
4. Improve Financial Stability and Soundness	<ul style="list-style-type: none">▪ Build capacity for consolidated supervision and surveillance.▪ Implement financial inclusion strategy.▪ Promote financial skills and knowledge to empower society on financial matters.▪ Enforce regulatory compliance of financial institutions.▪ Improve corporate governance in financial sector.
5. Improve Land Use to Enable Access to Credit	<ul style="list-style-type: none">▪ Harmonize financial laws with <i>de facto</i> practices of land use.▪ Advocate for land use in access to credit.▪ Establish mechanisms for land aggregation and transaction.▪ Reform inheritance law to allow women and girls access to productive assets and resources that can be used to secure funding.



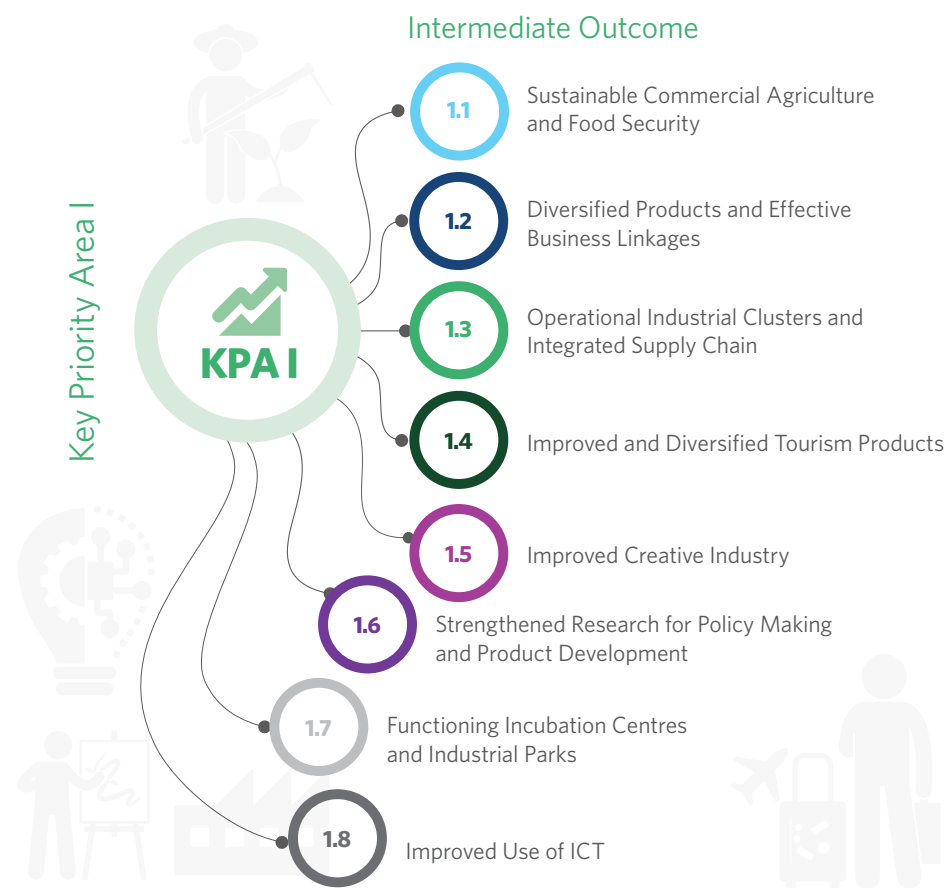


7: Key Priority Area I

Enhancing Inclusive and Sustainable Economic Growth and Private Sector Job Creation

The new growth path that the country is embarking on is anchored to four productive sectors: agriculture, manufacturing, tourism and creative industries, and technology and innovation. NSDP II proposes eight strategic intermediate outcomes under this priority area (figure 7.1) which will be achieved through strategic interventions.

Figure 7.1: Strategic Intermediate Outcomes under Key Priority Area I



The systematic examination of evidence, national consultations with stakeholders, and reviews of analytical publications provide insight on binding constraints to private sector investment in Lesotho. These binding constraints, if removed, would likely unlock private sector investment and entrepreneurship in the productive sectors. The six most binding constraints to private sector investment across the four productive sectors are: access to finance; access to land; access to infrastructure, including access to utilities and energy; access to skills; poor health; and regulatory environment.



Although access to finance appears to dominate across at least three productive sectors, further analysis and comparative analysis with other countries in the region indicates that there may be underlying causes contributing to why individuals in these sectors may not have access to finance. For small business start-ups, the problem is lack of collateral and bankable proposals while for long-term investments, the challenge is that banks do not have interest to finance long-term investments. Lesotho should promote development finance to assist long-term business ventures. Another key challenge is access to land for agricultural production as it is constrained by unequal gender and generational exclusion due to cultural constraints.

Private sector development is constrained by undeveloped infrastructure. National resources have not been used efficiently to provide public services that stimulate private sector development. Weak economic governance and weak institutions contribute to the key constraints, as identified in the root cause analysis. Societal norms and certain harmful cultural practices have also contributed to declining human capital, especially surrounding HIV/AIDS which has affected productivity across sectors. Table 7.1 summarizes the severity of these cross-cutting constraints. Other sector-specific constraints, as outlined in the sector profile sections, are also identified. Lesotho must resolve these issues to unleash job creation potential. The Michael Porter’s Competitive Diamond Model was used to identify specific interrelated characteristics that determine the ability of firms in each of the sectors to effectively compete in markets and to identify specific conditions that constrain competitive business capacity.

Table 7.1: Private Sector Investment - Binding Constraint Summary by Sector

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 and Creative Industries	High	High	Medium	High	Low	Low
(4) Technology and Innovation	Medium	Medium	Medium	High	High	Low

Source: Consultations with the Private Sector (2017).

7.1 Agriculture Sector

Opportunities, Constraints & Achievements

Agriculture remains a critical sector for food security and employment creation. It is the backbone of the rural economy where 65.8 percent of the population lives.²¹ However, its 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 to 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.²² It is

21 Lesotho Population Census. (2016).

22 Bureau of Statistics. (2013).



Warning:

With the anticipated temperature increases due to climate change, these opportunities may be at risk. Climate change adaptation and mitigation is critical. Research should further explore agricultural opportunities that may be possible through projected climate change impacts.

Lesotho also has potential to expand the poultry and dairy industries, which are currently dominated by imports from South Africa. The GoL has declared the dairy industry a priority for food security, and several initiatives are underway to stimulate dairy development. Crop production 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 horticulture,²³ with the primarily products of fresh fruits and vegetables. Lesotho has further demonstrated potential in aquaculture, particularly the production of trout, which takes place in the Highlands. Trout is exported to South Africa and Japan. Other market opportunities remain to be explored.

There is ample opportunity for Lesotho to be competitive in agricultural exports. The 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 produce to markets at a time when competition is limited and maximise on premiums. These investment opportunities and others in the agriculture sector are summarized in table 7.2.

Opportunities in the agriculture sector remain largely untapped, and the sector has great potential to create jobs—especially for the population living in rural areas, women, and youth (including those not transiting to tertiary education which is more than 65 percent of the total youth population).

These opportunities, however, are undermined by many challenges including: soil erosion and land degradation reduce the ability to produce adequate food; fragmented and under-developed 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 (e.g., only 1 percent of total commercial bank 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 systems.

Furthermore, the land cover suitable for agriculture has declined to 9 percent due to encroachment on the most productive and potentially high-yielding land over the past decades, soil erosion, and other forms of environmental

23 NSDP Review. (2016).

mostly dominated by subsistence agriculture, with few farmers producing at a commercial scale, yet the country holds potential to produce organic products for exports to the European Union and United States markets, as well as other trade partners. There is a need to explore organic food production to economically reposition Lesotho and achieve prosperity in the short- to long-term.

The livestock industry is dominated by wool and mohair production, which are exported in raw form. South Africa remains the main corridor for export, although there is a growing trend of wool exports to the international markets, particularly China and India. 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, it has potential to expand wool and mohair production.



Table 7.2: Agriculture Investment Opportunities

Investment Opportunity		Brief Description
1.	Bio-Trade	Lesotho has biodiversity and derivatives that should be commercialized sustainably. Some local businesses already use for medicinal, cultural, and cosmetic purposes.
2.	Commercial Poultry Production (e.g., Chicken, Eggs, and Related Value Chain Products), Seed Potato Production, Asparagus	The country currently imports more than 80 percent of poultry products from South Africa so local demand could support poultry production. Given competitive wages, poultry production and related value chain products remain opportunities for investment. Seed potatoes and asparagus also have great export potential.
3.	Horticulture	There is potential for crop and fruit tree farming. Feasibility studies are complete and negotiations with owners of suitable land for production are underway. Experimental evidence provided through the World Bank “Private Sector Competitiveness” project showed that Lesotho has a comparative advantage of high-altitude conditions, which are conducive for early ripening seasons.
4.	Aquaculture	Lesotho’s climate conditions present great potential for aquaculture. Trout is currently bred and exported to Japan and the European Union.
5.	Red Meat Production	The country’s rangelands have potential to support production of organic red meat.
6.	Medicinal Plants (e.g., Cannabis)	Private companies are planting medicinal cannabis plants, then marketing and selling to the United Kingdom, Canada, and United States. Further investment potential exists.
7.	Wool, Mohair, Hides, and Related Products	Lesotho is second in the world in terms of production of wool and mohair. The potential lies in value chain development and scaling-up production.

degradation and climate change. The encroachment is due, in part, to the lack of law enforcement and neglect by administrative authorities.

However, the remaining arable land can still provide Lesotho with enough food to satisfy the population and export market.²⁴ The greatest limit is irrigation infrastructure, with only 36,000 hectares of land declared suitable for irrigation. Around 2,600 hectares have been developed, while large tracks remain fallow. Local producers experience post-harvest losses due to either disorganised markets, which result in producers running between traders to dispose of produce. Access to markets is further restricted by lack of storage and road infrastructure. Due to these issues, producers often experience losses or low returns, which are often less attractive compared to off-farm returns. Low adaptation to high-yielding technologies and poor adaption to climate change has also affected the sector. As a result, Lesotho is faced with chronic food insecurity and malnutrition, primarily affecting women, children, and vulnerable groups from poor households. This also undermines overall population productivity. In 2017/18, an estimated 15 percent of the population was food insecure, with 78 percent (224,664) in rural areas, despite implementation of agricultural support programmes, including input subsidy schemes and crop sharing schemes by the GoL. Achievements attained during NSDP I are highlighted in box 7.1 . The commercialization of agriculture will require a functioning agri-food system, however, the Lesotho system is largely under-developed. Farmers are not well organised and lack support services and coordinated information sharing. They are unable to

24 Food and Agriculture Organization. (2016).



supply markets because they are not aggregated into producer organizations and common value chains, and value addition is limited due to lack of skills.

Box 7.1: NSDP I Achievements in Agriculture

- The GoL implemented the Enhanced Integrated Framework Tier II project that provided greenhouse technology to local farmers for production of high-value fresh fruits and vegetables. It created 100 jobs.
- The spawn production facility for mushrooms was established at Masianokeng.
- The horticulture pilot farms (i.e., commercial orchards) were successfully established in Mahobong, Qoqosing, and Thuathe plateau.
- The GoL completed the geographic information system field mapping and provided farmers with inputs, fertilizer subsidies, and rehabilitated several farmer training centres.
- An estimated 40,677 people were sensitised on conservation agriculture and 54 people were trained in para-veterinary skills.
- The GoL vaccinated 935,870 sheep and goats against anthrax and sheep scab, 76,842 other animals against anthrax, and 26,357 against rabies.
- The new drought-tolerant varieties of seeds were improved and several value chain feasibility studies were competed with assistance from the Food and Agriculture Organization.

Strategic Objectives and Interventions

To ensure sustainable commercial agriculture while remaining cognizant of climate change impacts, environmental degradation, other natural disasters, as well as harmful cultural practices that have rendered the economy vulnerable, Lesotho will undertake specific interventions to achieve positive results.

To increase agriculture production and its commercialization, the country will address issues related to management of range, water sheds, protection of the environment and biodiversity, and reversing alarming environmental degradation that has aggravated the food insecurity situation. The following strategic interventions are proposed:

Intermediate Outcome 1.1:
Sustainable Commercial Agriculture and Food Security

Strategic Objectives	Interventions
1. Improve Functioning of Land Markets	<ul style="list-style-type: none">▪ Organise land titling.▪ Conduct land capability assessment and create online database of land parcels suitable for agricultural production and responsible irrigation.▪ Market identified land parcels to potential investors.
2. Improve Genetic Resources	<ul style="list-style-type: none">▪ Promote improved animal breeds and use of plant germ plasm.▪ Enhance seed certification capacity.▪ Enhance production and use of certified seeds (including plant propagating materials).▪ Promote research and dissemination of drought-tolerant crop varieties.▪ Promote conservation of gene banks, community seed banks, and zoological and botanical gardens to conserve biological diversity of valuable plant and animal species.▪ Promote management and conservation of indigenous breeds and enhance appropriate use.▪ Promote vertical integration in agricultural sector.



Strategic Objectives	Interventions
3. Build Sustainable Infrastructure for Agriculture ²⁵	<ul style="list-style-type: none">▪ Provide access corridors and other supporting infrastructure (e.g., livestock sales yards) for agriculture.▪ Promote environmentally-friendly and energy-saving irrigation and water harvesting.▪ Promote climate smart and resource efficient infrastructure.▪ Develop irrigation policy and irrigation master plan.▪ Strengthen and promote integrated catchment management.▪ Promote development of private sector-led post-harvest and storage facilities.▪ Establish Lesotho Agri-Georeferenced Information System²⁶
4. Improve Access to Finance and Risk Sharing in Agriculture	<ul style="list-style-type: none">▪ Provide financial and technical support services to farmers to facilitate access to finance.▪ Strengthen agricultural financial institutions.▪ Explore and establish agri-insurance in collaboration with private sector.▪ Finalise and operationalise collateral registry to allow use of land and other assets as collateral.▪ Develop capital market instruments for agriculture.
5. Improve Technology and Use for Agriculture	<ul style="list-style-type: none">▪ Promote conservation agriculture.▪ Mechanise agricultural production.▪ Enhance integrated management of pests and diseases.▪ Strengthen national agriculture research.▪ Strengthen animal disease control through surveillance and risk assessment.▪ Enhance farmer access to veterinary services.
6. Improve Production of High-Value Crops and Livestock Products	<ul style="list-style-type: none">▪ Support small-holder farmers in producing high-value crops.▪ Develop climate screening guidelines to reduce production risks and vulnerabilities.▪ Promote crop diversification with differing susceptibilities to droughts, pests, flooding, etc.▪ Review subsidy policy to include high-value crops and livestock.▪ Develop market responsive breeding programmes (both livestock and crops).▪ Promote intensive and commercial livestock production.▪ Promote production and use of quality feeds.
7. Build Capacity of Farmers, Agricultural Institutions, and Associations	<ul style="list-style-type: none">▪ Organise producers and industry players into enterprise-based associations (system) in order to transform the Lesotho agri-food system.▪ Provide institutional framework and enforcement mechanisms for development of well-functioning producer organizations and industry associations.▪ Integrate environment and climate change into agricultural policies, strategies, plans, and regulatory frameworks.▪ Review Extension Services Model to incorporate outsourcing of extension service from private sector.▪ Raise awareness of farmers advocating for adoption of climate smart and conservation agricultural practices.▪ Strengthen capacity of extension agents, associations, and training institutions on climate smart and conservation agriculture.▪ Provide agriculture skills-based training for youth, women, and vulnerable groups.

25 Physical infrastructure strategic interventions should take into account the environmental impact assessment, as per the Environment Act of 2008.

26 Timely availability of reliable georeferenced 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 in using resources to achieve sustainable levels of food production and development.



Strategic Objectives	Interventions
8. Develop Value Chains in Agri-Food Systems and Enhance Agricultural Markets	<ul style="list-style-type: none">Promote aggregation of smallholder farmers into upgraded value chains.Improve private sector-led distribution of input subsidies.Develop community and enterprise-based value chain systems.Develop and promote sanitary and phyto-sanitary regulatory framework systems and Codex-compliant food policy and food quality labels.Develop and implement agricultural market strategy (e.g., resuscitate agri-products, exhibitions, and auction sales across.)Promote agricultural value addition and processing.
9. Improve Management of Range Resources	<ul style="list-style-type: none">Promote active and inclusive participation of all stakeholders in rangeland resource management.Improve range governance.Rehabilitate rangelands and wetlands in collaboration with private sector, investors, and communities.Develop and implement conservation strategies to improve rangeland resource resilience to climate change.Improve existing guidelines and grazing control regulations for sustainable management of range resources.Develop national fire policy for rangeland management.Improve rangeland grazing capacity.Devise and implement mechanisms for mandatory compensation for utilisation of rangeland resources (e.g., environmental services and ecosystem services) for the grazing levy, etc.Manage alien and invasive vegetation species.Enforce key land use policies and acts (e.g., land, environment, range, water, climate change, etc.).

7.2 Manufacturing Sector

Lesotho’s manufacturing sector is based on textiles, garments, and footwear exports. It is dominated by female labour and large foreign firms with very limited linkages with the domestic private sector. The GoL’s objective is to diversify and deepen manufacturing for regional and international markets to promote sustainable job creation. In 2013, more than 45,000 people were employed in manufacturing, of whom over 40,000 were female.²⁷ 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. The textile and clothing industry accounted for the highest share of employment in the sector, at 91 percent during the fourth quarter of 2016.²⁸ While initially the sector produced only textile garments, investments have been more diversified in recent years and now include manufacturing of leather seat covers (for BMW and Volkswagen to service the South African automotive industry), electronics, food and beverages, and cement.

The garment sub-sector consumes between 22,000 and 26,000 tonnes of imported knitted fabric per year in 30 factories. 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 a general shortage of fabric knitting mills and dye houses, resulting in dependence of fabric imported from China with long lead times for knit garment manufacturing—at a time when buyers demand shorter lead times. This constrains the expansion of exports to regional and international markets (e.g., AGOA, SACU, European Union, and SADC). The inefficient integration raises input prices, increases production lead times, and limits diversification of both

27 Lesotho Review. (2014).
28 Bureau of Statistics. (2016).

Lesotho proactively manages the manufacturing carbon footprint, systematically considering the ecological, economic, and social effects of climate change. Evidence indicates that the manufacturing sector will be adversely affected by extreme weather events (e.g., heat waves, floods, wind storms), as well as an increase in the risk of damage to industrial plants, products and infrastructure, as well frequent supply chain disruptions. In addition, the manufacturing industry is a greenhouse gas emitter, which contributes to climate change. Carbon emissions and chemical and waste water effluent discharges from manufacturing establishments are not only underlying causes of climate change, but also sources of toxins adversely affecting human and animal health, including extensive ecosystem damage and high levels of toxicity in local riverine ecologies. Lesotho recognizes these challenges and is developing interventions to proactively prevent and mitigate these serious issues.

firms; limits on foreign ownership of land; and limits on the size of plots available for commercial and industrial use. The application of labour laws is regulated by the inspectorate of the Lesotho Ministry of Employment and Labour, but challenges remain on the working conditions and treatment of employees in the sector.²⁹ Many retailers and brands that source garments from Lesotho also monitor vendor factory conditions to ensure ethical sourcing destinations. Compliance with local and global standards on sustainable development and production needs to be fostered.³⁰

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

products and markets. Establishment of a knit mill to support the local garment industry has great potential. Vertical integration will become increasingly necessary for satisfying international markets that demand flexibility and short lead times. Lesotho plans to establish the Special Economic Zone at Ha Tikoe and Ha Belo Industrial Estates, with the possibility of establishing a knit mill under these special zones. The mill could potentially supply the region’s garment producers at a reduced import cost.

Opportunities, Constraints & Achievements

During NSDP II, Lesotho will take advantage of opportunities stemming from existing free trade agreements such as SACU and SADC, or preferential ones such as AGOA and the European Union’s Generalised System of Preferences to increase and diversify export products and markets. The SACU market gives Lesotho access to a combined GDP of over US\$400 billion, while the CMA arrangement offers duty rebates on manufacturing input imports. Lesotho will also negotiate free trade agreements with countries it currently has 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 GoL will strategically identify and leverage opportunities that are offered by this change in China’s development model. There are a number of emerging investment opportunities that will be explored to diversify exports for Lesotho (box 7.2).

However, competitiveness in manufacturing is undermined by: limited access to finance; low productivity; 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 international markets trade; government policies that favour FDI instead of domestic



Box 7.2: Investment Opportunities in the Manufacturing Sector

Investment Opportunity		Brief Description
1.	Organic and Fortified Foods and Grain Production	▪ Existing cannery infrastructure that requires rehabilitation.
2.	Water Bottling	▪ Abundant water. Already a major bulk exporter.
3.	Processing Sandstone for Building	▪ Substantial deposits of sandstone. Can scale production and processing of sandstone for local and exports.
4.	Brick Making	▪ Significant clay deposits provide an opportunity to manufacture bricks and ceramic tiles for local and export markets.
5.	Packaging Materials	▪ 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 can be made from locally sourced leather.
7.	Waste Management and Recycling	▪ Production of fertilizers, bricks, and garments produce significant solid waste, and general consumption by households produce materials that can be recycled.
8.	Electronics and Car Parts	▪ Niche opportunity given Lesotho's proximity to South Africa, and global nature of South African industry.
9.	Medicaments	▪ Potentially important products with South Africa base and expand market into Botswana.
10.	Food Processing	▪ Very few consumable products processed in Lesotho, most are imported from South Africa.

The GoL has established Lesotho National Development Corporation and Lesotho Tourism Development Corporation to serve as investment promoting agencies. Lesotho National Development Corporation promotes foreign investment and larger scale national investment and serves as an entry point to foreign investors. Lesotho Tourism Development Corporation strives to promote Lesotho as a preferred destination for tourism investment and is the entry point for tourism investment. There has been good collaboration in recent years, 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 driven by the private sector.

The GoL has also established Basotho Enterprises Development Corporation as an agency that supports and develops Basotho-owned enterprises. It provides entrepreneurial capacity building for: micro, small, and medium sized enterprises; business advisory services; and support and networking. It works in collaboration with the Ministry of Small Business Development, Cooperatives, and Marketing which provides policy direction for micro, small, and medium sized enterprise development and support.

During NSDP I implementation, Lesotho made significant achievements in manufacturing which it will build upon during NSDP II. These achievements are summarized in box 7.3.

NSDP II will build upon these achievements and target two outcomes: diversification of products and building of business linkages between domestic firms and foreign firms and develop industrial clusters and integrated supply chains.



Box 7.3: NSDP I Achievements in Manufacturing

- Established the Technical Barriers to Trade Enquiry Point and a rudimentary metrology laboratory.
- Approved Lesotho Investment Policy.
- Developed the Consumer Protection Policy.
- Conducted feasibility studies for development of Phase 3 of Ha Tikoe Industrial Estate and Ha Belo Industrial Estate.
- Completed several studies to inform the future direction under trade and investment.
- Conducted consultations for development of a comprehensive Trade Policy for Lesotho.
- Restructured Lesotho National Development Corporation to strengthen institutions for trade capacity and efficiency.
- Ratified World Trade Organization Trade Facilitation Agreement.
- Formulated AGOA National Response Strategy.
- Acceded to the SACU-Common Market of the South Preferential Trade Agreement.
- Signed European Union-SADC Economic Partnership Agreement.
- Enacted Industrial Licensing Act 2014 and Regulations.
- Launched Lesotho Enterprise Assistance Program under the Private Sector Competitiveness and Economic Diversification Project.
- Established two Skills Training Centres in Maseru and Maputsoe.
- Passed Lesotho Standards Institution Act in 2014.

Intermediate Outcome 1.2:
Diversified Products and Effective Business Linkages

Strategic Objectives	Interventions
1. Improve Manufacturing Capabilities and Move into Knowledge Intensive Value Chains	<ul style="list-style-type: none">▪ Develop inclusive business linkage programme to improve backward and forward linkages.▪ Promote light manufacturing in both peri-urban and rural areas.▪ Promote domestic private participation in regional and global value chains.▪ Develop incubation framework to support early stage start-ups with seed financing, research and development, and trade financing.▪ Establish manufacturing innovation hubs to promote product value chains and ensure equal participation by all.▪ Strengthen local business associations across the country.▪ Capacitate textiles and garment industry with managerial and business skills
2. Strengthen Business and Trade Facilitation for Export Promotion	<ul style="list-style-type: none">▪ Rollout One Stop Business Facilitation Centres to all districts and expand mandate to include registration of intellectual property rights.▪ Develop industrial and logistical infrastructure programmes to promote local investment.▪ Upgrade key infrastructure for trade facilitation including a dry port.▪ Improve cross-border trade logistics.▪ Streamline import and export procedures.▪ Build automated trade facilitation system.▪ Upgrade customs processing and clearance facilities to enable high-speed border transit.▪ Improve provision of work and residence permits.



Strategic Objectives	Interventions
3. Expand Textiles and Clothing Hub to Increase Exports	<ul style="list-style-type: none">Enhance export promotion activities including market information on export opportunities.Increase productivity in AGOA beneficiary sectors, most notably textiles and apparel.Integrate textiles and clothing industry-related curricula in technical training institutions.Improve availability of skills in industrial machine repair, maintenance, and management.Promote further investment in textile and garment sector.Promote local ownership of textile sector.Introduce supplier development programme.Develop comprehensive export promotion programme for manufacturing and service sector.

Lesotho aims to have operational industrial clusters that will promote an integrated supply chain. Industrial clusters have the potential to benefit firms 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 geographic proximity.

Intermediate Outcome 1.3:
Operational Industrial Clusters and Integrated Supply Chain

Strategic Objectives	Interventions
1. Promote Industrial Clustering and Integrated Supply Chain	<ul style="list-style-type: none">Identify areas of competitive advantage and priority industries.Promote investment in targeted industries including niche targeted products.Develop incentive framework to encourage research and development in manufacturing.Promote partnerships in targeted industries including high-tech and high-value products and agro-processing.Expedite provision of adequate utilities (i.e., electricity, water, ICT, waste disposal, and management facilities) to industrial sites (clusters).Promote private sector-led expansion of green industrial infrastructure (i.e., factory shells and related industrial infrastructure).Upgrade and climate-proof national access roads to production sites.Develop strategy for industrial and marketing infrastructure to support domestic manufacturing value chains.
2. Improve Regulatory Framework to Create Competitive Business Environment	<ul style="list-style-type: none">Develop competition laws and regulations.Develop policy framework for empowering Basotho businesses.Build a marketing intelligence database.Develop national trade promotion strategy.Implement national brand strategy.Formulate product and sector marketing strategies.Promote consumer protection.Approve and implement Lesotho's industrial policy and micro, small, and medium sized enterprise policy.Develop policy on Infant Industry Protection.Develop national skill transfer policy.

7.3 Tourism, Creative Industries & Sports and Recreation

Opportunities, Constraints & Achievements

Lesotho's natural beauty, rich biodiversity, and absorbing prehistoric and cultural heritage offer a unique tourism experience. 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 industry.³¹ The accommodation industry accounted for the majority of employment, estimated at 2,969 jobs. The food and beverages industry was the second largest employer, accounting for 733 jobs. The majority of employees are women and youth, both in formal and informal jobs. Tourism offers women and youth opportunities for employment, income generation, and entrepreneurship. Responsible tourism and local development can act as a vehicle for empowerment of women and youth.³² Most tourists come from SADC countries (mostly South Africa), Germany, the Netherlands, China, the United Kingdom, and the United States. The Lesotho Tourism Development Corporation promotes tourism investment by attracting foreign and national investors and is an entry point into the tourism sector.

Lesotho will be hosting the African Union Region 5 Under-20 Games in 2020. Sport is increasingly recognized as a tool for development at an international level and is a great opportunity for the tourism sector. Sport can support development by generating income from sports-related sales and services, supporting business growth, entrepreneurship, job creation 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. Additional opportunities with job creation possibilities are highlighted in table 7.3.

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, limited entrepreneurial skills, poor tourism product development, environmental degradation, and associated impacts of extreme climate events.

Table 7.3: Additional Job Creation Opportunities

Product Investment Opportunity	Brief Description
1 Tourism Attraction Sites	Lesotho offers a unique tourism experience not available in commercialized countries. Management of attraction sites must be strengthened to better benefit surrounding communities.
2 Accommodation and Conferencing	Opportunity exists in development of accommodation and conferencing facilities.
3 Creative Arts	Lesotho currently exports its creative art products to the United States, Canada, and European markets. There remains great potential for market and product diversification.
4 Sports and Recreation	Lesotho can host high-altitude sports because of the unique terrain, altitude, and weather conditions.

31 Lesotho Review and Tourism Employment Survey. (2014).

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



NSDP I Achievements

Multiple sites were identified for tourism development area feasibility studies: Letša-la-Letsie, Semonkong, and Sani Top. Master plans were developed, and four potential sites for development of visitor centres were identified (i.e., Morifi, Thaba-Tseka, Monontsa, and Marakabei). In an effort to develop market outlets for local tourism product value chains, 11 tour excursionists (based in Maseru) and 16 tour guides (based in Kome, Malimong, Thaba-Bosiu, and Ha-Baroana) were trained. Linkages with South African tour operators Clarence, Vaal, Underberg, and Bloemfontein were formed. Additionally, 20 crafters and 89 rural homestay owners from eight communities were trained.

Lesotho’s star grading system was implemented to help improve quality, and is currently under review for additional modifications. Sixteen accommodation facilities have been graded to date. To improve marketability and visibility of Lesotho as a destination of choice for tourists, the country developed the Lesotho Tourism Positioning and Communication Strategies, as well as the Lesotho tourism brand. The brand has been introduced through activities including engagement of a public relations agency to increase awareness of Lesotho in the South African market, and promotion of tourism events such as the Lesotho Sky, Afri-Ski King’s Cup, Ultra Trail Marathon, Lesotho Tourism Festival, and Kome Beer Festival.

In 2013, Lesotho recognized many achievements: the Sehlabathebe National Park was listed as a World Heritage Site; 65 other heritage sites were documented; 20 craft companies were trained and empowered to export to the United States, the Lesotho tourism brand was launched; the State of the Environment Report for 2014 was produced; and 187 environmental impact assessment certificates were issued in mining, agriculture, business enterprises, roads, filling stations, factories, and buildings. As a strategy to protect, conserve, and manage cultural heritage resources, Lesotho commenced the construction of the National Museum and Art Gallery in 2015, and construction is anticipated to be complete by the end of 2019. The Maseru Cultural Centre construction started in 2018. Lesotho also launched the Creative Industries Empowerment Programme, and trained 45 companies, with 20 already exporting products.

The Copyright Regulations of 2015 was passed to protect art innovations and Lesotho is in the process of establishing a Copyright Society Board. The Community Conservation Forums have been formed in areas around southern and northern parks in order to manage biodiversity, and herder groups from Ha Khohlooa and Lithabaneng Ha Kepi were 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.

While commendable progress was made, key challenges include: absence of Inter-Ministerial Tourism Development Committee, low private sector investment, limited participation of accommodation facilities in the star grading system, limited resources for implementation of activities, and disregard of environmental concerns by other sectors.

Strategic Objectives and Interventions

The GoL recognizes the importance of tourism and leveraging the country’s heritage portfolio to contribute to growth. Lesotho’s history, identity, rich biodiversity, and climate conditions, as well as its location, offer unique attributes for tourists. Over the next five years, Lesotho 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 and interventions.



Intermediate Outcome 1.4:
Improved and Diversified Tourism Products

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



Creative Industry³³

Lesotho’s unique landscape provides boundless opportunity for serving as a backdrop to adventure movies, as well as hosting multi-sport, high-altitude training events, and a wider range of traditional leisure and adventure activities. The creative industries remain largely informal, and no baseline data currently exist on industry employment. The industry includes fine arts, films, theatre productions, music, fashion, and literary arts. Participation in the music industry is skewed towards men, while crafts are dominated by women. Most artists export products to South Africa, the United States, Kazakhstan, and Canada. 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, and marginalization of creative arts in policies and plans. It is also characterized by fragmented production and no organised collection centres.

Strategic Objectives and Interventions

Lesotho is committed to improving the creative industry through arts and crafts, fashion, performing arts, music, and more. During NSDP II, the GoL will improve legal frameworks governing the industry and will increase investment in the industry.

Intermediate Outcome 1.5:
Improved Creative Industry

Strategic Objectives	Interventions
1. Improve Legal Frameworks and Regulations to Create Competitive Creative Industry	<ul style="list-style-type: none">Review and develop laws supporting creative sector, including the Film Act and Language Act.Develop collective management systems.Encourage inclusion of intellectual property education in enforcement agencies and government officials (e.g., Lesotho Mounted Police Services, Lesotho Revenue Authority, judiciary, prosecution, and GoL departments).Improve compliance to creative industry laws.Review Copyright Order of 1989 and develop copyright policy.Develop content policy and enforce locally produced content quotas on all content service providers (e.g., cell phone, television, radio, and satellite providers)
2. Increase Investment in Creative Arts	<ul style="list-style-type: none">Introduce incentives (e.g., tax rebates and tax breaks) to facilitate industry growth.Develop creative industry strategy.Facilitate private sector participation in creative industry to solicit support.Facilitate access to finance.
3. Improve Functioning of Creative Industry	<ul style="list-style-type: none">Build capacity of creative practitioners and support creative industry.Support development and engagement of associations as key industry players.Build grading, classification, and licensing system of industry professionals.Review and develop national creative industry database.Establish internationally-accredited Creative Arts Academy to be supported by incubation programmes.Incorporate creative arts in school curricula at all levels.

33 This includes television and film, music, theatre, book publishers and authors, crafters, fine arts (e.g., painters, sculptors, graphic designers), cultural sports and games, Sesotho Academy (i.e., language rights), beauty pageants, and models.



Strategic Objectives	Interventions
4. Market Lesotho Creative Industry Internationally and Locally	<ul style="list-style-type: none">Raise awareness on business practices so creative industry becomes profitable and self-sustaining.Use platforms such as international conferences, workshops, and screenings to raise awareness about Lesotho’s cultural heritage.Establish creative centres to be operated by local creative practitioners.

Sports & Recreation

The GoL recognizes the importance of sports for heath, job creation, recreation, crime prevention, and social inclusion especially for people living with disabilities, women, and girls. Sports provide effective, affordable, and accessible physical activity and recreation, which will contribute to a healthier and happier population.

The GoL continues to support sports financially and through provision of an infrastructure platform for sporting activities. The private sector also provides support through corporate social responsibility initiatives. Poor governance within sports associations has led to frustrations by the private sector.

Lesotho has also drafted a sport and recreation policy to guide sporting activities. Leveraging relationships with international organizations and bilateral partnerships, Lesotho has received financial and technical support for capacity building in sports. Lesotho already participates in Commonwealth Games, Olympic Games, and Paralympic Games. The sports sector has the potential to make significant contributions to tourism development.

In 2020, Lesotho will be hosting the African Union Region 5 Under-20 Games, which will require a well-functioning transport system, reliable sporting systems, and good hospitality sector facilities. There is also an opportunity to improve the sports infrastructure in districts and at communities through collaborating with the Ministry of Local Government. It already has equipment and land that is used to construct Pitso houses which could be developed to cater for both district gatherings and sports facilities. The Ministry of Local Government is also a custodian of land that could be reserved for sports and recreation facilities. Lesotho needs to establish accreditation and regulation mechanisms for sports and recreation.

Lesotho’s geographical position attracts athletes from around the world to train for international competitions due to high altitude. Lesotho hosts the Roof of Africa race that is attended by over 2,000 participants on an annual basis. This race has been organised successfully for more than 40 years now. Similarly, the country hosts the Lesotho High Altitude Summer Marathon annually in Mokhotlong (though adequate accommodation is typically an issue). It attracts seasoned runners and people from SADC countries. In addition, Lesotho organises the historical Moshoeshoe walk from Menkhoaneng to Thaba-Bosiu, an annual event which has taken place for 13 years. This walk has rudiments of adventure and education, and is a highly recognized international recreational activity, and has garnered attention amongst Basotho and the international community. Lesotho also provides opportunities for water sport, such as rowing, and existing assets are in place at the Mohale Dam, Katse Dam, and Metolong Dam. Water sports are popular worldwide and can serve as a great tourism entry point.

Lesotho, as an affiliate to international sporting bodies, may have the opportunity to participate in and host international competitions, and possibly host headquarter offices for international sporting organizations. To position itself appropriately, Lesotho must improve sports infrastructure at the district and community levels through leveraging existing resources under the Ministry of Local Government and Chieftainship Affairs, including plant equipment and land that is used to construct Pitso houses, which could be used to cater for district gatherings and



sports facilities. Key challenges include limited coordination between the Ministry of Gender and Youth, Sport, and Recreation, the Ministry of Local Government, and other stakeholders involved in sports (e.g., Lesotho Sports and Recreation Commission). The sports business also requires solid legal frameworks and human and organizational frameworks, all of which must be strengthened.

During NSDP I, the GoL secured working relationships with Cuba to provide training in physical education and establish physical education and sport programmes at the National University of Lesotho and Lesotho College of Education. This initiative is yet to yield results. It will, however, require funding for conducting research and establishing the faculty and department of sports and recreation at both institutions. It will also require recruitment of physical education teachers in high schools and secondary schools. Lesotho will also send two students per year to study physical education and sport in Cuba. The Ministry of Education is currently participating in the curricula review to ensure that physical education is included in the school curricula.

Key challenges the sports and recreation sector face are: outdated laws (e.g., Lesotho Sport and Recreation Act of 2002 requires revision) and lack of appropriate policy frameworks; inadequate sports infrastructure³⁴ and recreation facilities and equipment; poorly structured sport and recreation governance system, inadequate co-ordination and collaboration of stakeholders in sports (e.g., Ministry of Education and Training, Ministry of Tourism, Ministry of Health, Ministry of Social Development, and others); lack of capacity of technical and administrative staff; exclusion of sports in the national curricula and exclusion of gender equality and disability in sports at all levels; and insufficient financial resources to support sports.

Strategic Objectives and Interventions

Intermediate Outcome 1.5:
Improved Creative Industry (Sports and Recreation)

Strategic Objectives	Interventions
1. Improve Infrastructure for Sports and Recreation	<ul style="list-style-type: none">▪ Design, construct, and rehabilitate sports infrastructure at strategic locations.▪ Provide equipment for sports and physical activity in schools and community clubs.▪ Develop implementable sports infrastructure plan involving private sector.▪ Establish system for management and maintenance of sporting facilities.▪ Review Lesotho Sports and Recreation Commission 2002 Act.▪ Finalize and adopt sports and recreation policy.▪ Review corporate social responsibility in line with GoL goals and country priorities for sports sector.
2. Enhance Inclusive Sports and Recreational Programmes	<ul style="list-style-type: none">▪ Identify niche sport sectors to focus resources in building international competitiveness.▪ Promote physical activities in communities across Lesotho.▪ Develop and promote cost-effective programmes to motivate inactive individuals to participate in sports and physical activity.▪ Develop sports and recreation sector programmes tailored to women, elderly, and people with disabilities.

34 Infrastructure remains central in the development of a functioning sports and recreation sector. The current situation poses challenges that hinder efficient implementation. Currently, football stadiums are only in Maseru, Mafeteng, and Leribe. In Maseru and Mafeteng, the athletic tracks can be used for athletic activities. Mafeteng Stadium also has netball, volleyball, and basketball courts. These facilities are owned by the GoL, with the exception of Leribe Football Stadium, which is owned by Lesotho Football Association. Lehakoe Recreational Centre is another privately owned facility which provides various outdoor and indoor courts, as well as a swimming pool. Lawn tennis courts are available and owned by Tennis Federation.



Strategic Objectives	Interventions
3. Improve Sports and Recreation Institutional Capacity	<ul style="list-style-type: none">▪ Develop programmes for institutional capacity building, promotion of sports, club development, and training and coaching at local levels.▪ Include physical education and sports as integral part of school curricula.▪ Establish sports and recreation programmes at Lesotho College of Education and National University of Lesotho.
4. Promote Sports for Business	<ul style="list-style-type: none">▪ Establish sport trust.▪ Host international events and federation headquarters to boost tourism.▪ Develop activities based on sports using existing sporting facilities, sports, and community-based programmes to create jobs, particularly for youth.

7.4 Technology & Innovation

Introduction

NSDP II prioritizes technology and innovation. It has the potential to create thousands of jobs and enable achievement of growth targets. Lesotho must build a culture of innovation to successfully transition to an information-oriented society. Boosting digital development is key. Productive sectors under NSDP II will rely heavily on technology and innovation to generate employment and inclusive growth. The transformative potential of technology and innovation in production systems promises improved efficiency, effectiveness, and precision of production. The growth of micro, small, and medium sized enterprises into viable business ventures will largely depend on the national innovation system envisaged in NSDP II.

Success will hinge on efficient diffusion of technology and innovations. Technologies developed elsewhere can be imported, adapted, and disseminated to users who can, in turn, develop businesses that generate income and create jobs. Product innovation³⁵ is one such tool. For example, typically one person may produce one Basotho hat a day using wool to brand the product by hand. Implementing innovate tools, may allow for five hats to be produced by one person using new tools to make the labelling attractive and saving time. Such innovation allows for the emergence of new firms, new sectors, and—eventually—new jobs.

Process innovation may impact labour demand, so technology and innovation policies must maximise job creation aspects of product innovation and minimise the direct labour-saving impact, while ensuring efficiency. Global models include public private partnerships in innovation and technology; the Triple Helix model of university-industry-government partnerships; the University-Industry Innovation model; and public-led innovation and technology models. All successful models worldwide are backed by evidence and technical teams from universities, industrial research laboratories, or technology and innovation centres.

Opportunities & Constraints

Lesotho has followed a sound model for ICT sector development over the past decade, including market competition, private sector participation, and independent sector regulation. However, Lesotho is yet to reap digital dividends. The internet infrastructure is available to serve mobile communication and internet users, but internet use is still significantly lower than mobile communication use. Price and device accessibility remain key drivers for low

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



internet usage and lack of competition. Reasons include the lack of awareness on ICT potential, low digital skills amongst the population, and limited relevant application content.

International experience suggests that digital success stories start when governments champion the digital agenda, and provide a strong example through establishment of a far-reaching digital government. Through establishment of the Lesotho Government Data Network and two data centres, Lesotho has taken steps to establish a foundation for the development of a digital government. However, further policy action is needed. The GoL is implementing an e-government project to improve online public service delivery but has been met with delays due to lack of a clear policy framework; insufficient skills amongst public officials; and poor interoperability amongst government platforms.

The level of technology adoption, innovation, and support for research and development remains relatively low. The 2017 Global Competitiveness ranking shows that Lesotho ranks 115 and 125, respectively, 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).

In 2012/13, at the start of NSDP I implementation, Lesotho ranked more favourable on a number of indicators, such as the availability of latest technologies, firm level technology absorption, capacity of innovation, and Patent

Table 7.4: Lesotho’s Level of Technological Readiness and Innovation in Global Competitiveness Ranking Compared to Botswana and Namibia, 2017/18

	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 Research and Development</i>	133 (132)	3.2	82	3.3	83	3.3
<i>Government Procurement of Advanced Technological 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>Patent Cooperation Treaty Patents</i>	126 (87)	0.1	119	0.0	96	0.1
<i>Company’s Spending on Research and Development</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

Note: Scores are on a scale of 1 to 7, where 7 indicates the best score; 137 countries are scored. Rankings from 2012/13 are in parenthesis.



Cooperation Treaty patents. Lesotho regressed in the 2017/18 rankings. This may be a result of other countries moving up faster or an actual decline in Lesotho performance.

Small-scale innovation activities continue. For instance, collaboration between universities, the GoL, and industry has commenced and is steadily increasing. Several university-industry product exhibitions have also taken place since 2015/16. Local higher learning institutions have started activities to encourage innovation and commercialize research in products that have potential to create employment and promote inclusive growth. There is also an increasing trend amongst institutions to deviate from traditional teaching methods and research through engagement of industry actors, with a renewed focus on results and innovation. For example, the National University of Lesotho started commercializing research on practical products in 2010.

The Innovation Hub is already established at the National University of Lesotho and the university has experimented with several products, some of which have been launched and commercialized while others are in the early phases. Potential remains for exploring and leveraging other products from 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.

Employment creation through these products has not been formally evaluated, but potential exists. Commercialization can change the economic dynamics. Continuous introduction of products into the marketplace will facilitate industrialization. Unless the economy effectively industrializes, employment creation and poverty reduction will not be achieved. The cooperation between universities and the private sector is crucial in realizing goals. The GoL commits to initiating university-private sector cooperation with stakeholders committing to creation of innovation hubs and incubation centres. LNDC will continue working with the university to promote innovation and collaboration during NSDP II implementation.

Small-scale initiatives also provide capacity building to help ensure success. The Vodacom Innovation Park, based in Maseru, offers business training, mentorship, and links local financial investors to selected entrepreneurs aged 18-35 (including, but not limited to, digital entrepreneurs). The programme, which accepts approximately six applicants per year, highlights innovative partnerships that allow for business training, increased access to information, reputational signaling to investors, and further of knowledge and learning agendas.

New innovations and initiatives taking place are promising, but they remain uncoordinated and fragmented due to poor coordination, silo-styled working, and lack of clear policy direction guiding innovation and technology adoption. For example, development of agave gels and creams could offer real potential, but currently agave plants are not being replaced by planting, rendering such products unsustainable. Production methods used throughout the process do not meet international standards, which is further exacerbated by lack of national standards. Despite these challenges, the innovations may play a key role in industrializing the landscape in Lesotho, and interventions are planned to address key challenges, including the Standards Institution Act 2014, and a board has been appointed. Furthermore, the NSDP II aims to implement a standards regime.

Although opportunities abound, private sector consultations revealed challenges that may impede the industrialization landscape (table 7.5).

Young ICT entrepreneurs and professionals in Lesotho face many constraints (table 7.5). As a result, Lesotho has not participated in the recent influx of technology hubs across Africa, and no such structure is present. The availability of home-grown mentors and gatherings for digital-related business activities is slowly increasing (e.g., Maseru Hook-Up Dinner). No institutional channels exist to link local digital start-ups to the international community. The



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 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 universities, industries, and government.▪ Lack of mentorship.▪ Limited incubation funding, space, and support.▪ Local investors lack expertise to properly evaluate potential and financial viability of ICT business opportunities.▪ International business networks for digital entrepreneurship are under-developed.	<ul style="list-style-type: none">▪ Lack of industrial parks.▪ Slow or stagnant 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.

challenges are further exacerbated by lack of business incubation centres (e.g., product development, community, and accelerators). ICT graduates possess the technical skills employers are looking for, but 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.³⁶ Unemployment amongst ICT graduates is generally low, as demand is growing with supply limited. This has resulted in the so-called talent war—low supply of ICT expertise versus high demand for ICT services. There is also low customer confidence on locally developed ICT solutions. Many ICT graduates migrate to the South African labour market, as it offers more competitive wages and a more sophisticated and developed digital sector.

Intermediate Outcome 1.6:
Strengthened Research for Policy Making and Product Development

Strategic Objectives	Interventions
1. Enhance Institutional Capacity for Research and Innovation	<ul style="list-style-type: none">▪ Support research and development in niche areas that support private sector competitiveness.▪ Provide supportive infrastructure for product development and innovation in higher learning institutions.▪ Create incentives and extend support to facilitate higher institution staff engagement with dissemination and commercialization of research innovations to maximise potential economic impact.▪ Improve position of higher institutions as providers of choice for consultancy services based on research excellence in key priority areas.▪ Improve skills base for research and innovation by introducing post-graduate programmes and improving existing ones.
2. Enhance Collaboration Between Institutions of Higher Learning, Industry, and Government on Learning and Research	<ul style="list-style-type: none">▪ Promote online feasibility of researchers to instill a culture of innovation, information sharing and knowledge transfer, community engagement, and creative practices amongst institutions of higher learning.▪ Develop framework for collaboration between institutions of higher learning and research.▪ Strengthen tertiary institutions-industry-government collaborations in research and innovation.▪ Establish national innovation networking clubs to address coordination and collaboration challenges.

36 Mosola. (2018).



Strategic Objectives & Interventions

Despite the constraints, young Basotho entrepreneurs are developing inspiring ICT applications including: 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 stock management of drug supplies; and the use of drones for photo-mapping services for topics ranging from monitoring construction work to disaster management programmes. Each of these, developed by young Basotho, are currently marketed in Lesotho, and offer the potential to compete in international markets.

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 enhance innovations and operations of productivity centres. Central to inventions and innovations, is effective intellectual property rights. Technology diffusion is paired with the sale of rights and has proven in many advanced economies to be an important component of economic success. The Technology Business Incubation model promotes technology transfer and assists in nurturing the development of a technology base and knowledge-driven enterprises through an array of resources and services. Productive processes should be refined to more effectively focus on sustainability and inclusion. Technology policies will be prioritised with a view towards enhancing long-term growth prospects through subsidies and tax concessions. Without appropriate platforms, innovation is very difficult so the GoL will work to facilitate platform development.

Intermediate Outcome 1.7:
Functioning Incubation Centres and Industrial Parks

Strategic Objectives	Interventions
1. Establish National Incubation Centres and Industrial Parks	<ul style="list-style-type: none">▪ Provide support to sector-specific incubation centres and technology hubs, such as ICT, in banking, manufacturing, and agriculture targeting micro, small, and medium sized enterprises.▪ Provide incubation funding, mentorship, and incentives for cooperation.▪ Establish knowledge-based industrial (research, science and technology) parks to support job creation.▪ Develop funding model for national incubation centres and technology hubs in collaboration with private sector.▪ Develop technology and innovation database of all sectoral players.▪ Explore incentive mechanisms to enable companies to support students in exercising innovation potential.
2. Establish Cottage Industries and Support Locally Developed Products	<ul style="list-style-type: none">▪ Support growth of rural-based cottage industries.▪ Establish trade linkages between rural-based cottage industries and urban retailers to create markets for rurally-produced products.▪ Promote use of appropriate indigenous technologies in cottage-based production systems across sectors.
3. Strengthen Legal and Institutional Frameworks for Innovation	<ul style="list-style-type: none">▪ Enact science and technology law.▪ Develop innovation policy.▪ Strengthen and enforce intellectual property rights to protect innovation.



Support Sectors

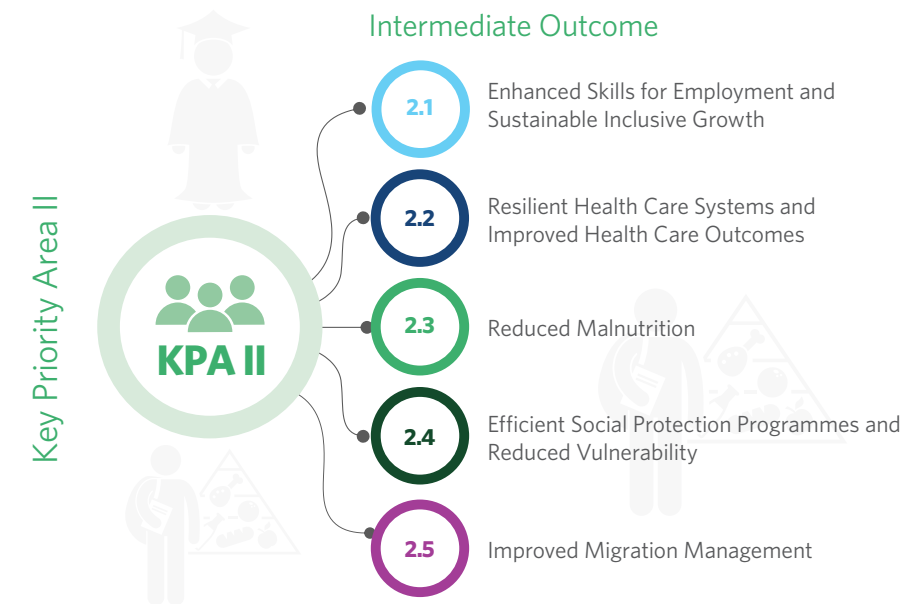


8: Key Priority Area II

Strengthening Human Capital

To support the productive sectors with the greatest potential for job creation and inclusive economic growth to reduce poverty, the GoL will build human capabilities through investment in health, nutrition, education, and skills development. Social protection will be provided to safeguard society against emerging vulnerabilities and other disasters. Lesotho will strengthen human capital through interventions including development of skills to meet productive sector needs to bolster investment and economic growth. A healthy, educated, and skilled workforce has the potential to enhance productivity and attract private investment. Education, health, nutrition, water and sanitation complement one other and an investment in any one area contributes to better outcomes in the other areas.³⁷ Interventions in this KPA will yield intermediate outcomes reflected in figure 8.1.

Figure 8.1: Strategic Intermediate Outcomes under Key Priority Area II



8.1 Education

Situational Analysis

NSDP II recognizes the education sub-sector's role in the Education Sector Plan 2016/26. This long-term instrument aims to ensure that each person has the opportunity to be literate and productive, grounded with moral and ethical values. It focuses on building a strong economy by enhancing the skills base and technology adoption, providing a firm foundation for innovation.

Over the past five years of NSDP I implementation, Lesotho has consistently invested about 10 percent of GDP in education. The budget largely prioritized basic education activities to ensure that education coverage gradually

³⁷ World Bank. (2016).



became universal and that student learning outcomes were high. However, the current plan indicates concern related to matching the production of graduates with labour market demands. During the recent Joint Education Sector review in 2018, the Ministry of Education and Training announced key priority interventions for the next three years that included: introduction of a multi-tier model; introduction of AS-level qualification and A-Levels qualification in secondary schools; evaluation of phasing out primary school level qualifications; development of TVET funding model; and implementation of centralised and automated application system to regulate entry and funding of tertiary students. Building capacity of teachers and developing a comprehensive teacher policy is also priority.

Educational coverage in Lesotho is similar to comparative countries and there is significant room for improvement. Access to secondary education is limited, and while the geography influences inequality, unique cultural and social stratification patterns are also considerable factors. Basotho children often observe cultural norms and practices such as herding and traditional initiation and family responsibilities. In addition, many are poverty-stricken and some are also orphans. It is not uncommon for males to be lifetime herders, or for girls to drop-out of school due to unintended pregnancies, early marriages, gender-based violence, household chores, providing home-based care, or child labour (i.e., domestic workers). Education is often a missed opportunity that could help lift them from poverty. Enrolment rates in primary education have improved (81.1 percent) due to the Free and Compulsory Primary Education Policy. In 2016, the rate dropped to 75.8 percent. In secondary schools, enrolment improved from 36.5 percent in 2012 to 38.7 percent in 2016. Enrolment targets of 100 percent and 50 percent of primary and secondary education, respectively, were not met during NSDP I. Enrolment in TVET, however, increased from 3,229 in 2012 to 4,410 in 2016, surpassing the NSDP I target. One university was introduced at the tertiary level, but that did not increase enrolment significantly. Upgrading Lerotholi Polytechnic, which has yet to occur, is expected to increase enrolment at this level.

Access to education, especially secondary education, continues to be more accessible in urban areas and higher income groups, while rural areas continue to suffer disproportionately. There are disparities across districts, including many learners who dropped out of school after completing primary education. To address issues of access, a focus was placed on improving retention, lowering drop-out rates, and increasing completion rates. The GoL continued to implement free and compulsory primary education and developed other complementary education policies.³⁸ The GoL also 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, the GoL attached reception classes in existing primary schools (where priority was given to the underserved schools) and provided equipment and teaching and learning materials, including for those with special needs. Special education training was also introduced in Lesotho College of Education.

To improve relevance and applicability of skills, the GoL revised the TVET policy, introduced flexible and multiple entry points in industrial and skills training centres, developed a TVET instructor programme of pedagogy, revamped recognition of prior learning and student attachment, and revitalized the TVET board. To improve the quality of curricula and assessment, the GoL phased out primary school level qualifications and introduced a new learner-based integrated curriculum at the primary level, localised ordinary level Lesotho General Certificate of Secondary Education subjects (including math, science, and geography), and integrated ICT, business studies, and economics at the secondary level. In addition, the GoL intensified inspection of schools at all levels and continued to provide continuous professional development and pre-service training for teachers, including mainstreaming special education. Furthermore, the GoL implemented programme accreditation standards from tertiary education

38 International Early Childhood Care and Development Policy, Curriculum and Assessment Policy, School Feeding Policy, Higher Education Policy, TVET Policy, and HIV/AIDS Policy.



level through council on higher education level to safeguard education standards. Currently eight programmes have been granted full accreditation and all new programmes are reviewed before being offered by higher education institutions. Several post-graduate programmes were increased to develop an innovative culture and capacity for scientific research.

Despite progress in improving education outcomes (e.g., net enrolment, literacy rates, and learner attainment and retention across different levels) and implementation of quality improvement, student performance and quality of education has continued to decline at all education levels. The GoL has yet to regulate establishment of early childhood care and development schools, and there is no existing system of quality assurance and accountability. Services and quality vary widely.

Education is plagued with a gender gap. At the primary level, boys make up 49.7 percent and girls make up 50.3 percent, which changes drastically at the tertiary level with 68.7 percent and 31.3 percent, respectively. Males dominate the science, technology, engineering, and math subjects at the tertiary and vocational education levels. Socialization and gender norms still affect the selection of educational and occupational specialties, although there are no limitations based on gender in policies and laws. The gender divide is compounded by a lack of effective guidance on career development and planning in schools, especially in rural areas.

Impacts of climate change also adversely affect education services. Teachers and students travel long distances over rugged terrain to go to school. They are often confronted with impassable rivers leading to frequent disruptions in schooling. Despite investments on expansion of access infrastructure in recent years, extreme weather events—particularly flooded rivers and snowstorms—often translate into lower attendance and poor performance. The damage to educational infrastructure by extreme events has also become more frequent in recent years, including damaged infrastructure such as footbridges. Several drowning incidents have also been reported, particularly in mountainous areas. These challenges are exacerbated by inadequate education and awareness raising on climate change and adaptation and mitigation measures that can be adopted at the local level.

The nation-wide shortage of climate experts—with climate modelling skills and the ability to conduct vulnerability and risk assessments—contributes to the lack of national resilience strategies addressing adverse impacts of climate change. Awareness raising around Lesotho is critical so the public can be educated on climate change and its impacts and provided with implementable strategies to help effectively adapt to changes and mitigate risks. Lesotho’s education system, formal and informal, should incorporate climate literacy to help foster national resilience to the impacts of climate change.

Studies³⁹ indicate that the GoL is investing in education and has a strong network of technical and vocational training institutions. Lesotho’s population is one of the most highly literate in the Southern African region. However, this has not translated into employable skills. Lower employment rates are caused by lack of skill development policies, non-alignment with labour market requirements, and absence of adequate training facilities for youth who drop-out of school before completing secondary or primary education. The small advanced education sector provides vocational skills for a select few non-academic youth.

Lesotho also experiences significant skills mismatch between skills supplied by educational institutions and those required by labour market demands. Consultations indicate that this is attributed to limited inter-sectoral coordination, relevance of curricula, and lack of private sector input in curricula development. The inability of the

39 European Union Gender Country Profile for Lesotho Report. (2016).



education system to produce graduates with relevant skills is a serious concern, as it directly hinders private sector employment.

Long-term development has been impeded by skills mismatch, low quality education, and inadequate attention provided to TVET. Interventions implemented during NSDP I focused exclusively on students in the education system, while ignoring graduates and drop-outs. The latter segment represents a larger group in the population so NSDP II will build upon NSDP I achievements and proactively address identified challenges, leading to strengthened human capital through the following interventions:

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

Strategic Objectives	Interventions
1. Improve Relevance and Applicability of Skills	<ul style="list-style-type: none">Prepare national human resource medium- to long-term development strategy.Conduct regular labour market research and establish mechanisms for skills forecasting.Promote programme reviews and introduction of new programmes in tertiary institutions to align curricula with national and market needs.Incorporate climate change education in school curricula at tertiary institutions, including offering post-graduate scholarships in climate change and related fields.Transform tertiary institutions to offer diversified and relevant programme-based labour market needs at national and regional levels.Build technical and infrastructure capacity for tertiary education institutions to offer diversified post-graduate programmes and specialized programmes.Increase investment in higher education.Promote competence-based education at all educational levels.Reform student scholarship support under National Manpower Development Secretariat to make it more efficient and targeted towards priority programmes.Mainstream entrepreneurship, managerial, and business skills at all educational levels.Promote quality assurance in tertiary institutions through clearly defined programme accreditation and institutional audits.Develop national qualifications framework and ensure adequate resourcing.
2. Improve Access and Quality of Early Childhood Care and Development, Primary, and Secondary Education	<ul style="list-style-type: none">Strengthen provision of quality comprehensive early childhood care and development education to improve cognitive and socio-emotional skills.Increase efficiency of education system and promote equality.Expand climate resilient school infrastructure to be child-friendly and conducive for people with disabilities.Build human capital in basic education, particularly at early childhood care and development level and junior secondary level especially in science, technology, engineering, and math subjects.Expand quality secondary education, especially for girls, for sustainable human capital development.Develop induction and mentoring programmes for teachers and principals.Develop sustainable programme to build knowledge of teachers on relevant topics, and educate teachers on classroom best practices.Integrate and increase utilization of ICT in teaching, especially in science, technology, engineering, and math subjects.Improve governance and accountability of schools.



Strategic Objectives	Interventions
3. Promote Inclusive and Equitable Education System	<ul style="list-style-type: none">Promote short-term community level training programmes targeted at community members who are not in formal education.Strengthen open and distance learning educational opportunities.Improve access to educational material and information by all people, including those with disabilities.Create conducive environment that promotes climate change adaptation and mitigation, and science, technology, engineering, and math subjects.Invest in strategic measures to increase proportion of girls and people living with disabilities enrolment in science, technology, engineering, and math subjects and ICT at all levels.Create a one-stop-shop to help students with application and placement into higher learning institutions.Upgrade and adapt facilities and equipment for learning and research.Enforce implementation of Free and Compulsory Primary Education Policy.Review curricula to address areas that perpetuate inequalities in schools.
4. Expand and Upgrade TVET Institutions and Programmes to Support Growth Sectors	<ul style="list-style-type: none">Diversify and modularize TVET programmes to match industry needs.Enforce TVET quality standards to meet national, regional, and global standards.Introduce climate change into TVET curricula at all levels.Promote private sector participation in provision of TVET and other skills development.Institutionalise industry-led work experience.Develop short courses to support four productive sectors.Ensure equal access for all to affordable and quality TVET.Promote entrepreneurship skills in TVET.Encourage enrolment of females in traditionally male-dominated TVET programmes and vice-versa.Develop retention strategy for TVET human resource base.Promote trade skills and accreditations.

8.2 Health Sector

Situational Analysis

The cornerstone of developing a workforce capable of advancing inclusive economic growth led by the private sector requires strengthening health system resilience.⁴⁰ It requires a highly functioning health care delivery system backed by committed health care professionals capable of delivering effective public health responses. Adequate training of doctors, nurses, managers, and outreach workers, followed by deployment, is critical. This is a challenge for Lesotho, with not only financial constraints but also with a population of about 2 million people and fewer than 200 medical doctors (1:10,000 ratio). This is further compounded by the HIV/AIDS epidemic, tuberculosis infections, and non-communicable diseases such as diabetes and cancer which place a considerable strain on an already under-resourced health system.

During NSDP I, the GoL invested around 13.4 percent of GDP on health care. This spending is near the Abuja Declaration target of 15 percent. The investment has resulted in positive outcomes, including the maternal mortality

40 Health systems are resilient when they have the ability to protect human life and produce good health outcomes for all during and after a crisis event. Resilient health systems also deliver standard benefits and positive health outcomes. This double benefit—improved performance in good and bad times—is called “the resilience dividend.”



rate per 100,000 live births decreased from 1,155 in 2009 to 1,024 in 2014.⁴¹ Ministry of Health records estimate that maternal mortality fell to 618 in 2016. Although good progress, it does not reach the NSDP I target of 300. The under-5 mortality rate declined substantially from 117/1,000 live births in 2009 to 85/1,000 live births in 2014, nearly meeting the NSDP I target of 82. Malnutrition prevalence declined from 39 percent in 2009 to 33 percent in 2014, nearly reaching the NSDP I target of 30. The contraceptive prevalence rate increased from 46 percent to 60 percent in 2014, and 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, and post-natal care within two days 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, resulting in infant mortality rate decreasing from 91/1,000 live births to 59/1,000 live births in 2014.

Between 2014/15 and 2015/16, the GoL intensified HIV/AIDS prevention campaigns, established a cancer treatment centre, and worked to procure drugs for district health centres. The GoL also introduced free primary health services in partnership with Christian Health Association of Lesotho.

The HIV/AIDS epidemic remains the greatest public health challenge in Lesotho, with 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. This significantly affects labour productivity, particularly in the agricultural sector, as well as the nutrition and livelihoods of individuals—and the viability of institutions.⁴² Lesotho is ranked third highest in the world with HIV prevalence. According to the 2014 district health survey, HIV prevalence is significantly higher in women (29.7 percent) than men (18.6 percent),⁴³ indicating the importance of social and gender determinants negatively impacting health outcomes. Several national reports indicate that about 43 percent of textile workers and 72 percent of sex workers are HIV-positive, respectively,⁴⁴ and a majority of these workers are female. There is a continued need for education, prevention, testing, and treatment. The slow progress in reduction of new infections is primarily due to inadequate focus, scale, and implementation of high-quality HIV prevention programmes; policy gaps; cultural behavior; and human rights-related barriers, including 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 send important messages, help to change harmful behaviours, and provide redress to those affected. Strong accountability mechanisms are also important for elimination of stigma and discrimination.

The Lesotho Population Based HIV Impact Assessment, conducted by the Ministry of Health with support from the U.S. President’s Emergency Plan for AIDS Relief between November 2016 and May 2017, indicated that HIV viral load suppression—a key marker of the body successfully controlling the virus—has reached over 67 percent amongst all HIV-positive adults aged 15-59. This finding suggests that Lesotho is on track to achieve epidemic control by 2020, reaching the Joint United Nations Programme on HIV and AIDS’ 90-90-90 targets and expanding HIV prevention. According to the target, full achievement of 90-90-90 is equal to viral load suppression amongst 73 percent of all people living with HIV. Although the health system has experienced considerable success managing the epidemic over the past five years, there is a continued need for education, prevention, testing, and treatment, as well as positive transformation in gender and social relations. Decreasing the rate of new infections will reduce the demand on the public health system. Even with fewer new cases, the demand on the health system remains significant, as the high number of existing HIV-positive people require treatment, there is a risk of HIV/

41 Demographic Health Survey. (2014).

42 Millennium Development Goals Report. (2013).

43 Lesotho Demographic Health Survey. (2014).

44 Ministry of Health. (2015). Joint United Nations Programme on HIV and AIDS Country Profile. (2014).



tuberculosis co-infection, as well as just tuberculosis, and the possibility of drug-resistant HIV strains developing. The epidemic and associated implications for public policy are likely to persist for at least another generation.

The GoL must also undertake reforms to address structural inequalities that make women and girls more vulnerable to HIV and gender-based violence. Gender analysis in health indicates that biological differences alone do not adequately explain health behaviour and outcomes. Behaviour and health outcomes also depend heavily on social and economic factors that, in turn, are influenced by cultural and political conditions.

Lesotho has resuscitated the National Aids Commission to coordinate HIV/AIDS interventions, develop HIV/AIDS response strategies, and adopt the test-and-treat strategy. The GoL, development partners, private sector, civil society organizations, and communities continue to direct significant financial and human resources towards HIV/AIDS prevention, care, and treatment.

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; tuberculosis; non-communicable diseases (e.g., hypertension, cancer, diabetes, obesity, and 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 and systems strengthening, and build human resource capabilities to address these challenges. The GoL will promote social transformation targeting particular at-risk populations, and the cultural practices that undermine HIV/AIDS interventions, and other health interventions, over the next five years. Other health challenges that were identified during consultations include: low uptake and coverage of the tuberculosis primary prevention programme; inadequate capacity of laboratory systems; limited access to high impact interventions such as genexpert machine to support detection, diagnosis, and treatment; unsustainable HIV/AIDS and tuberculosis programmes due to heavy dependence on donor support.

Another ongoing challenge impacting health systems is the increasing frequency of climate change-related extreme events such as droughts, floods, snowstorms, and dust storms. These events can cause damage to health infrastructure and associated disruptions to health services; increases in physical injuries to humans and animals; outbreaks of zoonotic diseases; drought-related food insecurity and malnutrition; deterioration of the quality and coverage of traditional medicine; air pollution and related respiratory tract infections; and water pollution and diseases associated with low water security and sanitation. As the health sector matures, it is critical to integrate climate change issues 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 & Interventions

NSDP II will build upon NSDP I achievements in the health sector, and further aim to improve human capital development in the medium-term through the following interventions:



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

Strategic Objectives	Interventions
1. Strengthen Disease Prevention Interventions	<ul style="list-style-type: none">Improve vaccination and immunization programmes.Improve health education and promotion.Strengthen environmental health interventions at all levels.Intensify implementation of test-and-treat strategy for HIV/AIDS and tuberculosis screening.Promote organised screening programmes.Promote healthy environments that encompass safe food and water, adequate sanitation, shelter, ventilation, and hygiene.Promote equal involvement of 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">Decentralise health care services in line with Decentralization Act.Strengthen referral systems and emergency preparedness and response services.Improve data management for health planning and decision-making.Strengthen patient follow-up and tracking systems to enhance adherence to treatment.Integrate programmes addressing health needs, rights, and choices of adolescents, youth, men, women, and people with disabilities.Improve access to mental health services and rehabilitation.Promote men's health clinics.Provide universal access to sexual and reproductive health care services to all people, with focus on adolescents, youth, and other vulnerable groups.
3. Sustain Health Care Services	<ul style="list-style-type: none">Explore and develop innovative health care financing options.Reform public health system with focus on improved management, especially at institutional level.Maintain health care facilities at all service levels (e.g., primary care, secondary care, and tertiary care).Strengthen human resources for health.
4. Embed Culture of High Performance and Retain Health Professionals	<ul style="list-style-type: none">Implement retention strategy for health professionals.Implement effective performance management system.Instill desired organizational value-based culture.Enhance training and development of health professionals.Improve linkages with external institutions on human resource development through bilateral agreement exchange programmes.Explore possibility of medical school establishment.

8.3 Nutrition

Situational Analysis

Lesotho continues to face the problem of malnutrition. For instance, amongst under-5 children, 33 percent are stunted, 7.4 percent are overweight, 3 percent are wasted, and 10 percent are underweight. In addition, 45 percent of women aged 15-49 are overweight or obese, while 12 percent of men aged 15-49 are overweight or obese. Stunting is a major concern for development as it is associated with an under-developed brain and has 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 later in life (e.g., diabetes, hypertension, and obesity). The 2017 Cost of Hunger Assessment indicated that annual costs associated with child under-nutrition were estimated at M1.9 billion or 7.13 percent of GDP.

During NSDP I, the following milestones were achieved: exclusive breastfeeding increased from 54 percent to 67 percent in 2014; stunting decreased from 39 percent to 33 percent in 2014; and tertiary institutions introduced and offered nutrition courses, increasing nutrition-qualified personnel. The GoL enacted the Lesotho Food and Nutrition Policy in 2016, developed the Food and Nutrition Strategy, and launched the Cost of Hunger Study, the Zero Hunger Strategic Review Study, and the National School Feeding Policy in 2015. Lesotho has been a member of Scaling Up Nutrition since 2014 and is also part of regional efforts on nutrition including the Comprehensive African Agriculture Development Programme and the Renewed Effort Against Child Hunger, amongst others. While hunger and malnutrition remain major challenges in Lesotho, the political commitment to end hunger has been highly reflected in the adoption of the SDGs, especially SDG 2, and the involvement of His Majesty King Letsie III at the national, regional, and global levels.

Strategic Objectives & Interventions

Key challenges to controlling malnutrition including: inadequate capacity to coordinate programmes; limited resource allocation and support to programmes; insufficient monitoring, evaluation, and accountability; and lack of quality research to guide planning and priority-setting for the national nutrition agenda. The outcome of such weaknesses leads to poor and fragmented services, scarcity of skills, weak food supply chain, and lack of standards and regulations enforcement. The lack of human and other resources also exacerbates the situation. The following interventions are proposed:

Intermediate Outcome 2.3:
Reduced Malnutrition

Strategic Objectives	Interventions
1. Strengthen and Scale-Up Nutrition Interventions	<ul style="list-style-type: none">Promote breastfeeding and optimal complementary feeding practices.Reinforce implementation of World Health Organization breastfeeding policy and guidelines.Increase health education for all women of child bearing age using antenatal care services.Enhance community participation on maternal and child health care services.Intensify growth monitoring and promotion.Promote home and industrial fortification of foods.Develop and endorse food fortification standards and ensure compliance.Promote consumption of fortified foods, including iodised salt.Capacitate early childhood care and development centres and village health workers on micronutrient supplementation.Scale-up programming for iron folate, vitamin A, and deworming.Promote production and consumption of vitamin A and iron-rich foods.Promote bio-fortification of micronutrient rich crops.Scale-up food preservation, crop diversification, homestead gardens, and income generating activities.



Strategic Objectives	Interventions
2. Strengthen Nutrition Governance and Capacity Development	<ul style="list-style-type: none">▪ Mobilize resources for nutrition interventions.▪ Review and mainstream nutrition into all national plans, sector policies, and strategies.▪ Promote nutrition education, curricula development, and institutional capacity.▪ Upgrade and establish commission and authority to provide strategic leadership in nutrition scale-up.▪ Establish, strengthen, and empower multi-sectoral food and nutrition coordinating institutional frameworks at national, district, and community levels.▪ Train and deploy nutritionist cadre in every sector ministry.▪ Promote institutional and community-based nutritional care and support to vulnerable women and children.▪ Mount child nutrition screening, counselling and support, and promote breastfeeding.

8.4 Social Protection & Vulnerability

Situational Analysis

High rates of unemployment, climate change, poverty, inequality, and HIV/AIDS contribute to Lesotho’s vulnerability. Particularly vulnerable populations include: 45,607 people living with disabilities, 171,742 elderly (60 years and above), and 210,712 orphans in 2016 (compared to 221,403 in 2006). The decline in orphans may indicate responsive policies and results from targeted approaches.

A majority of the households rely heavily on rainfed agriculture, which is highly dependent on weather conditions, making them particularly vulnerable to climate change—especially those in rural areas. Crop production is characterized by low input, low output traditional rain-fed farming systems. Recurring droughts and land degradation have led to food insecurity in many households. The majority of rural households in Lesotho seldom grow enough food to meet their own requirements, even in years of good rainfall.

Dependence on food imports is also a factor in food inflation, exacerbating food insecurity. Households with chronic food deficits rely heavily on donor-funded food assistance or public assistance. The Disaster Management Authority, through the Lesotho Vulnerability Assessment Committee, conducts annual assessments on the food situation and identifies regions requiring assistance. Despite offering recovery packages, climate change is devastating many rural households. Coping strategies are often exhausted by the heads-of-household, a majority of whom are women or children.

During NSDP I implementation, the GoL established the Ministry of Social Development. It is responsible for social protection coordination, interventions, and policy formulation. It drafted the Social Protection Policy and Implementation Framework. Through the Ministry of Social Development, the GoL administered three social assistance programmes: the Child Grant Programme, the Public Assistance Programme, and the Orphans and Vulnerable Children Bursary Programme. The Child Grants Programme covered 47 community councils in 2016, from a low of six community councils during its inception. The Public Assistance Programme reached 38,000 households in 2018, from 12,000 clients in 2017. The Orphans and Vulnerable Children Bursary Programme (covering early childhood care and development through secondary school) had 23,304 beneficiaries in 2018.

In recent years, the social protection mechanism has improved and coordination committees were established and approved by the Cabinet in 2016, with the aim of improving coordination and efficiency in service delivery.

More than 630,000 beneficiaries were covered under various social protection programmes administered either through other GoL line ministries or development partners. These include: the Old Age Pension (85,245), the School Feeding Programme (450,000), the Child Nutrition Support Programme (24,600), the Blanket Feeding Programme (22,000), the Education Feeding Programme (50,000), Food for Work (likhakeletsi), and the Horticulture Seedling Assistance Programme administered under the Ministry of Agriculture and Food Security and the Ministry of Range Management.

While the social protection sector is well-resourced, it remains poorly organised and managed. It is wide-ranging in scope, funded from numerous sources, and spread across many ministries. With this structure, opportunities include resource availability from different partners, however, a key challenge is the GoL’s capacity to coordinate partners towards an effective response. Social protection is reduced, as each programme uses individual packaging and grant transferring is low, covering only 25 percent of beneficiary needs. Furthermore, lack of monitoring and evaluation mechanisms facilitate fraud. This trend must be reversed, as Lesotho invests heavily in social protection, spending 5.7 percent of GDP during 2018/19, which is one of the highest in Sub-Saharan Africa.⁴⁵ Efforts are underway to strengthen social protection coordination at different GoL levels to ensure a more targeted response making the process more efficient, equitable, and transformative—and lifting people from poverty.

People living with disabilities continue to receive unequal access to social services and economic opportunities, including access to labour markets. Disabilities have not yet been mainstreamed into the national agenda, and the Disability Policy of 2011 is yet to be implemented. Boys and girls with disabilities still face significant challenges accessing education due to lack of appropriate assistive devices, limited teachers with requisite skills, and stigma towards disabilities. Women and girls with disabilities are amongst the most vulnerable to gender-based violence and human trafficking. There is also no social security for unpaid work (e.g., household work, child-rearing). Lesotho still lacks a legal framework to provide paternity leave for shared responsibility.

During NSDP II implementation, the GoL will reform the 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: preventive social protection programmes to avert poverty and food insecurity; promotional income-enhancement social protection measures to promote vocational and agriculture training to build skills and position graduates for jobs and self-reliance; and transformative social protection measures to address inequality and social exclusion, thus removing socially-binding constraints.

Social expectations placed on women and girls regarding household responsibilities and biological disposition result in gender-specific risks and vulnerabilities. These are accentuated with the absence of: pre- and post-natal care, family planning, reproductive rights, sanitary protection, and social care services for people with disabilities and those suffering from protracted illnesses.

Strategic Objectives & Interventions

The GoL will facilitate the completion and implementation of the National Information System for Social Assistance (NISSA) to improve efficiency and effectiveness of social protection programmes and ensure effective management. It will include the following interventions:

45 Lesotho Social Protection Budget Briefs. (2018/19).



Intermediate Outcome 2.4: Efficient Social Protection Programmes and Reduced Vulnerability

Strategic Objectives	Interventions
1. Improve Efficiency of Social Protection System	<ul style="list-style-type: none">Expand NISSA to ensure effective and efficient social protection assistance.Institutionalise NISSA as national registry and harmonised targeting, integration, and coordination tool for social assistance.Consolidate social protection programmes and enhance coordination.Link social protection programmes with other sustainable livelihoods programmes.Undertake periodical evaluation and impact assessment of social protection programmesStrengthen institutional capacity for social protection programme design, resource mobilization, and service delivery.Institutionalise all social protection programmes.
2. Promote Income Enhancing Social Protection Programmes	<ul style="list-style-type: none">Promote environmentally-friendly and less climate-dependent social protection interventions to enable self-reliant recipients.Promote life skills programmes for vulnerable children and youth in and out of school.
3. Improve Socio-economic Conditions of People Living with Disabilities and Protect Their Rights	<ul style="list-style-type: none">Protect rights, and realize potential, of people with disabilities.Empower people with disabilities to actively participate in development processes and economic activities.Promote disability mainstreaming and inclusion in all sector frameworks.Improve access to public services for people with disabilities.Strengthen coordination amongst key disability stakeholders.

8.5 Migration & Diaspora

Situational Analysis

Geographical location and socio-economic characteristics of Lesotho have contributed to employment-related mobility of Lesotho nationals. Lesotho has relied on South African labour for decades. However, the South African policy to phase-out foreign labour from mines played a significant role in Lesotho's minor retrenchments. There are, however, emerging migration trends as more females migrate to South Africa to secure jobs in domestic work and on farms that need to be managed.

During NSDP I implementation, the Migration Consultative Committee was established with the mandate of coordinating migration related issues. Legal frameworks were developed to improve coordination and management of migration and development including the National Migration and Development Policy (draft); the Implementation Framework for the Sequenced Short-Term Return of Basotho Health Professionals in Diaspora; the Framework for Managing Migration Data; the National Remittances Framework for Migrant Labourers; the Framework for Engaging Diaspora in Development; the National Strategy for Reintegration of Basotho Mine Migrant Workers; the Migrant Domestic Workers Lesotho–South Africa Corridor; the Anti-Trafficking in Persons Strategic Framework; the Action Plan and Anti-Trafficking Regulations of 2015; the National Labour Migration Policy; the Bilateral Labour Agreement Guidelines; and the Lesotho Labour Migration Assessment.

Although significant progress has been made, there is a lack of consistency between migration policies and legislation of various ministries, as well as lack of reliable migration data. The weak labour migration structures contribute to

ineffective labour migration management. There is no systematic structure to engage diaspora, no reliable data, and no legislation. Opportunities in other countries create a brain drain from Lesotho. In addition, vulnerabilities and issues of an extensive unskilled migrant presence in South Africa has not been adequately addressed.

There is significant migration including irregular migration between Lesotho and South Africa through community crossing points, which are also used by trans-national criminals. Smugglers and the existence of fraudulent practices to illegally obtain necessary documentations, paired with inefficient and ineffective flow of goods and people across border, are also challenges. The Trafficking in Persons report of 2016 ranks Lesotho in Tier 2 which indicates that the country is at risk of human trafficking. Lesotho will, therefore, address this challenge head-on.

In addition, there are emerging migration trends which require urgent attention including: increasing number of asylum seekers and refugee issues; statelessness; child mobility within Lesotho and across the borders; internal displacement due to large-scale development projects; environmental issues; and localized violence. Additional challenges include effective remedies; fair compensation; exploration of feasible alternatives to displacement; information-sharing and consultations with affected persons/households; and prior socio-economic and environmental impact assessments.

Strategic Objectives & Interventions

The GoL recognizes these challenges and will work steadfastly to address each through the strategic interventions.

Intermediate Outcome 2.5: Improved Migration Management

Strategic Objectives	Interventions
1. Strengthen Labour Migration Management	<ul style="list-style-type: none">Develop labour market information system.Explore unique opportunities for skilled migrants.Improve bilateral labour agreements and regularize Lesotho Special Permit Framework with South Africa.Strengthen portability of social security benefits for migrant workers.Develop policy framework for managing recruitment agencies and migrant workers.Adopt and implement Lesotho National Labour Migration Policy.Establish Labour Migration Management Bureau.
2. Strengthen Diaspora Engagement	<ul style="list-style-type: none">Develop appropriate frameworks for diaspora engagement and raise awareness of investment opportunities in Lesotho.Create Diaspora Directorate to strengthen coordination between diaspora, GoL, and other stakeholders.Develop legal and policy frameworks for diaspora to remit payments; invest; short- and mid-term skills and knowledge transfer; and return and integrate with inclusive incentives.



Strategic Objectives	Interventions
3. Combat Irregular Migration, Human Trafficking, and Smuggling	<ul style="list-style-type: none">Enhance border control management and streamlined processing.Reduce irregular migration.Develop shared information and operational platforms with South Africa and other destination countries.Review Anti-Trafficking in Persons Act of 2011 and ensure alignment with international conventions.Establish Decentralised Anti-Trafficking Units within police services.Improve protection of trafficked victims in compliance with the Anti-Trafficking in Persons Act of 2011.
4. Strengthen Integrated Border Management and Cross-Border Issues Management	<ul style="list-style-type: none">Strengthen national laws regulating migration (e.g., Migration Policy and Visa Policy).Improve border management system through automation with new border management technologies.Strengthen capacity of frontline immigration officials.Strengthen inter-ministerial cooperation and coordination at national level.Improve cross-border health referral systems for migrant populations.
5. Improve Management of Internal Migration	<ul style="list-style-type: none">Develop national strategy to manage internal migration.Introduce interventions to manage project-induced displacement of households.Address statelessness in coordination with South Africa and other countries.Establish migration data management system.



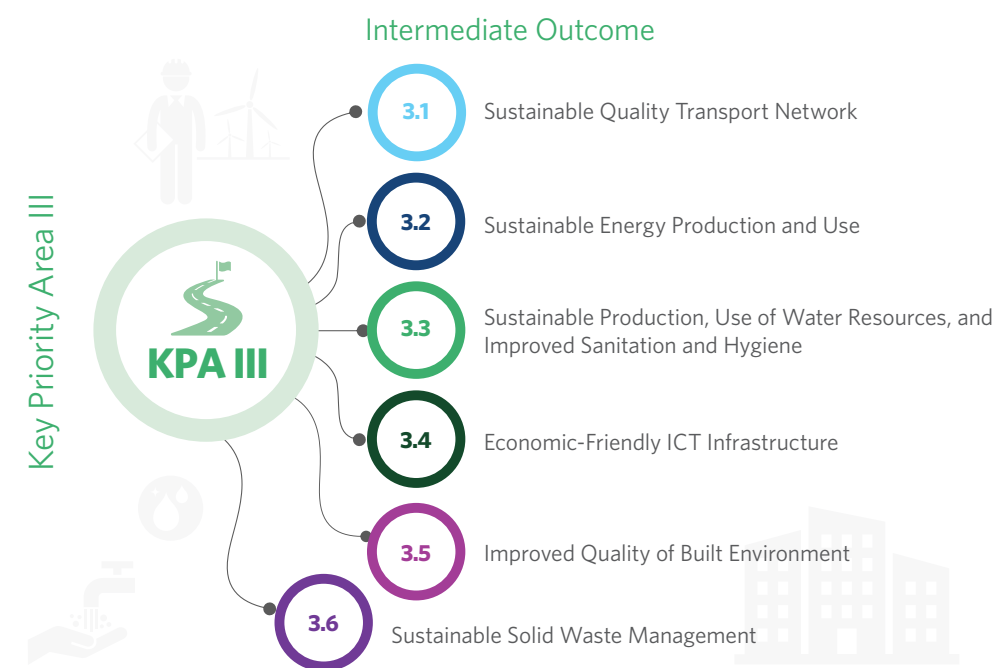


9: Key Priority Area III

Building Enabling Infrastructure

NSDP II proposes provision of a minimum infrastructure platform to serve as an incentive for private sector agents to invest in the economy. Infrastructure is expected to affect 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, and creating new production, trade, and profit opportunities. Roads will reduce transport costs and ports will 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 decreases private sector production. Strategic interventions under KPA III will yield intermediate outcomes in figure 9.1.

Figure 9.1: Strategic Intermediate Outcomes under Key Priority Area III



Leveraging synergies for infrastructure development and creating an integrated strategic plan is critical, for example a hydropower dam impacts electricity, agriculture, tourism, and forestry conservation. Evidence from economies in Hong Kong SAR, Singapore, Republic of Korea, and Taiwan clearly indicates that quality public infrastructure is crucial for attracting private investors. These economies sustained rapid economic growth, driven by swift industrialization and exports, facilitated by high capital investments through infrastructure, labour, and education during initial stages of development. Infrastructure development was undermined by several factors including extreme weather events, lack of finance, and fragmentation in policy-making.



The limited distribution of transport infrastructure isolates a substantial part of the population—particularly in the remote mountainous region—from business and social opportunities, markets, and communications infrastructure that are concentrated in lowland towns. Housing infrastructure also reveals high climate vulnerabilities and risks for rural populations.

During NSDP I, a number of infrastructural development projects were completed under sectors such as water, energy, tourism, transport, education, health, and safety and security. Evidence indicates, however, that there is fragmented infrastructure development resulting from lack of integrated project planning. Lack of coordination led to wasted resources through duplication of work. The quality of infrastructure was also low due to weak enforcement of standards and quality control and low economic rate of return on projects dependent on donor support, sometimes resulting in construction of sub-standard infrastructure.

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 GoL will review and enforce laws, standards, and quality controls, including climate proofing against extreme weather events; improve monitoring and evaluation systems for infrastructure development; and mainstream assessments of vulnerabilities and risks to extreme weather events to develop climate-proof economic and social infrastructure.

There will also be a focus on mainstreaming gender and disability to ensure infrastructure projects are more gender-responsive and non-discriminatory. Metrics will likely include establishing quotas for project jobs to enhance opportunities for women in formal sector employment; investing in skill training, market information, and improved market access; empowering women through social mobilization activities; facilitating decision-making roles for women and vulnerable groups; and promoting enterprise development. These interventions will provide more reliable indicators of projects that are effectively working to ensure an inclusive approach to access project benefits.

9.1 Public Works & Transport Infrastructure

During NSDP I, the goal was to provide infrastructure to support private sector development, inclusive growth, service delivery, job creation, and enhanced trade between districts. Under the road sub-sector, the following milestones were achieved: 231 km of roads were upgraded across the country to bitumen standard including: Mokhotlong-Sani Road (42 km), Roma-Ramabanta-Sekake Road (80.3 km), and Oxbow-Mokhotlong Road (109 km). These upgrades provided safe, faster, and all-weather roads. They also reduced travel time between Botha-Bothe District and Mokhotlong District and allowed easy and improved access to Letséng 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 km of roads were rehabilitated and resealed including: Mafeteng-Thabana Morena Road, Nyenye-Makhoroana Road, Teyateyaneng-Sefikeng Road, Kolonyana-Rakolo Road, Old Teyateyaneng Road, Mafeteng Van Rooi Road, Motsekua-Rants'eli Road, and Quthing-Mount Moorosi Road.

Furthermore, 18 footbridges and seven drainage structures were constructed, including two major bridges (Roma-Koma Bridge and Bethel Bridge). The upgraded roads and footbridges provided access to more than 360,000 people and created more than 14,200 unskilled labour jobs. The NSDP I review indicated that the rugged highlands—covering three quarters of Lesotho's land area—pose a major challenge for road infrastructure development. The total road network is 6,906.26 km in length, of which 1,798.76 km are paved. The remainder consists of 3,830.52 km of gravel roads and 1,276.98 km of earth tracks. The road network continues to deteriorate due to extreme



weather events, such as floods, resulting in backlogs of maintenance and reconstruction efforts. About 42 percent of paved roads are in “poor” or “very poor” condition, 30 percent are in “fair” condition, 29 percent are in “good” or “very good” condition, while 85 percent of gravel roads are in “poor” or “very poor” condition, 11 percent are in “fair” and only 4 percent are in “good” or “very good” condition.

The current funding levels are insufficient to recover the lost assets or build new roads. Rural Lesotho remains largely inaccessible. Financing of road maintenance is through the Road Fund. Upgrading and developing new roads are financed under the capital budget and donor funds. Planning of infrastructure is not well coordinated, and land allocated for roads is rapidly allocated for private and business purposes, making it difficult to expand roads when the need arises. Two agencies are responsible for management of the road network: the Roads Directorate, which is responsible for urban roads, and the Ministry of Local Government and Chieftainship, which is responsible for rural roads. These agencies have historically operated in silos, resulting in considerable resource wastage.

The quality of work undertaken by the construction industry is typically low quality due to lack of capacity and industry regulations. Standards of roads are also lowered as a requirement to meet the economic rate of return, without consideration for the long-term opportunities—good roads generate more traffic, can better respond to climate change impacts, and could meet international protocols on road safety.

Road infrastructure users at the local level are often women, who tend to be more active in resource-based activities such as agriculture, food, energy provision (biomass), health services, and educational services for their children. Maintenance and climate proofing of roads should be priority, and new roads should be constructed using long-term strategies, including environmentally-friendly road construction practices.

During NSDP I, the GoL started constructing a One Stop Shop Facility for Vehicle Registration and Driver Licensing at Ha Foso, Maseru. It is scheduled to be completed in 2019. This facility aims to simplify processes related to vehicle registration and licensing, and decrease time and costs involved. The Transport Infrastructure and Connectivity Project also intends to automate traffic services and processes and will be part of NSDP II implementation.

Moshoeshoe I International Airport (MIA) was commissioned in 1985 as the only air gateway into Lesotho. MIA has recently received an increasing demand for use by large cargo aircrafts from neighbouring farming communities in South Africa. However, due to the limited runway length, this demand cannot be met. A number of airlines, including Emirates and Qatar Airways, are interested in operating aircrafts from MIA, whereas Com Air, which codeshares with British Airways, has also requested to use MIA as an alternative airport. The following upgrades are required: extending the runway and rehabilitating existing pavements (strengthening of runways, taxiways, and aprons); improving safety and security (though MIA has recently installed new navigational aid equipment); procuring instrument landing system, doppler very high omni-directional radio range, and distance measuring equipment; upgrading the runway, which is currently rated as Category I, which is minimum visibility and operations; and improving and modernizing equipment (rescue and firefighting services is Category VI, with three firefighting trucks, of which one is old, as it was acquired in May 2011).

However, lack of training for airline staff remains a challenge. There is also high turnover for critical positions. NSDP II will aim to address these challenges.

Road safety is a serious challenge. Densely populated districts are characterized by high road fatality rates and road accidents are common in mountainous terrains. Common causes include speeding, drunk driving, use of mobile phones while driving, driver fatigue, inadequate visibility, road condition, and debris on the road. Driving conditions also post unique challenges including winding roads and illegal removal of road signs by communities



in the mountain areas. Road collisions are the major cause of death, primarily claiming the lives of youth aged 15-29, thus decreasing the productive human resource base. From 2009/12, there were roughly 300 fatalities per year, 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. The National Road Safety Council was established in 2018 to promote road safety throughout the country.

The GoL will aim to increase transport sector employment of women and other marginalized social groups in the commercial and public sectors, increase their contributions to economic development, and increase their participation in designated rural and urban roads, as well as along each link of the transport chain.

A key challenge of road construction will be adverse impacts on the environment, including destruction of wetlands, croplands, and other infrastructure caused by runoff, siltation, and lack of maintenance. Infrastructure development does not encourage zero emission or clean mobility, but efforts will be made to keep negative impacts to a minimum.

Strategic Objectives & Interventions

NSDP II will pursue the strategic objectives and interventions outlined in intermediate outcome 3.1.

Intermediate Outcome 3.1:
Sustainable Quality Transport Network

Strategic Objectives		Interventions
1.	Enhance Enabling Environment for Road Infrastructure Development	<ul style="list-style-type: none">Review Roads Act of 1969 and subsidiary laws.Develop Road Infrastructure Asset Management Policy.Develop Road Infrastructure Master Plan and Financing Policy and Strategy.Review and update Lesotho Design Standards.Formulate Construction Industry Development Policy, enact Construction Bill, and develop Axle Load Control Policy.Harmonize land allocating legislation to observe road reserves.Develop early warning system to provide reliable detection and response plan.Improve monitoring and evaluation systems for infrastructure development.
2.	Maintain Existing Roads and Access Routes	<ul style="list-style-type: none">Rehabilitate and maintain existing transport infrastructure (main arterial roads) as asset recovery to climate-proof standards.Construct new infrastructure conforming to environmental, clean mobility, and climate-proof standards.Introduce performance and output-based maintenance contracting system for all primary roads.
3.	Improve Access to Main Towns, Key Border Posts, and Productive Sectors	<ul style="list-style-type: none">Design, upgrade, and construct main corridors conforming to environmental, clean mobility, and climate-proof standards to key productive sectors.Build or upgrade new roads to connect main towns, border posts, and communities.



Strategic Objectives	Interventions
4. Improve Urban and Rural Transportation Systems	<ul style="list-style-type: none">▪ Design major intersections along main arterial roads.▪ Construct climate-proof footbridges and rural roads from earth to gravel.
5. Improve Management of Government Physical Assets	<ul style="list-style-type: none">▪ Develop information management system for government assets.▪ Develop GoL building maintenance plan.
6. Improve Systems and Legal Frameworks in Traffic and Transport Sub-Sector	<ul style="list-style-type: none">▪ Review and enforce traffic and transport legislation.▪ Automate services and processes for vehicle and driver licensing, including permit procedures.▪ Develop national transport master plan and traffic management plan.▪ Develop cross-border policy and law.▪ Develop targeted, enabling policies and legal frameworks to empower and support populations, in particular women and youth and people with disabilities.
7. Improve Air Transport to Support International Trade and Tourism	<ul style="list-style-type: none">▪ Revamp air transport services and rehabilitate strategic airstrips to support agriculture, health, manufacturing, trade, and tourism development.▪ Establish Civil Aviation Authority to enhance institutional capacity for effective operation and regulation.▪ Upgrade MIA infrastructure and facilities to meet International Civil Aviation Organization standards and make infrastructure climate change resilient and carbon neutral.
8. Improve Road Safety	<ul style="list-style-type: none">▪ Develop road safety audit and inspection guidelines.▪ Develop strategies for road safety and install or renovate quality road safety signs.▪ Establish and enforce standards and specifications for importation of vehicles.▪ Review existing legislation on vehicle modification and conversion to ensure safe operation of such vehicles.▪ Implement road accident data management system to improve systematic recording and reporting of road accidents.▪ Strengthen capacity of road safety officers and the National Road Safety Council to effectively discharge mandates.▪ Raise awareness on road safety.

9.2 Energy

More than 60,000 households were successfully connected to the main power grid in four years, far exceeding the NSDP I electrification target of 1,500 households per year. During the same period, an energy policy and a Renewable Energy Investment Plan⁴⁶ were developed and approved by the Cabinet in 2015 and 2017, respectively. The Lesotho Electricity Master Plan will be revisited during NSDP II implementation. With the support of the African Development Bank, the Lesotho Electricity Corporation (LEC) rehabilitated the 2-megawatt (MW) Mantšonyane mini-hydropower plant in 2013, and in 2016, the GoL completed the Japanese-funded 280-kilowatt MIA Solar Generation Facility that was commissioned in 2013. In 2018, the GoL and LEC signed a Power Provision Agreement 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, translating to more than 200,000 households connected to electricity. This

46 Scaling up Renewable Energy Investment Plan for Lesotho. Retrieved from <https://www.climateinvestmentfunds.org/country/Lesotho-step-programming>

is equivalent to about 39 percent of Lesotho households connected to the main grid using the 2016 population census.⁴⁷

Access to electricity is concentrated 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, the energy balance continues to be characterized by dependence on biomass fuel contributing 66 percent of primary energy needs (e.g., cooking, lighting, and space heating) for the rural poor, which is 60 percent of the population. This demonstrates the population’s vulnerability to extreme weather events associated with climate change. Collection of biomass for household cooking and thermal needs from animal kraals, open fields, wood lots, forests, and merchants is done almost exclusively by women and children—and the use of biomass fuels for cooking is almost exclusively by women. This has a tremendous impact on women-led economic development and entrepreneurship, education, and health in rural Lesotho. The extensive use of wood fuel has a cascading effect on deforestation (e.g., loss of biodiversity), soil erosion, and water availability. This behaviour will impact overall climate change resilience efforts.

Imported petroleum products, hydroelectricity, coal, and liquid petroleum gas comprise 34 percent of primary energy demand in Lesotho. While part of electricity produced is on hydropower (e.g., Muela Plant has the capacity to produce 72 MW, and the other four mini-hydropower plants have a combined capacity of 3.25 MW), Lesotho continues to operate on an electricity deficit that is offset by electricity imports from South Africa and Mozambique. Lesotho’s average power demand is around 145 MW, with peak demand around 152 MW (i.e., 2018 winter). Despite abundant renewable energy resources, Lesotho’s power infrastructure supply has not kept pace with rising demand. The proposed industrialization plans will likely drive private sector jobs, leading to increased household incomes. It is expected that energy demand will surge to 200 MW by the end of NSDP II.

Focus areas during NSDP II will include: rural energy needs to provide sustainable energy solutions to the 62 percent of people without electricity; on-grid power generation using private investment for renewable energy power development; and demand-side management for more efficient and cost-effective use of energy. Energy intensity (KW/GDP) is a good proxy and indicates that Lesotho is above the average energy intensity of middle-income countries. During NSDP II, a large investment project will aim to develop clean energy mini-grids and grid expansion to economic growth zones, with support from the World Bank and Climate Investment Fund.

Business consultations and surveys⁴⁸ have shown that electricity is a major constraint to doing business in Lesotho. According to the World Bank Enterprise Survey in 2016, this constraint is particularly acute for large industries (76.5 percent) and medium enterprises (25.2 percent). Large firms are concentrated in mining and manufacturing and usually use heavy, energy intensive industrial processes. With better access to reliable and affordable energy sources, large manufacturers could envision installing or expanding businesses in Lesotho, creating opportunities for economic growth zones and job creation.

The energy sector remains vulnerable to climate change-related extreme weather events (e.g., strong winds, rainstorms, snowstorms, thunderstorms, lightning, and increased flooding). Extreme climate events are likely to damage 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 extreme weather events increase. Recurring droughts, rising temperatures, and sub-optimal rainfall—that are predicted under various climate change scenarios—will result in lower water levels and reduced hydropower

47 The GoL’s long-term goal is to have 50 percent of all households connected by 2020.

48 Bureau of Statistics Household Energy Survey. Doing Business 2017. (2017).



generation at a time of a rising demand for both water and energy from a growing population that requires water pumping and air conditioning.

Strategic Objectives & Interventions

During the next five years, the GoL will promote renewable energy by harnessing energy from wind, solar, and water. The goal is a 35 percent electrification rate in rural areas from renewable sources by 2025 and universal access by 2030. As mentioned in the Lesotho Scaling-Up Renewable Energy Programme’s Renewable Energy Investment Plan of 2017, Lesotho has the potential to produce up to 6,000 MW from wind and solar, 4,000 MW from pump storage, 400 MW from conventional hydropower, and more than 1,200 MW from hydropower.^{49,50} In order to stimulate job creation and inclusive growth, the GoL will base all new connections on integrated planning with a 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	Interventions
1. Improve Energy Production	<ul style="list-style-type: none">Develop and implement Energy Master Plan.Improve on-grid and off-grid renewable energy generation capacity.Review energy investment portfolio to allow private sector participation in energy supply through other sources of renewable energy.Adapt institutional regulatory framework to enhance Lesotho’s energy supply security.Increase private sector participation via public private partnership framework and modernize power system management tools.Integrate social and gender measures and strategies in all energy sector programmes and initiatives.Construct strategic fuel storage capacity conforming to environmental and climate-proof standards.
2. Improve Access to Energy and Promote Sustainable Use	<ul style="list-style-type: none">Promote efficient bio-energy resources and appliances, and renewable energy technology and services.Establish public entity duly mandated to lead, supervise, and monitor rural electrification development, and create regulatory framework.Promote use of low carbon footprint fuel and energy efficient technologies for rural thermal energy needs.Promote renewable energy use in particular for rural, productive, and social uses.Promote private sector participation in sustainable mini-grid models.Promote energy savings and environmentally-friendly appliances, equipment, and vehicles.Elaborate enabling regulatory framework for affordable access to basic electricity services in rural areas.

49 Renewable Energy Investment Plan. (2017).

50 Renewable Mapping Exercise. (2018).



9.3 Water, Sanitation & Hygiene

The Metolong Dam and Water Supply Programme, under the Lowlands Water Supply Scheme, were implemented during NSDP I and resulted in increased accessibility and reliability of water supply to Maseru City and its surrounding peri-urban areas, and the towns of Roma, Morija, and Teyateyaneng. Provisions were also made for tertiary lines emanating from the downstream conveyance system to supply rural areas and improve access for water supply in those areas. The GoL also implemented water and sanitation projects in all 10 districts of Lesotho under the Rural Water Supply Project and 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 latrines were constructed to address sanitation challenges. Over 150,000 beneficiaries benefited from these projects.

An estimated 88 percent of households have access to improved water sources, showing a 14.5 percent improvement from the 2011 inter-census survey. In addition, 44 percent of the households use safely managed sanitation services, including ventilated improved pit latrines and pit latrines. An estimated 19.6 percent still openly defecate.

In 2015, the GoL established the Ministry of Water to increase efficiency in water and sanitation provision. The Water and Sanitation Strategy of 2016 was developed and operationalized the Water and Sanitation Policy of 2007. The Ministry of Water also conducted a review exercise into the Water and Sanitation Policy and the Water Act 2008.

The GoL also expanded sewage lines through the Water and Sewerage Company to cover urban and peri-urban areas and establish new water connections in urban areas. By the end of 2015/16, there were more than 25,200 new water connections and more than 908 new sewerage connections (table 8.1). These new connections increased the number of people with access to clean and safe drinking water for rural and urban areas, including access to 77 percent of households, with 72 percent travelling less than 30 minutes to water sources. Lesotho now ranks third amongst 24 countries in Africa that have made significant progress in moving people from untreated surface water to higher levels of clean water services.

Table 9.1: Water and Sewerage Connections between 2012/13-2015/16

Year	Number of New Water Connections	Number of New Sewerage Connections
2012/13	6,218	79
2013/14	7,248	101
2014/15	6,348	369
2015/16	5,386	359
Cumulative	25,200	908

Efforts to provide adequate water and sanitation are hampered 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 exacerbated by persistent and inadequate coordination, as well as the tendency for ministries and sectors to work in silos. 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 plans.



While there was a nationwide improvement with safe water supply during NSDP I, coverage in rural areas has remained stagnant due to reduced investments, climate change, and reduced yields or drying-up of water sources. Alternative strategies for dealing with climate change impacts on rural water supplies must be devised, with bulk water, gravity-fed supply seemingly becoming a viable option. Recurring droughts, extreme weather events, and changing precipitation patterns are predicted and 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. Urban sprawl has also undermined provision of adequate water with poor land management, degraded environments (e.g., soil degradation and soil erosion), and siltation. These factors have also affected ecological functions of wetlands which are sources of continued river flows and water availability. Sedimentation has also decreased the lifespan of dams, thus exacerbating the unavailability of water for different uses.

Strategic Objectives & Interventions

The GoL will ensure effective and efficient management and development of water resources in order to maximise socio-economic benefits. This will be achieved in an equitable manner without compromising the sustainability of vital environmental systems. Proper planning, conservation, development, and management of water resources requires 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 and improved sanitation and hygiene. The GoL strategies ensure that available water resources will contribute to economic development and improved livelihood of Basotho while also ensuring water security. Measures will be established to leverage the unique geographic location, high altitude, and pristine natural quality of the mountain areas that position Lesotho as the “Water Tower” of Southern Africa. The GoL will work to guarantee effectiveness and efficiency in implementation strategies, including 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	Interventions
1. Increase Access to Sustainable Water, Sanitation, and Hygiene	<ul style="list-style-type: none">▪ Improve integrated planning in infrastructure sub-sectors across all stages.▪ Install water and sanitation infrastructure to increase access.▪ Protect springs and other water sources.▪ Ensure affordability of water resource and sanitation services.▪ Fast-track connectivity of water and sanitation to industrial zones, commercial centres, and businesses.▪ Improve main sewerage system to connect industries, commercial centres, households, and institutions.▪ Develop pre-treatment and wastewater recycling systems.▪ Promote integrated catchment management.▪ Promote hygiene practices in rural and urban areas.



Strategic Objectives	Interventions
2. Expand Water Harvesting Infrastructure	<ul style="list-style-type: none">▪ Facilitate development of water harvesting infrastructure mainly for irrigation, fisheries, and other purposes amongst households and communities.▪ Mobilize communities, women, and vulnerable groups to participate fully in management of water and irrigation schemes.▪ Promote water use efficiency.▪ Develop bulk (multi-purpose) water infrastructure.
3. Implement Integrated Catchment Management	<ul style="list-style-type: none">▪ Improve integrated catchment management framework and implementation.▪ Improve institutional capacity for integrated catchment management.
4. Strengthen Water Resources and Environment Management	<ul style="list-style-type: none">▪ Improve national resilience and adaptability to climate change.▪ Improve operational and institutional capacity to curb environmental degradation.▪ Improve data collection and analysis capacity for monitoring water resources, climate change, and aquatic environments.
5. Strengthen Water and Sewerage Service Regulations	<ul style="list-style-type: none">▪ Review service territory for water and sewerage services.▪ Enhance Water and Sewerage Company institutional capacity for improved operational efficiency and effectiveness.▪ Strengthen water and sanitation national regulatory framework.
6. Strengthen Coordination and Monitoring and Evaluation in Water Sector	<ul style="list-style-type: none">▪ Strengthen monitoring and evaluation for water sector.▪ Improve institutional capacity for sector coordination.

9.4 Information and Communication Technologies

Information and Communication Technologies (ICT) play a critical role in enhancing efficiency in production processes and improving access to markets, thereby, facilitating regional and global integration. The efficiency of the service sectors such as health, education, finance, and general trade depend largely on ICT. ICT offers solutions for e-services and for reaching all social groups, including 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. ICT solutions also have potential to create significant income-earning opportunities for end-users, who most often are women and youth.

While Lesotho has made strides in ICT development, there are opportunities that the country can leverage to gain the most from the digital revolution. There are, however, constraints that Lesotho must manage to improve ICT development. Lesotho has high mobile network coverage, above 90 percent of inhabited land. 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.

There is limited utilization of mobile broadband, however. 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 internet during the review period.⁵¹ This indicates that the 3G and LTE network infrastructures are underutilized. Furthermore, more people use 3G services compared to those using LTE, even in areas that have LTE. The reasons for the demand gaps for internet access (3G and LTE) are numerous, but most important are constraints including high data prices and affordability especially for low income segments of the population, and lack of capable devices for certain segments of the population. There are few LTE-capable devices on the market compared to 3G-capable devices. There are also more basic phones capable of making calls and simple data (2G phones).

Fixed broadband (FBB) is critical for any country looking to transform its economy and embrace the Fourth Industrial Revolution. FBB is commonly deployed using optical fibre networks of different technology generations, collectively referred to as Fibre to the Home or Fibre to the Curb, and collectively FTTx. The deployment of this crucial technology is very low in Lesotho, at 0.10 per 100 inhabitants.⁵² 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 e-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 others in the region. The cost of a dedicated internet connection of 1 megabits per second (Mbps) 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, a business can obtain unlimited and uncapped 10 Mbps connection for M1,600 per month. In Lesotho, on the other hand, 1 Mbps, uncapped, costs M2,500. The penetration and affordability of FBB remains a critical point for the economy. Lack of competition in the broadband market and high prices of data have stifled access to the internet by a majority of the population. Amongst other reasons, lack of awareness on the potential of ICT, low digital skills amongst the population, and limited relevant application content impact internet usage.

The prices of leased lines, which are often needed to provide dedicated transmission for the GoL and business, are also priced amongst 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 internet service providers in order to sell to end-users, renders the Lesotho market unattractive for business, compared to neighbours with lower-priced data services such as South Africa and Botswana.

Other factors limiting Lesotho from realising the benefits of the digital economy (digital dividends) is the low rate 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 mountain 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 specialties amongst girls and women due to social construct and lack of role models, and inadequate involvement in decision-making levels in the sector. Lack of adequate infrastructure and access to ICT limit access opportunities to labour markets, resources, and other economic activities.

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

52 International Telecommunication Union. (2017). Retrieved from: <http://www.itu.int/net4/ITU-D/idi/2017/>



Strategic Objectives & Interventions

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. Firstly, it will 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, it will 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 programmes, thus reducing the digital divide. Thirdly, it will promote development of ICT applications and information content of all NSDP II projects and activities, and those of the private sector.

Intermediate Outcome 3.4:
Economic-Friendly ICT Infrastructure and Increased Use of ICT

Strategic Objectives	Interventions
1. Improve ICT Access and Use	<ul style="list-style-type: none">Facilitate build-out and sharing of strategic ICT infrastructure.Facilitate conducive environment to attract more market players to encourage competition in ICT market.Invest in extension of LEC’s optical fibre network to strategic areas to promote competition in retail internet access services.Improve penetration, price, and quality performance of FBB market.
2. Improve Regulation in ICT Sector	<ul style="list-style-type: none">Develop competition policy to regulate anti-competitive behaviours in telecommunication market and digital financial services market.Review interconnection arrangements to promote sectoral competition, including facilitating entrance for virtual mobile network operators.Remove barriers to market entry or effective competition by existing players.Promote competition in retail internet market by removing regulatory and financial barriers for small payers.Develop necessary legal and institutional frameworks for establishment of broadcasting signal distributor out of existing assets.Develop guidelines and rules for facility leasing to ensure market players have cost-based access to existing facilities.
3. Enhance e-Government Services	<ul style="list-style-type: none">Develop appropriate institutional framework for e-governance.Improve coordination and cost-efficiency in procurement of technologies to enhance e-governance.Support establishment of Research and Education Network to enable access to internet-based resources globally on affordable terms.
4. Improve Digital Economy Uptake	<ul style="list-style-type: none">Develop national digital policy and implementation strategy.Integrate digital skills in national curricula, from early childhood care and development to tertiary level.Stimulate demand to drive broadband up-take.Promote ICT literacy and lifelong learning of citizens through e-learning and awareness programmes and reduce digital divide.Establish data centres or hubs to attract data locally and internationally.Establish international call centre to promote youth employment.Facilitate smooth migration from analogue to digital.
5. Improve Governance of ICT Sector	<ul style="list-style-type: none">Develop framework for divesting GoL stake in different parastatals including in Econet Telecom Lesotho and West Indian Ocean Cable Company.Develop data centre infrastructure.Develop cyber security strategy and enact relevant laws to protect data and information for online users from cyber security attacks.Promote research and development in ICT sector.



9.5 Built Environment

Human settlements and urbanization are leading issues for Lesotho’s economic and social transformation. The UN Human Settlement Programme estimates the level of urbanization at nearly 27 percent in 2010 and future levels of urbanization are likely to be 34 percent by 2020 and nearly 60 percent by 2050. While urbanization may be a positive trend, an inability to manage it will lead to chaotic development and urban sprawl. Lesotho’s urbanization has already 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 is expensive due to the scale and the densities of such areas.

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 the 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 weak with the 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 the Land Act of 2010 was enacted to overcome some of these challenges and to stimulate land market, the implementation has remained a challenge in areas relating to agricultural land in both urban and rural areas.

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 inexperienced and lack sufficient resources to implement policies and manage urban developments. The construction industry also remains poorly regulated to the extent that construction practices often add to environmental problems. Although the basic institutional and regulatory framework is in place for secure ownership of property and systematic planning of urban development in Lesotho, much of it is outdated and ineffective. There is also lack of resources to implement planned activities under built environment.

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 hinterland population will double to some 550,000 (over 85 percent within the Maseru urban area only), and this will require the construction of approximately 80,000 new units to house the population. Over 100,000 new jobs will be created. If urban areas are to develop, in particular in Maseru, changes needed include stimulation of the business sector, upgrades for the industrial sector, and enabling of the construction industry to triple its scale and extend its local capacities. Large scale commercial agriculture, and possibly forestry, must 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 an unskilled labour force.

It is also anticipated that school enrolment will more than double as 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 must 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 km2 of 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 assured. 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.

Over the past decades considerable progress has been made in land administration which has reduced the costs and time for registering titles (e.g., used to take between six and 10 years, now takes 11 days with a 90-year lease issued in a month). However, there are still challenges that pertain to registering land in rural areas and in decentralizing services for the Land Administration Authority, as well as timely collection of land fees. During NSDP I, 65,958 leases were issued by the Land Administration Authority, with 48,016 and 17,942 under systematic and sporadic regularization, respectively. With the support of the World Bank and the Private Sector Competitiveness and Economic Diversification Project, the GoL improved the construction permit process by moving from a manual process to an electronically automated system, reducing the time and cost of issuing permits.

Another key achievement attained during NSDP I was the provision of affordable housing; however, the National Housing Policy has not been reviewed. The policy is the main framework for guiding housing development. 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. The GoL allocated a budget of M16 million for the construction of 60 houses at Linakotseng low-income area, for Basotho working in the informal and formal sectors. Additional budget will be allocated for the provision of basic services such as water, sewerage, and electricity. The GoL has facilitated construction of houses, sites, and services for all income groups through the Lesotho Housing and Land Development Corporation. The GoL has also facilitated land acquisition by some private developers for the provision of middle- and high-income housing. Furthermore, in partnership with non-profit organizations such as Habitat for Humanity Lesotho, the country has been able to provide fully subsidized housing to vulnerable groups and 881 two-roomed houses have been constructed to date.

The Maseru Master Plan Readiness Study has been completed. This study highlighted the need for development of the 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, resources, as well as the use and consumption of land.

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 SDGs, particularly SDG 11, and the 2063 African Agenda Goals.

Strategic Objectives & Interventions

In order to further improve built environment and achieve the urban aspirations of SDG 11 to “make cities safe, resilient, and inclusive,” Agenda 2063 and the New Urban Agenda, the GoL will address challenges related to land, housing, basic services, infrastructure, and climate change.



Intermediate Outcome 3.5: Improved Quality of Built Environment

Strategic Objectives	Interventions
1. Improve Land Management	<ul style="list-style-type: none">Upgrade and develop well-planned and serviced human settlements.Develop national land use plan and implementation strategy.Review and develop town and local physical plans and implementation strategies.Implement land banking programmes to guide growth of towns and safeguard agricultural land, and to conserve open spaces and other valuable urban biodiversity sites.Promote densification and up-zoning, and infill development in inner areas of all urban centres.Develop Real Estate Agent Regulatory Framework to regulate real estate market.Develop National Urban Policy and the National Spatial Development Framework.Adopt Sectional Title Bill and develop Maseru Urban Master Plan.Review Development Control Code of 1989, Building Design and Construction Regulations of 1988/89, and Planning Standards of 1990.
2. Improve Institutional Capacity for Human Settlement and Urban Development	<ul style="list-style-type: none">Improve financial, human, and material resourcing for national bodies and local authorities to conduct development control, building control, physical planning and housing construction.Review and, if necessary, redesign protocols within parastatal institutions such as Land Administration Authority and Lesotho Housing and Land Development Corporation.
3. Promote Innovation and Cost-Effective Technologies in Built Environment	<ul style="list-style-type: none">Improve settlement planning process using cost-effective modern technology.Review and enforce building standards and codes to be climate responsive.Promote innovation in design and building processes.Promote and expand production of local building materials.Conduct research and encourage development of domestic materials.Build capacity of producers in entrepreneurial, managerial, and competitive skills.

9.6 Solid Waste Management

No comprehensive solid waste surveys have been conducted over the past decade so there is not a clear understanding of solid waste generation and handling. At present, it is only observed that problems arising from the generation of solid waste are visible in Maseru and in other big towns such as Mafeteng, Leribe, Mhales'hoek, Quthing, and Berea. Regular collection of solid waste by public authorities in these big urban areas is virtually non-existent, leaving the responsibility for waste collection and disposal to individual households, shops, industries, and others. Only the city centre of Maseru is serviced on a regular basis.

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 urban areas. Often old pits or similar spots are used for dumping—there is no proper selection criteria such as distance to residential areas, topography and morphology, soil and geology, or risk of ground water contamination. As a result, these dump sites have become serious potential environmental hazards. Another problem is the poor operation of the dump sites. Solid waste is dumped and left without any treatment or covering except for Maseru city centre, 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 disposed solid waste. However, with anticipated rural-urban migration and growth of cities in the near future, this problem will be compounding and must be managed from the onset. There

is also a challenge of littering and waste which is dumped on the sides of main roads and dongas. This is due to lack of law enforcement and non-compliance by various stakeholders.

Since dump sites are open access and often located near residential areas. Residents—adults and children—scavenge collecting recyclable materials. This poses a danger to human health, and potentially spreads diseases. Lesotho has introduced, through the private sector, recycling primarily located in Maseru. Currently private agents collect solid waste such as paper, cardboard, cans, metals, and other materials from industries for recycling. Car wrecks are also collected for metal recycling. All recyclable materials are exported to South Africa due to the under-developed recycling industry in Lesotho. These companies also deal with hazardous waste which is shipped to treatment facilities in South Africa.

During NSDP I several activities took place including environmental studies, design of a new landfill, design of a transfer station, and acquisition of land for the landfill and transfer station. Sustainable recycling projects still have to be identified and implemented in order to manage solid waste in Lesotho.

Strategic Objectives & Interventions

During NSDP II implementation, the GoL will implement strategies to improve management of solid waste and to improve societal capabilities for solid waste management and handling.

Intermediate Outcome 3.6: Sustainable Solid Waste Management

Strategic Objectives	Interventions
1. Improve Management of Solid Waste	<ul style="list-style-type: none">Prepare national solid waste resource management strategy (e.g., waste diversion), and guidelines for solid waste treatment and disposal.Promote public participation programmes on waste management in cooperation with local non-governmental organizations.Establish solid waste management system in Maseru with focus on sustainability-based cost recovery model (i.e., users-and-polluters-pay-principle⁵³).Establish new modern landfill at Maseru and simultaneously close old dump site.Establish financing options for local governments to initiate sustainable solid waste handling system.Improve compliance of solid waste laws, regulations, and environmental standards.Ensure equitable and consistent enforcement of solid waste regulations.Promote private-municipal partnerships on waste management and recycling.
2. Improve Societal Capabilities for Solid Waste Management and Handling	<ul style="list-style-type: none">Build capacity at national and local levels to make executing institutions able to manage and operate future solid waste handling.Improve public education and raise awareness on solid waste generation, handling, and recycling (e.g., solid waste as a resource).Improve working relations with informal sector and communities on solid waste management to enhance shared responsibility and stewardship.Improve environmental performance at disposal facilities in efficient and cost-effective manner.

53 The system is a model and may be duplicated by district level councils.



10: Key Priority Area IV

Strengthening National Governance and Accountability Systems

Governance,⁵⁴ rule of law, and credible leadership are critical for achievement of the NSDP II strategic objectives. They provide a conducive environment for private investment and inclusive growth. Investors will invest where property rights are well-defined and clear, and there is little risk of loss of property. It is also essential to have efficient and effective public goods and services that support the private sector. Strengthening national governance and accountability systems are critical, and NSDP II will work to ensure protection of private investment and that public sector reforms guarantee efficient and effective provision of public sector goods and services that support a market-led economy while at the same time accelerating the economic and social transformation of Lesotho.

During the five years of its implementation, Lesotho experienced governance setbacks which adversely affected the envisioned socio-economic outcomes and discouraged potential foreign and domestic investment. The institutions of governance have weakened, and the 2013/17 events that culminated in frequent elections and government changes due to unstable governing coalitions resulted in disruptions in national priorities and policies.

These events highlighted weaknesses in Lesotho’s institutional infrastructure and accountability mechanisms including the need for: strengthening public sector management and administration with a focus on accountability and responsiveness to consumer needs. Lessons learned in NSDP I formed the base for proposed public sector management reforms aimed at increasing effectiveness, efficiency, and accountability and public financial management reforms aimed at improving public sector financial management and accountability, enhancing fiscal discipline, and improving operational efficiency by ensuring greater certainty over resource flows and minimizing fraud. The lessons also helped inform development of a foundation for proposed institutional reforms aimed at providing stability in the country and ensuring lasting peace and security. Investors and the general population feel secure when they have confidence in national security structures, law enforcement, and judicial systems that are equipped to deal with emerging threats. Key intermediate outcomes for this KPA are reflected in figure 10.1.

The country ranks relatively favourable on the Ibrahim Index of African Governance (IIAG). This overall governance score in 2016 was 58.2 out of 100, and it ranked 15 out of 54 countries in Africa.⁵⁵ The country slipped slightly from the 2015 ranking. While the country still continues to rank higher than many countries in Africa on overall governance, the rule of law, accountability, national security, citizen participation, and human rights protection have dropped between 2015 and 2016. Lesotho has also exhibited a slowdown in human development.⁵⁶ Table 8.2 depicts Lesotho’s trend in overall governance since 2012 based on the IIAG Index.

Representation of women in politics and administrative posts remains inadequate, and women and girls in rural areas continue to be marginalized and unable to influence policy. The GoL’s commitment to governance reforms provides an opportunity to increase participation by women, girls, and other vulnerable groups.

Lesotho also has a relatively free media compared to other countries in Sub-Saharan Africa as evidenced by the World Bank ranking at 48 percent. Effectiveness of the state in delivering services to the nation has declined.

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

55 Ibrahim Index of African Governance Index. (2017). IIAG is an annual statistical assessment of quality of governance in every African country by Mo Ibrahim Foundation. Presently, IIAG consists of more than 90 indicators. Retrieved from: moibrahim.foundation/.../2017/progress-african-governance-last-decade.

56 IIAG. (2017).



Figure 10.1: Strategic Intermediate Outcomes under Key Priority Area IV

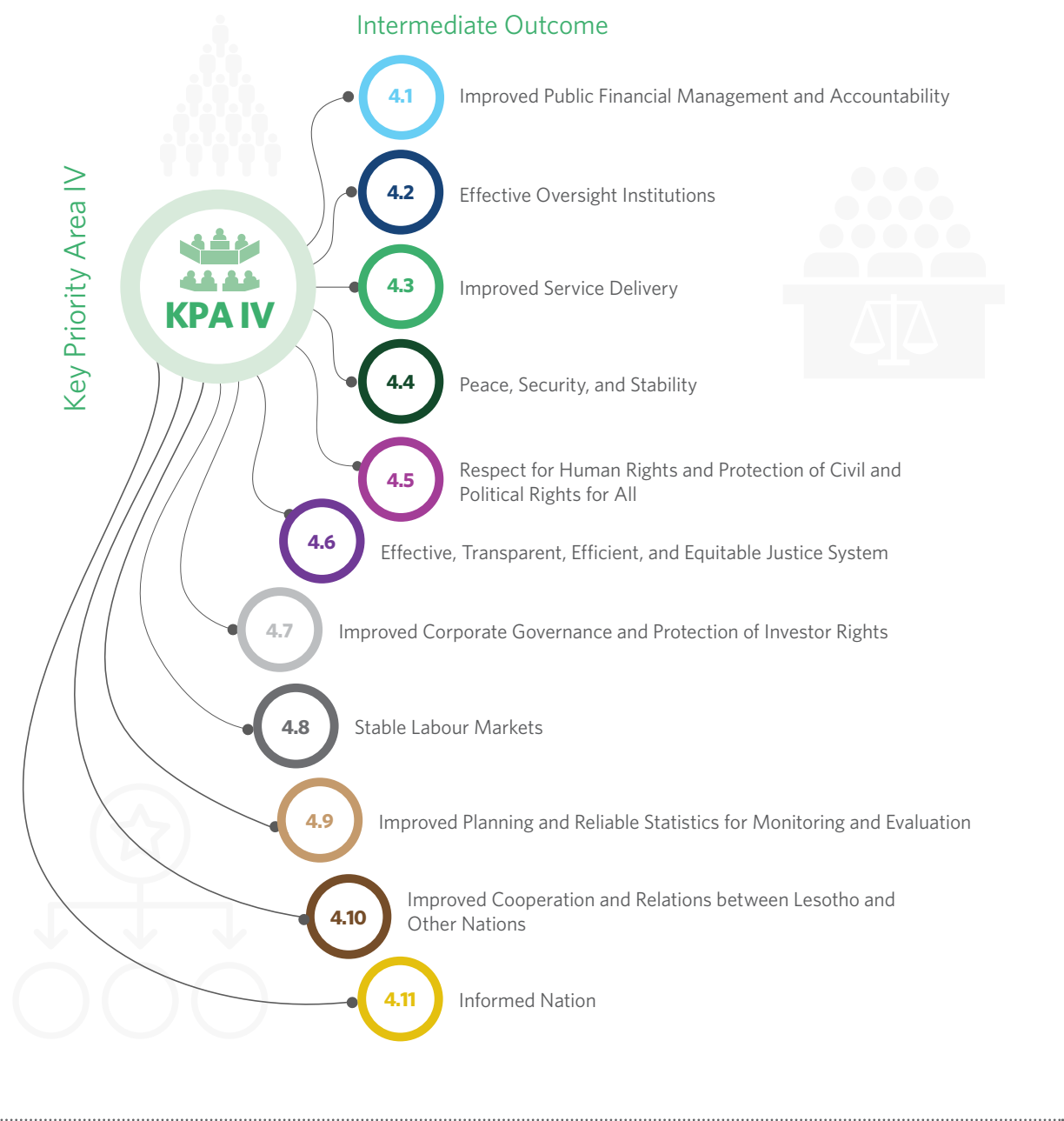


Table 8.2: Lesotho's IIAG Index Ratings on Governance, 2012/16

Governance Indicator	2012	2013	2014	2015	2016
Overall Governance Score	58.9	60.7	61.5	61.1	58.2
Safety and Rule of Law	64.9	66.1	65.8	66.7	66.6
Rule of Law	63.0	63.2	64.0	65.9	64.1
Accountability	53.6	56.1	57.2	59.5	55.0
Personal Safety	47.9	50.1	46.8	51.2	59.8
National Security	95.0	95.0	95.0	90.0	87.4
Participation and Human Rights	62.3	68.1	71.2	70.9	64.6
Participation	62.1	77.9	82.4	82.4	68.8
Rights	54.0	55.1	60.1	58.8	52.6
Gender	70.8	71.1	71.2	71.5	72.4
Sustainable Economic Opportunity	50.6	51.3	51.3	50.5	46.5
Public Management	53.5	55.8	55.1	60.3	54.9
Business Environment	55.4	56.0	55.1	47.2	38.2
Infrastructure	38.2	38.5	37.9	40.1	39.9
Rural Sector	55.4	54.9	57.3	54.3	52.8
Human Development	57.7	57.3	57.6	56.4	55.1
Welfare	51.1	50.6	50.6	51.1	46.6
Education	51.2	50.1	51.2	53.1	50.9
Health	70.9	71.0	71.1	65.1	67.9

Source: IIAG (2017).

10.1 Public Finance Management & Accountability

Lesotho's IIAG public management rank slipped from 60.3 to 54.9 between 2015 and 2016. The most recent Public Expenditure and Financial Accountability Review in 2017 revealed: the current public finance management system hampers efficient service delivery due to weak controls and lack of accountability; fiscal discipline is undermined by weak budget credibility, compliance, accounting, and reporting; inadequate controls exist for payroll and procurement; and weaknesses exist related to downstream policy implementation because of upstream deficient budget decisions and allocations. Immediate implementation of necessary reforms is needed as detailed in the Public Expenditure and Financial Accountability Review in 2017. Lesotho enacted the Public Finance Management and Accountability Act 12 of 2011 which will be amended through the Public Finance Management Bill of 2018.⁵⁷ 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 Public Finance Management and Accountability Act 12 and started implementing the Public Financial Management Reform Project aimed at supporting modernization of the financial regulatory framework and strengthening public finance systems to enhance accountability.

The upgraded Integrated Financial Management Information System (IFMIS) has been proposed and may be launched in April 2019. It aims to stabilize and improve accountability, detect fraud, and improve efficiency of

⁵⁷ This bill is pending enactment into law by Parliament.



payment settlements. Currently the system is being upgraded and the electronic financial transaction protocol for GoL payments was piloted successfully in five ministries. The Public Finance Management Bill is underway to allow for use of digital signatures to streamline workflow-related payments and improve efficiency. The system will improve transparency and efficiency although its functionality is likely to be constrained by capacity gaps due to loss of trained personnel to other institutions. Through the Office of the Accountant General, the GoL has implemented a revised structure on the accounting cadre and is introducing cash and procurement spending plans across line ministries to enhance cash management and efficiency in the public procurement system. The GoL has also focused on improving bank reconciliation timelines, ensuring the completeness and accuracy of IFMIS data. The Office of the Accountant General has also submitted the Annual National Accounts within the required statutory time. The collaboration between the Office of the Auditor General and the Parliament of Lesotho through the Public Accounts Committee has also improved.

The GoL is implementing public finance management reforms to enhance public financial management through the Public Sector Improvement and Reform Programme. Measures underway include: continuing to implement integrated planning and budgeting processes based on the Medium-Term Expenditure Framework; strengthening the Office of the Accountant General through reorganization, training, and upgrading of financial management systems; fast-tracking procurement system reforms to introduce standard procurement documentation, decentralizing the procurement function to line ministries, and transforming the Central Tender Board to a regulatory body; launching the Government Human Resource Information Management System and resource link; and executing the Public Service Biometric and Payroll Census to improve payroll management under the Public Sector Modernization Project aimed at enhancing public service delivery and accountability.

The GoL has also enacted the Audit Act of 2016 to strengthen audit functions. Although the Act provides for full autonomy of the Office of the Auditor General in line with the constitution, the Office of the Auditor General does not have the power to present audit findings directly to Parliament and must do so via the Ministry of Finance. Key challenges with the audit function include weak internal audit, absence of internal audit committees in line ministries (which impacts development of risk management processes), and impeded internal audit independence as internal audit is still accountable to the chief accounting officers of line ministries.

To strengthen procurement processes and systems in public service, the GoL has approved three policies: Public Private Partnership Policy, Public Procurement Policy, and Unsolicited Proposals Policy. Procurement regulations were also amended in 2018 and the Procurement Amendment Bill of 2018 is awaiting parliamentary enactment into law. The annual procurement plans will be upgraded into the IFMIS system to enable monitoring of procurement processes once the upgrade is ready. The GoL has also initiated a rotation system of procurement staff to curb systematic fraud by public officials.

Additional initiatives aimed at strengthening the procurement system include establishing a price catalogue on goods and services supplied to the GoL, and signing a framework agreement under common user transactions and supplier re-registration. These interventions may help address non-compliance to procurement controls and protocols, unwarranted interference, and delays in payments to suppliers due to continuous decline in fiscal space and poor cash management.

Despite notable achievements in public financial management, several challenges remain including non-regularization of excess spending by line ministries which contravenes the Public Finance Management and Accountability Act of 2011; improper maintenance and non-reconciliation of GoL 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; non-closure of accounts at commercial banks upon project completion by line ministries, making it difficult to have a Treasury Single Account; slow pace of producing procurement plans by line ministries; lack of effective systems for monitoring and evaluation of expenditures in the current budgeting system; and non-participation of citizens in the budget process.

Strategic Objectives & Interventions

During NSDP II implementation, the GoL will work to improve public financial management and accountability through interventions under intermediate outcome 4.1.

Intermediate Outcome 4.1: Improved Public Financial Management and Accountability

Strategic Objectives	Interventions
1. Strengthen Financial Management and Reporting Systems	<ul style="list-style-type: none">▪ Enforce financial accountability measures.▪ Implement Public Private Partnership Policy.▪ Improve coordination across line ministries to contribute to prioritized and coordinated Public Financial Management Reform.▪ Implement performance-based budgeting.▪ Improve budget credibility, cash management, and expenditure controls.▪ Enhance quality of financial data, information, and accountability.▪ Migrate from cash base to accrual base frameworks.▪ Improve coordination of National Asset Management.▪ Enhance interface of National Data Systems (i.e., identification system and IFMIS).
2. Improve Public Procurement Systems	<ul style="list-style-type: none">▪ Raise awareness on procurement tribunal.▪ Finalize and implement Procurement Act.▪ Promote efficiency of procurement systems.▪ Strengthen public procurement advisory.▪ Build capacity for public procurement in line ministries.▪ Review and enforce adherence to procurement regulations.▪ Strengthen capacity for budgeting implementation at national and sector levels.
3. Strengthen Public Accounts Audit	<ul style="list-style-type: none">▪ Establish audit committees in line ministries.▪ Develop Risk Management Policy.▪ Strengthen internal audit processes across ministries and state-owned enterprises.
4. Develop Gender and Social Responsive Budget System	<ul style="list-style-type: none">▪ Establish sector teams on social and gender responsive budgeting techniques as part of costing, budgeting, and resource allocation systems.▪ Increase awareness and appreciation of gender and social inclusion budgeting in Public Financial Management Reform.▪ Ensure capacity building for Ministry of Finance and line ministry officers in social and gender responsive budgeting management and monitoring and evaluation.▪ Sensitise Parliament and key stakeholders, including civil society organizations, to mobilize support for gender mainstreaming initiatives.
5. Improve Compliance and Environmental Audits	<ul style="list-style-type: none">▪ Review frameworks for environmental audit.▪ Enhance compliance to environmental standards.





10.2 Accountability & Effective Oversight

Accountability flourishes under institutions with strong oversight, and an informed general public demands accountability. In the past decades, Lesotho has established key oversight bodies to increase accountability and good governance in the public and private sectors including: Office of the Auditor General, Directorate on Corruption and Economic Offences, Office of the Ombudsman, Human Rights Commission, Police Complaints Authority, as well as supporting civil society organizations. Due to lack of technical and financial resources, and limited autonomy, many of these bodies have weakened over time, losing effectiveness.

The legal framework establishing these bodies has also not allowed full independence, which compromises accountability. The perception exists that executive interference in the selection of organization heads, although provided for in the constitution, is responsible for the weakening, alongside lack of technical skills.

Demand for accountability from the general public has been weak due to the polarized nature of politics and a complacent society. Lack of access to information and poor coordination of institutions in oversight functions are limiting factors in accountability. Access to information, however, is a fundamental human right. The absence of a legal framework that permits free access to information (e.g., Information Bill) is considered a constraining factor. Civil society organizations and the private sector in Lesotho are not empowered and have little capacity to engage the GoL to learn more about interventions aimed at enhancing public sector efficiency and effectiveness.

Parliament, through the Public Accounts Committee, has been effective in exerting an oversight role. It has publicized proceedings on public sector accountability and recommended public fund misappropriation offenders for prosecution. Parliament will provide further technical training to Public Accounts Committee members to enhance technical skills.

Strategic Objectives & Interventions

The GoL recognizes the challenges and opportunities, and NSDP II activities will focus on interventions under intermediate outcome 4.2.

Intermediate Outcome 4.2: Effective Oversight Institutions

Strategic Objectives	Interventions
1. Strengthen Oversight Bodies	<ul style="list-style-type: none">Promote independence (e.g., financial, legal, and operational) of oversight institutions.Enhance capacity of oversight bodies to deal effectively with corruption.Develop policy for non-state actor engagement with GoL and institutionalise mechanisms for consultation and dialogue.Promote civic education to stimulate demand for accountability.Strengthen capacity of Parliamentary Portfolio Committees, particularly Public Accounts Committee.

10.3 Service Delivery & Decentralization

Starting in 2015, some line ministries started devolving activities to local GoL levels, but implementation progress has been slow.⁵⁸ No guiding framework exists for fiscal decentralization and local government structures remain dependent on the central government for funding—it is often inadequate, unpredictable, and not based on a credible algorithm. With the lack of a unified fiscal framework, local councils are unable to collect revenues despite the great potential for revenue mobilization at this level. The relationship between the central government and players in the decentralised structure—in terms of funding, implementation, and monitoring of development programmes and projects—needs to be clearly defined and operationalized to ensure effective delivery of services and development.

A Cabinet sub-committee chaired by the Deputy Prime Minister was established to fast-track the decentralization policy reforms. During NSDP I, the GoL adopted 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 systems, while maintaining effective functional—and mutually accountable linkages—between the central and local governmental entities. This policy is yet to be fully implemented.

Consultations with the private sector and other key stakeholders indicate that there is a general sentiment that low technical and administrative capacity, poor leadership, and ineffective management have led to poor service delivery. This has impacted private sector operations and stalled growth. Failure to implement the Decentralization Policy of 2014 was not been mentioned during stakeholder consultations, but power struggles between the central government and local government may be a reason it was not implemented.

Local government structures also lack financial and human resource capabilities through which to implement policies and programmes. Other key challenges obstructing local service delivery is that local councils have low technical and administrative capacity and are unable to meet community demand due to inadequate financing. During 2017/18, the allocation was 14.5 percent of the national capital development budget. These funds are intended for development of rural community roads, council waste management, and council development funds.

Strategic Objectives & Interventions

The GoL recognizes the challenges and opportunities, and NSDP II interventions will focus on decentralizing public sector services, delivering services to the public effectively and efficiently, and strengthening institutions for public service delivery.

58 At the time of NSDP II development, only five line ministries had devolved activities to the local level. Implementation progress has been slow.



Intermediate Outcome 4.3: Improved Service Delivery

Strategic Objectives	Interventions
1. Decentralise Public Sector Services	<ul style="list-style-type: none">Develop fiscal decentralization framework and service decentralization framework to provide vertical and horizontal allocation of resources for local governments.Ensure fiduciary responsibilities of councils match capacity.Improve capacity for planning, procurement, budget management, project cycle management, and results-based management for local authorities.Strengthen capacity of District Development Coordination Committees to enhance collaboration and coordinated implementation of programmes.Raise awareness of citizen and non-state actors on local governance and service delivery to stimulate demand for accountability.Harmonize central and local governments and facilitate integrated development planning, budgeting, and performance monitoring and reporting.
2. Deliver Services to Public Effectively and Efficiently	<ul style="list-style-type: none">Build culture of effective service delivery in public and private sector.Strengthen planning, leadership, and management at strategic levels.Improve efficiency in human resource management systems, processes, and practices.Identify service delivery functions that can be outsourced. Review and implement divestiture programme.Review and implement national skills retention strategy.Introduce one-stop-shops for public service delivery and extend operating hours.Build capacity for conducting policy analysis and research to inform service delivery.Adopt information technology for better service delivery.
3. Strengthen Institutions for Public Service Delivery	<ul style="list-style-type: none">Improve coordination and communication skills at strategic and other levels of government.Develop service delivery standards for public sector and private sector.Review Lesotho Institute of Public Administration and Management’s mandate. Upgrade infrastructure, training capacity, and curricula to deliver key training programmes for all government ministries.

10.4 Peace, Security & Stability

Democratic elections have been held in Lesotho since 1993. In 2012, the political environment shifted to coalition governments, resulting in three general parliamentary elections between 2012 and 2017. During 2017, there were 29 political parties contesting elections, each an off-shoot of one of the original three parties from independence. The collapse of two successive coalition governments (2012/14 and 2015/17) demonstrates the volatility of coalition politics. The election of another coalition government in 2017 indicates that coalitions may be a trend. Building and sustaining a culture of internal party democracy, peaceful political negotiations, and compromise is necessary for continued stability.

SADC played a key role in Lesotho’s stability following political instability during 2012/2016.⁵⁹ The SADC Commission of Inquiry into the 2014/15 instability issued the Phumaphi Report that provided recommendations for peace, stability, and governance reforms necessary to ensure a stable country. Lesotho is committed to implementing recommendations and implementing the national reform agenda. This reform agenda includes reviewing the constitution and reforming the security, public, and other sectors to facilitate a stable environment for NSDP II implementation.

59 Kapa. (2015 and 2016).

Strategic Objectives & Interventions

The Security Sector Reform Roadmap presented at 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. 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 maximise information, advocacy, and organizational skills so that labour standard issues are not confined to one ministry but rather mainstreamed into work plans across government and national partners. It is anticipated that development and implementation of such strategies will lead to job creation and economic growth.

Intermediate Outcome 4.4: Peace, Security & Stability

Strategic Objectives	Interventions
1. Promote Peace	<ul style="list-style-type: none">Improve inclusive conflict resolution mechanisms.Improve capacity for conflict resolution.Establish effective social dialogue mechanisms.Uphold culture practices that unite families, communities, and societies.Promote social cohesion and patriotism through cultural events and other venues.Promote national service programmes.Promote involvement of women in peace making processes.Devise strategies to monitor and prevent hate speech.Strengthen civic education and social dialogue to improve social cohesion and stability.
2. Enhance National Security for All	<ul style="list-style-type: none">Expedite security sector reforms.Promote full societal participation—including disadvantaged groups such as youth, women, and people with disabilities—in security sector reforms and other decision-making processes.Improve governance (e.g., leadership and management) of security sector agencies.Improve human security (e.g., gender-based violence).Strengthen law enforcement agencies.

10.5 Human Rights, Political Rights, Civil Liberties & Political Participation

Inclusive human development embraces the protection of all citizens, their rights, and their freedoms. Enhancing protection and fulfilment of human rights was a strategic objective in NSDP I. Lesotho, with development partners, supported the Human Rights Unit within the Ministry of Law and Constitutional Affairs, in establishment of an independent national human rights institution, the National Human Rights Commission. In 2016, the Human Rights Commission Act was enacted into law to provide for the establishment of the Human Rights Commission responsible for investigation human rights violations and abuses, amongst other topics. It makes binding decisions. Regulations to implement the law were also developed. The commission’s objectives are to promote, protect, monitor, and sustain human rights in accordance with the constitution and other laws of Lesotho, and regional and international human instruments which Lesotho is party to.

Lesotho is currently the state party on international and regional human rights instruments reporting. It is in the second cycle of the Universal Periodic Review on human rights instruments. It has ratified the African Charter on Human and People’s Rights including the Rights of Children. The GoL also supports other governance agencies, in particular the Office of the Ombudsman, in development frameworks for human rights protection. These include



domesticating international conventions such as the Convention Against Torture; the Convention on Civil and Political Rights; the Convention on Economic, Social, and Cultural Rights; the Convention on Elimination of Racial Discrimination; the African Charter on Human Rights; and state party reports on international and regional human rights instruments (e.g., UN Convention on the Elimination of all Forms of Discrimination Against Women and Convention on the Rights of the Child).

In 2014, there were security issues and human rights violations. NSDP II will work to address human rights violations, including those targeted at members of the political class and armed forces.

Lesotho remains committed to implementation of measures under the UN Convention on the Elimination of All Forms of Discrimination Against Women, the African Union Protocol on the Rights of Women, and the SADC Protocol on Gender and Development. Lesotho made it mandatory for political parties to ensure equal representation on the proportional representation party list submitted to the Independent Electoral Commission during elections. Since 2005 it has also been mandatory to reserve a third of seats in local council elections for women enabling the adoption of the Mixed Member Proportion system at the local government level. During NSDP I, Lesotho continued to implement the Legal Capacity of Married Persons Act No. 9 of 2006 aimed at addressing gender inequality in the family and social spheres. In addition, appointment of women in key positions in the public sector has been promoted. Trends in female representation in the Cabinet and Parliament is notable, although it has declined recently. In 2011, there were nine women out of 25 (40.9 percent) in the Cabinet; eight out of 30 (26.7 percent) in the post-2012 All Basotho Convention party-led coalition government; and eight out of 35 (22.85 percent) in the post-2015 election coalition government. This trend indicates a steady decline in representation of women in the executive arm of the state, and the percentage remains far below the SADC quota of 50 percent women in the legislative assembly.

In Parliament, the total number of women has remained around 25 percent of the legislature. Lesotho’s performance related to representation of women is not impressive. Women in leadership roles in public and private sectors remain relatively low. This is attributed to the patriarchal society, attitudes, and societal perceptions regarding elections. There are, however, women in a few key leadership positions.

Youth participation in politics was low throughout NSDP I, though it has been steadily improving. Lesotho scored 0.583—just above average—for youth political participation and ranked 14 out of 54 in Commonwealth Countries. The key elements in assessing political participation via the youth development index are the existence of youth policies and level of representation in political structures, voter education, and opportunities to express political views. Lesotho scored low on civic engagement (0.336 and ranked 21 out of 54 in Commonwealth Countries). This is attributed to limited programmes and interventions by the political parties targeting youth. Youth should be encouraged to participate in politics, leadership, and decision-making processes. Youth participation in national elections was steadily increasing, though experienced a brief decline (52 percent in 2015 to 46.2 percent in 2017). The decline signaled societal fatigue with frequent elections under coalition governments.

Despite pre-election violence and a deeply divided result, the parliamentary elections were declared free and fair. The integrity of Lesotho’s elections, under the auspices of the Independent Electoral Commission, was ranked 65 of 139 countries that held elections in 2017. It ranked fifth in Africa out of 35.

The key challenge today is that small parties are often deciding factors in determining which big parties form a government. This creates significant party conflict and can result in small parties gaining seniority despite having small representation.



Strategic Objectives & Interventions

NSDP II interventions will work to protect human rights and civil liberties through multiple interventions.

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

Strategic Objectives	Interventions
1. Protect Human Rights and Civil Liberties	<ul style="list-style-type: none">Enhance protection and fulfilment of human rights for all.Operationalize National Human Rights Commission to promote, protect, and monitor human rights.Develop Human Rights Action Plan to coordinate efforts of institutions and civil society in furtherance of human rights.Align policy and legislation with GoL’s commitment to human rights as expressed in international and regional treaties.Strengthen citizen participation and reporting on international instruments and commitments.Institutionalise mechanisms to address issues and concerns of minority and vulnerable groups.Introduce formal street law programmes to reduce crime, including providing information on legal issues, procedures, and rights.Enhance training of security agents and relevant institutions on human rights.Strengthen capacity and extend mandate of Police Complaints Authority to ensure accessibly by public and increase effectiveness.Expedite constitutional reforms including repeal of laws that are discriminatory and clawback.

10.6 Law Enforcement & Administration of Justice

NSDP I identified several strategic actions necessary to enhance the rule of law and administration of justice. Under NSDP I, a case management system was developed aiming to reduce the backlog of court cases and facilitate justice system effectiveness. Between 2012/16, 1,809 directives and indictments were processed, and 12,039 criminal cases were completed. Alternative dispute resolution mechanisms were introduced, and legal drafting was enhanced. Forty-five bills were passed by Parliament between 2012/16 and 57 bills were drafted, with only 12 bills awaiting enactment.

By 2014, Lesotho had indexed all laws up to 2014 to enable easy access by local and international consumers, and it is an ongoing project. Lesotho also raised public awareness on intellectual property laws and property rights and offered specialized training on intellectual property. An intellectual property rights database has been partially completed through automation of intellectual property registration and should help protect private sector innovations.

Despite these achievements, a number of challenges remain and will be addressed during NSDP II. Weak systems with limited transparency and poor record keeping and case management cause lengthy and unnecessary delays in completing cases. Additionally, summoning witnesses is difficult, and prisoners are held on remand for extended periods as rehabilitation centres are ineffective and overcrowded. Moreover, vulnerable groups do not have adequate access to the justice system due to the low capacity of the legal aid system and its inability to deal with cases involving disabled people and juveniles.

Although Lesotho’s crime rate is not high by regional standards, petty crimes appear to be increasing (e.g., burglary, organised livestock theft, traffic violations, gender-based violence, and targeted politically-motivated killings).



The police fail to respond promptly to crimes and make relatively few arrests. Convictions are even fewer. Poor performance of the police force is attributed to understaffing; poor access to basic tools, equipment, and transport; limited technical capacity; corruption; and poor accountability and oversight. There is not yet a gender balance on the police force, though more women are being recruited.

Regional legal frameworks and cooperation mechanisms for managing cross-border criminal activities remain weak. Most laws are outdated, leading to poor application. Parliament has a limited capacity for drafting bills, so even when laws have been reviewed, the drafting process is lengthy.

Modernization and consolidation of laws and indexing is critical in reducing time and cost in identifying laws on particular subjects. Limited training for the police force, ineffective oversight, limited resources, and low public knowledge on human rights are all remaining challenges of this sector. The lack of a fully operational commercial court with trained legal professions constrains the business climate. Judicial reforms should be expedited including building capacity of judges to effectively handle commercial cases to improve the business climate, as well as to ensure speedy and transparent case management. There should be a balanced mix of legal professionals with specialized skills. Training for attorneys should also be initiated.

Strategic Objectives & Interventions

NSDP II proposes the interventions in intermediate outcome 4.5.

Intermediate Outcome 4.6:
Effective, Transparent, Efficient & Equitable Justice System

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



10.7 Corporate Governance

Without strong corporate governance,⁶⁰ it will very difficult to achieve sustainable inclusive economic growth. There is an increasing demand from citizens for transparency and accountability of public enterprises and GoL-supported agencies. The GoL is working to balance the autonomy and commercial independence of enterprises and agencies, while ensuring compliance, accountability, and transparency to the extent possible.

Many of these enterprises are financed through public funds yet are not held financially accountable. At the same time, those that the GoL owns or is a shareholder, dividends are often not declared. Failing to observe basic corporate governance principles, disregarding regulation, lack of oversight, and interference by principals are all serious issues that need addressing.

Corporate governance must be swiftly addressed, as investors will only invest when they have confidence in the system and assurance that business issues are managed with integrity in a fair and transparent manner. Strong corporate governance is also key in effectivity engaging local and foreign businesses to work alongside one another, and to have the ability to address legitimate social corporate responsibility concerns.

In 2010, the GoL received assistance from the Institute of Directors Southern Africa 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 corporate governance and providing for a healthier, more competitive, and transparent environment. This policy was accompanied by a code of corporate governance practices and conduct guidelines from the institute. It provides roles and responsibilities for: accounting authority and members; integrated sustainability reporting including disclosure requirements for corporate governance, risk management, and internal audit functions and codes; and accounting and auditing. Subsequently a number of enterprises defined board charters, established risk committees, and some defined 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 state-assisted companies, corporate governance in Lesotho continues to weaken.

Consultations with the private sector, state-owned enterprises, and government officials indicate that during NSDP I, public enterprises faced political interference with the selection of board members and terminations. This stifled business continuity. In many enterprises, board member performance was not assessed, and members were often selected based on political affiliation instead of technical competence. These harmful practices violate corporate governance principles and codes.

Risk management and audit, which should be central components in strategic planning, are still lacking in some enterprises. Financial independence remains a challenge to many enterprises subjecting them to interference from political principals. Systems Integrity Committees have been formed in different line ministries with assistance from the Directorate on Corruption and Economic Offences, however, many ministries do not act upon the recommendations. Compliance from chief accounting officers to audit findings is low.

Strategic Objective & Interventions

NSDP II will focus on interventions in intermediate outcome 4.7.

60 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, and between individuals and communal objectives. Corporate governance aims to align with diverse interests of individuals, corporations, and society within a framework of sound governance for a common good. The emphasis is on accountability, transparency, responsible operations, efficiency, and effectiveness. Corporate governance is about compliance, ethics, and truthful engagement.



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

Strategic Objective	Interventions
1. Strengthen Corporate Governance Practices	<ul style="list-style-type: none">Develop code of corporate governance for Lesotho (or adopt latest King Corporate Governance Framework).Promote adoption of codes of corporate governance practices and guidelines in public sector and private sector.Promote corporate governance principles and codes in public sector.Review Lesotho Corporate Governance Policy of 2010 and align it to latest King Corporate Governance Framework.Enforce compliance to corporate social responsibility and environmental sustainability.

10.8 Governance of Labour Markets & Social Dialogue

Lesotho has ratified 22 international labour standards including those on freedom of association and non-discrimination, ensuring 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.

During NSDP I, Lesotho developed the Decent Work Country Programme with support from the International Labour Organization. It created modest employment opportunities for women and youth through the cooperative sector. Significant policy reform achievements were developed, and there were strides in vocational and technical education and curricula development. The programme also increased the textile industry's level of compliance to national and international labour standards through Better Work Lesotho, although additional effort is required to sustain those outcomes. The programme also led to 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 and other key stakeholders.

The Decent Work Country Programme also successfully facilitated the formulation of the draft National Social Security Policy and the draft new Labour Code. It also facilitated the adoption of the Action Programme on the Elimination of Child Labour, the establishment of the Child Labour Unit, and it capacitated labour inspectors to assess and report on child labour abuses. The labour inspection capacity was built through occupational safety and health, and progress was made on workplace occupational safety and health programmes including HIV/AIDS. The ongoing Strengthening of Labour Inspection Lesotho Project is expected to result in even better outcomes. The GoL, through the Ministry of Labour and Employment Services, raised awareness about the importance of social dialogue through training and other engagements. Greater awareness about the purpose of social dialogue amongst other government and non-governmental organizations and the public at large is needed, and the scope should be more inclusive in dialogue platforms.

Challenges in labour market governance continue especially related to the Wages Advisory Board (which establishes minimum wages and working conditions) and the Industrial Relations Council. Although the National Council on Occupational Health and Safety was largely inoperative during NSDP I, the National Advisory Council on Labour was operational, though performance was marked with inefficiency and ineffectiveness. Reforms have been recommended. The Labour Market Information System has not been significantly strengthened and planning frameworks and strategies for employment creation continue to be weak.

Strategic Objectives & Interventions

NSDP II will focus on interventions in intermediate outcome 4.8.

Intermediate Outcome 4.8: Stable Labour Markets

Strategic Objectives	Interventions
1. Strengthen Social Dialogue Mechanisms	<ul style="list-style-type: none">Strengthen social dialogue institutions.Promote alternative labour dispute resolution mechanisms.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">Promote social security for all working class.Strengthen Labour Market Information System.Promote transition of labour from informal economy to formal economy.Enforce international labour standards that Lesotho is signatory to.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">Strengthen labour inspection.Develop guidelines and standards for health and occupational safety in all sectors, especially productive sectors.Promote effective maternity and paternity protection, maternal health care, and women's rights at work in line with International Labour Organization Maternity Protection Convention, and other conventions.Extend legal social security coverage to include working population under minimum wage categories.Raise awareness on occupational health and safety.

10.9 Policy, Planning & Monitoring and Evaluation

Accountability and planning for results require detailed, comprehensive sectoral plans entirely aligned to NSDP II. Development policies often fail because of misalignment between the sectoral plans and the national development plans, and lack of monitoring and evaluation. Timely and accurate data and statistics must be produced for monitoring to be successful. A national strategy for development of statistics has been prepared. Implementation of this strategy will contribute to improvements in efficiency of data collection; functioning quality assurance procedures; relevant, accurate, credible, comparable data and statistics; timely submission of publications and reports; and accessibility.

As the strategy is adhered to, monitoring and evaluation of policy implementation and programmes will improve. This will allow for essential feedback and course correction, allowing results to be obtained more efficiently. Public awareness and education should also be heightened on available statistics and how to interpret them, contributing to a more informed nation.

Coordination between the GoL and development partners is essential for the achievement of meaningful results and avoidance of duplication of work. The GoL has established mechanisms for aid coordination and management, but duplication of effort does exist and some programmes are not addressing national development priorities. There is often poor reporting on donor activity, as some programmes are implemented outside of the GoL's budgeting, accounting, and monitoring systems despite Lesotho's main development partners supporting the Paris/Busan Declaration on Aid Effectiveness. In 2013, the GoL 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 and between the government and development partners in the management of development cooperation; and accelerate progress towards policy harmonisation in Lesotho’s relationships with its development partners. The implementation plan and aid effectiveness targets were developed, although progress on these targets is yet to be evaluated. Policy compliance by line ministries and development partners remains a challenge, and coordination between the GoL and development partners, and between development partners themselves continues to be an issue. Lack of coordination has led to duplication of activities and, in some instances, wasting of resources. A policy gap also exists, as the policy leaves out other stakeholders who are recipients of development aid such as non-governmental organizations and civil society organizations. The Public Sector Investment Database system has also become dysfunctional, hence monitoring of development assistance is a serious challenge.

All development partner activities should be well-coordinated and reported to the GoL as they form part of the implementation for NSDP II. Coordination of aid will increase predictability of aid.

Strategic Objectives & Interventions

NSDP II will focus on interventions in intermediate outcome 4.9.

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

Strategic Objectives	Interventions
1. Improve National Statistics	<ul style="list-style-type: none">Implement National Strategy for Development of Statistics.Strengthen statistical capacity of statistics agency.Harmonize statistics produced by stakeholders.Improve statistical data management and provide wider disaggregation of information.
2. Improve Aid Coordination and Project Cycle Management	<ul style="list-style-type: none">Resuscitate Public Sector Investment Database.Implement Lesotho Partnership Policy.Identify and implement measures to improve resource mobilization.Improve absorptive capacity of development projects.Improve project planning and appraisal process.
3. Strengthen National Planning and Coordination	<ul style="list-style-type: none">Improve national planning system and resuscitate national planning cadre.Draft National Planning Bill.Improve policy coordination.Develop coordination mechanisms between GoL and non-state actors.Develop national Non-State Actors Policy.Improve capacity for planning.
4. Strengthen Monitoring and Evaluation of National Systems	<ul style="list-style-type: none">Develop national Monitoring and Evaluation Policy.Develop national monitoring and evaluation system and institutionalise monitoring and evaluation.Develop medium- and long-term sector programmes with periodic reviews.Improve capacity for monitoring and evaluation.



10.10 Regional Integration, International Relations & Cooperation

Lesotho is a member of numerous regional blocs including SACU, SADC, and the African Union. These all offer great opportunities for cooperation and trade. It is important to establish an appropriate institutional infrastructure and develop the capacity to participate effectively in negotiations on regional integration and developing trade agreements with third parties—as well as other international policy making processes, such as the World Trade Organization and the UN system. Opportunities available from other countries or political and economic configurations such as the European Union, United States, Canada, China, India, Japan, and the Commonwealth should be leveraged much more effectively. The policies and programmes adopted at the regional and international levels need to be tailored for Lesotho through adaptation and integration into national policies, plans, and legislation. Lesotho has strong economic links with South Africa, the largest economy in the region; however, Lesotho has not adequately leveraged the opportunities. According to the Population and Housing Census of 2016, 179,000 Basotho of Lesotho origin live in South Africa and 55 percent are employed full time, while 11 percent are engaged in casual labour activities.

While recognising that remittances make a major contribution to the gross national income, the skills of migrants could be deployed for the economic development of Lesotho. Traditional sources of employment for Basotho in South Africa (e.g., mining) are declining, so 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 South Africa to facilitate fluid movement and reduce transit times. Measures that would reduce 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 organizations and has diplomatic relations across the world. Although it is important to maintain these relations, the need for embassies should be reviewed and rationalized, while ensuring strategic objectives are met. Lesotho must identify innovative ways to promote Lesotho as a destination of choice for foreign investment, trade, and tourism.

Strategic Objectives & Interventions

NSDP II will focus on interventions in intermediate outcome 4.10.

Intermediate Outcome 4.10:
Improved Cooperation and Relations between Lesotho and Other Nations

Strategic Objectives	Interventions
1. Increase Regional and Global Integration and Cooperation	<ul style="list-style-type: none">Build capacity for negotiations and diplomacy.Establish mechanisms to ensure speedy implementation of projects and commitments under Joint Bilateral Commission of Cooperation frameworks.Facilitate ease of international travel for nationals travelling abroad and international visitors coming to Lesotho.Develop forward-looking strategic cooperation framework in best interest of Lesotho.



Strategic Objectives	Interventions
2. Increase Effectiveness and Stakeholder Participation in Regional and International Negotiations and Policy Forums	<ul style="list-style-type: none">▪ Institutionalise mechanisms to increase participation of stakeholders in regional and international negotiations.▪ Raise awareness on international treaties and other instruments, and facilitate access by businesses, individuals, and other stakeholders.▪ Build capacity of non-state actors to participate in regional and international negotiations and policy forums.
3. Increase Cost-Effectiveness and Efficiency in International Affairs and Cooperation	<ul style="list-style-type: none">▪ Review architecture of foreign missions, institutional capacity, and coordination.▪ Rationalise foreign mission to deal effectively with international affairs and cooperation.▪ Appoint career diplomats in foreign missions.▪ Identify new opportunities for cooperation and collaboration with other countries and develop cooperation agreements.▪ Improve information exchange between foreign missions, line ministries, and business community.
4. Improve National Image and Safeguard Lesotho’s Reputation	<ul style="list-style-type: none">▪ Develop national branding strategy.▪ Develop framework(s) for Dual Citizens Act of 2018.

10.11 Media & Accountability

The media industry in Lesotho has an estimated 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 the dominant platform for public debate. There are external media sources; however, all newspaper publishers and media outlets are in or near Maseru. As a result, there is minimal coverage of remote rural areas. The primary language of the press— with the exception of radio stations—has switched from Sesotho to English, although many of the English language newspapers also include a small Sesotho supplement. The GoL newspaper, *Lesotho Today/Lentsoe la Basotho* publishes *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 enacted, ambassadors received and those commissioned, acts of clemency and amnesty, awards granted, and other official engagements. There are opportunities for the media to better leverage the image of Lesotho as a kingdom. There are no reliable bookstores strategically located where consumers can purchase basic GoL periodicals, maps, publications, or books in general. Ongoing challenges include delays in adopting and subsequently implementing the media policy which would result in establishment of a relevant institutional infrastructure and legal framework to systematically address issues related to professionalism, ethics, and conduct. The policy would also facilitate enhanced media content and coverage.

Strategic Objective & Interventions

NSDP II will focus on interventions in intermediate outcome 4.11.

Intermediate Outcome 4.11: Informed Nation

Strategic Objective	Interventions
1. Promote Free and Accurate Information Sharing	<ul style="list-style-type: none">▪ Enhance media sector capacity.▪ Facilitate adoption and implementation of media policy, and review related laws and regulations.▪ Ensure content is accurate, objective, sensitive, and responsible.▪ Develop legal framework to govern social media.▪ Review and update media studies curricula at training institutions.▪ Establish communication framework and procedures for media interaction with GoL, policy makers, and other state actors to improve access to accurate information.▪ Expand media coverage.



11: Cross-Cutting Topics

Environment and climate change are integral components of NSDP II, as the population relies heavily on climate-vulnerable sectors such as agriculture, water resources, and biodiversity to maintain livelihoods. Actions to manage the environment and climate change must be appropriately implemented for sustainable development and inclusive growth in Lesotho. Environmental degradation has badly eroded the bearing capacity of land and demands special attention in policy making. Integrating climate change and environmental challenges as cross-cutting issues in development plans will help protect advances made to date—and future advances—in reducing poverty. An integrated approach will make development more resilient by reducing climate impacts and identifying development opportunities that may otherwise be overlooked.

Youth and children-related issues are also cross-cutting, as they comprise a large segment of the population and will play a critical role in the transformation of Lesotho. The GoL will work to promote and protect the interests of youth and children, and people living with disabilities (see Chapter 8).

The NSDP II has also mainstreamed gender as a cross-cutting topic affecting the development of Lesotho on many levels. Gender equality must be engrained in policies, frameworks, and practical implementation activities. Societal norms and traditions have informed attitudes, practices, and behaviours that dis-empower women and other marginalized populations. NSDP II will focus on inclusion and actively involving women in contributing to solutions that will foster economic growth and alleviate poverty.

11.1 Environment and Climate Change

Lesotho is experiencing the devastating impacts of climate change and extreme weather conditions including droughts, floods, strong winds, early and late frosts, hail, and snowstorms. Warmer temperatures and lower levels of rainfall are having negative impacts on agriculture, food security, poverty, and vulnerability. An estimated 70 percent of populations in rural areas depend on agriculture for their livelihoods. This exacerbates vulnerability amongst poor and rural communities who tend to have lower coping capacities. In 2015/16, Lesotho experienced the worst drought in 35 years due to the El Niño phenomenon. It resulted in poor rainfall, declines in aquifer and spring recharging, loss of livestock, and widespread crop failure leading to massive drops in food production. Communities were forced to reduce meal sizes, decrease non-food expenditures, and sell productive assets. During the peak of the drought, water shortages affected agricultural activities, industrial production, and functioning of schools, hospitals, and health centres. High stress levels during this time also contributed to a rise in gender-based violence. Structural poverty and competition over scarce natural resources deepened the crisis, resulting in progressive erosion of community resilience. The devastating impacts of El Niño included leaving more than 477,000 people in need of basic food and non-food items. This situation continued into 2017, with an estimated 465,000 people still in need of food assistance.

In addition to climate-related challenges, environmental degradation is also a serious concern. Lesotho loses at least 2 percent of its topsoil annually due to erosion. About 66 percent of households live on degraded land.⁶¹ Increasing environmental degradation has led to loss of critical habitats such as wetlands, forests, and vegetation cover, and has significantly reduced the capacity of catchments to capture and store water. Annual depletion of natural resources is estimated at 4.6 percent of gross national income.⁶² Environmental degradation is a result of increased use of natural resources for farming, over grazing of rangelands, and cutting trees and other natural

61 Food and Agriculture Organization. (2017).
62 Lesotho Human Development Report. (2015).



vegetation for fuel⁶³ and other uses; and unregulated encroachment of human settlements on prime agricultural land. This has posed both economic and governance challenges. Access to grazing land fuels communal conflicts, particularly during periods of drought. Arable land suitable for agriculture is below 10 percent (270,000 hectares) of total land area (3 million hectares).

Environmental degradation has been exacerbated by inadequate physical planning, lack of enforcement of existing plans, and non-policy compliance. The results include inappropriate land use, urban sprawl, and building on areas that are prone to natural disasters.

It is critical to facilitate spatial planning that includes analysis and recommendations on growth pole developments and develop capacity to produce accurate and up-to-date maps. Chapter 9.5 further addresses issues related to urban planning and urban sprawl.

Lesotho has developed policies and frameworks to address climate change and environmental degradation, and interventions include tree planting, land reclamation, protection of wetlands and other biodiversity, and conservation programmes (i.e., likhakeletsi); however, evidence indicates more efforts are essential to reverse environmental degradation and desertification. Lesotho’s fragile ecosystem must be preserved for future generations. If preserved, it will facilitate ecotourism and associated job creation. Institutional fragmentation, duplication of efforts, and poor coordination between ministries, non-governmental organizations, and development partners are the root causes of weak policy and programme implementation, and associated enforcement.

Strategic Objectives & Interventions

During NSDP II formulation, the GoL developed policy guidelines for climate change mainstreaming that are readily available for line ministries and other development partners. The GoL has identified additional efforts aimed at environmental protection and climate change. During NSDP II, the GoL will work to reverse land degradation, promote biodiversity conservation, improve national resilience to climate change, improve environmental and climate change governance, and improve enforcement and compliance with environmental regulations and standards.

Cross-Cutting Outcome:
Environment and Climate Change Mainstreamed into Policy and Programming

Strategic Objectives	Interventions
1. Reverse Land Degradation	<ul style="list-style-type: none">Enhance watershed management programmes (e.g., Integrated Catchment Management).Increase productive capacity of rangelands.Extend indigenous forest cover.
2. Promote Biodiversity Conservation	<ul style="list-style-type: none">Improve management of protected areas.Increase coverage of protected areas (e.g., establish national botanical garden).Establish national inventory for socio-economically important plants and animals, including valuation.Promote sustainable bio-trade.Promote eco-project initiatives.

63 Food and Agriculture Organization. (2017).



Strategic Objectives	Interventions
3. Improve National Resilience to Climate Change	<ul style="list-style-type: none">Mainstream climate change in government policies and programmes.Strengthen climate services for climate resilient development.Develop climate change awareness programmes and raise awareness of stakeholders about climate change issues.
4. Improve Environmental and Climate Change Governance	<ul style="list-style-type: none">Strengthen environment and climate change coordination to enhance efficiency and policy implementation.Establish dedicated environment and climate change national authority.Develop Climate Change Act.Review, develop, and harmonize relevant environment and climate change legislation (e.g., review Environment Act of 2008, develop Climate Change Act, and Biodiversity Resource Management Act).Establish climate change and environment fund.Establish environment and climate change information hub to record greenhouse gas emissions, climate finance, ecosystem status, etc.
5. Improve Enforcement and Compliance with Environmental Regulations and Standards	<ul style="list-style-type: none">Enhance enforcement of environmental impact assessments and other enforcement tools.Scale-up environmental education programmes and awareness-raising activities.Develop appropriate incentives to encourage environmental protection.Review and develop enforcement tools.Scale-up monitoring and evaluation of environmental programmes.

11.2 Youth

Youth unemployment—and associated socio-economic consequences—remains a serious concern for the development of Lesotho. High unemployment rates are attributed to inadequate technical skills; dropping-out of school; limited work experience (some employers prefer experienced labour); mismatch between labour market needs and skills; lack of entrepreneurial skills and venture capital; lack of access to finance; and lack of political participation in decision-making (closely linked to social exclusion). According to the 2016 Lesotho Population Census, 39.6 percent of the population are youth aged 15-35, with a median age of 24. This population will have a tremendous impact—positive or negative—on the development of Lesotho.

Evidence indicates that youth unemployment has contributed to an increase in HIV/AIDS (38 percent female and 31 percent male)⁶⁴ and drug and substance abuse (20.8 percent smoke tobacco and 19.7 percent drink alcohol).⁶⁵ According to the Lesotho Population Survey of 2016, due to lack of jobs, the youth dependency ratio has increased from 40 percent in 2006 to 60.9 in 2016—heavily impacting the ability of households to pull themselves out of poverty due to reduced income and consumption patterns. Furthermore, 12 percent of youth aged 12-30 are chronically poor, with higher poverty rates amongst youth aged 12-17 compared to those aged 18-30.

Young women, especially in rural areas, experience higher poverty prevalence rates than young men as the women are primarily confined to unpaid care work. Other key challenges include inadequate incubation centres and structures to assist youth in accessing business-oriented services; lack of platforms exposing youth entrepreneurs to ideas and information-sharing; and lack of youth-friendly resource centres. Poor economic governance and limited commitment to achieving results are the root causes of these challenges.

64 Lesotho Ministry of Health. (2014). Demographic Health Survey. (2014).

65 Lesotho Youth Empowerment Survey. (2012).



These challenges must be addressed quickly, as active engagement of youth is paramount to successfully growing the economy. Youth must be empowered, engaged, and guided so they are a proactive part of Lesotho’s economic transformation. There is an increasing recognition world-wide that youth should be given greater focus as they have the potential to contribute significantly to political and socio-economic advancement of countries. The African Union Constitutive Act underscored the importance of youth participation and involvement in development of the continent. The African Union developed a policy framework, the African Youth Charter, articulating member state responsibilities for youth development.

The African Youth Charter advocates for integration of youth in development of national programmes and strategic plans. It provides governments, youth, civil society, and international partners with a continental framework, which underlines the rights, duties, and freedoms of youth.

The GoL recognizes the importance of empowering youth, and the NSDP II includes youth and children as a cross-cutting theme. Parliament also unanimously passed the National Youth Council Act of 2008 ensuring youth are involved in the design and decision-making of programmes directly affecting their needs. The National Youth Act of 2008 and the subsequent approval of the National Youth Council Regulations of 2009 were a collective effort by ruling and opposition parties.

The GoL, through the Ministry of Youth, Gender, and Sports and with assistance from development partners, has developed several programmes over the past five years empowering youth. These include: Social Compact Programme to assist youth with entrepreneurial skills, other livelihood skills, and seed capital; National Volunteer Corps Programme to introduce youth graduates to institutions for gaining on-the-job experience and instilling patriotism; and Youth Employment Promotion Programme to equip young people with entrepreneurial skills. Institutional structures were also established including: National Youth Council aimed at involving youth and facilitating participation in national decision-making processes; and Vocational Youth Training Centres aimed at equipping youth with vocational skills and promoting self-employment.

Many of these programmes, however, were plagued by lack of financial support, poor programme management, and ineffective monitoring and evaluation. Each of these contributed to poor outcomes. In some instances, line ministries, private companies, and government parastatals did not have clear targets or a clear understanding of youth empowerment policies. The past youth empowerment model concentrated on education empowerment without specifically targeting youth skills development, so confusion surrounding this likely contributed to poor outcomes.

The GoL constructed youth resource centres across the country, with each district having at least one Youth Resource Centre. The centres aim to provide social, economic, and recreational services to youth, including life skills training, social services (e.g., health and adolescent services), and mentorship. Although some remain functioning at basic levels, most do not have clearly defined programmes and have not been utilized optimally. These centres, if managed appropriately, provide an excellent entry point for addressing the development rights and needs of young people including adolescents. They provide a safe space for expression, participation, leadership, and knowledge sharing.

The National Youth Policy Implementation Plan for 2018/22 was developed and is ready for implementation, and a mapping exercise of all youth organizations was conducted around the country in 2017/2018.



Strategic Objectives & Interventions

The GoL clearly recognizes the importance of mainstreaming youth into policy and programming. During NSDP II, the GoL will work to improve youth participation in development, improve institutions for youth development, and improve access to information by youth.

Cross-Cutting Outcome:
Youth Mainstreamed into Policy and Programming

Strategic Objectives	Interventions
1. Improve Youth Participation in Development	<ul style="list-style-type: none">Promote compulsory adolescent sexual and reproductive health programmes in schools, Youth Resource Centres, and other identified strategic spaces.Integrate all youth development programmes into single compact programme that addresses comprehensive youth needs.Enforce procurement rules that target youth empowerment through procurement processes.Promote apprenticeship programmes to provide youth with work experience to increase employability.Develop rules and regulations to regulate and protect youth during work attachments and apprenticeships.Establish national youth development fund and grant to support youth enterprises and shield risk for high-potential youth projects.Promote youth participation in agriculture and other productive sectors through incentives targeted at youth enterprises.Promote community voluntary education programmes targeted at youth life skills and health.Scale-up and improve efficiency of youth development programmes.Strengthen monitoring and evaluation of youth development programmes.
2. Improve Institutions for Youth Development	<ul style="list-style-type: none">Establish leadership academy in collaboration with institutions of higher learning targeted at youth development.Strengthen National Youth Council and build capacity to implement functions.Establish national youth service structure in all government ministries.Improve National Youth Council Secretariat capacity through orientation and training.Amend National Youth Council Act of 2008 to include recent, relevant issues affecting youth.Develop and capacitate existing youth workers with sexual and reproductive health and rights skills.
3. Improve Access to Information by Youth	<ul style="list-style-type: none">Disseminate National Youth Policy 2017/30 and Implementation Plan, African Youth Charter, and Youth Centre Guidelines.Establish youth job portal at youth resource centres and online.Promote youth associations and networks locally and regionally.Provide digital skills training to youth in and out of school.⁶⁶

11.3 Gender

Lesotho has made significant strides towards gender equality, as highlighted in Chapter 10. For example, the Global Gender Gap Index ranks Lesotho as bridging the gap better than many countries in Sub-Saharan Africa using indicators such as economic participation and opportunity, education attainment, health and survival, and political empowerment. While Lesotho’s education system has traditionally favoured females, especially at secondary and

66 Models proposed by companies (e.g., Digital Data Divide, Laboratoria, or Andela) provide students with digital skills training. They also match students to skill demand in the international market. Students get on-the-job training and formal job opportunities working remotely for international clients.



primary education levels, the challenge is boys are left behind in terms of education attainment due to household obligations such as herding and other family chores.

Lesotho has enacted a number of progressive laws to address gender inequalities. The most salient laws are the Legal Capacity of Married Persons Act of 2006 (places women at par with men) and the Land Act of 2010 (allows women to register land in their names). These laws are further strengthened by the Lesotho Gender Policy of 2003. The Decentralization Policy of 2014 has also been formulated to provide a framework for deepening and widening the economic and social benefits of democracy to all citizens. Local government structures have provided the GoL, development partners, non-state actors, and citizens a platform to promote—at the grassroots level—democracy and gender equality, as well as an opportunity to identify local development needs.

Despite the framework, effective participation by women in local government processes is an ongoing challenge. The societal construct is such that women often have a subordinate standing in society. They are vulnerable to gender-based violence, and often have an unequal voice in decision-making on family matters, including reproductive health, especially in rural areas.

The GoL is working diligently to bring an end to gender inequality. Lesotho is a signatory to many international conventions that prohibit all forms of discrimination, as well as international covenants that prescribe equal participation of men and women in civil and political rights.

It is important to note that elements in the Customary Law are still discriminatory in nature. The application of the dual legal system continues to present a challenge for women’s rights. The GoL shall consider aligning these legislations and implementing the existing gender equality legal frameworks during NSDP II. Lesotho will also devote resources towards addressing gender-based violence and protection of rights of women and girls against abuse.

Strategic Objective & Interventions

The GoL clearly recognizes the importance of mainstreaming gender into policy and programming. The GoL will work to promote gender equality through interventions that will not only contribute to improving equality, but also contribute to job creation and inclusive growth.

Cross-Cutting Outcome: Gender Mainstreamed into Policy and Programming

Strategic Objective	Interventions
1. Promote Gender Equality	<ul style="list-style-type: none">Advocate for male involvement in gender and sexual and reproductive health programmes.Improve capacity of support institutions and law enforcement agencies to deal effectively with gender-based violence.Promote information dissemination on legal frameworks that promote gender equality and develop guidelines to facilitate implementation.Empower women to participate equally in politics, including leadership positions and economic activities.Mainstream gender into national development programmes and projects.Develop strategies to eliminate early, forced, and child marriages.Expand access to sexual and reproductive health facilities for women and men.



12: Oversight and Implementation Arrangements

The successful achievement of NSDP II outcomes is dependent on consistent and effective monitoring and evaluation of outcomes resulting from interventions. NSDP II adopts a results-based framework to improve policy implementation effectiveness. Projects and programmes that implement NSDP II must clearly articulate what is to be achieved (results and outcomes) which must be aligned to the outcomes already articulated in NSDP II.

The objectives of NSDP II will be achieved if the expected investments take place and the GoL implements key reforms to improve resource allocative efficiency and absorption capacity. There are risks, however, that may affect achievement of the intended results. The main external risks include uncertainty in the global environment and climate change impact. The main internal risks include low absorption capacity by implementing ministries and agents, unstable coalition governments, inadequate financial resources, and operational risks due to weak administrative capacity. The GoL will address some of these risks through implementation of public sector reforms meant to improve efficiency and effectiveness of the state, constitutional and political reforms meant to provide stability in the country, and investment climate reforms meant to provide a conducive environment for private sector investment.

Successful implementation of NSDP II will also depend on ensuring local ownership by all stakeholders, effective mobilisation of resources, and developing timely and robust monitoring and evaluation systems. Although this starts during a fiscal crisis, opportunities exist. The GoL will embark upon much needed reforms. It will target resource allocation and cost-effective interventions that will encourage private sector development, job creation, and inclusive growth.

NSDP II identifies four key drivers of change for the desired benign development scenario.

1. Integration of NSDP II into Medium-Term Fiscal Framework (MTFF)

- The MTFF and annual budget process should fully integrate NSDP II priorities. The sector resource allocation in the budget should be guided by the number of jobs a sector can potentially create and the contribution of the sector to economic growth either directly or indirectly through crowding in private investment. The four productive sectors on which job creation and inclusive growth is anchored should be given the highest priority in resource allocation.
- All ministries should develop annual implementation plans and procurement plans that must be monitored closely. The budget allocations to ministries should be conditional on submission of implementation plans and procurement plans. Each plan should indicate the project’s employment creation potential and gender and youth mainstreaming. This will ensure that resources are allocated for well-planned activities which contribute to the outcomes of NSDP II. At the same time, the GoL should encourage other stakeholders, such as non-state actors and development partners, to develop implementation plans based on NSDP II and/or their country strategies which have been informed largely by NSDP II. This will require clear coordination between development partners, private sector, GoL ministries, and non-state actors.
- Similar to NSDP I, NSDP II will adopt sector wide approaches to define medium-term investment needs, and allow for flexibility in the investment plan to new projects and those projects that have reached maturity and need to be closed. The Public Sector Investment Programme will be rolled out on an annual basis.



- NSDP II will require undertaking Public Expenditure Reviews for selected sectors and districts to enhance allocative efficiency and to monitor progress in implementation of projects and services.
- The realisation of NSDP II's outcomes will further require the development of district investment plans and flagship projects to take advantage of comparative advantages at the district level. This will also facilitate self-reliance within districts and encourage independence in allocating resources at the district level.

2. Monitoring and Evaluation & Policy Coordination

- NSDP II is followed by two companion documents: a well-designed Monitoring and Evaluation Framework and Results Framework with clear targets for each strategic area, and a Financing Strategy to finance NSDP II investments and interventions.
- Monitoring of outcomes will be done at two levels: performance monitoring and process monitoring. Performance monitoring will be done mostly at the sector level and will involve regular collection of routine quantitative information related to programme or project implementation action plans, with progress measured against the performance targets set for each stakeholder activity, input, output, and immediate outcome. For example, number of hectares of agricultural land parcels leased to investors, number of agricultural land title deeds released, hectares of land under irrigation, reduced maternal, infant, and under-five and neonatal mortality rates. Process monitoring will involve ensuring that methodologies and procedures are compliant with NSDP II's strategic framework. For example, ensuring that all activities and interventions under different stakeholders are compliant with the NSDP II strategic framework including intermediate outcomes and strategic objectives, and ensuring that all activities and interventions are consistent with NSDP II's theory of change.
- The GoL will develop a non-state actors policy to provide for an institutionalised platform for their participation in policy dialogue and monitoring results. It will also promote results-oriented leadership and a results-based management system to ensure achievement of NSDP II outcomes. The GoL is already in the process of the resuscitating the National Planning Cadre and establishing a National Planning Board to allow for independent and high-level policy advice and monitoring and evaluation. The National Planning Board will serve as the highest authority for monitoring NSDP II progress. Figure 12.1 provides an organogram of the NSDP II oversight, coordination, and implementation structure.

3. Private Sector Engagement

- NSDP II places an emphasis on developing a private sector that will create jobs. Private sector engagement through established platforms such as the Business Council, Private Sector Foundation, business chambers, farmers associations, and agri-business associations will remain crucial for high-level dialogue. The GoL will create avenues for private sector participation in implementing the NSDP II agenda.
- The GoL will establish a special unit—the Delivery Unit—following the PEMANDU approach. It will focus on addressing challenges faced by the private sector in business. This unit will be placed under the Office of the Prime Minister.

4. Financing Strategy

- NSDP II is accompanied by the Financing Strategy which documents how NSDP II will be financed. This strategy provides potential avenues for resource mobilisation through various vehicles, including both domestic and external channels.

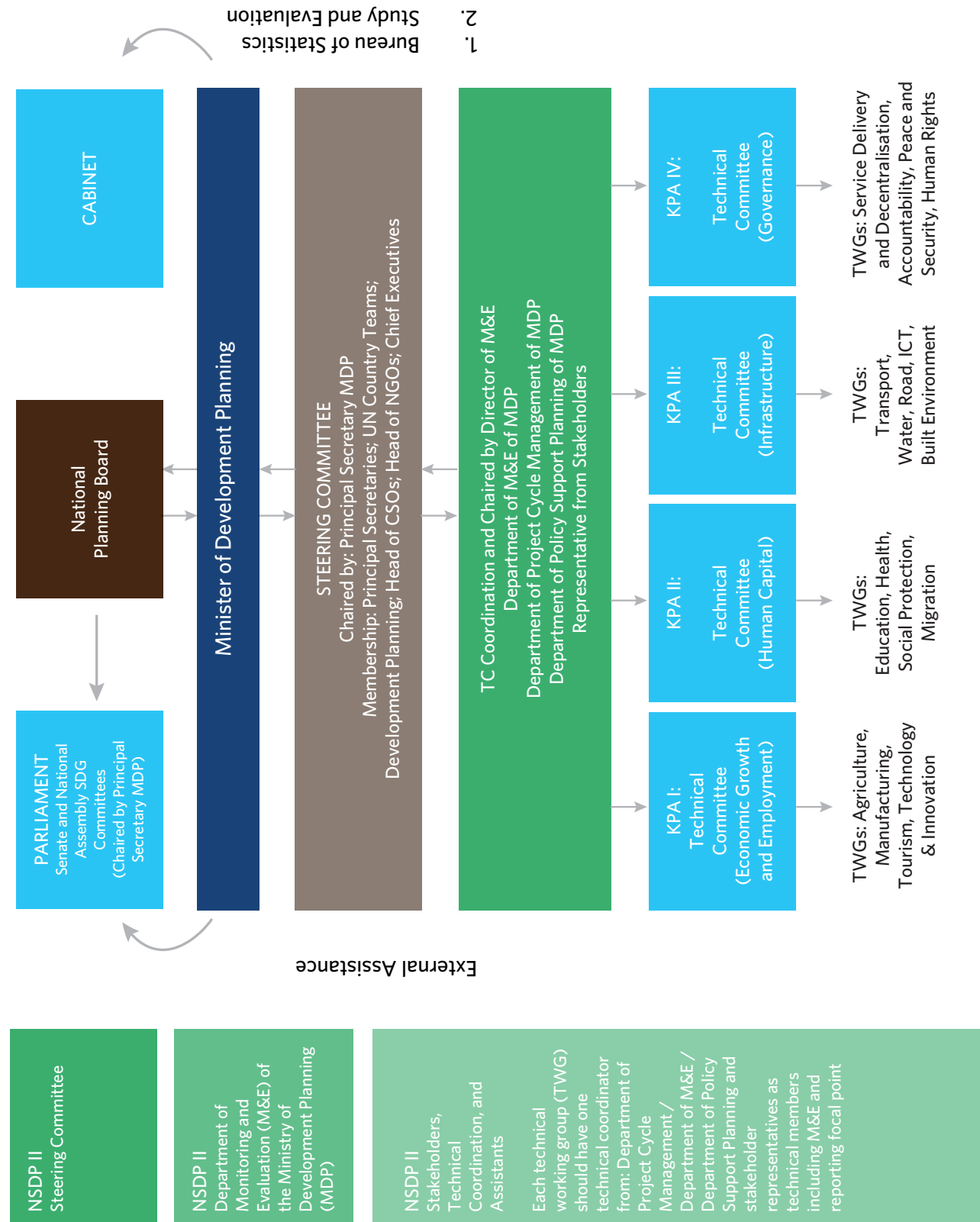


- The strategy also identifies more effective ways through which the GoL can mobilise additional official development assistance from traditional and innovative sources of financing. It further considers possibilities for acquiring more concessionary debt while maintaining macroeconomic stability.
- The strategy advocates for mobilisation of general budget and sector budget support by ensuring that the GoL meets obligations or agreed targets to qualify for budget support.
- The strategy further advances that all country assistance strategies must be aligned to NSDP II to ensure development assistance synergies are harnessed. All development assistance must be targeted at making a big impact and achieving big results.
- The strategy advances that Lesotho should promote South-South cooperation and negotiate agreements in the best interest of the nation, including bilateral agreements and the Joint Bilateral Commission for Cooperation.

The Financing Strategy will be supported by the implementation of aid policy and mutual accountability frameworks between the GoL and development partners, public sector improvement, and reform programmes including smart public-private partnerships and outsourcing of services to the private sector and capable non-state actors.



Figure 12.1: Lesotho NSDP II Oversight, Coordination, and Implementation Structure



Annex – Investment Climate Reforms Agenda

Critical Issues	Strategic Intervention
Starting a Business	
1. Cumbersome application procedures.	<ul style="list-style-type: none">Adopt international business classification.Improve efficiency of Local Licensing Board.Rollout online payment system to all business support services in GoL.Enact Registration and Licensing Act to repeal current Trading Enterprises Act.Consolidate tax, health insurance, and labor registration into a single application to allow for online publication of incorporation notices and to reduce registration costs.
2. Outdated Workman's Compensation Act of 1977.	<ul style="list-style-type: none">Endorse Social Security Protection Act and repeal Workman's Compensation Act of 1977.
3. Lengthy time for obtaining health certificate.	<ul style="list-style-type: none">Change health inspection requirements from pre-to post-inspection for selected businesses (exclude high-risk businesses) and review Public Health Act.
Obtaining Construction Permits	
1. Costly and lengthy procedures to obtain construction permits.	<ul style="list-style-type: none">Review current construction permit system and automate all business processes for permit acquisition.Establish a One-Stop Centre for relevant: agencies (i.e., Maseru City Council [MCC], Water and Sewerage Company [WASCO], Lesotho Electricity Corporation [LEC], Lesotho Tourism Development Corporation) for efficient coordination and network registriesEnforce time limits and service standards for processing construction permit applications.Make Maseru City Council autonomous and increase Building Control Unit capacity.Review and amend construction permit-related laws (i.e., Town and Country Planning Act of 1980, Building Control Act of 1995, and associated regulations).Develop and enforce implementation of local plans (i.e., review and update Maseru Development Plan of 1989).Upgrade and enforce construction permit-related laws.
Getting Electricity	
1. Lengthy and costly procedures to obtain electricity connection.	<ul style="list-style-type: none">Build capacity of Lesotho Electricity Corporation to ensure they can meet increasing demand for electricity connection, especially for businesses.
2. Dilapidated power network.	<ul style="list-style-type: none">Develop new and robust power network infrastructure that will withstand current environmental conditions.
3. High electricity tariffs.	<ul style="list-style-type: none">Use available natural resources to generate electricity and alternative means of energy.Rationalise decisions for electricity connectivity and establish time limits for external connection work and meter installation.Explore options for improving efficiency for equipment and material procurement.Facilitate market entry for new electricity suppliers to stimulate competition.



Critical Issues	Strategic Intervention
4. Limited SCADA coverage on distribution network negatively impacts turnaround time and monitoring from control centres.	<ul style="list-style-type: none">Expand fibre optics to cover entire distribution network, allowing network to be monitored by SCADA system.
Registering Property	
1. Land administration operations are fully manual and not self-service oriented.	<ul style="list-style-type: none">Facilitate completion of Land Information System development.
2. Information in manual form and inaccessible.	<ul style="list-style-type: none">Digitalise land records.
3. Centralised land administration services.	<ul style="list-style-type: none">Decentralise land administration services.
4. Non-cooperation by parties towards mediation proceedings.	<ul style="list-style-type: none">Resuscitate and institutionalise Land Tribunal.
5. Non-compliance to law by land allocation authorities and general public.	<ul style="list-style-type: none">Continue sensitising general public on land administration frameworks.Establish Investigations Unit within land administration.
Establishing Credit	
1. Secured Transaction Law is still bill and not operational; modern collateral registry cannot be operational until law enacted.	<ul style="list-style-type: none">Facilitate enactment of Secured Transaction Law–Security Interest in Movable Property.
2. Data on juristic persons cannot be distributed.	<ul style="list-style-type: none">Amend law to identify disparities in legal practitioner interpretation of existing law regarding distribution of data in question.
3. Bureau cannot offer credit scores to help banks and financial institutions assess creditworthiness of borrowers, as credit scoring system is not yet established.	<ul style="list-style-type: none">Seek funding for establishment of credit scoring system.
4. Absence of agriculture insurance creates significant risk for banks to provide credit to farmers.	<ul style="list-style-type: none">Establish Agriculture Financing Department within Post Bank.
Protecting Investors	
1. No provision exists in Companies Act on personal liability of directors.	<ul style="list-style-type: none">Amend Companies Act accordingly.
Paying Taxes	
1. Poor service delivery.	<ul style="list-style-type: none">Review clearing agent working guidelines and amend memorandums of understanding to ensure closer collaboration, organised work, and accountability.Operationalise online tax clearance certificate.Improve Enterprise Policy and Management System.
2. Delays in issuing receipts.	<ul style="list-style-type: none">Establish payment referencing system.Outsource cashier services to more banks for enhanced efficiency.
3. Delays in processing tax refunds.	<ul style="list-style-type: none">Introduce online tax filing.Implement IT operating model.
Trading Across Borders	
4. Weak cooperation between South Africa and Lesotho borders.	<ul style="list-style-type: none">Resuscitate Joint Bilateral Commission for Cooperation and establish Clearing Single Window.



Critical Issues	Strategic Intervention
5. Poor coordination of relevant stakeholders.	<ul style="list-style-type: none">Establish and institutionalise a cross-border coordinating body.Implement one-stop-shop facility at border.
6. Long and tedious clearing processes.	<ul style="list-style-type: none">Introduce ASYCUDA to allow for online self-clearance and e-tax filing.
Enforcing Contracts	
1. Court operations are manual and no rules exist on adjournments.	<ul style="list-style-type: none">Sensitise judges on importance of automating operations and clearly defining rules on adjournments.
2. Cases are rarely uploaded on court website due to lack of designated officer.	<ul style="list-style-type: none">Create position or formally assign dedicated officer to upload cases to website.
3. No functional integrated electronic case management system exists for lawyers and courts. Existing electronic case management system only installed for courts, and is dysfunctional due to non-maintenance resulting in manual case management.	<ul style="list-style-type: none">Upgrade and localise existing electronic case management system and integrate to lawyers.
4. No arbitration unit within court system; courts dependent on independent arbitrator services.	<ul style="list-style-type: none">Train arbitrators and establish Arbitration Unit within court system.
Resolving Insolvency	
1. Costly and lengthy procedures in resolving insolvency.	<ul style="list-style-type: none">Review legislative procedures and develop legislative programme.Develop regulations to implement associated act.
2. Limited capacity to deal with insolvency issues as prescribed by law.	<ul style="list-style-type: none">Capacitate commercial court judges, legal practitioners, and other stakeholders on new insolvency procedures.
Regulating Labour Market	
1. Outdated Labour Code Order No. 24 of 1992 does not provide for employee rights and interests.	<ul style="list-style-type: none">Fast-track enactment of Social Security Bill and amendment of Labour Code Order N. 24 of 1992.Strengthen compliance with labour agreements.



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