PD-ABD-401

ISA 74326

UNCLASSIFIED

LESOTHO

Lesotho Agricultural Policy Support Program (LAPSP)

(632-T-601, 690-T-601, 632-0224)

UNCLASSIFIED

PD-ABD-401

AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON D C 20523

ACTION MEMORANDUM TO THE ASSISTANT ADMINISTRATOR FOR AFRICA

FROM: AFR/PD, Carol Peasley C. Peasley

SUBJECT: Lesotho Agricultural Policy Support Program (632-T-601, 690-T-601 and 632-0224)

PROBLEM: To approve a $15 million Lesotho Agricultural Policy Support Program (LAPSP) consisting of $12.75 million in dollar disbursement non-project assistance and $2.25 million in project assistance. The $2.25 million in project assistance and $7.75 million of the non-project assistance will be funded from the Sub-Saharan African Development Assistance (DFA) appropriation and the remaining $5 million in non-project assistance will be funded from the Southern Africa, Development Assistance (SADCC) appropriation.

BACKGROUND: The goal of the Lesotho Agricultural Policy Support Program (LAPSP) is to make more productive and efficient use of Lesotho's domestic resources in crop agriculture and livestock through a process of policy reforms and implementation. The purposes of LAPSP are two fold:

1/ To open the agricultural input marketing system to facilitate competition among suppliers, increase input availability to producers and reduce the budgetary cost to the government of interventions in the system; and

2/ To reduce the overstocking of livestock (cattle, sheep and goats) on fragile rangelands, thereby bringing into closer balance herd size and grazing potential; inducing livestock owners to take into account the costs and benefits of open grazing; and increasing the efficiency and competitiveness of the livestock marketing system.

To accomplish these purposes, LAPSP proposes to support the Government of Lesotho's (GOL) adoption and implementation of a set of policy reforms which focus on:

1/ divestiture of government interests in Coop Lesotho;

2/ transfer of Coop Lesotho to the private sector, including farmer-managed cooperatives;

3/ elimination of fertilizer subsidies;

4/ implementation of the new national livestock policy; and

5/ implementation of the grazing fee program and complementary market reforms.

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The first three policy reforms are aimed at increasing the availability, diversity and efficient delivery of agricultural inputs in order to increase overall agricultural productivity. The last two reforms are aimed at enacting new policies, as developed by the GOL with USAID assistance, in the livestock sub-sector for range conservation, livestock marketing, livestock production and animal health. Thus LAPSP both stems from and complements USAID agricultural projects which have as objectives improved farming and livestock production techniques and improved agricultural planning. The proposed program is expected to improve incomes of the rural population, predominately women, and enhance natural resource conservation efforts.

The proposed program will complement the GOL's efforts, with assistance from the IMF and the World Bank, to: (a) expand and diversify its domestic production base through increased private investment, (b) strengthen export promotion and import substitution efforts, and (c) reduce its budget deficit to a manageable level. LAPSP focuses on a subset of key policies that are expected to be part of the structural adjustment program put together by the GOL with the IMF and the World Bank.

As shown in the Financial Summary (page 4), LAPSP is designed as a $15 million package: $12.75 million in non-project sector assistance and $2.25 million in projectized assistance. The non-project assistance portion of the program includes two components: Agricultural Input Reform and Livestock Management Reform, with dollar disbursements totalling $4.25 million in three tranches and $8.5 million in four tranches for the respective components. Disbursements are phased over three to four years and are progressively higher each year in order to provide incentives for implementation of the reforms. The $2.25 million in project activities is to provide management and technical support to the program, specifically: a resident technical assistance team consisting of two specialists, one to support the implementation of each of the two program components ($1,100,000); a USAID Management Assistance Team composed of a program economist, program assistant, secretary and logistical support ($500,000); and a series of studies and short term activities essential to implementation of the program and monitoring program impacts ($650,000).

Specific task forces in the Ministry of Agriculture (MOA) will be primarily responsible for day to day implementation of the program. A Program Secretariat, consisting of the two-person technical assistance team and supporting staff, will be established in the MOA to assist in the preparation of documentation and overall coordination of program implementation. The Ministry of Planning (MOP), which is responsible for coordinating all GOL policy initiatives, will have the lead role for Program Management and provide guidance to other GOL Ministries as required. USAID will exercise

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overall program monitoring and evaluation responsibilities as well as collaboratively reviewing and approving work plans, program status and actions proposed by the GOL.

DISCUSSION: The ECPR for LAPSP was held on February 19, 1988 and chaired by DAA/AFR, E. Saiers. The ECPR found the program to be innovative, sound and appropriate. LAPSP was seen as addressing much needed natural resource conservation issues in Lesotho and promoting development of an economic growth model based on less government intervention and activation of latent private sector potentials.

The ECPR concurred in the proposed $15 million funding level; however, only $10 million could be made available from the AEPRP component of the Sub-Saharan, Development Assistance (DFA) appropriation. Given Lesotho's membership in SADCC and its lead responsibility for SADCC's soil and water conservation activities, the ECPR recommended seeking inclusion of the final two phases of LAPSP's Livestock Management component in SADCC's program so that they could be funded from the Southern Africa, Development Assistance (SADCC) appropriation. The final phases of LAPSP's livestock component call for implementation of the first two years of a national grazing fee system. This system can serve as a pilot case for a model which could be replicated by SADCC members in their livestock-related natural resource and soil conservation efforts.

The ECPR recommended that the LAPSP program be approved at the proposed level of $15 million: $12.75 million in non-project sector assistance and $2.25 million in project assistance subject to: 1/ inclusion of the $5 million livestock component in SADCC's program; 2/ revision of the cash disbursement mechanism to reflect dollar disbursements with local currency generations; 3/ elimination of the Technical Organization Unit sub-activity; and 4/ revisions and elaborations in the text including: a/ incorporation of an illustrative list of actions needed to reach the program objectives; b/ specification of indicators for desired outcomes at the macro as well as micro level which will enable monitoring and evaluation activities to assess whether program adjustments are needed; c/ a clear differentiation between project and non-project assistance elements; and d/ a description of the 25 percent host country contribution.

Subsequent to the ECPR, the PAAD was modified by USAID/Lesotho to incorporate all the revisions and elaborations called for by the ECPR including DFA/AEPRP funding of $10 million and $5 million in SADCC funding for the last two phases of the Livestock Management component. These revisions were reviewed by the technical, legal and administrative offices in AID/W and found to be satisfactory. The requisite inclusion in SADCC's program was obtained when the SADCC Council of Ministers of Agriculture met in Arusha during the week of May 9, 1988 and formally included the $5 million of the LAPSP livestock component in the approved SADCC/Lesotho project entitled Combatting Desertification, Integrated Development and Conservation of Land and Resources in Southern Districts of Lesotho.

Financial Summary

Assistance Components (PA/NPA)*	DFA/AEPRP	SADCC	Total FY88 Obligation
Technical Assistance (PA)	$ 2.25 million		$ 2.25 million
Agricultural Input Reform (NPA)	4.25 million		4.25 million
Livestock Management Reform (NPA)	3.50 million	$ 5 million	8.50 million
Total	$10.00 million	$ 5 million	$15.00 million

* PA - Project Assistance
  NPA - Non-Project Sector Assistance

As required by the ECPR, the cash disbursement mechanism for the non-project assistance component of LAPSP was restructured to reflect dollar disbursements with local currency generations. Thus, prior to disbursement of non-project assistance funds, the GOL will establish special local currency accounts, one for each component of the program, in which the GOL will deposit the Maloti equivalent of the dollar amount to be disbursed. The local currency in these special accounts will be used for activities in support of LAPSP policy reforms as prioritized in the PAAD. A tracking system has been designed for the local currency generations but not for the dollar disbursements to the GOL.

The PAAD satisfies the requirements of FAA Section 611(a). The conditions precedent (CP) for disbursement, as per the attached PAAD Facesheet, provide clear benchmarks for phased policy adoption and implementation of the LAPSP program.

In accordance with the provision of the Foreign Assistance Appropriation Act, 1988, appropriating Sub-Saharan Africa, Development Assistance funds, and Implementing Procedures approved by AA/AFR on April 1 and 4, 1988, Code 935 is authorized for procurement under the project assistance component. The PAAD contains a DFA Procurement Plan for this component which should result in at least 58% of the procurement from the United States. A.I.D. procurement rules do not apply to GOL procurement financed by GOL-owned currency deposited in the Special Local Currency accounts or to the dollar disbursements.

An Initial Environmental Examination (IEE) recommending a categorical exclusion was approved by the Bureau Environmental Officer on October 29, 1988.

A Congressional Notification (CN) for $15 million in DFA and SADCC funds was forwarded to Congress on May 13, 1988, and the waiting period expired without objection on May 28, 1988.

RECOMMENDATION:

(A) That you sign the attached PAAD facesheet, thereby approving $12.75 million in non-project assistance for the Lesotho Agricultural Policy Support Program, of which $7.75 million (632-T-601) will come from the Sub-Saharan, Development Assistance (DFA) appropriation and $5 million (690-T-601) from the Southern African Development Assistance (SADCC) appropriation.

(B) That you sign the attached Project Authorization, thereby authorizing $2.25 million of Sub-Saharan, Development Assistance (DFA) funds for the Lesotho Agricultural Policy Support Program Support Project (632-0224).

drafted: Vivian Gary:5/19/88:eld:4107L

Clearances:	
DAA/AFR:WBollinger	
DAA/AFR:ELSaiers	
GC/AFR:MAKleinjan	5/19/88
AFR/SA:BSandoval	(draft)
AFR/DP/PAR:JWolgin	(draft)
PPC/PB:RMaushammer	(draft)
AFR/PD:JGraham	(draft)
PPC/EA:ABatchelder	(draft)
AFR/PD:PThorn	(draft)
STATE: AF/S:JPerry	(draft)

CLASSIFICATION:

AID 1120-1 (8-66) PAAD	DEPARTMENT OF STATE AGENCY FOR INTERNATIONAL DEVELOPMENT PROGRAM ASSISTANCE APPROVAL DOCUMENT	1. PAAD NO. 632-T-601, 690-T-601
		2. COUNTRY LESOTHO
		3. CATEGORY Dollar Disbursement Grant Agricultural Policy Support Program
		4. DATE May 17, 1988

5. TO: Charles L. Gladson Assistant Administrator ~~Bureau for Africa~~	6. OYB CHANGE NO.
7. FROM: Jesse L. Snyder Director, USAID/Lesotho	8. OYB INCREASE $12,750,000 TO BE TAKEN FROM: Sub-Saharan Africa (DFA) and Southern African (SADCC) Development Assistance
9. APPROVAL REQUESTED FOR COMMITMENT OF: $ 12,750,000	10. APPROPRIATION - ALLOTMENT GSSA-88-31632-GG39 $5,000,000 GSSA-88-31632-KG39 $7,750,000

11. TYPE FUNDING	12. LOCAL CURRENCY ARRANGEMENT	13. ESTIMATED DELIVERY PERIOD	14. TRANSACTION ELIGIBILITY DATE
☐ LOAN ☒ GRANT	☐ INFORMAL ☒ FORMAL ☐ NONE	June 1988-April 1993	PAAD Approval Date

15. COMMODITIES FINANCED

16. PERMITTED SOURCE	17. ESTIMATED SOURCE
U.S. only:	U.S.:
Limited F.W.:	Industrialized Countries:
Free World:	Local:
Cash: $12.75 million	Other: Dollar Disbursements - $12.75 million

18. SUMMARY DESCRIPTION

1. The attached PAAD contains justification for, and this facesheet approves, a $15 million grant program in support of a package of policy reform in Lesotho designed to (a) divest government interests in Coop Lesotho from the Ministry of Agriculture to the private sector, (b) eliminate fertilizer subsidies, and (c) implement the new National Livestock Policy Program. The program provides $12.75 million in dollar disbursements, which this PAAD facesheet approves for obligation, and $2.25 million in project assistance. $5 million of the dollar disbursement will be funded from the Southern Africa, Development Assistance (SADCC) appropriation and will support tranches 3 and 4 of the Livestock Management component. The remaining $7.75 million of the dollar disbursements will be funded from the Sub-Saharan Africa, Development Assistance (DFA) appropriation and will support the other tranches.

AFR/CONT, RKING R. King 6/10/88

19. CLEARANCES	DATE
DAA/AFR, WBollinger	WB
DAA.AFR, ESaiers	WB
GC/AFR, JAKleinjan	6/10/88
PPC/PB, RMaushammer	6/10/88
M/FM/PAFD, ESOwens	6/10/88
AFR/DP, JWestley	6/10/88
AFR/PD, CPeasley	6/10/88
AFR/SA, FFischer	6/10/88

20. ACTION

☒ APPROVED ☐ DISAPPROVED

AUTHORIZED SIGNATURE: Walter Bollinger for — DATE: 6-10-88

TITLE: Assistant Administrator for Africa

CLASSIFICATION:

(Continuation of Face Sheet)

2. Dollar disbursements will be made to the GOL in two parallel phases: three tranches totalling $4.25 million for the Agricultural Input component ($.5 million for tranche one; $1.0 million for tranche two; $2.75 million for tranche three); and four tranches totalling $8.5 million for the Livestock Management component ($1.2 million for tranche one; $2.3 million for tranche two; $2.5 million for tranche 3 and $2.5 million for tranche four). Release of the dollar disbursements will be made subject to fulfillment of the conditions precedent (policy reforms) contained in paragraph 4 below.

3. The GOL will deposit into Special Local Currency accounts local currency (Maloti) in an amount equal to the dollar disbursements. This local currency, which will be GOL-owned, will be programmed in support of the policy reforms undertaken under the program, in the order of priority contained in covenant 6c below.

4. Conditions Precedent to Dollar Disbursements

A. Initial Disbursement.

Prior to the first disbursement of dollar disbursements under the grant, or to the issuance of documentation pursuant to which such disbursements may be made, the GOL shall furnish to A.I.D., in form and substance satisfactory to A.I.D., except as A.I.D. may otherwise agree in writing:

(1) A statement representing and warranting that the named persons have the authority to act as the representative or representatives of the GOL pursuant to the following:

(a) Disbursement of local currency; and

(b) Official correspondence regarding the Grant together with a specimen signature of each person certified as to its authenticity.

(2) Evidence of creation of a Secretariat by the Ministry of Agriculture to assist in program implementation;

(3) Evidence of establishment in the Central Bank of Lesotho of a Special Local Currency Account for the Agricultural Input Component and another for the Livestock Management Component for the deposit of local currency in an amount equivalent to the U.S. Dollar disbursements to be provided to the GOL under the Grant; and

(4) Evidence of appointment of the Program Coordination Committee (PCC) and Component Task Forces for Agricultural Input Supply and Livestock (CTF).

B. The Agricultural Input Component

Prior to the disbursement of each tranche of dollar disbursements for the Agricultural Input component, or to the issuance of documentation pursuant to which such disbursement may occur, the GOL shall furnish to A.I.D., in form and substance satisfactory to A.I.D., except as A.I.D. may otherwise agree in writing, evidence that the GOL has:

(1) Ag Input Component - Phase One

(a) Facilitated and supported the development of an open and competitive market for the supply of agricultural inputs.

(b) Developed and approved an implementation plan for and commenced implementation of its announced commitment to the progressive removal of all subsidies on fertilizers starting with the 1988-89 crop season.

(2) Ag Input Component - Phase Two

(a) Undertaken progressive divestiture by Coop Lesotho of its retail sales outlets and lock-up stores to private sector input suppliers, including primary and secondary cooperatives, private sector input suppliers and general traders, with the objective of reducing Coop Lesotho's role to that of a true cooperative input wholesaler in competition with other private sector suppliers.

(b) Established a program to be funded out of the Special Local Currency Account to ease the transition of redundant Coop Lesotho personnel into other employment.

(c) Implemented phase one of the plan to eliminate fertilizer subsidies.

(3) Ag Input Component - Phase Three

(a) Completed the divestiture of Coop Lesotho's retail outlets and lock-up stores.

(b) Completed withdrawal of the GOL as a shareholder in Coop Lesotho.

(c) Implemented the final phase of the plan to eliminate fertilizer subsidies.

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C. The Livestock Management Component

Prior to the disbursement of each tranche of dollar disbursements under the Livestock Management component, or to the issuance of documentation pursuant to which such disbursement may occur, the GOL shall furnish to A.I.D., in form and substance satisfactory to A.I.D., except as A.I.D. may otherwise agree in writing, evidence that:

(1) Livestock Management Component - Phase One

MOA has prepared and the GOL Cabinet has approved a comprehensive implementation plan for the National Livestock Development and Resource Management Policy enunciated in September 1987. The policy implementation plan must cover the areas of resource management, livestock marketing, and livestock production and animal health.

(2) Livestock Management Component - Phase Two

The GOL has:

(a) Established and approved an implementation plan for and completed all preparatory steps toward installation of a national grazing fee system.

(b) Established and adopted an implementation plan to restructure and broaden the system of livestock marketing in Lesotho to allow for:

(1) Greater private sector participation in all phases of livestock marketing;

(2) A larger volume of exports of live animals and livestock products to the RSA; and

(3) A greater degree of NAFC plant utilization as demonstrated by increased numbers of local livestock products handled.

(3) Livestock Management Component - Phase Three

The GOL has implemented the first year of operations under the national grazing fee system, including collection of grazing fees and allocation of grazing fee revenues.

(4) Livestock Management Component - Phase Four

The GOL has implemented the second year of operations of the national grazing fee system.

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5. Conditions Precedent to Disbursement of GOL-Owned Local Currency Deposited in the Special Currency Accounts

No funds shall be released from the Special Local Currency Accounts until criteria and procedures for approving allocations to projects or activities determined to be eligible recipients of local currency financing have been mutually agreed to in writing by the GOL and USAID, except as A.I.D. may otherwise agree in writing.

6. Covenants

The GOL shall covenant that, except as A.I.D may otherwise agree in writing:

A. The GOL shall not in any way discontinue, reverse or otherwise impede any action it has taken in satisfaction of any condition precedent to disbursement set forth herein.

B. Pursuant to Condition Precedent 4A(3) above, the GOL will establish in the Central Bank of Lesotho a Special Local Currency Account for the Agricultural Input Component and another for the Livestock Management Component and deposit therein currency of the Government of Lesotho in a total amount equivalent to the U.S. Dollar disbursements to be provided to the GOL under the Grant. The GOL and A.I.D. shall agree in writing on the exact apportionment of the local currency deposits between the two Special Local Currency Accounts. The GOL shall deposit the Maloti equivalent of each Dollar Disbursement into a Special Local Currency Account prior to the disbursement by A.I.D. of that Dollar Disbursement. Funds in the Special Local Currency Accounts may be used for such purposes as are mutually agreed upon in writing by the GOL and USAID.

C. The Special Local Currency Account shall be used only to finance the following in order of priority:

(1) Activities or projects contributing to the implementation of the policy changes in the agricultural and livestock sub-sectors proposed under the LAPSP and necessary to the accomplishment of Conditions Precedent for a subsequent Policy Reform Phase;

(2) Activities or projects contributing directly to the implementation of the policy changes in the agricultural and livestock sub-sectors proposed under the LAPSP but not necessary to the accomplishment of Conditions Precedent for a subsequent Policy Reform Phase;

(3) Recurrent or local costs of A.I.D.-financed agricultural or livestock projects;

(4) Recurrent or local costs of other donor-financed agricultural or livestock projects which complement or supplement A.I.D. projects; and

(5) Extension or continuation of activities or projects under implementation in the agricultural or livestock sub-sectors which will contribute to the rapid increase in the productivity and income growth of the rural population.

D. It shall maintain and cause recipients of funds from the Special Local Currency Account to maintain, in accordance with generally accepted accounting principles and practices consistently applied, books and records relating to the Special Local Currency Account. It shall grant or cause such recipients to grant to A.I.D. or any of its authorized representatives the right to inspect such books and records at all times as A.I.D. may reasonably require. Such books and records shall be maintained for at least three years after the date of the last disbursement by A.I.D. under the LAPSP Grant.

E. It shall refund to the Special Local Currency Account any local currency not used for purposes agreed upon by A.I.D. and the GOL.

F. The local currency provided by the GOL for the Program in accordance with this Agreement shall be considered as additional budgetary resources for the Agricultural and Livestock Sectors segregated in two Special Accounts and shall not be a substitute for the GOL's existing budgetary resources for these Sectors.

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AGENCY FOR INTERNATIONAL DEVELOPMENT

PROJECT DATA SHEET

1. TRANSACTION CODE: A (A = Add, C = Change, D = Delete)

Amendment Number:

DOCUMENT CODE: 3

2. COUNTRY/ENTITY: LESOTHO

3. PROJECT NUMBER: 632-0224

4. BUREAU/OFFICE: AFRICA 06

5. PROJECT TITLE (maximum 40 characters): LAPSP SUPPORT

6. PROJECT ASSISTANCE COMPLETION DATE (PACD): MM 04 DD 30 YY 93

7. ESTIMATED DATE OF OBLIGATION (Under "B." below, enter 1, 2, 3, or 4)

A. Initial FY 88 B. Quarter 3 C. Final FY 88

8. COSTS ($000 OR EQUIVALENT $1 =)

A. FUNDING SOURCE	FIRST FY 88 B. FX	C. L/C	D. Total	LIFE OF PROJECT E. FX	F. L/C	G. Total
AID Appropriated Total	1,100	1,150	2,250	1,100	1,150	2,250
(Grant)	(1,100)	(1,150)	(2,250)	(1,100)	(1,150)	(2,250
(Loan)	(-0-)	(-0-)	(-0-)	(-0-)	(-0-)	(-0-)
Other U.S. 1.						
Other U.S. 2.						
Host Country	-0-	12,750	12,750	-0-	12,750	12,750
Other Donor(s)	-0-	-0-	-0-	-0-	-0-	-0-
TOTALS	1,100	13,900	15,000	1,100	13,900	15,000

9. SCHEDULE OF AID FUNDING ($000)

A. APPROPRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH. CODE 1. Grant	C. 2. Loan	D. OBLIGATIONS TO DATE 1. Grant	D. 2. Loan	E. AMOUNT APPROVED THIS ACTION 1. Grant	E. 2. Loan	F. LIFE OF PROJECT 1. Grant	F. 2. Loan
(1) DFA	999	990		-0-	-0-	2,250	-0-	2,250	-0-
(2)									
(3)									
(4)									
TOTALS				-0-	-0-	2,250	-0-	2,250	-0-

10. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each): 990 | 150 | 140 | 011 | 031 | 078

11. SECONDARY PURPOSE CODE: 100

12. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each)

A. Code							
B. Amount							

13. PROJECT PURPOSE (maximum 480 characters)

TO PROVIDE TECHNICAL ASSISTANCE AND LOGISTICAL SUPPORT FOR IMPLEMENTATION OF THE LESOTHO AGRICULTURAL POLICY SUPPORT PROGRAM (632-T-601), WHICH EFFECTS POLICY REFORMS IN THE AGRICULTURAL INPUT SUPPLY SYSTEM AND ESTABLISHES A NATIONAL LIVESTOCK POLICY PROGRAM.

14. SCHEDULED EVALUATIONS

Interim MM 05 YY 89 | MM YY | Final MM 05 YY 93

15. SOURCE/ORIGIN OF GOODS AND SERVICES

[X] 000 [X] 941 [X] Local [X] Other (Specify) 935

16. AMENDMENTS/NATURE OF CHANGE PROPOSED (This is page 1 of a ____ page PP Amendment.)

17. APPROVED BY

Signature

Title: Jesse L. Snyder, Director USAID/Lesotho

Date Signed: MM 05 DD 17 YY 88

18. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION

MM DD YY

AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D.C. 20523

PROJECT AUTHORIZATION

Name of Country: Lesotho

Name of Project: Agricultural Policy Support Program Support

Number of Project: 632-0224

1. Pursuant to sections 103-106 of the Foreign Assistance Act of 1961, as amended, and the section of the Foreign Assistance Appropriations Act, 1988 entitled "Sub-Saharan Africa, Development Assistance", I hereby authorize the Lesotho Agricultural Policy Support Program Support project (the "Project") for Lesotho (the "Cooperating Country") involving planned obligations of not to exceed Two Million Two Hundred Fifty Thousand United States dollars ($2,250,000) in grant funds over a one year period from date of authorization, subject to the availability of funds in accordance with the A.I.D. OYB/allotment process, to help in financing foreign exchange and local currency costs for the Project. The planned life-of-project (PACD) is four years and eleven months from the initial date of obligation, except as A.I.D. may otherwise agree in writing.

2. The Project will provide technical assistance and logistical support for the Lesotho Agricultural Policy Support Program.

3. Commodities financed by A.I.D. under the Project shall have their source and origin in countries included in A.I.D. Geographic Code 935, except as A.I.D. may otherwise agree in writing. Except for ocean shipping, the suppliers of commodities or services shall have countries included in A.I.D. Geographic Code 935 as their place of nationality, except as A.I.D. may otherwise agree in writing. Ocean shipping financed by A.I.D. under the Project shall, except as A.I.D. may otherwise agree in writing, be financed only on flag vessels of countries included in A.I.D. Geographic Code 935.

Charles Gladson
Assistant Administrator
Bureau for Africa

Clearances:
DAA/AFR:LSaiers ________ Date 5/26/88
AFR/SA:FFischer ________ Date ________
AFR/PD:CPeasley ________ Date 5/20/88
AFR/PD/SAP:VGary ________ Date 5/19/88
DAA/AFR:WGBollinger ________ Date ________
GC/AFR:MAKleinjan/ew 2580N/5/16/88/X79218

LIST OF ACRONYMS

AID	Agency For International Development
BASP	Basic Agricultural Services Program
CIF	Customs, Insurance and Freight
CMA	Common Monetary Authority
CTF	Component Task Force
DDC	District Development Committee
FOB	Free On Board
GDP	Gross Domestic Product
GNP	Gross National Product
GOL	Government of Lesotho
LHWS	Lesotho Highland Water Scheme
IBRD	International Bank for Reconstruction and Development (The World Bank)
IFAD	International Fund for Agricultural Development
IMF	International Monetary Fund
IPRC	Interministerial Program Review Council
LAPIS	Lesotho Agricultural Production and Institutional Support Project
LAPSP	Lesotho Agricultural Policy Support Program
LCRD	Lesotho Land Conservation and Range Development Project
M	Maloti (plural), Loti (singular)
MIC	Ministry of the Interior and Chieftancy
MOA	Ministry of Agriculture, Cooperatives and Marketing
MOP	Ministry of Planning, Economic Affairs and Manpower Development
NAFC	National Abattoir and Feedlot Complex
PAAD	Program Assistance Approval Document
PACD	Program Assistance Completion Date
PAIP	Program Assistance Identification Paper
PCC	Program Coordination Committee
PFP	Policy Framework Paper
PMC	Produce Marketing Corporation
PS	Principal Secretary
RBSA	Reserve Bank of South Africa
RSA	Republic of South Africa
SACU	Southern Africa Customs Union
SAF	Structural Adjustment Facility
SLCA	Special Local Currency Account
TOU	Technical Operations Unit
USAID	United States Agency for International Development
VDC	Village Development Committee
PC	Program Chairman

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A. EXECUTIVE SUMMARY AND RECOMMENDATIONS

Lesotho's continuing heavy dependence on the Republic of South Africa (RSA), which completely surrounds it has produced serious social and economic distortions in the country.

High levels of employment in RSA mines, resulting in a reduced agricultural labor force, combined with recurrent drought which reduced crop yields and retarded pasture recovery has led to overall decline in agricultural productivity from that existing in the late 1970's. The lack of effective policies designed to curtail the importation of cattle has led to serious rangelands degradation. Existing cropping policies were unable to bring about improved production during the period. Repatriated earnings from the export of labor resulted in a large difference between GDP and GNP accounts. As a result, GDP is less than half of GNP making the country heavily dependent on the continued flow of repatriated mine earnings to maintain current income and spending patterns. Although a predominantly rural nation with only 15 percent of its population living in urban centers, agriculture provides less than 20 percent of the country's GNP.

Even minor shifts in South African policies toward Lesotho, such as trade restrictions, miner repatriation or modifications of the customs union agreement can have critical repercussions for the country as long as domestic production policy fails to address alternatives. Inappropriate government policies and programs, including unneeded subsidies on agricultural input supplies, inefficient and costly, loss-producing parastatal agencies, and unchecked growth in livestock numbers over the past two decades have been major contributors to the country's decline in agricultural production and to the serious degradation of its land and range resources.

The Lesotho Agricultural Policy Support Program (LAPSP) responds to requests from the GOL for assistance to enable it to institute major agricultural policy reforms. It will provide dollar disbursements in phased periods over four years to encourage policy changes by the Government to promote agricultural production by divesting government ownership of the major agricultural input supply agency and by instituting more rational livestock management policies. The policy reforms are specifically intended to make more efficient use of Lesotho's domestic resources in crop agriculture and livestock by opening the agricultural input marketing system to permit more competition, eliminating subsidies, and effecting a national livestock policy and a national grazing fee system.

The proposed $15 million LAPSP activity is comprised of the following: $12.75 million in non-project assistance for the support of two policy reform components - agricultural input and livestock management; and, $2.25 million in project assistance for studies, evaluations and technical and management assistance in support of the policy reform programs.

BACKGROUND

Lesotho's precarious economic and financial situation is not based on balance of payments or foreign debt repayment problems. The Government of Lesotho's fiscal problems reflect the country's lack of exploitable natural resources, small arable land base, growing population, and the fact the country is totally surrounded by the Republic of South Africa (RSA). Lesotho has become highly dependent on the RSA as a source of employment, energy, finished products and foodstuffs.

Unusually large unemployment levels reinforce Lesotho's dependency on the RSA. About 40 percent of Lesotho's male labor force is employed in the RSA, principally in the mines, at high wages compared to those offered in Lesotho itself. Migrant earnings constitute 50 percent of the country's Gross National Product. Remittances are particularly important for the rural population, who constitute approximately 85 percent of the country's 1,600,000 inhabitants. Some 43 percent of rural households have at least one member working in the RSA. Migrant remittances make up a striking 59 percent of total annual income for rural households. Subsistence farming accounts for only 18.5 percent and cash cropping for 6 percent. Consequently, the national economy relies heavily on remittances from Basotho in the RSA, and the government budget gets two thirds of its revenue from the Southern African Customs Union (SACU). At the moment, miner remittances are at their highest ever (the equivalent of about $140,000,000 in 1986 because of increased numbers of migrant workers and recent pay increases in the RSA). Customs union revenues are expected to peak at about $90,000,000 in the next fiscal year. However, the magnitude of customs revenues, like employment in the mines, can be severely affected by decisions made in the RSA. Lesotho is well aware that it cannot afford to count heavily on these flows in the future

Agricultural production offers the best prospect for improving income, local employment opportunities and increased self-sufficiency. A mountainous country with relatively little arable land, Lesotho has suffered from drought in the 1980s. Crop yields have fallen alarmingly over the last decade. A production index for the five major crops fell from 153 to 76 between 1977 and 1984. The country is now producing only about one half of its food grain requirements and must import the remainder, principally as maize from neighboring regions of the RSA, where large mechanized farms of several hundred hectares lie in sharp contrast to the average holding of less than two hectares per household in Lesotho. The quality of livestock herds has also dropped sharply over the last decade, and excessive herd sizes have caused overgrazing.

Government policies are at least partly to blame for a depressed agricultural sector. In the past decade, the Government of Lesotho (GOL) has attempted to increase agricultural production and protect local farmers by relying primarily on the subsidization of agricultural inputs and capital inputs and on capital-intensive government interventions. Private marketing of inputs, which are readily available from sources in the RSA, gave way to a parastatal approach in the 1970s. In 1981, Coop Lesotho, in effect a parastatal rather than an apex cooperative organization, was restructured to be the sole source of subsidized fertilizer. It also supplied fertilizer to the Technical Operations Unit (TOU), a government department but defacto a parastatal which provides custom plowing and planting services to farmers. It competes directly with a growing number of more efficient private tractor operators. In the last three years the TOU has been serving an average of 10,000 farm households at a subsidized rate which obliged beneficiaries to pay only 60 percent of the cost of fertilizer, seed and tractor tillage and planting services.

In 1986/87, the GOL paid the equivalent of $ 1,500,000 in fertilizer subsidies to Coop Lesotho. The latter finished the fiscal year slightly in the black but had a cumulative deficit of over $450,000 since starting operations in 1981. The inefficiency of Coop Lesotho's operations, its inability to maintain appropriate and adequate stocks in its rural retail outlets, and its poor marketing techniques have allowed private competitors to sell some fertilizer despite the subsidy. Even so, only 11,000 tons of fertilizer were used in Lesotho in 1984/85, the last year for which figures are available.

In August 1987, the GOL issued a statement on agricultural policy issues that stated that land in Lesotho had been "mismanaged and abused." The Government gave notice of its intention to eliminate input subsidies in favor of price incentives and to restructure or phase out Coop Lesotho and TOU to reduce costs and deliver more efficient services. It recognized that private tractor owners, working on a sharecropping basis with smallholders, had achieved yields equal to or higher than those in state-subsidized programs. The statement noted that private contractors are more efficient than government bureaucracies, reach more farmers with modern technology than government extension agents, and use their own capital rather than state funds.

As is the case with the September statement of livestock policy mentioned below, the GOL showed its willingness to undertake substantial policy reform shortly after a USAID team had prepared a PAIP for this Economic Policy Support Program. These moves on the part of the GOL during the negotiation of the LAPSP will permit the program to advance further and faster than originally hoped.

The decline of crop agriculture has allowed the livestock sub-sector to surpass it in the size of its contribution to GDP. Livestock numbers are at their highest level in recent years. The national herds comprise approximately 640,000 cattle, 1,670,000 sheep and 1,240,000 goats. The cattle herd is maintained as a store of wealth as well as for subsistence dairy production and for draft power. Lesotho's sheep and goats provide wool and mohair, respectively, which are the most important merchandise exports since the diamond mine was closed in 1982. There are extensive grazing opportunities in the country's foothills and mountains, but the zone is overstocked. Continued overstocking beyond the carrying capacity of Lesotho's rangelands is thought to have resulted in the encroachment of unpalatable forage species and a degradation of the soil base. Pasture has not recovered from the damage caused by the recent drought.

Since animals are not maintained primarily for meat, offtake is low and slaughtered animals are often well past their prime for meat production. Marketing is difficult because of problems posed in transporting animals from the mountains to the national abattoir in Maseru or to markets in the RSA. Live animal exports fell between 1981 and 1985 from 4.7 percent to 2.4 percent of non-diamond merchandise exports with a corresponding decline in quality.

The GOL's response to worsening ecological conditions on its rangelands has been less than fully effective. Livestock owners for years have been allowed to reap financial benefits from exploitation of the national range without paying the social costs of degradation of the resource. The government has recently taken steps to fill the policy gap in the livestock sub-sector. In September 1987 it issued a comprehensive statement of National Livestock Policy, which included the installation of a grazing fee aimed to facilitate an increase in offtake rates. The fee would be paid by each livestock owner on each animal in herd or flock if grazed extensively. The GOL has also cancelled the imposition of 12 percent sales tax on domestic meat. This tax was not applied equally to imported meat from the RSA and therefore gave such meat an unfair sales advantage in Lesotho. Much remains to be done to induce livestock owners to abandon their traditional extensive production practices in favor of an approach based on more productive breeds, smaller herds, and controlled grazing schemes.

The LAPSP complements concurrent efforts on the part of the GOL, with the assistance of the International Monetary Fund (IMF) and the World Bank, to (i) expand and diversify its domestic productive base through increased private investment, (ii) strengthen export promotion and import substitution efforts, and (iii) reduce its budget deficit to a manageable level. The LAPSP focuses on a subset of policies that are likely to figure in any structural adjustment program put together by the GOL, the World Bank and the IMF. The measures envisaged in the LAPSP will assist the GOL in carrying out new policies concerning agriculture, livestock, parastatals, and the balance of payments that are currently under discussion or have already been announced.

PROGRAM OBJECTIVES

The LAPSP will focus on:

* the divestiture of government interests in Coop Lesotho;
* the elimination of fertilizer subsidies;
* the transfer of Coop Lesotho to the private sector, including farmer-managed cooperatives;
* the implementation of the new national livestock policy; and,
* the implementation of the grazing fee program and complementary market reforms.

These policy actions are aimed at increasing the availability, diversity and efficient delivery of agricultural inputs in order to increase overall agricultural productivity. They are also aimed at the enforcement of new policies in the livestock sub-sector for range conservation, livestock marketing, livestock production and animal health.

These efforts are expected to improve rural incomes. The measures will complement three current USAID agricultural projects which have as objectives improved farming and livestock production techniques and improved agricultural planning.

PROGRAM INPUTS

A total of $15,000,000 is proposed for this LAPSP initiative over a four-year period. U.S.$10,000,000 will be provided under the Sub-Saharan Africa Development Assistance (DFA) appropriation and U.S.$5,000,000 will be provided from the FY88 Southern Africa, Development Assistance (SADCC) appropriation, provided SADCC approves this program.

Of the total amount, $12,750,000 will constitute U.S. dollar disbursements to the Government of Lesotho to be disbursed in tranches upon satisfaction of the phased conditions described herein. As dollar disbursements under a sector grant support program, funded from the DFA and SADCC appropriations, the $12,750,000 will not be placed into a separate account and its specific uses will not be tracked. The provision of the FY88 Continuing Resolution requiring separate accounts for ESF funded cash transfers is not applicable. Immediately prior to dollar disbursements, the GOL will deposit into a special local currency account the Maloti equivalent of the U.S. dollar disbursement. The GOL-owned deposits will be used in support of the policy reforms under LAPSP in the order of priority contained on page 27. The $12,750,000 i dollar disbursements will be apportioned between the Agricultural Input Component (U.S.$4,250,000) and the Livestock Management Component (U.S.$8,500,000) and it is planned that these funds will be disbursed in three and four tranches, respectively, as policy reforms are achieved. The achievement of the policy reforms will be judged on the basis of objectively verifiable indicators which are clearly specified in this PAAD.

Of the U.S.$15,000,000, U.S. $2,250,000 is proposed as project assistance to finance dollar costs of project specific support - policy implementation support, technical support and management for the following activities to be financed under AID direct contracts:

* $ 1,100,000 for a resident technical assistance team consisting of a specialist to support implementation of the livestock policy package and a specialist to support implementation of the agricultural input policy package. Funding is for eight person-years of effort including $100,000 for logistical support and contingencies.

* $500,000 for a USAID Management Assistance Team composed of a Program Economist, Program Assistant and Secretary and Logistic Support for the life of the program ($200,000) and for evaluations, audits and program impact studies ($300,000).

* $650,000 for a series of studies and other short-term activities essential to the implementation of the program. These are: two national agricultural input supply surveys at the beginning and end of the program ($200,000); a national livestock inventory prior to implementation of the national grazing fee program, and a series of ongoing impact studies during implementation of the grazing fee program ($200,000); funding for legal services in conjunction with Coop Lesotho divestiture ($75,000); an independent appraisal of Coop Lesotho assets ($75,000); and installation of a computerized accounting system for the grazing fee program ($100,000).

POLICY REFORMS

The specific policy reforms to be achieved in the course of the LAPSP are as follows:

Agricultural Input Component

1. Phase One

   (a) Government facilitation of and support for the development of an open and competitive market for the supply of agricultural inputs.

   (b) Government development and approval of an implementation plan for and commencement of implementation of its announced commitment to the progressive removal of all subsidies on fertilizers starting with the 1988-89 crop season.

U.S. $500,000 will be disbursed after successful completion of this phase.

2. Phase Two

   (a) Progressive divestiture by Coop Lesotho of its retail sales outlets and lock-up stores to private sector input suppliers, including primary and secondary cooperatives and general traders, with the objective of reducing Coop Lesotho's role to that of a true farmer-managed cooperative input wholesaler in competition with other private sector supplies.

(b) Establishment by the GOL of a program to ease the transition of redundant Coop Lesotho personnel into other employment.

(c) Implementation of phase one of the plan to remove fertilizer subsidies.

U.S. $1,000,000 will be disbursed after successful completion of this phase.

3. Phase Three

(a) Completion of the divestiture of Coop Lesotho's retail outlets and lock-up stores.

(b) Complete withdrawal of the GOL as a shareholder in Coop Lesotho.

(c) Implementation of the final phase of the plan to remove fertilizer subsidies.

U.S.$2,750,000 will be disbursed after successful completion of this phase.

Livestock Management Component

1. Phase One

(a) The preparation by the MOA and approval by the GOL Cabinet of a comprehensive implementation plan for the National Livestock Development and Resource Management Policy enunciated in September 1987. The policy implementation plan must cover the areas of resource management, livestock marketing, and livestock production and animal health.

U.S.$1,200,000 will be disbursed after successful completion of this phase.

2. Phase Two

(a) The design and approval by government of an implementation plan for and completion of all preparatory steps for installation of a national grazing fee system.

(b) Adopted an implementation plan to restructure and broaden of the system of livestock marketing in Lesotho to allow for:

(1) Greater private sector participation in all phases of livestock marketing;

(2) A larger volume of exports of live animals and livestock products to the RSA; and,

(3) A greater degree of NAFC plant utilization as demonstrated by increased numbers of local livestock products handled.

U.S.$2,300,000 will be disbursed after successful completion of this phase.

3. Phase Three

(a) The implementation of the first year of operations under the national grazing fee system, including collection of grazing fees and allocation of grazing fee revenues.

U.S.$2,500,000 will be disbursed after successful completion of this phase.

4. Phase Four

(a) The implementation of the second year of operations under the national grazing fee system.

U.S. $2,500,000 will be disbursed after successful completion of this phase.

FUNDS DISBURSEMENT AND USES

As noted, this grant program is comprised of dollar disbursements to the Government of Lesotho in the amount of U.S.$12,750,000, and project assistance for technical (and program) support, to be implemented by A.I.D. direct contracts in the amount of U.S.$2,250,000. Of the U.S.$12,750,000 cash grant, it is expected that U.S. $5 million will be provided from the FY88 Southern Africa, Development Assistance appropriation but will be obligated and disbursed only after approval of this program by the SADCC Council of Ministers. Technical support funds will be disbursed in accordance with specified requirements, with the agreement of the Government of Lesotho and on satisfaction of the initial conditions precedent.

Upon satisfaction of applicable conditions precedent to the disbursement which require phased implementation of policy reforms, tranched U.S. Dollar disbursements will be effected by USAID/Lesotho requesting RAMC/Paris to issue a Dollar check in the prescribed amount. These funds will be released to the GOL only after the GOL has deposited the Maloti equivalent of the Dollar amount into a Special Local Currency Account. Two special local currency accounts will be established - one for the Agricultural Inputs Component;

another for the Livestock Management Component. Funds in the Special Accounts will be used only for activities in support of the policy reforms to be undertaken as part of this Program. The GOL and USAID will mutually approve the release of Maloti funds from the Special Local Currency Account as well as the uses to which the funds will be allocated, based on proposals prepared by the Program Coordination Committee (PCC) and the Component Task Forces. The funds will be used in the following order of priority:

1. Activities or programs contributing to the implementation of policy changes in the agricultural or live-stock sub-sectors proposed under the LAPSP and necessary to the accomplishment of conditions precedent for a subsequent policy reform phase;

2. Activities or programs contributing to the implementation of policy changes in the agricultural or livestock sub-sectors proposed under the LAPSP but not necessary to the accomplishment of conditions precedent for a subsequent policy reform phase;

3. Activities or programs contributing to the implementation of policy changes in the agricultural or livestock sub-sectors which could be implemented through existing USAID-financed agricultural or livestock projects;

4. Activities or programs contributing to the implementation of policy changes in the agricultural or livestock sub-sectors which could be implemented through other donor-financed agricultural or livestock projects, and,

5. Extensions or continuations of GOL activities or programs under implementation in the agricultural or livestock sub-sectors which will contribute to a rapid increase in the productivity and income growth of the rural population.

No disbursements will be made for these activities, however, until USAID and the Program Chairman (PC) are assured the activities have adequate management structures for timely and effective implementation, mechanisms exist to appropriately monitor the activities, that the funds will not supplant GOL funds previously committed under other obligations, and that the activities otherwise meet criteria set forth to assure proper use of the local currency.

PROGRAM MANAGEMENT

Management of the program will be exercised at four levels; USAID is represented at each level. These levels are:

1) Two Component Task Forces (CTF) in the Ministry of Agriculture responsible for day to day program implementation and composed of working level groups for Coop Lesotho and for Livestock, the USAID Project Manager and chaired by the Principal Secretary (PS) of the Ministry of Agriculture;
2) The Program Coordinating Committee (PCC) which is an interministerial policy group chaired by the P.S. of the Ministry of Planning (MOP) and is comprised of key government officials responsible for reviewing the status of policy reforms and recommending future actions to the senior levels for decision such as the release of funds and the undertaking of studies complementary to completing the next phase. PCC membership will vary depending on the specific action under review, and will from time to time include the Principal Secretaries (P.S.s) of Finance, Agriculture, Commerce, and Interior, as well as the USAID Program Officer. The PCC presents coordinated views on the recommendations of the Task Forces and on any proposed future actions directly to the Program Chairman;
3) The Program Chairman (PC) will be the Minister, Ministry of Planning and Economic Affairs, and will be responsible for reviewing the overall status of the program and reviewing recommendations and action plans from the PCC; and
4) The Director, USAID who will review and approve, in collaboration with the PC, the proposed recommendations and action plans for the Program.

A Secretariat, composed of two U.S. technical advisors, will be created to assist the MOA in implementing and coordinating all actions under the LAPSP. Within USAID, a program economist and program manager, will assist the Mission in monitoring the LAPSP.

PROGRAM/PROJECT ASSISTANCE COMPLETION DATE

It is planned that this program and its support project will end four years from the effective date of the Program and Project Grant Agreements.

REPORTS AND EVALUATIONS

Quarterly reports will be prepared by the Secretariat on the status of implementation of the program. The reports will also cover project expenditures, major issues and problems, and anticipated actions for the next quarter. Special reports may be issued by USAID or the GOL, should they be required.

Two evaluations are scheduled for the program. The initial evaluation will occur when the first phases of both components have been completed to revalidate program design and review implementation progress. An impact evaluation will take place six months after the end of the Program. USAID will be responsible for financing and conducting these evaluations.

AUDITS

To ensure that Program funds other than the resource transfer are used only for the mutually agreed purposes, periodic audits by the GOL using an independent international accounting firm will be required.

DFA PROCUREMENT PLAN

Procurement with appropriated funds will occur under the project assistance component ($2.25 million in value for technical assistance, office equipment, vehicles, logistical support) and will be undertaken by direct AID contracts. Since it will be funded from the Sub-Saharan Africa Development Assistance (DFA) appropriation, the PAAD contains a DFA procurement plan which should result in at least $1,300,000, or 58% of the projectized component, of U.S. procurement. In accordance with approved DFA procedures, the authorized geographic code for this component will be Code 935, and the long-term technical assistance personnel assigned to the Secretariat, as well as the program economist assigned to USAID, will be of U.S. nationality. The other technical services personnel assigned to USAID are expected to be either of US or Lesotho nationality. Studies and logistical support will be of Lesotho or 899 source and origin. The majority of goods will likely be of U.S. or 935 origin and of Lesotho source, while a small variety, such as typewriters and other office equipment, may be of 899 source and origin. AID source and origin and other procurement rules will not apply to GOL procurement, as they will be financed by GOL-owned currency deposited in the Special Accounts.

PROCUREMENT MECHANISMS FOR PROJECTIZED COMPONENT

The $2.25 million allocation for technical and program support will be used to contract, on a competitive basis under AID direct contracts, for technical services personnel assigned to USAID and the Secretariat, as well as for logistical support, evaluations, and program studies. The MOA will use funds in the Special Local Currency Account to contract for all other goods and services relating to program implementation, in accordance with accepted GOL procedures. The vast majority of goods to be procured by the MOA are expected to be of small value and off-the-shelf.

HOST COUNTRY CONTRIBUTION REQUIREMENT

Section 110(a) of the Foreign Assistance Act of 1961 (FAA), as amended, requires that the GOL provide at least 25 percent of the costs of the entire program. As the local currency to be deposited in the Special Local Currency Account, in an amount equivalent to the dollar disbursement, is host country owned, it may be used to satisfy the host country contribution requirement. The amount of local currency to be deposited in the local currency account is approximately M25,500,000 which far exceeds 25 percent of the cost of the entire program. (See Table at page 78 which sets out the schedule for U.S. transfers; GOL contributions in Maloti will be made immediately prior to these transfers).

B. PROGRAM DESCRIPTION

I. Macroeconomic and Sectoral Problems

a. Macroeconomic Characteristics

Lesotho's economy is extraordinary in two respects. First, it is highly dependent on the economy and the economic policies of the RSA. This dependency has four aspects:

1. In 1986, as in other recent years, 40 percent of Lesotho's male labor force (60 percent of men aged 20 to 44 years) was employed in the RSA, principally in the gold and coal mines, at wages well above those offered for alternative employment within Lesotho.

2. The country's international trade and domestic commerce are overwhelmingly oriented toward the RSA. All of Lesotho's merchandise imports, including those moving by air, originate in or pass through the RSA. Similarly, all of its exports are destined for or pass through that country. In recent years, almost 90 percent of exports have been destined for, and 95 percent of imports have originated in, the other members of the Southern African Customs Union (SACU): the RSA, Botswana, and Swaziland. All of Lesotho's petroleum and all of its electricity come from the RSA. The country's geographical dependence is not solely due to the fact that it is completely surrounded by the RSA. Lesotho's internal geography -- mountains separate the western plateau from the eastern districts -- tends to link population centers in Lesotho more closely with counterpart towns in the RSA than with each other. This would be true even if the RSA were not more economically developed.

3. Two-thirds of the GOL's annual budget revenues come from SACU. Customs and domestic excise taxes collected by each of the four members go into the RSA's State Revenue Fund. As sole custodian, the RSA distributes these revenues to SACU members according to a set of formulae that favor the three smaller countries, leaving the residual to the RSA. SACU revenues have increased from about M 71,000,000 million in 1980/81 to an estimated M 161,000,000 in 1985/86. They may reach a peak of M 190,000,000 in 1988/89, but there are clear indications that the RSA intends to reduce the preferential treatment of the smaller independent members to the benefit of its own "homelands". The eventual day of reckoning may be postponed by a rush of receipts resulting from the Highland Water Project, but it is clear that Lesotho must take action to reduce its heavy reliance on SACU for government revenues.

4. As a member of the Common Monetary Area (CMA) with the RSA and Swaziland, Lesotho has a currency - the Loti (plural, Maloti) - pegged on a par with the South African Rand. Indeed, the Rand is accepted as legal tender and freely mingles with the Loti in Lesotho. Further, there are virtually no restrictions on the movement of funds between Lesotho and the RSA. One exception is that banks in Lesotho are officially prohibited from placing excess funds in the RSA, where slightly higher interest rates tend to prevail. Thus Lesotho has no control over the exchange rate of the Loti and has very limited discretion in monetary matters.

The second extraordinary characteristic of Lesotho's economy, following from the first, is that half of its citizens' economic product is produced in the RSA, mainly in mining. The value of all domestic production within Lesotho, its GDP, is matched by the wages and salaries of Lesotho citizens working in the RSA. Lesotho's Gross National Product (GNP) is the sum of domestic production (GDP), less contributions to that production by foreign capital and labor (negligible for Lesotho), plus the contribution of Lesotho's capital and labor to production elsewhere. For 1985/1986, Lesotho's output measures were:

GDP	M 557,000,000
Net Investment Income	M 3,000,000
Net Wage and Salaries	M 550,000,000
GNP	M 1,110,000,000

Because of this unusual situation, one must repeatedly distinguish between GDP, over whose components the GOL's economic policies have direct influence, and the other half of GNP, over which the government has no effective control.

Each of the four aspects of dependency cited above delivers countervailing -- and substantial -- benefits to Lesotho's citizens. Each also entails an element of potential and serious risk which the LAPSP should help to reduce. These risks are discussed in detail in Section C.I. below.

b. Agricultural Input Distribution Problems

Recent published data and field interviews conducted by the design team indicate that on-farm use of agricultural inputs - e.g. fertilizers, improved seeds, and pesticides - is quite low in Lesotho. GOL imposed distortions in local input marketing, affecting price, quality, and availability, are the primary reasons for low use of agricultural inputs. Operational inefficiencies in Coop Lesotho are another cause. Government policies also destroyed an efficient private sector marketing system historically important to most interior and remote sections of Lesotho.

For a total arable area of approximately 390,000 hectares, only 10,960 tons of fertilizer were used in 1984/85 (Agricultural Planning and Bureau of Statistics, 1986). While effective fertilizer use per hectare increased more than six-fold from 1975 to 1985, this resulted in an average application level of only 8.5 kilograms of actual NPK nutrients per hectare in 1984/85. Unfortunately, national statistics on pesticide and improved seed use do not exist. However, application levels are considered to be quite low, except on high value horticultural crops grown for urban markets, in certain agricultural development projects, and, to a lesser extent, on maize.

Virtually all of Lesotho's agricultural inputs are produced and supplied by the RSA because of Lesotho's proximity to highly developed RSA markets and its membership in the SACU. Historically, input marketing in Lesotho has linked farmers to regional South African supply centers on the country's border (see Annex 4 Figure 4.2). Until 1973, agricultural input marketing in Lesotho was handled by a combination of small general merchandise traders, large South African-owned companies - i.e. Frasers and other trading firms - or their local agents. These sales were supplemented by direct farmer purchases from RSA cooperatives and sales agents in South Africa. Beginning in the early 1970s, the GOL policy was to deliberately reduce the role of private traders in both agricultural input and output marketing but this was based on misleading information which led the leadership to perceive that farmers were being exploited by traders.

The parastatal Produce Marketing Corporation (PMC) was formed in 1973 and granted monopoly powers over all agricultural input and output marketing. Its monopolistic role eventually forced most private traders out of their agricultural marketing enterprises. However, due to its poor performance and substantial losses, the PMC itself was merged with a pre-existing Coop Lesotho under an International Fund for Agricultural Development (IFAD)-financed project in 1980. The pre-existing Coop Lesotho had been established to serve as the apex organization for a network of primary and secondary farmer cooperatives throughout the country and pre-dated the Produce Marketing Corporation by several decades. A major objective of the "new" Coop Lesotho was to facilitate the distribution of agricultural inputs in the increasingly distorted agricultural marketing system.

Although Coop Lesotho has grown since 1981, its relative impact in Lesotho agricultural input markets has declined. Nominal sales figures have tripled from M 5,200,000 in 1982/83 to over M15,000,000 in 1986/87. Much of this apparent increase in the financial value of sales, however, is due to inflation in the prices of products supplied and to the addition of product lines unrelated to agricultural production activities - e.g. coal, wood, foodstuffs, building materials and groceries. Increases in sales of fertilizers over this period were primarily due to GOL input subsidy programs, administered by the Food Self-Sufficiency Program and implemented chiefly by the TOU since 1983.

Due to management and financial problems at Coop Lesotho, private firms marketing agricultural inputs appear to be increasing their relative shares in local markets. (It should be emphasized that all references to private firms in this paper include non-governmental cooperatives and associations) Coop Lesotho's market share may currently be only 50 to 70 percent of fertilizer sales and 30 to 50 percent of the market for seeds, pesticides and, possibly, livestock feed.

These estimates of actual market shares are distorted by the fact that Coop Lesotho is the sole marketing agent under the GOL subsidy programs for both direct farmer fertilizer sales or sales of inputs to the TOU. If private traders were to be allowed equal access to the subsidy programs on acceptable payment terms or, conversely, if all agricultural input subsidies were terminated, Coop Lesotho would find it difficult to compete with private marketing agents for local input sales.

With repeal of the PMC Act in 1979, Coop Lesotho, unlike its predecessor agency, appears to have no legal monopoly on all agricultural input trade. However, Coop Lesotho retained exclusive rights to receive government subsidy payments for the fertilizers it sells to individual farmers and the GOL's Food Self-Sufficiency Program. Approximately 45 to 50 percent of Coop Lesotho total input sales occur under these two subsidy programs. Faced with this GOL-imposed distortion in local input marketing, private traders sell insignificant amounts of fertilizers and other inputs during the periods when the subsidy program is in force and never sell subsidized inputs for crop packages under the Food Self-Sufficiency Program. In fact, some private traders actually purchase subsidized fertilizers from Coop Lesotho during the official subsidy periods and resell them with low markups to attract customers to their stores or hold them for resale to farmers during non-subsidy periods. Although precise data are unavailable, such resales of subsidized fertilizers to private traders appear to be sizeable.

The Government of Lesotho has announced its intention to phase out fertilizer and other subsidy programs, particularly those administered under the Food Self-Sufficiency Program and implemented by the TOU. The GOL is doing this in the face of their high costs, the growing government deficit, and the low apparent supply response generated by the subsidies. The phased elimination of input subsidies is part of the LAPSP program because such a policy reform would remove a major justification for Coop Lesotho's present retailing operations.

In forming Coop Lesotho, the GOL's stated objectives were:

1. To promote cooperative ownership and management of agricultural enterprises.

2. To facilitate low cost distribution of agricultural inputs through economies of scale in bulk input purchasing and distribution.

3. To set up a national input system which would permit subsidization of input distribution to remote areas with profits derived from distribution of inputs in the more accessible lowlands and to lesser disadvantaged farmers.

4. To eliminate the perceived exploitation of farmers by private traders.

One primary failure of Coop Lesotho is that it has never fully functioned as an effective apex organization for the primary and secondary cooperatives. Actual cooperative equity ownership in Coop Lesotho is marginal - i.e. only three percent for the secondary primary cooperatives and none for the primary coopera-atives versus 97 percent ownership by government.

There are relatively few active and financially viable farmer cooperatives in Lesotho, due in part to Coop Lesotho's inability to support local cooperative development and training. This in itself severely limits the potential for Coop Lesotho becoming a truly farmer-owned and managed organization supported by a network of viable farmer cooperatives Out of over 600 cooperatives registered in Lesotho, only 168 are reported to be functioning at all and few of these could pass even a modest test of financial soundness. As a result, Coop Lesotho remains essentially a government-owned and managed parastatal with little in the way of a cooperative dynamic and virtually no structural incentives to provide efficient services for the farming community.

The second failure of Coop Lesotho is its inability to actually realize potential economies of scale and pass them along as lower input prices or sizable product rebates for farmers.

Management difficulties at Coop Lesotho have led to problems with poor accounting, inadequate stocking, late delivery, pilferage, inappropriate types and quality of goods, and lack of agronomic expertise among sales agents.

Other inefficiencies result from basic flaws in marketing strategies. Coop Lesotho was originally funded under the IFAD project to operate 16 regional sales outlets and depots. With the legacy of facilities inherited from the PMC and the GOL's Basic Agricultural Services Program (BASP), Coop Lesotho was forced to run 58 depots in 1981, the vast majority of which were unprofitable due to their geographic remoteness, low sales volumes, and the high transport costs implicit in their supply operations. Presently, only 38 Coop Lesotho sales outlets and depots are officially operated. Fourteen to 17 of these were considered "non-viable" and unprofitable by Coop Lesotho officials and IFAD consultants in a recent comprehensive financial evaluation (Maini, N.S. and Ramn Saran, 1987).

In the early 1980s, Coop Lesotho management decided to diversify into product lines other than agricultural inputs to better amortize fixed costs and increase sales volumes during the agricultural off-seasons. While some products have been profitable in this regard; others, including building materials, agricultural implements, and imported crops incurred losses. Moreover, this branching-out into areas traditionally marketed by private traders has opened Coop Lesotho to the justified criticism that such sales do not fall within its original mandate to supply agricultural inputs and interfere unnecessarily with the established private market. Even more significantly, this situation suggests an important hypothesis: If the operation of a viable agricultural input supply system requires complementary trading in general merchandise in order to be profitable, then perhaps the original marketing system based on initiatives of general merchandise traders made great economic sense.

The perceived benefits from economies of scale due to bulk buying have also been illusory to Coop Lesotho due to its persistent financial problems, undercapitalization, and consequent poor negotiating position vis-a-vis its suppliers. Coop Lesotho is clearly undercapitalized despite the original fixed asset endowment of 58 depots, several vehicles, and the subsequent loan from the IFAD project. The $ 956,000, provided from the 1981 IFAD loan, represents only GOL cash funding of Coop Lesotho to date. This is clearly insufficient to capitalize an organization with over M 15,000,000 (approximately $ 7,500,000) in sales for fiscal year 1986/1987, particularly in light of the cumulative net losses of M 954,698 sustained in the period from 1982 to 1987.

Due to chronic delays in the system for reimbursing government subsidies (amounting to M 3,056,000 for the 1986/87 fiscal year), which typically last six to nine months, Coop Lesotho has been in a continual cash flow crisis and has thus consistently been late in paying its suppliers. Coop Lesotho in 1986/87 required 120 day credit from its suppliers and historically has paid invoices after 150 to 180 days and attempted to ignore the two percent per month interest penalty imposed by the suppliers. As a result, suppliers have become increasingly annoyed with Coop Lesotho's payment delays and have built a 10 to 20 percent additional cost into their responses to Coop Lesotho supply bids. Finally, it appears that Coop Lesotho has not negotiated purchase contracts as successfully as it could, given the size of its bulk purchases. There are examples of Coop Lesotho purchasing directly from South African suppliers, rather than from their local sales representatives, which have resulted in a higher purchasing costs. In these cases, the local supplier still derived his commission on the sales but Coop Lesotho absorbed all the transport costs for commodities purchased from the RSA.

The third objective of Coop Lesotho - i.e. subsidization of input marketing in remote sites - may have achieved some success. Remote sites undoubtedly would never receive agricultural inputs at so low a price without Coop Lesotho. However, actual agricultural input sales are quite low at these sites. For example, the Coop Lesotho retail outlet at Semonkong has sold only 24 bags of fertilizer since October 1986. Remote depots in the highland areas tend to sell higher proportions of foodstuffs, wood and coal because these heavier items benefit most from subsidized transportation. Fertilizers are not as important in remote highland areas because of the small cultivated area and relatively richer soil. Pesticides and vegetables seeds are high value, low weight items which do not require a transport subsidy. Grain seed does benefit from remote site transport subsidies, but only wheat seed is of major importance to highland areas, whereas hybrid maize is less commonly used. While the intent of assuring the availability of agricultural input supplies to remote regions sounds appealing in light of the government's general equity concerns, the GOL needs to reassess the actual benefits and costs of such programs, based on better data on actual and potential input use in remote regions. Additionally, subsidization of coal and food stuff deliveries to remote regions was not the original objective of Coop Lesotho and these products seem to us to be adequately supplied by a number of private retailers. Finally, given Lesotho's reasonably good and improving road system, the designation of even distant highland regions as "remote" may overstate the problem during the greater part of any given year.

The fourth objective of Coop Lesotho - i.e. elimination of perceived exploitative practices by traders - has been achieved but at the enormous cost of eliminating an efficient, multichannel agricultural marketing system. In the mid-1970s, there appear to have been a few reliably-reported cases of exploitive practices by private traders who charged usurious real interest rates on credit sales or bartered crop purchase arrangements. Unfortunately for the non-exploitive traders, interventions to remedy this situation by the GOL took the form of unselective exclusionary actions in eliminating all private trading in selected spheres, like agricultural output marketing, rather than regulating or eliminating the few specific and isolated offenders from the system.

The result was that historically important private sector agricultural input marketing systems were destroyed and have been very slow to recover. There are few small traders and primary cooperative agricultural input retail outlets physically sited in the interior of Lesotho, although many individual entrepreneurs appear to be transporting agricultural inputs from South African cooperatives and other RSA suppliers directly to Basotho farmers. The larger trading companies show little inclination to reestablish their retail trading operations in agricultural inputs, given the somewhat unpredictable nature of the distribution system of Coop Lesotho and past GOL policies directed at excluding them from input marketing. They probably would consider reentering local markets if Coop Lesotho's future activities were clearly defined and limited to profitable wholesaling activities.

c. Livestock Sub-Sector Problems

1. Livestock Production System

The inability to implement an effective policy to reduce livestock herds and effect improvements to herd quality and reduce overgrazing have had serious consequences for Lesotho. Livestock numbers in Lesotho are at their highest levels in recent years. Data from the Bureau of Statistics for 1986/87 estimate that there are 639,000 cattle, 1,669,000 sheep and 1,239,000 goats in Lesotho. The majority of the small stock are located in the mountains. Livestock owners make their contribution to the national accounts principally through exploitation of the extensive grazing opportunities in the country's foothills and mountains. Approximately 930,000 animal units are divided primarily between cattle, Merino sheep, and Angora goats. Considerable numbers of donkeys and horses also complicate the grazing situation while making modest economic contributions as transport animals.

Transhumance of livestock from the lowlands to the mountains is a traditional practice during parts of the year. In the latest census, 39 percent of the cattle, 25 percent of the sheep and 42 percent of the goats are located in the lowland and foothills Large numbers of these animals are moved to cattle posts in the mountains during the spring and summer months. Efforts to curtail this movement of livestock will be difficult for the GOL without educational programs to inform the livestock owners on how to intensify animal agriculture in the lowlands. Appropriate technological packages need to be made available for livestock owners on how to intensify animal agriculture in the lowlands. Appropriate technological packages need to be made available for livestock owners.

Cattle owners place emphasis on self-sufficiency from their herds, rather than being commercially oriented. The major reasons for keeping cattle are for milk, manure, and draught power. Forty-six percent of the herd is composed of males. This is an abnormally high percentage for traditionally-managed herds specializing in milk production for household consumption. The average herd size is seven head per household.

Productivity levels of the cattle herds are low with an estimated calving rate of 49 percent for mature cows. Fertility levels are low for breeding females with first calving being at an average age of 4 years and, thereafter cows having a calving interval of about 2 years between calves.

Lesotho's cattle herd is maintained for subsistence daily production, as a source of oxen for draft power in cropping operations and rural transport, and for various traditional obligations, such as contributions to the bride price -- i.e. bohali - and intergroup cattle loans -- i.e., mafisa. The benefits of cattle ownership from the Basotho family's viewpoint are not necessarily enumerated simply on the basis of net cash returns from commercial product sales. In fact, most of the products or services provided by a traditional Basotho cattle herd are either consumed by the family or used in family production processes -- i.e., manure for field and garden crops, animal power.

Since the herd structure is deliberately skewed toward production of milk for rural consumption and the productivity of individual animals is low, retention of a high percentage of all producing females in the herd is at present a necessity to meet household production objectives. This implies that the annual offtake of the herd in slaughter animals is low as a percentage of the total herd and comprised principally of aged cows, other sterile females, and overage oxen. This offtake produces lean, grass-fed beef of manufacturing grade for which there is only a limited domestic market. There is a high effective demand for such meat, however, among certain consumer groups in the Republic of South Africa, mainly among the Indian population in Natal Province and mine workers in the Orange Free State and the Transvaal.

Sheep and goats are primarily held for income generation from wool and mohair. At the national level, these two fibers

together constitute the largest single merchandise export from the economy at the present. Animals are retained in the herd for their fleece resulting in old animals being kept past their prime for meat production. The production of wool and mohair per
animal has been stable for the past several years at 2.4 kg/ head for sheep and 0.8 kg/head for goats. These levels are 61 percent and 21 percent, respectively, of the average weight for fleece in the RSA.

Animal productivity levels are also low in sheep and goats. Birth rates are estimated at 27 percent for sheep and 33 percent for goats. There are high death rates in lambs and kids partly explained by the climate and the deterioration of the range. Increasing the productivity of small ruminants will be important for the achievement of a successful destocking program.

Average flocks of adult sheep and goats are, respectively, 54 and 37 animals per household. The ownership pattern of sheep is skewed with three percent of sheep producers owning 50 percent of the national flock. The implication is that the vast majority of the proposed grazing fee payments on sheep will be borne by the larger livestock owners. Moreover, based on the proposed fees, sheep and goats will likely be more readily sold to pay the grazing costs.

2. Livestock Marketing

Because all classes of livestock in Lesotho - i.e. cattle, goats, and sheep - are maintained for primary production objectives other than meat production - i.e. milk, traction power, wool or mohair - current meat production is a function of offtakes of animals which, for one reason or another, are no longer capable of meeting their primary production role. This means not only that most cattle are overage when slaughtered, but also that sheep and goats may be marketed for meat at certain times of the year when they are still unsheared or, in the case of females, in gestation. These facts greatly complicate effective marketing strategies for livestock in Lesotho and such strategies obviously cannot be based upon the simple assumption that Basotho livestock owners are raising their animals primarily to sell as red meat.

The livestock marketing system has high costs associated with the collection, sale and distribution of live animals. In research conducted on live sheep trekked and trucked from Sehlabathebe on the eastern border to the Feedlot Complex near Maseru, animals lost between 10 and 15 percent of their purchase weight during transport. Loss in condition and mortalities are also high. Transportation of animals from the mountains to the end-users, both domestic and external, is difficult. Because of marketing difficulties, Lesotho butchers import live animals from the RSA for slaughter. This market channel is established and will be difficult to change. However, it will be important to protect livestock producers who undertake intensive livestock activities from excessive numbers of imported livestock and livestock products until these activities can be firmly established.

Marketing infrastructure is limited in most areas and producers have difficulty selling their animals. In interviews in Sehlabathebe, livestock producers said they would sell 15 to 20 percent of their small stock each year if a regular market was available. Currently they sell approximately 5 percent of their sheep. The presence of sheep scab hinders the flow of live animals to the RSA but the problem is not insurmountable. The implementation of the National Livestock Policy announced in September 1987 (see Annex 3) will have to focus on these marketing constraints and make a concerted effort to convince private sector marketing intermediaries to resume their role in the livestock marketing system.

Domestic livestock is an important source of milk and meat - particularly mutton - in providing limited protein intake in Basotho diets. With growing population and per capita income levels, domestic demand for dairy products, poultry, eggs, and certain types and qualities of meat has been rising and outstripping local production. This situation has contributed to the increasing import bill for foodstuffs, while declining per animal productivities and inefficiencies in existing livestock marketing arrangements have combined to diminish Lesotho's potential livestock product export earnings.

The GOL has become aware recently that a national livestock development program will require greater emphasis on detection of market trends and better reaction to opportunities for export of Lesotho livestock and livestock products. In this regard, the GOL is seeking to certify the National Abattoir for export of meat products. The Government has commissioned marketing studies on export potentials and improvements in the national meat grading system. This information will allow the National Abattoir to comply with existing product specifications in potential export markets. Certification of the National Abattoir is important to the overall success of commercialization for the livestock subsector.

3. Resource Management

The essential problem facing the livestock economy in Lesotho at present is the persistent imbalance between the number of animal units maintained by Basotho stock-owners and the inherent productivity of the country's grazing resource. This buildup of excessive animal numbers has been driven by several related factors: the relatively high total returns to livestock investments - reported by Swallow et al (1987) to average between 8 and 10 percent per annum; availability of miners' earnings repatriated as live animals or used to buy stock in-country; the absence of attractive alternative investment opportunities in rural areas; and the example of leading personalities in Basotho society who have accumulated large holdings of livestock to meet traditional obligations and commercial objectives.

Given that Lesotho's resource base for extensive grazing is a fragile one even under excellent land management practices due to the prevalence of steep slopes, shallow soils, and modest vegetation cover, any mismanagement or overutilization of the resource base by excessive grazing, continuous animal traffic, and associated human activities quickly leads to accelerating resource degradation. Gully and sheet erosion, disappearance of the soil from the underlying rock mantle, range encroachment by brush and unpalatable plant species, and the declining productivities of herds and flocks maintained in such conditions are certain indicators of a deteriorating environmental situation and the concomitant loss of opportunities for Lesotho's economy.

4. Government Policies

To date the Government of Lesotho's response to degradation of the grazing resource has been less than fully effective. Until recently, the lack of well-defined and enforced government policies in land and livestock management have allowed Basotho livestock owners to reap substantial financial benefits from exploitation of the national range without paying the social costs of their destruction of the rangelands resource.

Alternatively stated, livestock ownership in Lesotho is attractive to many people because the government has allowed a divergence to occur between the financial costs and returns incurred in individual livestock ownership and the economic costs and returns incurred by the nation in use of the national range. Individual livestock owners are not held responsible by the nation for their abusive management of the range resource. There are no government programs that either place absolute limits on animal numbers or tax away owners excess profits - i.e. "rents" in economic terms - to compensate the nation for the resource damage. Consequently, the livestock owner's rational economic response to the opportunity is to stock as many animals as possible at the expense of other livestock herders and, ultimately, the entire Basotho nation.

The GOL is in the initial stages of coming to grips with the key socio-political problems of land management and controls on livestock in the foothills and mountains. The MOA has issued a National Livestock Policy statement (see Annex 3) based on the prior efforts of the Livestock Marketing Task Force and the PAIP team in May and June 1987. The Livestock Marketing Task Force, comprised of technical staff from key ministries, is now actively working to advise the ministerial level on the implementation of the National Livestock Policy.

The Government is undertaking a program in rangelands adjudication. The ultimate result of this adjudication will be that livestock owners within a designated grazing area will have exclusive access to it and outsiders will be denied access. This system has been put in place in the Sehlabathebe Range Management Area and is being extended to the adjacent Rama's Gate area. Livestock inventories will have to be conducted before adjudication can begin. In interviews in Sehlabathebe, project participants said they were satisfied with the operations of the Range Management Association (RMA). They believed that range conditions were better than before the formation of the RMA, and they are economically better off than before the range incorporation. Respondents did also say, however, that they did not see the RMA becoming completely self-reliant until 1992 and indicated that the successful implementation of this type of activity is a long term effort.

Enforcement of range management regulations will continue to be a problem. The GOL has a stated policy that off-colored sheep and goats must be culled from the flocks/herds and cannot be sent to cattle posts for grazing again after their detection and identification. The effectiveness of this policy has been mixed and is dependent on the effectiveness of the local chiefs in enforcement since they are responsible for controlling grazing permits. Research by Lawry (1987) showed that only 8 percent of livestock herders in five districts had obtained grazing permits. Thus, the success of management policies depends on livestock owners' understanding and acceptance of those policies and the ability and willingness of local authorities to enforce them.

The GOL has been aggressive in rectifying some problems in the livestock subsector. It did correct a sales price policy detrimental to the local livestock industry by eliminating a tax disparity between domestic and imported meat. The 12 percent sales tax had been imposed on domestic meat products but not on imported meat. Furthermore, the GOL is attempting to have the National Abattoir certified for exports to the RSA and the EEC. Certification, by at least the RSA, will be necessary if a comprehensive livestock marketing program is to be successfully implemented.

Much of the work accomplished to date is technically sound and will be beneficial to the local livestock economy, if implemented in the context of a comprehensive and integrated livestock program supported at the highest levels of the government. However, in the absence of a comprehensive statement of livestock policy and an accompanying implementation plan with well-defined and prioritized livestock programs, isolated and discrete technical actions are destined to have only very limited effects on rationalizing overall resource utilization to permit production of quality livestock on a sustainable basis.

II. Program Goal and Objectives

The goal of the LAPSP is to make more productive and efficient use of Lesotho's domestic resources in crop agriculture and in livestock through a process of policy reform and implementation.

The purposes of the program are:

a. To open up the agricultural input marketing system to facilitate more competition among suppliers and greater input availability to consumers. At the same time, new policy measures will reduce the budgetary cost to the government of interventions in agriculture by removing subsidies and greatly reducing the role of a parastatal.

b. To reduce the overstocking of cattle, sheep and goats on fragile rangelands and thereby bring into closer balance herd size and grazing potential. In the process, livestock owners will be induced to take into account the costs and benefits of open grazing, and the livestock marketing system will become more efficient and competitive.

III. Program Initiatives

a. Agricultural Input Component

Improving the efficiency of the agricultural input marketing and distribution system will be undertaken in three distinct policy reform phases as described below.

1. Phase One

(a) The Policy Reforms

Government support for and facilitation of the development of an open and competitive market for the supply of agricultural inputs.

Government development and approval of an implementation plan for and commencement of implementation of its announced commitment to the progressive removal of all subsidies on fertilizers starting with the 1988-89 crop season.

(b) The Objectively Verifiable Indicators

The objectively verifiable indicators of attainment of the policy reforms in this phase of the program are:

(1) Competitive market for agricultural inputs.

(i) The review and appropriate modification or revocation of legislation limiting private sector ability to freely market and distribute agricultural inputs on a competitive basis.

(ii) Government publication of a policy statement which will clearly allow private sector entities to freely market and distribute agricultural inputs in Lesotho on a competitive basis.

(2) Commitment to fertilizer subsidy removal.

(i) Acceptance by the Program Coordinating Committee (PCC) and the Program Chairman (PC) of an implementation plan and schedule for the phased elimination of fertilizer subsidies, including provision for semi-annual progress reports.

(ii) GOL commences implementation of plan to eliminate fertilizer subsidies.

(c) The First Tranche Disbursement

After satisfactory completion of the policy reforms in phase one, $500,000 will be disbursed to the GOL and the Maloti equivalent of this amount will be deposited by the GOL into the Special Local Currency Account to be used for mutually agreed purposes.

(d) Key participants

The key participants in implementation of this phase of the program will be:

(1) A Program Coordinating Committee composed of:

- The Principal Secretary of the Ministry of Agriculture

- The Principal Secretary of the Ministry of Finance

- The Director of the Law Office in the Ministry of Constitutional and Legal Affairs

- The Principal Secretary of Trade, Industry and Tourism

(2) The Chief Planning Officer of the Ministry of Agriculture

(3) The Head of Marketing of the Ministry of Agriculture

(4) The Director of Crops and TOU of the Ministry of Agriculture

2. Phase Two

(a) The Policy Reforms

(1) Progressive divestiture by Coop Lesotho of its retail sales outlets and lock-up stores to private sector input suppliers, including primary and secondary cooperatives, private sector input suppliers and general traders, with the objective of reducing Coop Lesotho's role to that of a true cooperative input wholesaler in competition with other private sector suppliers;

(2) Establishment by the GOL of a program, to be funded out of the Special Local Currency Account, to ease the transition of redundant Coop Lesotho personnel into other employment; and

(3) Implementation of the first phase of the plan to eliminate fertilizer subsidies.

(b) The Objectively Verifiable Indicators

The objectively verifiable indicators for the policy reforms in this phase are:

(1) Divestiture of Coop Lesotho retail outlets and lock-up stores.

(i) Completion and publication of a GOL-approved study covering input flows, sources of supply and major input purchasers.

(ii) Submission to the PCC of an appraisal of Coop Lesotho assets by an independent accounting firm.

(iii) Acceptance by the PPC of an audit by an independent accounting firm and issuance of a report thereunder reconciling government accounts with Coop Lesotho and Coop Lesotho's outstanding debts, the audit to be completed no later than 31 March 1989.

(iv) Submission to the PCC by the Ministry of Agriculture of an implementation plan and schedule for the disposal of Coop Lesotho assets. This plan must include a listing of planned divestiture actions under three categories:

-- Those assets to be sold outright to private sector agents.

-- Those assets to be sold under lease/purchase arrangements to local cooperatives.

-- Those assets which the GOL will withdraw from Coop Lesotho and retain for its own use.

(v) Acceptance by the PCC and PC of copies of bills of sale for those assets sold outright during Phase Two and documentation establishing proof of irrevocable lease/purchase arrangements with cooperative organizations. A minimum of 14 retail sales outlets identified by the IFAD study as "non-viable" and 20 unused lock-up stores must be disposed of in Phase Two.

(vi) Issuance by the Ministry of Agriculture of a statement certifying (i) the amount of the net proceeds realized from the outright sale and lease/purchase of Coop Lesotho assets and (ii) the fair market assessed value of assets retained by the government

(2) Program to ease transition of Coop Lesotho personnel into other employment

(i) Acceptance by the PC of a GOL plan for severance pay for Coop Lesotho staff whose posts have been abolished, with proposed levels of compensation by grade. The plan must include payment transfer procedures and total local currency requirements for the compensation program.

(ii) Release of redundant Coop Lesotho personnel from retail outlets/lock-up stores sold and from central operations supporting those operations.

(3) Implementation of Phase One of Fertilizer Subsidy Plan

(i) Publication of GOL policy establishing first phase of plan to eliminate fertilizer subsidies.

(ii) Guidance issued by MOA on new fertilizer subsidy rates.

(iii) Actual reduction of GOL fertilizer subsidies in accordance with the phased plan.

(iv) Availability of fertilizer to private retailers for sale.

(c) <u>The Second Tranche Disbursement</u>

After satisfactory completion of the policy reforms in phase two, $1,000,000 will be disbursed to the GOL and the Maloti equivalent of this amount will be deposited by the GOL into the Special Local Currency Account to be used for mutually agreed purposes.

(d) <u>Key participants</u>

The key participants in the implementation of this phase of the program will be:

(1) A Program Coordinating Committee composed of:

- The Principal Secretary of the Ministry of Agriculture
- The Principal Secretary of the Ministry of Finance
- The Commissioner of Cooperatives
- The Principal Secretary of Trade, Industry and Tourism

(2) The Manager of Coop Lesotho

(3) The Head of Marketing of Ministry of Agriculture

(4) The Principals of cooperatives holding shares in Coop Lesotho

3. Phase Three

(a) The Policy Reforms

Completion of the divestiture of Coop Lesotho's retail outlets and lock-up stores.

Complete withdrawal of the GOL as a shareholder in Coop Lesotho.

Implementation of the final phase of the plan to eliminate fertilizer subsidies.

(b) The Objectively Verifiable Indicators

The objectively verifiable objectives for policy reforms in this phase of the project are:

(1) Completion of Coop Lesotho divestiture

(i) Acceptance by the PCC and PC of copies of bills of sale and/or documentation of lease/purchase arrangements for the remaining Coop Lesotho retail sales outlets and lock-up stores.

(ii) Issuance by the Ministry of Agriculture of a statement certifying (i) the amount of the net proceeds realized from the outright sale and lease/purchase of Coop Lesotho assets and (ii) the fair market assessed value of assets retained by the government.

(2) Withdrawal of GOL as a shareholder in Coop Lesotho

(i) Issuance of a statement by the GOL officially announcing its surrender of all shares in Coop Lesotho following a buy-out of its share-holdings.

(3) Elimination of Fertilizer Subsidies

(i) Publication of GOL policy establishing the final phase of the plan to eliminate fertilizer subsidies.

(ii) Guidance by MOA on eliminating fertilizer subsidies.

(iii) Implementation of the final phase of plan to end fertilizer subsidy with evidence that there are no Government outlays for fertilizer subsidy.

(iv) Fully privatized and unsubsidized fertilizer distribution system.

(c) <u>The Third Tranche Disbursement</u>

After satisfactory completion of the policy reforms in phase three, a total of U.S. $2,750,000 will be disbursed to the GOL and the Maloti equivalent of this amount will be deposited by the GOL into the Special Local Currency Account to be used for mutually agreed purposes.

(d) <u>Key participants</u>

The key participants in this final phase of the program will be:

(1) A Program Coordinating Committee composed of:

- The Principal Secretary of the Ministry of Agriculture
- The Principal Secretary of the Ministry of Finance
- The Commissioner of Cooperatives
- The Principal Secretary of Trade, Industry and Tourism

(2) The Manager of Coop Lesotho

(3) The Head of Marketing of the Ministry of Agriculture

(4) The Principals of cooperatives holding shares in Coop Lesotho

b. <u>Livestock Management Component</u>

The proposed policy reform initiative for the livestock sub-sector is partitioned into four phases with discrete actions to be undertaken in each phase. These reform policies, as jointly proposed by the PAAD team and the Ministry of Agriculture's Livestock Task Force, are listed below by program phase.

1. Phase One

(a) The Policy Reform

The policy reform to be achieved in Phase One is the preparation by the MOA and approval by the GOL Cabinet of a comprehensive implementation plan for the National Livestock Development and Resource Management Policy enunciated in September 1987. The policy implementation plan must cover the areas of resource management, livestock marketing, and livestock production and animal health.

(b) The Objectively Verifiable Indicators

The objectively verifiable indicators for this phase of the project are:

(1) A written plan by the MOA for implementation of the National Livestock Development and Resource Management Policy.

(2) Ministry of Agriculture approval of livestock policy implementation plan; and the date upon which approval is granted.

(3) A Cabinet decision number and date for acceptance of the National Livestock Policy and the implementation plan, and corresponding Military Council record.

(c) The First Tranche Disbursement

After successful completion of phase one, a total of $1,200,000 will be disbursed to the GOL and the Maloti equivalent of this amount will be deposited by the GOL into the Special Local Currency Account to be used for mutually agreed purposes.

(d) Key Participants

Key participants in the implementation of this phase of the program will be:

(1) A Program Coordinating Committee composed of:

- The Principal Secretary of the Ministry of Agriculture

- The Director of Livestock Services

(2) The Heads of the Divisions of Animal Production, Veterinary Services, Range Management, and Livestock Product Marketing Services.

(3) The management of the National Abattoir and Feedlot Complex

2. Phase Two

(a) The Policy Reforms

The first policy reform under this phase of the program is the design and approval by government of an implementation plan for and completion of all preparatory steps toward installation of a national grazing fee system.

The second and complementary policy reform is to restructure and broaden the system of livestock marketing in Lesotho to allow for:

(1) Greater private sector participation in all phases of livestock marketing;

(2) A larger volume of exports of live animals and livestock products to the RSA;

(3) A greater degree of efficiency in the operations of the NAFC, as demonstrated by greater degrees of plant utilization and lower unit costs for livestock products handled.

(b) The Objectively Verifiable Indicators

The objectively verifiable indicators for Phase Two as they relate to the first policy reform are:

(1) National Grazing Fee System

(i) Gazetting of National Grazing Fee Regulations.

(ii) Submission by the Ministry of Agriculture and approval by the PCC and PC of a comprehensive implementation plan for installation of a national grazing fee system.

(iii) The completion of a na' onal livestock inventory as a preparat.ry step in assessment of grazing fees and the installation of relevant data on grazing fee computer programs.

(iv) Completion in all districts of the initial extension information campaign for the national grazing fee.

(v) Written protocol in place between MOA and MOI regarding grazing fee collection and procedures.

(vi) Establishment, definition of duties, staffing of and personnel training for MOA national grazing fee administrative unit completed.

(vii) Approval by Cabinet and Military Council of creation or identification of appropriate institutional structures to assure proper disbursement and utilization of grazing fee revenues. Approval by GOL and USAID of criteria for local community use of grazing fee revenues.

(viii) Completion and acceptance by Principal Secretary and Ministers of Agriculture and Ministry of Interior's Chieftainship of final design of grazing fee collection processes.

(2) Livestock Marketing

(i) Repeal of all existing legislation which hinders the full participation of private sector agents in all stages of livestock marketing.

(ii) The gazetting of meat hygiene regulations for the National Abattoir.

(iii) The institution of a weekly radio marketing news service to provide information on prevailing livestock prices, livestock sale dates and sites.

(iv) The presentation of documents to the PCC demonstrating successful certification of National Abattoir for export of meat products to the RSA (or submission of a GOL statement documenting RSA refusal to grant certification for other than technical reasons).

(v) The presentation of documents to the PCC which establish that the GOL has separated the business accounts of the Feedlot Complex from the National Abattoir and reoriented the operations of the Feedlot Complex from a commercial feedlot to primarily that of a holding ground for cull animals from the national range destocking program and fattening only when financial feasibility can be demonstrated.

(vi) Increased volume of local livestock products processed by the NAFC.

(c) <u>The Second Tranche Disbursement</u>

After satisfactory completion of phase two, $2,300,000 will be disbursed to the GOL and the Maloti equivalent of this amount will be deposited by the GOL into the Special Local Currency Account to be used for mutually agreed purposes.

(d) <u>The Key Participants</u>

The key participants in the implementation of this phase of the program are:

(1) A Program Coordinating Committee composed of:

- The Principal Secretary of the Ministry of Interior, Chieftainship Affairs and Rural Development

- The Principal Secretary of the Ministry of Trade and Commerce

- The Principal Secretary of the Ministry of Constitutional and Legal Affairs

- The Principal Secretary of Trade, Industry and Tourism

(2) The MOA Department of Livestock and the Division of Agricultural Information

(3) The MOA senior headquarters staff

(4) The Village Development Councils

3. Phase Three

(a) The Policy Reform

Implementation of the first year of operations, including the collection of grazing fees and allocation of grazing free revenues, under the national grazing fee system.

(b) The Objective Verifiable Indicators

The objectively verified indicator for successful completion of this phase of the program is:

(1) GOL presentation of detailed records and accounts of: the total grazing fee receipts in the first year of system operations; the administrative costs incurred in implementing the system; and the disposition of all receipts disbursed by the GOL, including those to local communities for development activities. This presentation to be accompanied by a detailed report of the problems encountered, the estimated impacts of the grazing fee system on livestock offtake and animal owners incomes, and development activities implemented by local communities using grazing fee receipts.

(c) The Third Tranche Disbursement

After satisfactory completion of the required policy actions in phase three, $2,500,000 will be disbursed to the GOL and the Maloti equivalent will be deposited by the GOL into the Special Local Currency Account to be used for mutually agreed purposes.

(d) The Key Participants in this Phase

The key participants in the implementation of this phase of the program are:

(1) A Program Coordinating Committee composed of:

- The Principal Secretary of the Ministry of Interior, Chieftainship Affairs and Rural Development

- The Principal Secretary of the Ministry of Finance

- The Principal Secretary of the Ministry of Constitutional and Legal Affairs

- The Principal secretary of the Ministry of Agriculture

(2) MOA Department of Livestock staff

4. Phase Four

(a) The Policy Reform

Implementation of the second year of the national grazing fee system.

(b) The Objectively Verifiable Indicators

The objectively verifiable indicator for this phase is:

(1) GOL presentation of detail records and accounts of: the total grazing fee receipts in the second year of system operations; the administrative costs incurred in implementing the system; and the disposition of all receipts disbursed by the GOL, including those to local communities for development activities. This presentation to be accompanied by a detailed report of the problems encountered, the estimated impacts of the grazing fee system on livestock offtake and animal owners incomes, and development activities implemented by local communities using grazing fee receipts.

(c) The Fourth Tranche Disbursement

After satisfactory completion of the policy action under this final phase of the program, $2,500,000 will be disbursed to the GOL and the Maloti equivalent of this amount will be deposited by the GOL into the Special Local Currency Account to be used for mutually agreed purposes.

(d) The Key Participants

The key participants in the implementation of activities under this final phase of the program are:

(1) A Program Coordinating Committee composed of:

- The Principal Secretary of the Ministry of Agriculture
- The Principal Secretary of the Ministry of Interior, Chieftainship Affairs, and Rural Development
- The Principal Secretary of the Ministry of Finance

- The Principal Secretary of the Ministry of Constitutional and Legal Affairs.

(2) The MOA Department of Livestock Staff.

c. <u>Proposed Uses for Local Currency in Support of Economic Reforms in the Agricultural Sector</u>

The funds in the Special Local Currency Accounts will be used in support of policy reforms to be undertaken as part of LAPSP, in accordance with the five priorities set forth below. The principal and highest priority use of the funds will be to fund actions essential to completing the next phases of the two policy reform components as detailed above. As the proposed policy reforms are undertaken, complementary actions to either ensure completion of future phases or to maximize the impact of the policy reforms in the phase just completed will be undertaken by the Government of Lesotho, in collaboration with USAID. Transfers from the special local currency account will finance these complementary actions. Below is an illustrative listing of actions to be jointly planned and implemented by the program participants under these five priorities.

1. Activities or programs proposed under the LAPSP and necessary to the accomplishment of conditions precedent for a subsequent policy reform phase.

   a. Funding for an audit of Coop Lesotho's accounts by an independent accounting firm.

   b. Funding of severance pay to ease the transition of redundant Coop Lesotho personnel to private sector employment.

   c. Conduct of a national livestock inventory as part of the National Rangelands Adjudication Program.

   d. A study of methods for introducing a national grazing fee and of the public acceptability thereof, followed by training of personnel to carry out the fee collection program.

   e. Improvement of the National Abattoir in order to obtain certification for export of meat products to the RSA.

   f. Creation of a national farm news service which would periodically inform livestock owners of prevailing livestock prices and of the dates and sites for livestock auctions.

2. Activities or projects proposed under the LAPSP but not necessary to the accomplishment of conditions precedent for a subsequent policy reform phase.

   a. Initiation of loan guarantee and supervised credit programs for agricultural input dealers in need of investment and operating capital.

   b. Support through appropriate institutions for the formation and development of farmer associations and cooperatives, as well as training in business management, marketing, accounting and enterprise development for these groups and for small-scale input dealers, contract tractor operators, produce marketing agents and agro-industry entrepreneurs.

   c. Establishment of a system for providing up-to-date professional guidance and product use information to agricultural input dealers, contract tractor operators and the farming community.

   d. A study of the current economic activity, financial status and management capabilities of existing agricultural cooperatives.

   e. Initiation of live animal and livestock product marketing improvements in accordance with recommendations of the National Livestock Marketing Task Force.

   f. A study to estimate livestock supply response to the introduction of a grazing fee.

   g. A short-term training program to expand Livestock Department manpower capabilities.

3. Activities or programs which could be implemented through existing USAID-financed agricultural or livestock projects.

   a. Development and implementation of technical packages for improved livestock and crop production.

4. Activities or programs which could be implemented through other-donor financed agricultural or livestock projects.

   a. Institution of more effective land use controls over selected rangelands by creation of additional national parks and rangelands at major highland watershed areas adjacent to World Bank's Highland Water Development Project.

5. Extensions or continuations of activities or programs under implementation in the agricultural or livestock sub-sectors which will contribute to a rapid increase in the productivity and income growth of the rural population.

   a. Reinforcement of efforts in agricultural policy analysis, planning, program development, project coordination, activity monitoring, and overall evaluation.

   b. Improved collection and widened publication of key agricultural statistical series, including better monitoring of agricultural input flows by source, importer, and end-user.

   c Feasibility studies for horticultural crop production schemes, agro-processing facilities, export marketing opportunities, small irrigation schemes, and similar activities.

IV. Program Inputs

USAID will provide Fifteen Million Dollars ($15,000,000) in Grant financing to the GOL under the LAPSP of which $12,750,000 will be in the form of dollar disbursements under the non-project assistance components and $2,250,000 in the form of project assistance. Immediately prior to each tranche of dollar disbursement in the non-project assistance component, the GOL will deposit in the appropriate Special Local Currency Account the Maloti equivalent of the specific dollar disbursement. Provision of these funds is required by the cost of implementing the LAPSP policy reforms.

U.S. $10,000,000 will be provided from the Sub-Saharan Africa, Development Assistance (DFA) appropriation, of which $7,750,000 will be considered program support and $2,250,000 will be project funds to finance the procurement of goods and services for management of the LAPSP. U.S. $5,000,000 will be provided from the FY86 Southern Africa Development Assistance (SADCC) appropriation for the last two phases of the Livestock Management program. The following discrete actions are envisaged during implementation of the program:

a. The Agricultural Input Distribution Reform Package

As objectively verifiable evidence is presented that the Government of Lesotho has executed the reform actions listed for Phases One, Two and Three in Section B.III.a. above, USAID will disburse $500,000 for Phase One accomplishments, $1,000,000 for Phase Two accomplishments, and $2,750,000 for Phase Three accomplishments. Implementation of this component is expected to be over a two and one-half to three year time frame. However, precise timing of each of the phases varies because the actions to be completed depend on the efficiency of the GOL in enacting necessary Cabinet decisions and in implementing those decisions at the Ministerial and operational levels.

b. The Livestock Management Reform Package

As objectively verifiable evidence is presented that the Government of Lesotho has executed the reform actions listed for Phases One, Two, Three and Four in Section B.III.b. above, USAID will disburse $1,200,000 for Phase One accomplishments, $2,300,000 for Phase Two accomplishments, $2,500,000 for Phase Three accomplishments, and U.S. $2,500,000 for Phase Four accomplishments. This component is expected to be implemented over a four year time frame simultaneously with the Agricultural Input Component above. The first two phases, which establish the national livestock policy and establish the preconditions for a more open livestock marketing system, are expected to occur over a one and one-half to two year time frame. The last two phases concerning implementation of the national grazing fee system will occur over a two year period. As with the Agricultural Input Component, precise timing for completion of each phase depends on the ability of the GOL to approve and implement the necessary policy reforms in an efficient manner.

c. Technical and Financial Support for the Reform Packages

To facilitate timely implementation of the discrete LAPSP reforms listed above, U.S. $2,250,000 in project funding is proposed for program implementation support, technical support and management under direct contract with USAID for the following activities:

1. The Resident Program Technical Assistance Team

This team will consist of one specialist to support Government of Lesotho efforts in implementing the Agricultural Input Distribution Package reforms and a second specialist to support implementing the Livestock Management Reform Package. These two advisors will form the core of a Secretariat, established by the MOA to coordinate implementation of the program and assist the Ministry in preparing documentation necessary to assist the Task Forces and Program Coordinating Committees in reviewing the program. The total cost for this support team is projected at $1,100,000: $1,000,000 for 8.0 person/years of assistance ($125,000 per person/year) and $100,000 for logistical support and contingencies.

2. USAID Management Assistance Team

This contract team will consist of a Macro-Economist, a Program Assistant, and Secretary to assist USAID in implementing the Program. The team will be responsible for coordinating the preparation of all studies and documentation necessary to monitor the overall program, assist in the approval process for the release of funds, and assist with management of USAID concerns in relation to administration of the Local Currency Account. The total cost for this team over the four year period is projected at $200,000. Evaluations, studies of special importance to the program and contingencies are projected at $300,000.

3. Short-Term Technical Assistance Requirements

Under the reform program, certain studies and actions will require provision of short-term assistance personnel under A.I.D. direct contract. These studies and actions are expected to include: two national agricultural input supply surveys in Project Years One and Four ($100,000 for each study or $200,000 total) as part of the LAPSP monitoring effort; funding for short-term legal services to draw up irrevocable sales and lease/purchase agreements for Coop Lesotho divestitures ($75,000) ; an independent appraisal of all Coop Lesotho fixed assets prior to divestiture ($75,000); a national livestock inventory prior to implementation of the grazing fee and fertilizer subsidy removal program and a series of impact studies during implementation of the grazing fee program ($200,000); and short-term assistance to set up a computerized accounting system for implementation of the national grazing fee system ($100,000).

V. Relationship between the LAPSP, the USAID Country Development Program, and the IMF/World Bank Policy Framework Paper and the Structural Adjustment Facility (PFP/SAF)

a. Linkages with the USAID Sector Assistance Program

Since 1986, the USAID Mission has been phasing existing agricultural projects into the large multi-component Lesotho Agricultural Production and Institutional Support (LAPIS) Project. The Lesotho Cooperative Credit Union Project ended in March 1986 and its activities were phased into LAPIS at that time The Farming Systems Research Project ended in July 1986 and its research activities were phased over into LAPIS at that time. The Land Conservation and Range Development (LCRD) Project has been extended for an additional year and its activities will be phased into LAPIS in October or November 1988. In addition, the existing Agriculture Planning Project was evaluated and changes in project activities were made to ensure meshing with LAPIS objectives. This project was extended on a no additional cost basis (using internal project savings) from August 1986 to November 1991. All project activities are now linked and strong lines of communication are now operating among American and Basotho personnel attached to these projects, as well as with policy makers in the Ministry of Agriculture.

From the point of view of needed policy changes in agriculture, the Mission has examined these inter-project linkages and project activities planned to be implemented into the next decade. The examination revealed that, in the area of policy reform, farm input supply and integration of livestock and production policy and planning, inadequate resources exist in our current projects to assist the Government of Lesotho to tackle these larger issues. Although substantial progress has been made, for example, in implementation of a grazing association under the Land Conservation and Range Development Project, the Government of Lesotho has been unable to come to grips with issues of grazing fees, culling, reduction of livestock numbers, and herd improvement on a national level. Therefore, although evident progress has been made in these areas in the existing grazing association program that has been underway since 1983, little or no effort has been directed to incorporating the lessons learned and meaningful successes achieved in the grazing associations into an overall integrated livestock policy and action program for Lesotho. There are no resources in the LCRD project to provide for this need.

Regarding agricultural inputs, the large LAPIS project, through its Production Initiatives Component, is actively engaged in working with individual farmers and farmer associations to assist them in production of high value horticulture crops. The experience of this project in obtaining the right inputs on time, and in the right place, has been negative to mixed. Coop Lesotho stores near the production sites have been found to lack the needed seeds, fertilizers and herbicides, forcing project implementors to search for sources of supply. Local traders in these areas rarely maintain stocks of inputs due to Government of Lesotho edicts which have discouraged them from doing so in the past. Although personnel at these sites have often experienced delays in obtaining inputs, eventually they have been found. However, project personnel are concerned that as the extent of project activities grows input supply problems will increase in step with such growth.

The policy reform efforts to be undertaken through this LAPSP initiative will directly benefit project activities in both the LAPIS and LCRD projects. LAPIS's high value crop production activities will benefit from assured sources of input supply from more efficient private sector sources. The LCRD project activities (to be implemented under the LAPIS project from 1988) planned for additional grazing associations and for intensive livestock production will directly benefit from an integrated livestock policy and meaningful livestock production and action plans.

b. Linkages Between the LAPSP and the Proposed IMF/World Bank PFP/SAF

At present Lesotho has no program lending agreements with the World Bank and has no Standby Agreement with the IMF. The GOL recognizes, however, that it needs to address key structural problems in its economy. To alleviate the burden that would be imposed by a structural adjustment program, the Government of Lesotho is seeking the collaboration of the Fund and the Bank. Working together with missions from the IMF and the World Bank, the GOL has prepared a Policy Framework Paper (PFP) which could form the basis for a Structural Adjustment Facility (SAF) arrangement between the Government of Lesotho and the IMF. Lesotho satisfies the basic eligibility requirements for a SAF low per capita income and protracted balance of payments difficulties. It is designated as an IDA country.

When the PAIP was written, it was anticipated that the content of a SAF arrangement would have been determined by the time the PAAD was drafted. It is now clear that while the Bank and the Fund are continuing to give serious consideration to a SAF arrangement, an agreement would not likely be achieved before the beginning of the 1988/89 fiscal year on April 1, 1988. A Bank mission left Lesotho at the end of October with the understanding that a revised version of the PFP would be drafted in Washington in December and January. A redraft would likely include discussion of restrictions on commercial borrowing and suggestions for the government's investment program. The revision would then be discussed with the GOL in February or March.

For the moment, then, the best indicator of intentions on the part of the GOL remains the initial draft of the PFP and a subordinate document, entitled "Memorandum of Economic and Financial Policies," which is a more detailed statement of the Government's policies to be incorporated in the proposed structural adjustment program.

The initial draft of the Policy Framework Paper describes the major economic problems facing the country and sets forth the strategy for an adjustment program. It lists a number of desirable policy changes which the Government of Lesotho intended to implement starting in the 1987/1988 fiscal year. However, it is unlikely that most of these policies would begin to be put in place before 1988/89. The GOL's principal medium-term objective is to restore and sustain economic growth with a view to expanding employment opportunities, while strengthening the country's fiscal and external payments positions. To achieve this aim, measures would be taken to:

1. Expand and diversify the domestic productive base through increased private investment;

2. Strengthen the external sector through export promotion and import substitution;

3. Reduce the budget deficit to a manageable level;

4. Strengthen economic management and planning capacities.

The private sector is expected to play the major role in this strategy, while the public sector would be relegated to that of ensuring the existence of conditions favorable to private sector activities.

Policies that would facilitate achievement of the GOL's objective have been separated into three categories: production policies, monetary and credit policies, and external policies. The LAPSP will be concerned with a subset of production policies and with some external policies. Under the heading of production policies, the PFP distinguishes between agricultural reforms, industrial policy, public enterprise operations and fiscal policy. Of these, the LAPSP is concerned only with agricultural reforms on the one hand and public enterprise operations on the other.

The list of agricultural reforms set forth in the first draft of the PFP encompasses such issues as land tenure, extension and research. It makes no mention either of agricultural inputs or of government subsidies thereon; nor does it discuss the problems of input supply through Coop Lesotho. Nonetheless any improvements in the input supply system would be thoroughly consistent with the PFP's aim of promoting the production of high-value crops and encouraging the use of efficient agricultural management techniques.

In accordance with its objectives to improve livestock production, increase land users' responsibility for range use, and encourage the promotion of grazing associations, the GOL published on 22 September 1987 a comprehensive statement of changes in national livestock policy to reduce overstocking and to provide incentives for the use of more economic production methods. (See Annex 3.) As a first step, the Government, having consulted and obtained the unanimous support of the principal chiefs, announced that the grazing fee would be instituted as early as October 1988.

Under the rubric of public enterprise operations, the GOL has enunciated the objective of eliminating government budgetary support for the recurrent operations of any public enterprise by the end of the 1991/92 fiscal year. The public enterprise category is considered to include any that operate as government departments such as the Technical Operations Unit (TOU) of the Ministry of Agriculture. The GOL's announcement on 18 August 1987 (see Annex 1) that the TOU would be restructured, decentralized and phased out as a government service is thus fully consistent with its medium-term strategy elaborated in the PFP.

The future of the second parastatal concerned with agricultural inputs and services, Coop Lesotho, is less clear at the moment. The Government's policy statement of 18 August indicates that Coop Lesotho will privatize its retail outlets, though not its regional wholesale operations. A major component of the LAPSP is to assist in the privatization process, so that Coop Lesotho ceases to be a drain on the government budget and competes on an equal footing in the agricultural input supply business.

Privatization of some or all of the functions of and Coop Lesotho would be aided by an increase in credit available to the private sector and by the introduction of a government loan guarantee scheme to enable small scale enterprises to borrow from commercial banks. Both measures are envisaged in the Memorandum of Economic and Financial Policies.

In its discussion of external policies, the draft PFP distinguishes the GOL's main objective in the external sector as the achievement of a viable balance of payments. This would be attained by:

1. Expanding and diversifying exports,

2. Containing import demand, and

3. Limiting commercial external borrowing.

At the moment the development of most concern to the Bank and the Fund is the GOL's continued propensity to undertake external commercial borrowing under hard terms. This is of no direct relevance to the LAPSP, but the project can have impacts on both of the first two items. The livestock component of the LAPSP will have an effect on exports by encouraging the destocking of excess cattle, sheep and goats for slaughter either at the Maseru abattoir or, from eastern districts, at more accessible abattoirs in RSA.

The agricultural inputs component can expand and diversify agricultural exports by making modern inputs more widely and readily available. Any increased production of high-value horticultural crops, beans and peas would be destined largely for export while any increases in production of the traditional food-grains -- maize, wheat and sorghum -- will reduce import demand. On the other hand, there will be some countervailing increase in import demand for agricultural inputs as the distribution system makes them more readily accessible. However, the availability of a wider and more appropriate range of unsubsidized fertilizers and chemicals will help direct demand toward more economically efficient applications. Any increase in imports will be more than matched by reduced agricultural imports and increased agricultural exports.

In sum, the LAPSP is focused on a subset of the policies that are likely to figure in any structural adjustment program put together by the GOL, the Bank and the Fund. The measures envisaged in the LAPSP will reinforce the program and are clearly consistent with its objectives and strategy. They will assist the GOL in carrying out the agricultural, state enterprise and balance-of-payments policies that presently are contained in the draft Policy Framework Paper.

C. PROGRAM SPECIFIC ANALYSES

I. Macroeconomic Analysis

a. Consequences of Over-Dependency

Section B.I. above discussed four aspects of Lesotho's extraordinary economic relationship with the RSA. There are of course dangers as well as advantages from this state of dependency. This section examines the former.

1. Stagnation or Decline in Remittances

The average number of Basotho miners employed within the RSA fell from over 124,000 in 1978 to 114,000 in 1984. The number began to increase again, however, in 1985 and reached 127,000 in the first quarter of 1987. Meanwhile, the amount of miners' cash remittances back to Lesotho rose slowly from M 33 million in 1978 to M 63 million in 1981 and then sharply to M 284 million in 1986.

This significant increase in injections of income into the Lesotho economy more than compensated for a secular decline in domestic agriculture with which it coincided. The decline in crop production has been such that it now adds considerably less to the domestic economy than livestock. A production index of the five major food crops peaked at 153 in 1977/78 and then fell sharply in the drought years of the early 1980s. By 1984/85 the index stood at only 76. Indeed, one reason cited for the sharp increase in remittances is the drought-induced loss of income by farm families whose sons were working in the South African mines.

The crucial role in the Lesotho economy played by the flow of remittances is quite obvious. A danger is that exogenous events will cause the flow to stagnate or even decline. For example, some 6,000 Basotho jobs were initially lost as a result of the recent miners' strike, but it is believed that about half of them have been regained. In the next few years the actual number of mining jobs held by Basotho can be expected to decline somewhat as a result of greater mechanization and increased competition from South African and "homeland" labor. In itself, this is not cause for great concern. Rising wages are expected to hold the real value of miners' total earnings nearly constant over the next three or four years.

However, as one looks further into the future, two developments loom. One is probable; the other possible. The former is the probability that South African mines will absorb few of the male entrants into the growing Basotho labor force. The number of male entrants will exceed 150,000 between 1986 and 2000, but it is becoming harder for novices to be hired at the mines. The second development is beginning to be evident. The South African mining companies value the reliability and longevity of commitment on the part of Basotho miners. Over time growing numbers of experienced miners may be induced by the mining companies to bring their families and install them in company housing. Anglo-American is reported to be building 24,000 housing units. This phenomenon could cut seriously into remittances. Similarly, the skilled workers, teachers and professionals who are increasingly being drawn by high salaries to work in the "homelands" may take their families and consequently reduce remittances. This is one area where, in contrast to the mines, there is a growing market for factor earnings.

In the short run, therefore, Lesotho's ability to double its GDP by means of remittances from its nationals in the RSA and the "homelands" does not appear to be seriously threatened. Yet in the medium term it is clear that Lesotho is highly vulnerable. By reinforcing the structural adjustment process and increasing the efficiency of the domestic economy, the LAPSP will help the GOL to reduce its great dependence on the export of factors and be better prepared for an eventual downturn in remittances. At the same time, the partial or complete privatization of agricultural input distribution and services, along with inducements to greater livestock productivity, will provide new opportunities for the investment of remittance income.

2. Restrictions on Trade

Because of its geographic location, Lesotho will remain vulnerable to border closings or slowdowns affecting flows in merchandise trade. The LAPSP will help to mitigate this vulnerability by raising agricultural and livestock productivity. While Lesotho will hardly become self-sufficient as a consequence, it should be allocating its domestic resources more efficiently and be better able to withstand short-term blockages.

3. Reductions in SACU Revenue

Some reduction in revenues from the South African Customs Union should be expected after a peak is reached in 1988/89. The formulate that are used to determine member state shares give each of the three smaller countries a portion of SACU receipts equal to that nation's share of dutiable goods imported into or produced in the SACU region. During 1983/1984, for example, Lesotho produced or imported 11.1 percent of the region's dutiable goods. It received an additional 42 percent of that amount or 4.7 percent (11.1 + 4.7 = 15.8) "to counteract the disadvantages of being [a] member in a customs union with a much more developed economy, such as diminished fiscal discretion and a diminished potential for development".

A third formula stabilizes year-to-year SACU revenues to Lesotho, Botswana and Swaziland by adding one half of the difference between the product of the first two formulae (15.8 percent) and 20 percent. For 1983/1984 2.1 percentage points were therefore added to give Lesotho a 17.9 percent share of the SACU pooled receipts. If the initial result had exceeded 20 percent, the difference would have been subtracted rather than added. Since 1974, the three formulate have kept Lesotho's share between 17 and 22 percent of pooled SACU receipts.

The fact that Lesotho receives a level of revenues greater than its actual share of dutiable goods produced and imported into the customs union is clearly an "incentive" for Lesotho to maintain its SACU membership.

Recently, the RSA unilaterally reduced the size of the SACU pool of receipts by cutting rates for RSA excise taxes, which are included in the pool, while raising the rate of its own domestic sales tax, which is not. What is more, the RSA has been discussing with the other member states revision of the entire SACU agreement. Present indications are that any revisions will reduce Lesotho's share of SACU receipts toward the point where it receives no more than the equivalent of its actual share of dutiable goods.

A Central Bank forecast shows that 56 percent of government revenues in 1986/87 were obtained from SACU receipts (Central Bank of Lesotho, Quarterly Review, June 1987.) This marks an improvement from 1985/86 when the corresponding figure was 66 percent, but it is evident that the GOL needs to develop alternate sources in anticipation of eventual reduction in SACU receipts. This would be prudent even though the GOL is expected to receive the equivalent of one year's current revenue (as much as M250 million) in incremental SACU receipts between now and the mid-1990s simply from imports for the construction of the Highlands Water Scheme. From a long-term development perspective, it would be better for Lesotho to forego some revenue generated by imports for the Lesotho Highlands Water Scheme (LHWS) and encourage greater use of domestic resources instead.

What alternate source of government revenue are feasible? Income, company and sales taxes are current sources, but they supplied only 8, 4 and 17 percent of forecast 1986/87 revenues, respectively. Remittances from nationals working in the RSA are not taxed in any form at present. The domestic sales tax rate is 12 percent, which may be appropriate since it is on a par with RSA's. Rather than imposing major new forms of taxation, the GOL is being urged by the World Bank to improve and simplify its income tax system in order to enhance collection, while also increasing collection of sales tax at the border on imported goods which have been exempted from RSA sales tax. It has been suggested that miners be required to pay an appropriate lump-sum tax as they depart on a new contract, rather than having any tax imposed directly on their income.

The IMF will soon conduct a study of the revenue base to help the GOL decide how to reduce dependence on SACU receipts. Indeed, any SAF arrangement will give prominence to expanding and diversifying the revenue base while placing a tighter rein on government expenditures. The LAPSP will initially help the GOL in this effort since one component aims to raise revenues from a new source -- livestock owners who have benefitted from the externalities of open access to pasture to the point of overgrazing. The revenues from the fee will be substantial if it is effectively administered. They should fall in the M 5 to 15 million range annually. Collection of M 10 million would be equivalent to forecast revenue from the Company Tax and almost half that from the Income Tax in 1986/87. To some extent the new grazing fee may be paid, not from the sales proceeds of culled animals, but from miners' remittances. Such choices are likely to be economically irrational since the opportunity cost of drawing on remittances is apt to be higher than the return from an unproductive older animal. In fact, by creating more opportunity for the private sector in agriculture and livestock, the LAPSP should provide new ways for the profitable investment of remittances.

4. Restrictions on Lesotho's Foreign Assets

Lesotho's membership in the CMA subjects its monetary system to regulations imposed by the Reserve Bank of South Africa (RBSA). The Lesotho/RSA bilateral agreement guarantees Lesotho's access to foreign exchange from its resources with the RBSA on the best terms available to the most favored individuals or institutions in the RSA. Nevertheless, Lesotho and the RSA are not equal in the CMA. For example, the RBSA requires a 100 percent Rand reserve against the issuance of Maloti and that at least 65 percent of Lesotho's foreign exchange reserves be subject to management by the RBSA. The treaty can be abrogated only on six months' notice. Lesotho, therefore, is vulnerable to decisions by the RBSA to freeze or limit access to assets owned by the GOL but controlled by the RBSA The LAPSP is unlikely to reduce this aspect of dependency but, by helping expand Lesotho's productive capacity, it will strengthen the domestic financial system.

b. Total and Per Capita Real GDP and GNP

Even with extensive policy reforms and additional foreign assistance, Lesotho's real per capita GNP is likely to fall in the medium term. This is a relatively new development. In real terms, per capita GDP and per capita GNP both averaged 4.5 to 5.0 percent growth during the 1970s. During the 1980s, however, real per capita GDP has fallen over one percent per year, while real per capita GNP has risen just under one percent per year. The fall in growth rates has been due to drought conditions in the early 1980s, to the closing of Lesotho's diamond mine in 1982, and to economic policies that have proven to be inadequate or counter-productive, especially in agriculture.

Over the next five years, the real value of wages and salaries earned in the RSA by Basotho nationals is expected to remain constant or rise only slightly. Domestically, without major economic policy reforms, Lesotho's real GDP is projected to grow at just two percent per year. The results of the 1986 national census have revealed an average population growth rate of 2.6 percent annually since the 1976 census. This is an increase from 2.3 percent. Accordingly, two percent growth in GDP translates into a 0.5 percent per year fall in per capita GDP and a 1.5 percent per year fall in per capita GNP.

After further consultation with the IMF and the World Bank, the GOL will undertake a number of structural reforms. If successful, these reforms are expected to raise real GDP growth to 3.5 percent per year over the period 1988 to 1993. However, if earnings in the RSA are stagnant, this increase will be too small to keep real per capita GNP and real per capita private consumption from falling about 0.5 percent per year. The LAPSP is intended to mesh with the GOL's other economic reform programs and to moderate the projected decline in real per capita GNP and private consumption.

c. Labor Force and Employment

Lesotho faces the prospect of a rapidly growing labor force, limited employment opportunities in the domestic economy, little or no expansion of jobs for Basotho in the RSA, and downward pressure on domestic wages Lesotho's economically active population numbered 670,000 persons in 1986. The 1986 census also showed a population of 635,000 under the age of 15. Most of these individuals will have entered the labor force by 2000 while not all of the 204,000 persons in the 45-64 age group will have withdrawn. The prospective net growth rate of new entrants is at least 20,000 persons per year over the period from 1987 to 2000, peaking at about 25,000 in the last five years of the century.

Of the 670,000 active persons in 1986, 121,000 men were employed in South African mines, another 16,000 may be estimated to have been mine workers resting between contracts, and 18,000 were working in the RSA outside of the mines. This last figure is thought to be too low, but a more accurate one is not available. Subtraction of the mine workers and others employed in the RSA leaves an estimated 515,000 active persons. Of these, 65,000 worked in Lesotho's modern sector, and the remainder (about 450,000) worked in agriculture and the informal sector. Almost one-half of employment in the formal wage sector (48 percent) consisted of government jobs. Manufacturing accounted for a relatively small number (13 percent), while construction jobs had some significance (10 percent). Most of the remainder were in trade.

Only 12 to 15 percent of the total population in Lesotho is urban, and 60 percent of the urban inhabitants are located in the capital. The importance of remittances for the 85 percent of the population living in rural areas has been revealed by preliminary results from the Bureau of Statistic's 1986/87 household budget survey. Migrant remittances are the principal source of income for 39 percent of rural households, and 43 percent of rural households have at least one member working in the RSA. Subsistence farming, on the other hand, is the main source of income for only 28 percent of rural households. Figures on the sources of total rural income are even more striking. Migrant remittances make up 59 percent of total annual income, while subsistence farming accounts for 18.5 percent and cash cropping 6 percent. The rural population's reliance on its migrants is clear, but not all segments have benefitted.

The picture with regard to land availability and income distribution is quite uneven. On the one hand, the number of landless rural households is growing. By the 1986 census it had reached 25 percent of the total, compared to only 13 percent in 1970. On the other hand, remittances notwithstanding, many rural households have very low cash incomes. The Bureau of Statistics survey revealed that one quarter had cash incomes of less than M 50 per month and over 40 percent received less than M 100 per month. The average for rural households is M 237 per month.

Some observers believe that although there is a growing number of landless rural households, land pressure is not yet a serious problem. A Land Tenure Commission has been looking into the situation and has reported that a 1979 law which allowed leasing of land has not been invoked often. Cash-cropping farmers seeking land for asparagus, a perennial crop, seem to have found it. In other words, the safety valve of employment in the RSA has continued to work. It may be that the landless rural households live quite adequately off remittances, if not off of support from urban relatives. Jobs in the mines may become harder to get, but the employment networks running back to Lesotho's rural areas may still function well. The newer opportunities may quickly arise in the form of skilled and professional employment in the "homelands". All of this may suffice until the mid-1990s, barring any major upheavals. But the need for more productive and more remunerative jobs in agriculture and in its backward and forward linkages is apparent. A number of serious uncertainties loom outside of Lesotho's control. The Kingdom cannot wait much longer before it makes more efficient use of its domestic resources and fosters the creation of private sector employment to absorb some of the new entrants into the labor force. The LAPSP will aid in the process by encouraging employment creation in agricultural input supply and in providing incentives for increased livestock offtake and greater livestock productivity.

d. The Government of Lesotho Budget

Even with the reforms the GOL may implement, the budget deficit is projected to remain above five percent of GNP into 1989 and above four percent of GNP into 1991.

The budget deficit peaked at 9 percent of GNP in fiscal year 1981/1982 before being brought under control and reduced below 2 percent of GNP in 1984/1985. However, the deficit may again reach 9 percent of GNP during 1986/1987; and, without extensive policy reforms, it is expected to remain in the range of 8 to 9 percent of GNP during the period 1987 to 1992. If receipts from the SACU do not perform as projected, the deficit would be larger.

The LAPSP will assist the GOL in implementing economic policy reforms which will greatly reduce the role of Coop Lesotho and of the Technical Operations Unit, transfer their essential service functions primarily to private sector agents, and stem the drain that these organizations have made on the budget.

e. The Balance of Payments and Foreign Trade

According to IMF/World Bank projections, if structural measures are speedily implemented, Lesotho could achieve a viable balance-of-payments situation in the medium term. The staffs of the Fund and the Bank have projected financial gaps of SDR 3,000,000; 1,700,000 and 2,000,000 for 1987/1988, 1988/1989 and 1989/1990, respectively. These could be filled if Lesotho were to receive three tranches from the Structural Adjustment Facility arrangement now under consideration.

The Fund/Bank projections have assumed a continuation of the decline in per capita imports begun in 1983, although new figures show that imports leaped upward by almost M 100 million or 12 percent in 1986 (Central Bank of Lesotho, Quarterly Review, June 1987). The same projections also assume that both per capita GNP and private consumption will fall over at least the next five years.

Lesotho's principal foreign trade problem is its dependency on imports financed principally by worker remittances. Merchandise imports exceed GDP by 30 to 40 percent, while the value of merchandise exports is only seven percent of imports.

These large import levels have been sustained by the remittances. Since the real value of remittances is expected to hold barely constant in the medium term, this source of import growth appears to have ended.

In 1980, diamonds constituted 50 percent of the value of Lesotho's merchandise exports. The diamond mine closed, however, in 1982 and the value of diamond exports is now under M2 million per year. At the start of the 1980s, non-diamond merchandise exports were stagnant. Since 1982, their volume has grown almost eight percent per year. Such growth is essential to diversification of Lesotho's exports and to finding new means of financing imports. It is nonetheless worth noting that a significant increase of eight percent in non-diamond merchandise export revenues in 1987 would be negated by a mere 0.6 percent decline in workers' remittances.

The agricultural sector can produce both export growth and substitutes for food currently imported. Livestock offer a potential for increased exports. Livestock products - i.e. wool, mohair, hides and skins - made up 32 percent of non-diamond merchandise exports in 1981 and 50 percent in 1985. Live animal exports, however, fell between 1981 and 1985 from 4.7 to 2.4 percent of non-diamond merchandise exports. The latter decline may have been due to the uneven effects of the drought over those years, to continuous range degradation, and to lack of incentives to cull unproductive animals. As the GOL begins to implement its new livestock policy (Annex 3), the size of the national herds will be reduced, leading to increased exports of live slaughter animals and/or meat to the RSA. South African Meat Board officials state that the RSA can take all of the Grade C beef that Lesotho can export in the next three to four years, and Natal remains a good market for mutton. Subsequently, the livestock program would contribute to reversing the decline in range quality and gradually increase the number of higher quality animals available for export.

Increased food-grain production would have the immediate effect of substituting for food imports. Lesotho's three grain mills import most of their primary products from the RSA. Maseru Roller Mills, a private South African owned company which operates two maize mills and is planning a third, imports about 75 percent of its maize. The state-owned Lesotho Flour Mills imports seven-eighths of its maize and all but one percent of its wheat.

The food deficit has been aggravated by drought and population increase. Production of the three main food-grains -- maize, wheat and sorghum -- reached 130,000 metric tons in 1986, a decline from 165,000 tons in 1985. This is only about one-half of the GOL's estimate of national food-grain requirements of 313,000 tons annually. In addition to drought, the fall in domestic agricultural output has been attributed in part to land degradation, evidenced by yield declines of 4 percent per year, and in part to the effects of inappropriate government policies. Until this year policies have tended to discourage private initiative in applying more intensive farming methods to the small plots that characterize Basotho agriculture. There is a striking contrast between the vast acreage and attendant economies of scale found on South African farms a few miles away and the condition of farms in Lesotho. South African members of the Ficksburg cooperative, for example, farm spreads averaging 700 to 1,000 hectares. The average farm household in Lesotho has less than 2 hectares.

The Government's statement of 18 August 1987 on agricultural policy issues, reproduced in Annex 1, states unequivocally that land in Lesotho has been "mismanaged and abused." It points out that the "local contractor approach" -- whereby small landholders hire private tractor owners to farm land that would not otherwise have benefitted from modern inputs -- is a very positive step that should henceforth be encouraged by official policy. The Government statement acknowledges that yields in contractor schemes have been equal to or higher than those in state-subsidized programs. It notes that private contractors are more efficient than government bureaucracies, reach more farmers with modern technology than government extension agents, and use their own capital rather than being a drain on government budgets. A main objective of the LAPSP is to help the GOL carry out the steps, such as the phasing out of the Technical Operations Units of the Ministry of Agriculture, that are explicit as well as implicit in its policy statement.

II. Sectoral Assessments

a. Agricultural Input Component to Reduce System Inefficiencies and Market Distortions

Crop production and livestock enterprises provided economic activities for two-thirds of Lesotho's domestic labor force yet accounted for only 25 percent of GDP in 1985/86. This was an improvement from a low of 20 percent during the drought years of the early 1980s but far below the 38 percent contributed in 1974/75.

Lesotho's current 5-year development plan calls for increased production of basic staple foodstuffs, high value horticultural crops, livestock and forest products. The government's general plan for increasing production is to maintain traditional food production patterns, while at the same time promoting intensive agricultural production. An increasing and reliable flow of improved agricultural inputs, particularly fertilizers, pesticides, improved seeds and farm equipment and machinery, will be crucial for the achievement of these objectives.

Utilization of improved inputs in Lesotho (with the notable exception of land tillage equipment and machinery) is quite low. Statistics on pesticide consumption are not available, but fertilizer use amounted to only 11,000 tons in 1985.

The major constraints influencing use of modern agricultural inputs in Lesotho are:

1. Subsistence production systems based on low cash inputs, low labor inputs, and farmer risk-aversion strategies under conditions of highly variable rainfall.

2. Input marketing problems, including late deliveries and/or non-availability of critical inputs, lack of technical support by input suppliers, and the inappropriateness or poor quality of inputs supplied.

3. Inadequate delivery of technical advice to farmers via the government extension service and insufficient on-farm demonstration of viable and profitable technical packages compatible with the subsistence pattern described above.

4. Output marketing problems, including the lack of information on commodity prices and potential markets, high variability in seasonal product prices, and high transportation costs.

The policy reforms to be implemented with the support of the LAPSP are focused on lifting the constraints and problems noted in the second item above by facilitating the free flow of agricultural inputs to farmers through an efficient non-governmental, unsubsidized marketing system. The policy reforms will also have an impact, however, on the other constraints mentioned above.

Policy reforms which will bring into being such a privatized input marketing system have been announced by the Government of Lesotho or are presently under consideration. These are:

1. Positive support to the development of an open and competitive market for the supply of agricultural inputs.

2. The restructuring of Coop Lesotho to play the role of a true cooperative input wholesaler in competition with other private sector suppliers.

3. The withdrawal of the GOL as a shareholder in Coop Lesotho.

4. Removal of all government subsidies on fertilizers.

These policy reforms are closely interconnected and each is essential to the effectiveness of bringing about a privatized input marketing system. Although there appear to be no legal restrictions on private trade on farm inputs, such restrictions have been imposed on private traders in the past, and the perception remains strong enough among some to keep them out of this market. A clearly announced policy of open commerce in agricultural inputs will encourage these traders to move into the market again.

The phased transfer of TOU activities under the IMF PAF -- a major user of agricultural inputs -- to the private sector will result in a gradually increasing demand for such inputs as private contract operators and associated farmer groups increase in importance. The existence of a competitive privatized input market will assure input availability to these groups on a timely efficient basis.

The removal of subsidies, the withdrawal of GOL participation from Coop Lesotho and the reduction of Coop Lesotho to an input wholesaling operation are closely linked. The removal of Coop Lesotho's input retailing responsibilities presents the opportunity for a substantial increase in the numb[illegible] and distribution of sales outlets operated by general traders and cooperative groups. The removal of subsidies reinforces this development since it will eliminate the impediment that has kept many private retailers from handling fertilizer. As discussed below, a few private retailers do succeed in marketing some fertilizer despite Coop Lesotho's subsidy advantage. They do so because they have fertilizer when Coop Lesotho does not -- though on occasion they buy out Coop Lesotho's limited stock and add a slight markup -- or because they have better location and a much wider range of merchandise.

Although the price of fertilizer would be expected to rise to about M 21.00 ($10.50) or slightly higher per 50 kilogram sack, compared to Coop Lesotho's average subsidized price of about M 18.00 per sack, this should not significantly affect demand. Farmers value availability, which Coop Lesotho has not been able to assure, as shown by sales at the Phela-U-Phelise Cooperative, discussed below, which currently sells its fertilizer for M 21.22 per sack. Furthermore, there will be little opportunity for exploitive pricing of inputs, not only because of the opportunity presented by the reform for increased access of retail traders to the market, but also because of the existence of a large number of both wholesale and retail suppliers of all inputs in the RSA, directly adjacent to Lesotho's major crop producing areas.

Since all Lesotho's agricultural inputs come from the RSA, an opportunity will evolve for significantly improving the quality and availability of technical information to producers from a growing network of supplier agents motivated to increase the utilization of their products. It should be noted here that a string of active farmer cooperatives exists along Lesotho's border at Bethlehem, Fouriesburg, Ficksburg, Clocolan, Ladybrand, Hobhouse, Wepener and Zastron. The accessibility of these cooperatives to farmers in western Lesotho is clearly shown in Annex 4 Figure 4.2. All of the RSA cooperatives have long experience in dealing with Basotho farmers, traders and cooperatives, and all have expressed interest in increasing commercial relations, in conducting farm demonstrations, and in farmer and cooperative training for Basotho groups.

The proposed policy reforms can have a very positive effect on Coop Lesotho's operations. A reduced operation can enable the resolution of some of the management problems which have plagued the organization, as well as substantially reduce its operating costs. The divestment of its retail sales outlets eliminates the source of many of its financial difficulties since most of its outlets and many current product lines are loss-makers. The financial problems caused by delayed government subsidy reimbursements will be completely eliminated by the removal of the fertilizer subsidies under LAPSP and the phase out of the TOU under the IMF SAF. Finally, withdrawal of government participation presents the incentive for the restructured organization to develop its role as a cooperative institution (and its turnover) by attracting primary and secondary cooperative groups to become shareholders and customers.

The proviso that Coop Lesotho become "one input wholesaler among many wholesalers" is an important one. No useful purpose would be served by giving a restructured Coop Lesotho a monopoly on the import of agricultural inputs. This would preclude other agents from accessing alternative input sources both in Lesotho and the RSA, stifle competition, and remove Coop Lesotho's incentive to run a tightly managed, minimum cost, service-oriented organization. One model for the liberalization of input markets following the restructuring of Coop Lesotho is already evident in Lesotho. Two present competitors of Coop Lesotho are Garden Center and Agrivet, both Basotho-owned companies which serve as local sales agents for a variety of South African suppliers. The former specializes in seed, chemicals, gardening supplies and other horticultural inputs. The latter specializes in veterinary supplies and livestock feed. Both have increased their operations over the past three years and are perceived by their clients as superior to Coop Lesotho in the level of technical advice they supply.

A second model in input supply is represented by Jandrell, a large Basotho-owned general trading store in Mohale's Hoek. Jandrell deals in building supplies, furniture, household goods and a broad range of general supplies. Until 1985, it also sold fertilizers and in that year sold over 200 tons. The store dropped its fertilizer line, however, because of the fertilizer subsidy. Jandrell management stated they would again handle a complete line of agricultural inputs if it were clear there were no restrictions on their doing so and if the fertilizer subsidy were either removed or made available through them also. They also stated they were in a position to deliver inputs to villages at a very low marginal cost since they already have an organized, regular delivery service for their other items throughout the southern part of the country.

A small trader in Pitseng offers another example of the kinds of private sales outlets which could take over agricultural input retailing with the closing of Coop Lesotho's stores. The Mhapso Supermarket sells not only groceries, staples and general supplies as its names implies, but also a limited range of seeds and light farm equipment such as ox-drawn seeders, plows and harrows. The proprietor sells fertilizers when he can buy them from the nearby Coop Lesotho outlet at subsidized prices for resale at a low markup. This store also delivers to villages in the area. The proprietor would move quickly into a full line of agricultural inputs should the Pitseng Coop Lesotho outlet be closed.

A final example of the type of input market supply organization envisioned by the LAPSP already exists in the Phela-U-Phelise Cooperative. This cooperative was formed in 1984 with the support of the Hololo project. It services the input needs of 1,300 farms in a large area in the north of Lesotho from a central depot in Khukhune and 18 village sales outlets. Phela-U-Phelise is associated with Coop Lesotho, but is allowed to buy its inputs from supply agents in Bethlehem and farmer cooperatives in the RSA. Fertilizers are sold at non-subsidized prices. The cooperative is well managed and its sales agents can answer farmer questions about input use. When a sales agent cannot respond to a technical question, he refers the farmer to a regional agricultural extension officer. The system functions effectively. The cooperative's credit is good with its suppliers and inputs are bought on 30-day credit using the cooperative's own vehicles -- three, including a 10-ton truck -- bought with its own capital. When cash flow problems arise, short-term credit is available from the Lesotho Agricultural Development Bank. The GOL envisions the replacement of Coop Lesotho's retail operations not only by individual traders or trading firms but also, to the extent possible, by agricultural cooperatives along the lines of the Phela-U-Phelise model. Unfortunately, there are few such cooperatives, even in embryonic stages of development. The GOL's plans for the privatization of TOU operations also are based upon the development of farmer groups gradually evolving into true cooperatives.

The LAPSP is supportive of the GOL's objectives in cooperative development and allows for the use of Special Local Currency Account (SLCA) funds for cooperative formation, training and support. Another constraint, which may arise for small private traders, cooperatives and contractor/farmer associations, is the lack of operating and capital investment credit on terms adapted to the needs of such agents. Programs to respond to agricultural credit needs, should they arise, have also been identified as potential users of SLCA funding.

b. Livestock Management Component to Develop an Integrated Livestock Management Program and Install a National Grazing Fee System

A comprehensive policy for an Integrated Livestock and Resource Management Program requires that initiatives be undertaken in the areas of livestock production, marketing and resource management.

A National Grazing Fee to be effective will require a set of complementary actions in the livestock subsector to insure, foster and sustain commercialization of livestock herds.

The initiative to develop an Integrated Livestock Management Program, with USAID assistance is designed precisely to put in place such a comprehensive policy statement and an accompanying strategy to implement the key elements of that policy. With respect to development of the policy and implementation strategy, the GOL at the highest levels must formulate programs and discrete policy strategies in the following areas:

1. A Strategy to Correct The Current Divergence Between the Financial and Economic Rates of Return to Extensive Livestock Enterprises

In essence, Basotho livestock owners at all levels of society must be forced by the government, on behalf of the entire nation, to pay their fair share of the economic costs involved in maintaining their livestock enterprises. The most effective and equitable way of accomplishing this end is through government tax programs which effectively raise the financial costs to livestock owners of maintaining their animals to levels commensurate with the costs of the damage they are causing to the national range resource - i.e. the real costs of the induced "externality" in economic terms. In this case, the specific tax would be a grazing fee administered per head of stock owned by all livestock owners in the country. For reasons of administrative simplicity, such a tax would certainly have to be structured so as to be taxneutral with respect to owner's herd/ flock sizes.

2. A Strategy for Appropriate Land Allocation and Management Policies Which Take Into Account National Needs for Alternative Land Uses

One of the striking problems with current government agricultural policy statements, as presented for the draft Fourth Five Year Development Plan, is that all land-using activities - i.e. cropping, livestock production, forestry, recreation uses - are presented as if they can all be expanded rapidly and simultaneously. There is currently little by way of prioritization set down to govern land use patterns. These simultaneous expansions in land use obviously cannot take place in the real world and any Integrated Livestock and Resource Management Program must take strict account of the realities that the Basotho population is growing at a rapid rate and has many and often conflicting needs for land in the face of an existing resource base which is both limited and deteriorating due to present human misuse of the land.

3. A Strategy to Promote More Intensive and Productive Livestock Enterprises

It seems clear from review of existing material on livestock enterprise potentials in Lesotho that the economy, with rising population, increasing urbanization, and rising income levels, will continue to have a relatively high effective domestic demand for quality livestock products - e.g. milk, quality meats, eggs and broilers. In addition, Lesotho's unique position with respect to the Republic of South Africa gives it a considerable potential for export of live animals, meat and animal fibers to a sizeable additional market with very considerable purchasing power and current shortages in its own domestic supply system.

Any Integrated Livestock and Resource Management Program, therefore, must conceptualize and implement incentive programs to draw Basotho livestock owners out of their traditional and extensive livestock enterprises and into more intensive enterprises based on animals with higher genetic potentials maintained on improved planes of nutrition. Such programs could introduce incentives - positive and negative - to replace low quality animals with more productive breeds of dairy and beef cattle, sheep, goats, and other stock. They should also promote progressive regeneration of range resources under controlled grazing schemes and supplementary production of other animal feeds through cropping enterprises.

4. A Strategy to Remove Current Distortions in Live Animal and Livestock Product Marketing

Until recently the efficiency of the livestock marketing system has progressively deteriorated. Such deterioration has been caused in large part by government efforts to restrict all marketing activities to certain privileged - i.e. parastatal marketing channels. As a result, private traders have been progressively restricted by legislative - and/or more informal means - from participating fully and openly in live animal and livestock product marketings. The result is that the economy is deprived of many opportunities for export earnings, and domestic market demand for quality livestock products is met in large measure by imports, rather than domestic production.

To remedy this situation, an effective Integrated Livestock and Resource Management Program must be predicated on the continued elimination of all market distortions by encouraging full and competitive participation of private agents in livestock marketing, creating domestic incentives for greater local marketing of higher quality livestock products, carefully regulating import flows to initially protect intensive livestock enterprises in their development phase, and finally, promoting maximum sales into the existing export markets. The private sector must again gain confidence that the entrepreneurship will be safeguarded by explicit government policies.

5. <u>A Strategy of Extension Education to Communicate the National Livestock Development Policies and Programs.</u>

The Government of Lesotho has attempted to institute several rangelands management policies in the past. Regulations are on file, but they are not effective. This is mainly because legislation has been enacted without full participation and understanding on the part of livestock owners and chiefs. The success in implementation of a comprehensive national livestock program will depend on the support of livestock owners. Efforts to impose a National Grazing Fee will meet with limited success if livestock holders do not fully understand the goal and purposes of the program. A strategy for public education efforts must be developed that is comprehensive and exhaustive in reaching producers in a timely fashion before instituting grazing fees and curtailment in transhumance. The traditional channels of communication, chiefs and village committees, need to be studied to understand how these channels can be incorporated in the education process.

6. <u>A Strategy for Disbursement of Grazing Fees to Rural Areas</u>.

If livestock producers are expected to support a grazing fee program, then tangible benefits accruing to livestock owners and their communities <u>must</u> be realized. A mechanism will have to be instituted that allows for a majority of the funds after costs of collecting fees to be returned to local communities where they were collected. Unless this is insured, there will be difficulty in administering the collection system.

The Integrated Livestock and Resource Management Program initiative both recognizes the differential time horizons needed to affect the fundamental changes in Lesotho's existing livestock economy and proposes to attack those key deficiencies which are amenable to change in the short-term.

III. Social and Institutional Analyses

a. Socioeconomic Perspectives in Agricultural Input Distribution

An open market system for delivery of agricultural inputs offers many benefits to Lesotho. It generates competition among the suppliers at both wholesale and retail levels. This is projected to lead to lower prices for agricultural inputs delivered to Basotho farmers. Increased competition forces input suppliers to be innovative in terms of providing services and technical support to farmers to attract and retain a loyal clientele. It assures this clientele that appropriate inputs will be supplied to them on a timely basis.

Privatization of the agricultural input delivery system, however, may have some adverse effects on equitable distribution of resources, at least in the short term. Initially the flow of inputs may decline until the private sector reorganizes itself and formulates effective strategies to deal with the new GOL marketing policies and the increased role of private sector agents in input distribution. Groups which currently enjoy privileged access to the GOL input subsidies through Coop Lesotho and through the TOU may have to draw more heavily on existing family resources or borrow short term credit to meet the unsubsidized commercial costs of agricultural inputs and services.

The current lack of easily accessible capital for small local entrepreneurs risks skewing a more open input delivery system toward only large traders, unless attention is paid to opening special credit lines for these new market entrants and otherwise removing barriers to their full participation in the market. Exploitation of farmers by dishonest traders could increase during the transition period from state control to privatization of marketing, particularly in remote areas. Mitigation of this potential problem is a responsibility of government and can be accomplished through regular monitoring of all input supply outlets by the MOA staff responsible for agricultural marketing and the assessment of fines and other penalties in the case of individuals found to be cheating farmers

The privatization of the agricultural input delivery system is supported by the newly announced crop production policy of the MOA. The GOL has expressed its intention to open the market to the private sector, including cooperatives. However, local banks have not yet geared up to provide innovative credit lending with terms adapted to the specific needs of small input supply firms and farmers themselves. Even the Lesotho Agricultural Development Bank requires commercial type collateral from its customers. This lack of innovative responsiveness in the banking system, if not corrected, may have negative effects on both cooperative groups and small traders entering the input supply business. The problem can be overcome at least in part by resort to the same type of "agency system" as is practiced by RSA input suppliers. Given an open trade in farm inputs between Lesotho and RSA, the private sector in Lesotho will have to devise means of access to agency and/or credit terms with RSA suppliers, in collaboration with local correspondent banks.

The GOL has already announced its support of the policies which are necessary to liberalize the agricultural input marketing system. Implementation of these policies requires the divestiture of Coop Lesotho's retail outlets and its restructuring as a wholesaler of agricultural inputs. Wholesaling of these inputs has long been one of the organization's major responsibilities and is clearly a function which, with a tighter management, Coop Lesotho can continued to perform. Assistance to the other actions necessary to the freeing up of input markets - e.g., GOL withdrawal of its participation in Coop Lesotho, assistance to Coop Lesotho employees to find other non-governmental employment, various baseline studies, audits and appraisals - will be assisted financially through the Special Local Currency Account - or by technical assistance under contract with USAID. There appear to be no institutional impediments to the GOL's ability to enunciate its new policies, nor to plan, schedule and implement them.

The actual buying up of Coop Lesotho's retail outlets depends not upon government institutions but the evaluations, decisions and investments made by the private sector, whether private traders or cooperative organizations. As has been noted earlier, there is no lack of such private traders already established, many already trading to some extent in agricultural inputs and ready to expand their operations with an opening up of the market. Others not yet established in input trading and with access to credit are expected to move into this activity as they perceive they can profit by doing so.

Two institutional problems which may arise -- not in the accomplishment of the actions necessary for the policy reform component but associated with their implementation are:

1. The need for supervised credit programs and possibly a loan guarantee fund for agricultural input dealers -- both private traders and cooperatives -- in need of investment and operating capital; and

2. The need to strengthen the support system to farmer associations and cooperative development.

The GOL states that it would prefer to see true farmer-managed cooperatives take over as large as a number of Coop Lesotho divested retail outlets as possible and to base TOU's phase out on the development of farmers' associations.

Recent surveys indicate that the number of viable, functioning farmer-managed cooperatives is very low. At the same time, there is a fairly well-developed superstructure. Elements in this superstructure include: a long-standing cooperative law; Coop Lesotho (however restructured and still designated as an apex organization); the Department of Cooperatives, (with both regulatory and support responsibilities but lacking in resources); and, more recently, the Lesotho Cooperative College, (at present a part of the Department of Cooperatives and searching to identify its place in the system).

For the cooperative movement to grow and to play the role in Lesotho's agricultural development which the GOL envisages, a number of actions seem urgent. Many of these actions are under review at present or have been recommended -- see, for example, the Report of the First National Workshop on Cooperative Policies and Development in Lesotho of February 1987. The most important actions include:

1. Clarification of the GOL's cooperative development policy.

2. Delineation of the roles and responsibilities of the various support institutions. In this respect, it is suggested that consideration be given to assigning registration, arbitration, audit and control responsibilities to the Department of Cooperatives. Responsibility for cooperative formation, training and technical support should be assigned to the Lesotho Cooperative College -- organized as an autonomous institution.

3. Establishment of an apex organization capable of serving the entire cooperative movement. Should the Lesotho Cooperative College be established as an autonomous institution, a federation of cooperatives might be formed as an apex institution and attached to the College awaiting the time when the cooperative movement itself can support the federation.

4. Opening up share participation in a restructured Coop Lesotho to primary cooperatives.

5. Gazetting of an amended cooperative law which confirms these policies, roles and responsibilities.

6. Development of a realistic, time-phased plan for the formation of farmer associations and cooperatives and the reinforcement of potentially viable existing cooperatives, to be carried out according to the delineation of responsibilities outlined above.

7. Provision of adequate manpower and financial resources to these cooperative support institutions so they may carry out their assigned responsibilities.

8. Development and implementation of a plan for primary and secondary cooperative financial support to the Lesotho Cooperative College --if designated as an autonomous training and support institution -- based on a proportion of their turnover, with GOL support to the institution gradually phased out as the number of cooperatives and their resources grow.

Emphasis in cooperative or farmer association formation should be based upon identification of a viable economic enterprise upon which to establish a group, and a clear perception by the members of the group of this opportunity and their willingness to organize to achieve it. In this regard, the identified economic enterprise should not be limited to agricultural input supply or facilitating arrangements with contract tractor operators but should consider the entire range of possibilities open to a group, including marketing of cereal or horticultural crops, processing, savings and credit, supply of basic necessities, etc.

The LAPSP considers the development of credit to private traders and farmer groups, and the strengthening of the cooperative movement as essential parts of the effort to support the agriculture sector and to liberalize the agricultural marketplace. However, they have not been imposed as conditions precedent in the program. Nevertheless, these activities have been explicitly identified as actions which may be undertaken by the GOL in collaboration with USAID using local currency resources generated by the LAPSP.

b. <u>Socioeconomic Perspectives in the Livestock Sub-Sector</u>

Livestock are integral in the family life of the Basotho. Besides the stream of revenue and products utilized by the family, livestock are given in <u>mafisa</u> (loan) to be maintained by relations and friends. Generally, the recipients receive all the by-products from the animals, while the owner retains the right to sell and dispose of them. A system of social reciprocity is established that binds the owner and the recipient. The <u>mafisa</u> system will hinder policies to change grazing patterns and impose grazing fees. This is already happening with the current imposition of the regulation to cull off-colored sheep and goats. Even in the Sehlabathebe Range Management Area, a few cases of <u>mafisa</u> livestock from outside the grazing association are believed to be occurring.

A Basotho expression, "the cow, a god with a wet nose", emphasizes the fact that ownership of cattle is very important for economic as well as for social reasons. The implication is that even old, unproductive cows -- which are a primary target of the destocking program -- will be difficult to extract from the herd. It is possible that some livestock owners will initially take cash from other sources of family income to pay the grazing fee and continue to hold the same number of cattle. Livestock specialists in Lesotho, therefore, are currently speculating that more sheep and goats than cattle are likely to be sold in the early years of the grazing fee program.

Transhumance of livestock from the lowlands to the mountains is a long-standing traditional practice. Cattle posts in the mountains have been known to be continuously used for over 100 years by the same family. The authority to use these areas has been granted through decree by chiefs. The proposed policy to stop this transhumance of animals -- see Annex 3 -- will surely meet with resistance from livestock owners.

The successful implementation of a grazing fee system will probably depend on the involvement of the chieftaincy system. In recent years, the authority and status of chiefs have been in decline. In a recent study of grazing permits, Lawry (1987) found that in five districts surveyed only 8 percent of livestock holders secured grazing permits. This low rate of issuance of permits was caused in part by the inaccessibility of livestock owners to the Principal Chiefs. The appropriate role of the chiefs and Village Development Councils will have to be investigated before actual implementation of grazing fee collections.

Linkages between the appropriate ministries will be crucial in institutional coordination for implementation of the National Grazing Fee. With the large projected revenues to the GOL resulting from the fees, it will be necessary to ensure that a majority of the fees are returned to rural areas for economic development activities. There are no formal mechanisms at the village level to ensure that these funds will be properly used for livestock and community development projects. Development of institutional structures to assure proper disbursement and utilization of grazing fee revenues will be an important task before implementation of the grazing fee system is begun.

The implementation of a national grazing fee system will result in positive and negative benefits for different groups of people in Lesotho. Specific groups which will <u>positively</u> impacted are:

1. <u>Livestock Producers</u>

   They will benefit in the long term from a reduction of unproductive livestock from their herds. This will lead to increased productivity of their remaining livestock, largely because each remaining animal will have a proportionally larger share of available range resources for its use.

2. Crop Producers

They will experience a reduction in the rate of soil depletion and sedimentation of irrigation channels and other waterways due to the destocking of the herd forced by implementation of the grazing fee system. In the long term, this will enhance the productivity of cropland and the range resource.

3. Private Traders and Entrepreneurs

These agents, who in the past have been restricted from livestock marketing in Lesotho, will have an opportunity to participate and bring economic efficiencies to the marketplace. Increased employment opportunities will result from the GOL reform actions in opening up livestock markets and of the larger volumes of marketed livestock due to the imposition of grazing fees.

4. Urban Consumers

Consumers will benefit from greater availability of red meat products in the local markets and possibly from lower prices for these products. Lower prices should be the result of increased competition and processing efficiencies in the marketing system for live animals and livestock products.

5. The National Economy

The general economy will benefit because livestock owners through payment of grazing fees will be reimbursing the nation for the social costs involved in their utilization of the national range resource. These revenues will also be used to foster economic development in the rural areas of Lesotho. In the first year of the grazing fee program, revenues could be as high as M15,000,000. The effective implementation of an integrated national livestock development policy and the component grazing fee system will result in greater marketed offtakes of livestock, increased receipts on processed livestock products, and increased export earnings.

The groups who will be negatively impacted by the grazing fee system in the short-run will be livestock herders who have not adopted modern herd management techniques and have large numbers of old and unproductive animals in their herds and flocks. These animals will not generate annual revenues sufficient to reimburse the owner after payment of the grazing fee. Under the new grazing fee system, particularly if coupled with the curtailment of seasonal transhumance to the mountains being proposed by the GOL, livestock owners in the lowlands with large numbers of unproductive animals will be the most negatively impacted of all groups. They will have to make the greater adjustments in the size and composition of their herds and adopt more intensive livestock production technologies.

c. Women In Development (WID)

Women will be the major, if ultimate, beneficiaries of the LAPSP program. LAPSP supports the Mission's WID activities which focus on removing policy constraints to fuller participation by women in the Lesotho economy. The WID effort is centered on improvements in the agricultural sector, which is the predominant economic activity for women in Lesotho In particular, WID seeks to increase women's participation in management and decision-making, credit programs, access to land and agricultural input supply, use and conservation of natural resources, reduced dependency on imported food stuffs and increased income generating activities - all complementary to the objectives of LAPSP in promoting agricultural production and improving livestock management.

In particular, LAPSP is expected to benefit women, who are the dominant group of farmers of small land holdings and home garden plots, by increasing the availability of agriculture inputs. This will be accomplished through the removal of current constraints securing credit and to marketing of agricultural products. Women's groups using livestock products, such as mohair and leather, should also benefit from the improved quality of livestock herds, and a more regularized supply of products resulting from the culling (selling) program that the national livestock policy program will promote.

The impact of LAPSP on the WID activities will be measured through the data gathering programs of LAPIS Benchmark, LAPSP Benchmarks, and the GRAND and CID/WID data collection efforts. The Mission is now exploring development of a mechanism to regularly collect and coordinate a variety of other useful data gathered by the GOL Bureau of Statistics, Ministry of Health and other donor financed data collection schemes.

D. PROGRAM IMPLEMENTATION

I. Organizational Mechanisms for Program Implementation

Because the program focuses on actions affecting the agricultural sector, specific task forces in the Ministry of Agriculture will be primarily responsible for day to day implementation of the program. A Program Secretariat, consisting of the two man technical assistance team and supporting staff, will be established in the MOA to assist in the preparation of documentation and overall coordination of implementation. To the extent other GOL Ministries are required to effect the Program, these ministries will undertake specified actions but under the guidance of the MOP, which holds overall management responsibility for the Program. The Ministry of Planning plays a central role in Program management since it is responsible for coordinating all GOL policy initiatives. USAID exercises overall program monitoring and evaluation responsibilities as well as collaboratively reviewing and approving work plans, program status and actions proposed by the GOL. Each management level is described below.

a. Program Chairman. The Minister, Ministry of Planning and Economic Affairs, will be the authorized representative of the GOL to implement the Program. The Program Chairman (PC) will periodically:

1. Jointly consider with USAID the state of advancement of the LAPSP and approve the documentation required to pass from one phase of implementation of a component to the next.

2. Jointly consider with USAID proposals for the use of funds in the Special Local Currency Account. These proposals will have been approved and transmitted to the PC by the Program Coordination Committee.

3. Jointly resolve with USAID any problems of program implementation which have not been resolved at the level of the Coordination Committee.

4. Make recommendations to the Director, USAID, and the GOL on future actions.

b. Program Coordination Committee (PCC).

The Principal Secretary of the MOP will chair a committee composed of the P.S.'s of the Ministries of Agriculture, Finance, and other specifically identified GOL officials who are directly concerned with a policy action under review, and the USAID Program Officer. The PCC which will meet periodically to:

1. Review progress in implementing the Program, including any problems affecting program implementation requiring resolution by the Program Chairman or USAID;

2. Consider the state of advancement of the Program and approve documentation required to pass from one phase of implementation to the next;

3. Consider proposals for using funds from the Special Local Currency Account, including suggestions from the Task Force Committees.

c. Component Task Forces. The Principal Secretary of the Ministry of Agriculture (MOA), will chair task force committees concerned with the Coop Lesotho (the agricultural input supply reform component) and Livestock (the livestock sub-sector reform program) Program Components. These two committees are each responsible for the day to day implementation of the Program. USAID will be represented at the CTF level by the USAID Program Manager.

The CTFs will be standing committees constituted for the life of the LAPSP. With the PCC they will be responsible for overseeing the day-to-day implementation of the agreed-upon reforms under the LAPSP. The PCC/CTF's will also bear primary responsibility for the design and execution of all short-term studies and other support activities directly funded by the LAPSP.

In their respective domains, the CTFs will consider and prepare proposals for the use of funds from the Special Local Currency Account. As it deems appropriate, the full PCC will recommend such proposals for approval by the PC and Director/USAID.

d. The USAID Mission (USAID)

The USAID Program Officer and the LAPSP Program Manager in USAID's Agricultural Development office, as well as the two members of the Secretariat will serve on the PCC and one or both of its Component Task Forces. The respective roles of these individuals should be clear in advance. The USAID Program Officer and Program Manager should be expected to represent the interests of USAID on the PCC and the Task Forces. They will report to superiors in the USAID Mission on the progress and on the problems of the LAPSP as they come to the consideration of the Committee and the CTFs.

In addition to the roles for specific USAID Mission personnel enumerated above, other Mission staff will necessarily provide essential support services during implementation of the LAPSP. Support of a program nature will include, as needed, counselling from the Program Economist on AID program issues and the Controller on funding availabilities; technical advice from the ADO staff on implementation of specific studies; and, close collaboration between the USAID Program Manager and the LAPSP technical assistance team.

e. <u>The Secretariat: Technical Assistance (TA) Team</u>

The resident technical assistance team, comprising the Secretariat should be considered as working primarily with the GOL. The Secretariat will be attached to the office of the Principal Secretary, MOA. They will:

1. Help to implement the LAPSP, to monitor its progress, and to document for USAID the GOL's compliance with the various conditions for the disbursement of funds.

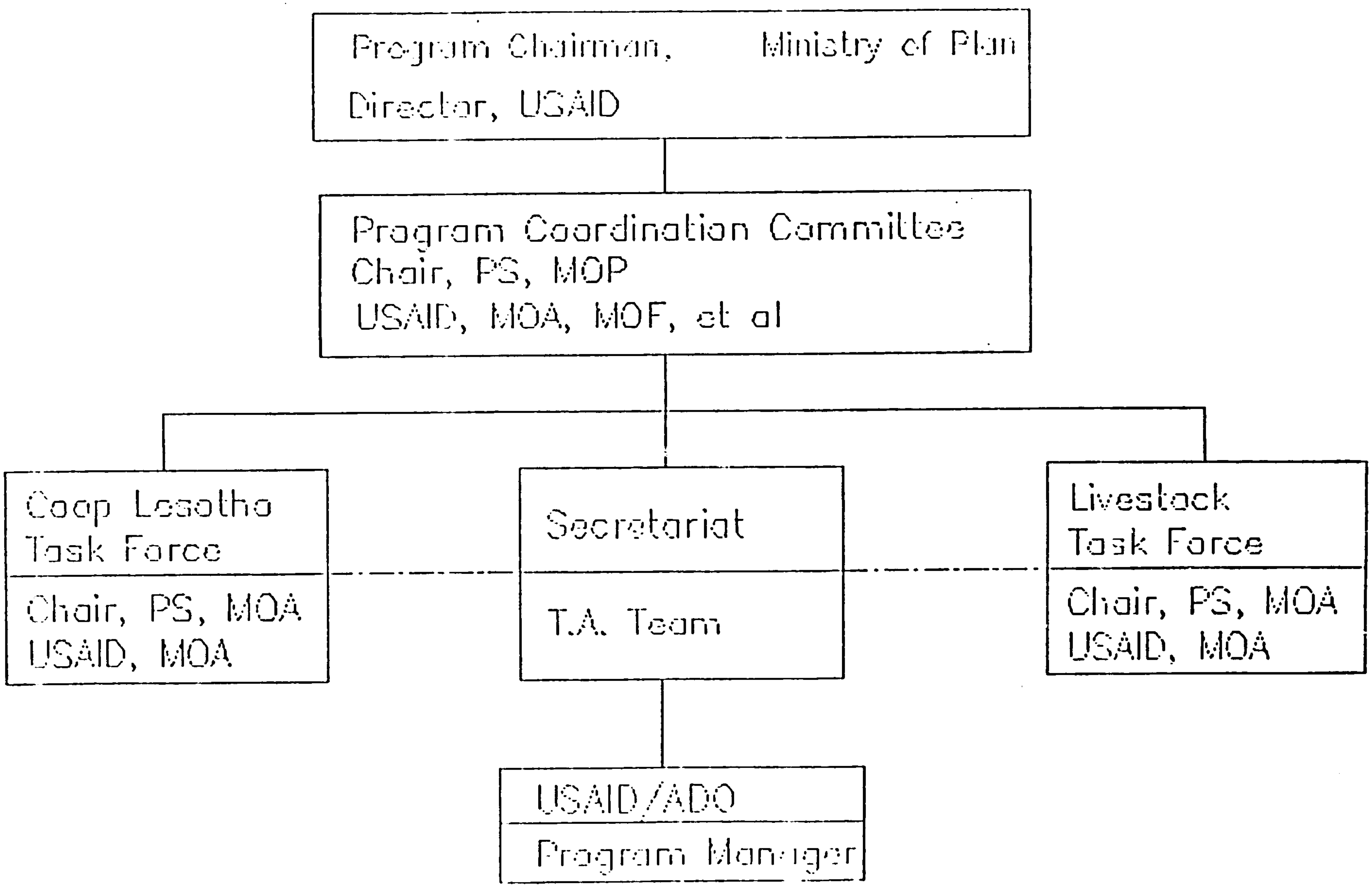
2. Help to work out the uses to which the funds in the Special Local Currency Account will be put so that proposals may in good time be submitted to and approved by the PCC.

3. Be responsible, with ministerial colleagues, for monitoring the uses of these counterpart funds on behalf of the GOL and for helping to prepare periodic reports on expenditures for GOL approval and submission to USAID as required by the Program Agreement.

4. Advise and assist when called upon on any implementation, developmental or technical aspect of the agricultural input distribution or livestock management components.

Support of an administrative or logistical nature to the Secretariat from the Mission will be limited. It will initially be focused on selecting a contractor and negotiating a contract for technical assistance and for the LAPSP studies enumerated in Section E.III.c. The contractor will provide virtually all logistical support for his personnel and for the conduct of the studies. The contractor's support will include office space, supplies and equipment, vehicles (purchased and rented), vehicle maintenance and repair, housing and furnishings. The Mission will provide usual pouch and health room facilities. There will also be routine vouchering, accounting and financial services required from the Mission Controller.

LAPSP Management Structure



II. Program Monitoring Information System

a. General Oversight System

The Ministry of Planning will be responsible for monitoring overall performance by Government in implementing the LAPSP and expending funds from the Special Local Currency Account. To assist the MOP in this responsibility, the Secretariat attached to the office of the Principal Secretary in the Ministry of Agriculture will prepare reports on a quarterly basis, or at such times as may be requested, on the status of actions being taken under the agricultural input and livestock policy component reforms, including progress in complying with the conditions precedent for individual phases, financial information on expenditures, any problems being encountered, and any other data deemed pertinent by USAID or the MOP. The form and substance of these reports will be mutually agreed to by USAID and the MOP in a separate program implementation letter. In preparing the quarterly reports, the Secretariat will coordinate information from the CTF's and other offices and Ministries directly involved in the action under review; the Secretariat will then forward draft reports to the P.S. MOP for clearance prior to distribution to USAID and other participants.

Any significant issue or problem will be promptly reported by the Secretariat to the MOP and to USAID. Significant issues/problems will be simultaneously reviewed by the CFT's and PCC and those groups will submit recommended actions to the PC and Director/USAID for joint review and decision. For routine matters, the Chairman of the CTF's, at such time as he, the MOP or USAID may determine necessary, will prepare recommendations for the Program Coordination Committee. The PCC will review the recommendations and will submit a plan of action for joint review and approval by the Program Chairman and Director/USAID

In the monitoring and reporting area, the Secretariat will work closely with the Agriculture Office/USAID. The Secretariat will be specifically required to undertake the following:

1. Identify relevant data to be used in the evaluation and determination of progress made in the implementation of the policy reform program;

   a. "Relevant Data" will include the following potential impact indicators:

      - the price of fertilizer prior to and after the removal of GOL fertilizer subsidies;

the availability of agricultural inputs, including fertilizer, to the private commercial sector prior to and after the removal of GOL fertilizer subsidies;

- the use of fertilizer by farmers prior to and after the removal of GOL fertilizer subsidies;
- the level of GOL subsidies to the operation of Coop Lesotho prior to and during the plans for GOL divestiture of ownership of Coop Lesotho;
- the bids for and awards of ownership shares of Coop Lesotho holdings which are divested by the GOL;
- the numbers and salaries of Coop Lesotho personnel to be actually affected by GOL divestment actions, together with listings of placement for such personnel after divestment;
- the numbers of livestock under the national inventory system, identified by Range Management association prior to and during implementation of the national livestock grazing fee system;
- the size and location of grazing areas prior to and during implementation of the grazing fee system;
- the amounts of and uses for the grazing fee allocations returned to Range Management Associations;
- the allocations of GOL funds for range management improvement prior to and during implementation of the national grazing fee system;
- the number of livestock at the national feedlot and abattoir prior to and during implementation of the national grazing fee system, and,
- the number and types of livestock exported from and imported into Lesotho prior to and during implementation of the national grazing fee system.

2. Collect the data considered above;

3. Prepare reports to be used in the review, assessment, and determination of whether conditions precedent have been satisfactorily met;

4. Prepare terms of reference for necessary policy studies, and promote policy debates, seminars, and workshops in order to increase the awareness of the significance of appropriate policy framework;

5. Provide continuing analysis and evaluation, at the end of each phase under each policy reform component, of the effects of the completed policy changes on resource allocation, government finance, and agricultural productivity;

6. Following the analysis and impact evaluation, make recommendations as to the need to modify the policy reform targets and to mitigate any unforeseen negative effects of the policy changes;

7. Identify training for transferring skills in economic policy analysis, formulation, and monitoring to Basotho counterparts; and

8. Prepare required reports for both the Government of Lesotho and for USAID.

b. USAID Monitoring System

The USAID Program Manager and Program Officer will, by membership on the CTF's and the PCC's, monitor day-to-day implementation of the program, progress on meeting the conditions to the release of funds, and progress of the studies and actions jointly agreed to by the PC and Director/USAID. The Program Economist will monitor the overall impact of the program policy reforms on the agricultural sector and the Lesotho economy by reviewing reports from the Secretariat, data from the LAPIS Benchmark surveys and from the Central Bank. Semiannual Project Implementation Reports on the Program will be submitted to AID/Washington.

c. Monitoring Specific Indicators of Performance

The specific verifiable indicators of policy change under each of the two components are listed in the attached table (following pages). Progress towards meeting each of the verifiable indicators will be reported by the CTF's to the Secretariat for inclusion in the quarterly reports prepared by the Secretariat for the MOP and subsequent distribution. On fulfillment of the conditions signifying completion of a phase to permit disbursement of funds, the Secretariat will also promptly advise the P.S MOA, P.S. MOP and USAID and, will prepare a recommendation for such disbursement of funds for review and approval by the CTF's, Program Coordination Committee (PCC) and by the Program Chairman and Director/USAID.

POLICY REFORM	VERIFIABLE INDICATOR	MEANS OF VERIFICATION
Agricultural Input Component		
PHASE ONE		
Government support for and facilitation of the development of an open and competitive market for the supply of agricultural inputs.	(1) Appropriate modification or revocation of legislation limiting private sector ability to freely market and distribute agricultural inputs on a competitive basis.	(1) Review of legislation and gazette.
	(2) Government publication of a policy statement which will clearly allow private sector entities to freely market and distribute agricultural inputs in Lesotho on a competitive basis.	(2(a) Review of GOL policy and copy of publication. (2(b) Survey indicating increased availability of ag. inputs in private suctor, including fertilizer.
Government development and approval of an implementation plan for and commencement of implementation of its announced commitment to the progressive removal of all subsidies on fertilizers starting with the 1988-89 crop season.	(1) Acceptance by the Program Coordinating Committee (PCC) and the Program Chairman (PC) of an implementation plan and schedule for the phased elimination of fertilizer subsidies, including provision for semi-annual progress reports.	(1) Review of implementation plan PC acceptance of document.
	(2) GOL commences implementation of a plan to eliminate fertilizer subsidies.	(2) Review MOA instructions/guidance to initiate fertilizer subsidy removal.
PHASE TWO		
Progressive divestiture by Coop Lesotho of its retail sales outlets and lock-up stores to private sector input suppliers, including primary and secondary cooperatives, private sector input suppliers and general traders, with the objective of reducing Coop Lesotho's role to that of a true cooperative wholesaler in competition with other private sector suppliers.	(1) Completion and publication of a GOL-approved study covering flows, sources of supply and major input purchasers.	- Review published study.
	(2) Submission and acceptance by the PCC of an appraisal of Coop Lesotho assets by an independent accounting firm.	- Review appraisal study and a PCC recommendation to accept appraisa
	(3) Acceptance by the PCC of an audit by an independent accounting firm and issuance of a report thereunder	- Review audit report and a PCC recommendation to accept.

POLICY REFORM	VERIFIABLE INDICATOR	MEANS OF VERIFICATION
	reconciling government accounts with Coop Lesotho and Coop Lesotho's outstanding debts, the audit to be completed no later than 31 March 1989.	
	(4) Submission to and acceptance by the PCC by the Ministry of Agriculture implementation plan and schedule for the disposal of Coop Lesotho assets. This plan must include a listing of planned divestiture actions under three categories:	- Review published plan for divestiture of Coop assets and PCC recommendation to accept.
	-- Those assets to be sold outright to private sector agents.	
	-- Those assets to be sold under lease/purchase arrangements to local cooperatives.	
	-- Those assets which the GOL will withdraw from Coop Lesotho and retain for its own use.	
	(5) Acceptance by the PCC and PC of copies of bills of sale for those assets sold outright during Phase Two and documentation establishing proof of irrevocable lease/purchase arrangements with cooperative organizations. A minimum of 14 retail sales outlets identified by the IFAD study as "non-viable" and 20 unused lock-up stores must be disposed of in Phase Two.	- Review copies of bills of sale for Coop assets.
	(6) Issuance by the Ministry of Agriculture of a statement certifying (i) the amount of the net proceeds realized from the outright sale and lease/purchase of Coop Lesotho assets and (ii) the fair market assessed value of assets retained by the government.	- Review MOA certification letter.
Establishment by the GOL of a program to ease the transition of redundant Coop Lesotho personnel into other employment.	(1) Acceptance by the PC of a GOL plan for severance pay for Coop Lesotho staff whose posts have been abolished, with proposed	(1) Review compensation program for Coop Lesotho personnel and PCC acceptance.

POLICY REFORM	VERIFIABLE INDICATOR	MEANS OF VERIFICATION
	levels of compensation by grade. The plan must include payment transfer procedures and total local currency requirements for the compensation program.	
	(2) Release of redundant Coop Lesotho personnel from retail outlets/lock-up stores sold and from central operations supporting those operations.	(2) Review employment/payroll records of Coop Lesotho.
Implementation of the first phase of the plan to eliminate fertilizer subsidies.	(1) Publication of GOL policy establishing first phase of plan to eliminate fertilizer subsidies.	(1) Review of GOL policy document published in Gazette.
	(2) Guidance issued by MOA on new fertilizer subsidy rates.	(2) Instructions by MOA to Coop Lesotho's/DAO's.
	(3) Actual reduction of GOL fertilizer subsidies in accordance with the phased plan.	(3) Records/surveys of Coop Lesotho fertilizer prices.
	(4) Availability of fertilizer to private retailers for sale.	(4) Survey of private sector ag. input suppliers.
PHASE THREE		
Completion of the divestiture of Coop Lesotho's retail outlets and lock-up stores.	(1) Acceptance by the PCC and PC of copies of bills of sale and/or documentation of lease/purchase arrangements for the remaining Coop Lesotho retail sales outlets and lock-up stores.	(1) Review of Bills of Sale and PC acceptance.
	(2) Issuance by the Ministry of Agriculture of a statement certifying (i) the amount of the net proceeds realized from the outright sale and lease/purchase of Coop Lesotho assets (ii) the fair market assessed value of assets retained by the government.	(2) Review MOA statement.
Complete withdrawal of the GOL as a shareholder in Coop Lesotho.	Issuance of a statement by the GOL officially announcing its surrender of all shares in Coop Lesotho following a buy-out of its shareholdings.	Review of GOL statement. Review of GOL estimated and actual budgetary outlays for current and next FY.

POLICY REFORM	VERIFIABLE INDICATOR	MEANS OF VERIFICATION
Implementation of the final phase of the plan to eliminate fertilizer subsidies.	(1) Publication of GOL policy establishing the final phase of the plan to eliminate fertilizer subsidies.	(1) Review of GOL policy statement.
	(2) Guidance by MOA on eliminating fertilizer subsidies.	(2) Review of MOA guidance.
	(3) Implementation of the final pahse of plan to end fertilizer subsidy with evidence that there are no government outlays for fertilzer subsidy.	(3(a) Review of Coop Lesotho records. (3(b) Review of GOL estimated and actual budgetary outlays in current and next FY.
	(4) Fully privatized and unsubsidized fertilizer distribution system.	(4) Survey of private sector ag. input suppliers.
Livestock		
PHASE ONE		
The prepartion by the MOA and approval by the GOL Cabinet of a comprehensive implementation plan for the National Livestock Development and Resource Management Policy enunciated in September 1987. The policy implementation plan must cover the areas of resource management, livestock marketing, and livestock production and animal health.	(1) A written plan by the MOA for implementation of the National Livestock Development and Resource Management Policy.	(1) Review of implementation plan.
	(2) Ministry of Agriculture approval of livestock policy implementation plan; and the date upon which approval is granted.	(2) Review of MOA approval of implementation plan.
	(3) A Cabinet decision number and date for acceptance of the National Livestock Policy and the implementation plan, and corresponding Military Council record.	(3) Copy of Cabinet and Military Council approval documentation; review of gazette.
PHASE TWO		
The design and approval by government of an implementation plan for and completion of all preparatory steps toward installation of a national grazing fee system.	(1) Gazetting of National Grazing Fee Regulations.	(1) Review of gazette.
	(2) Submission by the Ministry of Agriculture and approval by the PPC and PC of a comprehensive implementation plan for installation of a national grazing fee system.	(2) Review of implementation plan and PC approval.

POLICY REFORM	VERIFIABLE INDICATOR	MEANS OF VERIFICATION
	(3) The completion of a national livestock inventory as a preparatory step in assessment of grazing fees and the installation of relevant data on grazing fee computer programs.	(3) Review of inventory.
	(4) Completion in all districts of the initial extension information campaign for the national grazing fee system.	(4) Review of MOA records.
	(5) Written protocol in place between MOA and MOI regarding grazing fee collection and procedures.	(5) Review of protocol.
	(6) Establishment, definition of duties, staffing of and personnel training for MOA national grazing fee administrative unit completed.	(6) Review of MOA records and instructions.
	(7) Approval by Cabinet and Military Council of creation or identification of appropriate institutional structures to assure proper disbursement and utilization of grazing fee revenues. Approval by GOL and USAID of criteria for local community use of grazing fee revenues.	(7) Review of Cabinet/Military decision.
	(8) Completion and acceptance by Principal Secretary and Ministers of Agriculture and Ministry of Interior's Chieftainship of final design of grazing fee collection processes.	(8) Review of final design and GOL acceptance.
Restructure and broaden the system of livestock marketing in Lesotho to allow for:	(1) Repeal of all existing legislation which hinders the full participation of private sector agents in all stages of livestock marketing.	(1) Review gazette and legislation.
(1) Greater private sector participation in all phases of livestock marketing;	(2) The gazetting of meat hygiene regulations for the National Abattoir.	(2) Review gazette.

POLICY REFORM	VERIFIABLE INDICATOR	MEANS OF VERIFICATION
(2) A larger volume of exports of live animals and livestock products to the RSA;	(3) The institution of a weekly radio marketing news service to provide information on prevailing livestock prices, livestock sale dates and sites.	(3) Review radio logs and radio programs.
(3) A greater degree of NAFC utilization as demonstrated by increased numbers of local livestock products handled.	(4) The presentation of documents to the PCC demonstrating successful certification of a National Abattoir for export of meat products to the RSA (or submission of a GOL statement documenting RSA refusal to grant certification for other than technical reasons).	(4(a) Review certification. (4(b) On site inspections.
	(5) The presentation of documents to the PCC which establish that the GOL has separated the business accounts of the Feedlot Complex from the National Abattoir and reoriented the operations of the operations of the Feedlot Complex from a commercial feedlot to primarily that of a holding ground for cull animals from the national range destocking program and fattening only when financial feasibility can be demonstrated.	(5(a) Review Feedlot and abattoir financial records. (5(b) On site inspections.
	(6) Increased volume of local livestock products processed by NAFC.	(6) Review abattoir records.
PHASE THREE		
Implementation of the first year of operations, including the collection of grazing fees and allocation of grazing fee revenues, under the national grazing fee system.	GOL presentation of detailed records and accounts of: the total grazing fee receipts in the first year of system operations; the administrative costs incurred in implementing the system; and the disposition of all receipts disbursed by the GOL, including those to local communties for development activities. This presentation to be accompanied by a detailed report of the problems encountered, the estimated impacts	(1) Review of MOA and RMA records and MOA reports from DAOs. (2) On site inspections. (3) Periodic surveys to supplement and update national livestock survey.

POLICY REFORM	VERIFIABLE INDICATOR	MEANS OF VERIFICATION
	of the grazing fee system on livestock offtake and animal owners incomes, and development activities implemented by local communities using grazing fee receipts.	
PHASE FOUR		
Implementation of the second year of the national grazing fee system.	GOL presentation of detail records and accounts of: the total grazing fee receipts in the second year of system operations; the administrative costs incurred in implementing the system; and the disposition of all receipts disbursed by the GOL, including those to local communities for development activities. This presentation to be accompanied by a detailed report of the problems encountered, the estimated impacts of the grazing fee system on livestock offtake and animal owners incomes, and development activities implemented by local communities using grazing fee receipts.	(1) Review of MOA and RMA records, and MOA reports form DAOs. (2) On site inspections. (3) Periodic surveys to supplement/ update national livestock survey.

d. Monitoring Local Currency Utilization:

GOL Maloti deposits in the two special local currency accounts will primarily be used in support of the policy reforms to be undertaken under the program. The respective roles of the GOL and USAID in administering and implementing the local currency program are more fully described in Section D.I. above. However, it should be noted here that the Director/USAID will jointly approve with the Program Chairman the uses to which disbursements of local currency funds will be made. The grant agreement will include a condition precedent to disbursement of local currency which state, in substance, that no funds shall be released from the Special Local Currency Accounts until criteria and procedures for approving allocations to projects or activities determined to be eligible recipients of local currency financing have been mutually agreed to in writing by the GOL and USAID. In addition to the general criteria established for the priority uses of local currency set out above, these criteria will include:

- The proposed activity has a management structure adequate to ensure timely and efficient implementation;

- Adequate monitoring mechanisms exist to ensure appropriate use of the funds;

To assure effective use of the local currency funds, USAID, in collaboration with the GOL, will institute mechanisms for periodic monitoring of the expenditure of funds. Such mechanisms will include requirements that reports prepared by the Secretariat include an expenditure of funds status analysis, that recipients of local currency funds maintain adequate financial books for inspection by USAID and the GOL, and that the periodic audits conducted by the GOL include a review of the use of these funds.

e. The Frames and Actions Required to Implement Policy Reforms:

Generally, nine to thirteen months are required to complete each of the component phases under both policy reform programs. However, specific time frames for each phase are not possible to identify because the actions under each phase will vary in time to complete since each are of differing complexity. While the two components will be implemented simultaneously, it is expected that the Agricultural Input Component will be completed before the Livestock Management Component.

The actions required to complete each policy reform are set out herein as "verifiable indicators". Each indicator will be monitored through its completion.

III. Procurement of Goods and Services under Projectized Component

a. DFA Procurement Plan

Goods and services financed with appropriated funds will be provided only under the $2.25 million projectized component of the program, for administration and management of the program. Additionally, GOL-owned Maloti deposits will finance the procurement of goods and services in support of program policy reform implementaion, following GOL procurement regulations.

Since the $2.75 million of appropriated funds is from the Sub-Saharan Africa, Development Assistance (DFA) appropriation, pursuant to a memorandum approved by AA/AFR on April 1, 1988 entitled "Establishing Special Procurement Policy Rules Governing the Devclopment Fund for Africa (DFA)" (the "DFA Procurement Plan"), Administrative Recommendation No. 3, the authorized geographic code is Code 935. However, Administrative Recommendation No. 2 of the DFA Procurement Rules also requires that in connection with each project paper or PAAD, a Mission develop a procurement plan designed to maximize procurement from the United States. In accordance with the Africa Bureau Instruction on Implementing Special Procurement Policy Rules Governing the Development Fund for Africa (DFA) Rules, approved by AA/AFR on April 4, 1988 (the "DFA Instruction"), p.3, virtually all long-term technical assistance is expected to be of U.S. nationality, as defined under existing rules. Thus, the two long-term personnel assigned to the MOA Secretariat ($1 million) will be of U.S. nationality and hired from the United States. Similiarly, of the personnel assigned to the USAID Management Team, the program economist ($140,000) will be of U.S. nationality, while the program manager ($400,000) and secretarial support ($20,000) will be of U.S. or host country nationality. The personnel assigned to the USAID Management Team will be hired locally.

Goods and services will be procured only under the projectized component of the Program.

GOL Maloti deposits will finance the procurement of goods and services in support of program policy reform implementation, following GOL procurement regulations. USAID project funds (Dols 2.25 million) will finance goods and services for administration and management of the program, following AID procurement regulations. Studies and short-term technical support will be of Lesotho or 899 source and origin. The total value of goods procured under the Program will remain small since most of the procurement will be for studies and short-term technical assistance to implement the program. Nevertheless, the majority of goods that will be procured will likely be of USA or 935 origin and of Lesotho source, while a small variety such as typewriters and other office equipment may be of 899 source and origin.

It is not planned that any ocean or air shipments of goods will be undertaken. Some limited air travel for the technical personnel will be required, such as travel to post, R&R, and Home Leave. To the extent USA air carriers provide these services, USA air transport services will be used, in accordance with Operational Recommendation No. 2 of the DFA Procurement Rules.

b. <u>USAID Procurement Responsibilities and Procedures</u>

Using project funds and following AID competitive procurement procedures, USAID will contract for the three individuals assigned to USAID and for the two technical personnel assigned to the MOA Secretariat. Personal Services Contracts will be negotiated for personnel hired for the USAID Management Team, and these individuals will be hired locally. Individuals who will form the Secretariat will be obtained through PSC's or through institutional contracts, whichever is most appropriate, since these two advisors will be hired from the United States. USAID will also contract locally for special studies and logistical support for the technical teams using informal competitive procurement procedures or purchase orders for small value items.

c. <u>GOL Procurement Responsibilities and Procedures</u>

All program procurements to be undertaken by the GOL will be financed with GOL owned local currency deposited in the Special Local Currency Account. Therefore, such procurements will not be subject to AID procurement regulations and, accordingly, will follow GOL procedures. The Secretariat will, on behalf of the GOL, contract for special studies, audits and actions called for in implementing the policy reforms under the Program.

ILLUSTRATIVE PROCUREMENT PLAN

GOODS/SERVICES	QTY	EST LOP COST (DOLS 000)	SOURCE	NATIONALITY ORIGIN	DATE	WAIVERS	COMPETITION	ACTION
1. USAID Management Team								
Program Economist	1	140.0	Lesotho	U.S.	6/88	Yes(a)	No	USAID
Program Manager	1	40.0	Lesotho	Lesotho	6/88	No	Yes	USAID
Secretary	1	20.0	Lesotho	Les/935	6/88	No	Yes	USAID
2. USAID Program Logistical Support								
Typewriter	1	.5	RSA	RSA	6/88	No	No	USAID
IBM Computer	1	4.0	Les/RSA	RSA	6/88	No	Yes	USAID
Desks	3	1.5	RSA	RSA	6/88	No	No	USAID
Vehicle (4 WD-RHD)	1	30.0	RSA	Japan/RSA	6/88	No	No	USAID
Supplies (paper, etc.)		4.0	Lesotho	RSA	6/88	No	No	USAID
3. Contingencies		260.						
4. USAID Studies								
Baseline Survey-Inputs	1	100.0	Lesotho	Lesotho	8/88	No	Yes	USAID/MOA
On-going Data Collection	1	100.0	Lesotho	Lesotho	2/89	No	Yes	USAID/MOA
Baseline Survey-End	1	100.0	Lesotho	Lesotho	5/93	No	Yes	USAID/MOA
Evaluations	2	100.0	U.S.	U.S.		No	8(a)/IQC	USAID/MOA
5. Secretariat								
TA	2	1,000.0	U.S.	U.S.	6-7/88	No	Yes/CBD	USAID
Logistical Support								
IBM Computer	1	4.0	Les/RSA	RSA	8/88	No	Yes	MOA
Typewriter	1	.5	Lesotho	RSA	8/88	No	No	MOA
Secretary	2	40.0	Lesotho	Lesotho	8/88	No	Yes	MOA
Supplies		5.5	Lesotho	RSA	8/88	No	No	MOA
Vehicles (RHD)	2	50.0	RSA	Japan/RSA	8/88	No	Yes	MOA/USAID
6. Program Studies								
Legal Assistance	1	75.0	Lesotho	Les/935	12/88	No	Yes	MOA/USAID
Appraisal Coop L	1	75.0	Lesotho	Les/935	2/89	No	Yes	MOA/USAID
Computerized System National Grazing Fee	1	100.0	Lesotho	Les/935	2/90 6/91	No	Yes	MOA/USAID

(a) Requires sole source waiver

METHODS OF IMPLEMENTATION AND FINANCING

CATEGORY	METHOD OF IMPLEMENTATION	METHOD OF DISTRIBUTION	AMOUNT U.S. $ (000)
Non-Project Asst. Sector Assistance	Prj. Agreement	Direct	12,750
Project Asst. TA - Long-term	Direct AID Contract	Direct Payment	1,200
Studies/Evaluations	Direct AID Contract	Direct Payment	650
Log Support	Direct AID Contract Purchase Order	Direct Payment	140
Contingencies/ Inflation	As Above	As Above	260
			2,250
Total			15,000

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IV. ILLUSTRATIVE IMPLEMENTATION SCHEDULE	TIMING	ACTION
1. AID/Washington approves/USAID authorizes	May 88	AID/W
2. Grant Program Assistance Agreement (GPAA) finalized	May 88	USAID
3. GPAA signed by USG and GOL	Jun 88	DIR
4. USAID contracts for technical assistance personnel	Jun 88	USAID
5. All initial CP's are satisfied for first disbursement	Jun 88	PC/USAID
6. CP's for phase one satisfied	Oct 88	PCC
7. Financing request countersigned by USAID/DIR	Oct 88	PRM
8. Financing request cabled to RMC/Paris	Oct 88	PRM/CONT
9. Funds transferred from RMC/Paris to USAID; GOL deposits Maloti equivalent into account at Central Bank Lesotho (CPL) and USAID transfers Dollar check	Oct 88	AID/W(FM)
10. Agreement on use of phase one LC generations	Dec 88	PC/USAID
11. Mission Director confirms by letter to release LC generations from special accounts.	Dec 88	USAID
12. USAID receives copy of transfer order to confirm that LC generation were allocated as agreed	Dec 88	CBL/MOP
13. USAID monitors/evaluates policy actions and local currency utilization		PRM/ADO

Steps 5 through 13 will be repeated for all remaining tranches.

V. EVALUATION PLAN

The evaluation plan will assess the program's progress in accomplishing its purpose and offer opportunities to re-evaluate the assumptions and underlying analysis upon which the program is based. Two evaluations are scheduled for this program. The initial evaluation will take place when the first phases of both components have been completed. End-of-program impact evaluation is scheduled six months after the program activity completion date. These evaluations will supplement the annual review and assessment between senior Government of Lesotho officials and AID management. A total of up to $150,000 is budgeted for the two evaluations.

A baseline/benchmark survey will be completed at the beginning of the LAPSP to identify more precisely the indicators of performance to be measured throughout the program and evaluated. The benchmark survey will include impact indicators, on both a micro and macro economic level.

The initial evaluation will focus on the implementation of policy reforms, the use of local currency, and other appropriate administrative and management matters. The evaluation will assess the achievement (or failure) in carrying out the scheduled policy changes, and the management and use of local currency. It will identify the reasons (or problems) for the program's achievement (or failure), and propose appropriate means for continuing the successful activity(ies) and propose measures to correct the problems identified. Recommendations from the initial evaluation outcome will be a critical input for improving the program implementation or for revising the program implementation plan.

The end-of-program or impact evaluation will assess the contribution of the program to the Government of Lesotho's goal of increasing productivity, and thereby production, in agriculture and livestock and the strengthening of its infrastructure and institutional bases in promoting the adoption of agricultural innovations as well as its impact on government finance, balance of payments, and other macroeconomic factors. Since changing the policy environment is only one of the contributing factors in productivity increase and growth in the sector, the direct impact of the program must be viewed from the point of view of how the program contributes to an improved resource allocation and the ability of the government to sustain and continue development activities in the sector, and avoid the stop-go phenomenon at a time of declining public sector resources. Furthermore, it is possible that it may be too early to evaluate the impact of policy changes on productivity and growth. The evaluation will also assess the ability of the Lesotho Government to implement difficult policy changes, its policy/analytical capability in the sector, and its administrative, political, and organizational constraints and strengths to carry out a program of policy reforms. The lessons learned from this evaluation will provide the basis for AID's future decision in the type and form of assistance for the sector.

VI. AUDIT PLAN

The Central Bank will assure that the Maloti funds deposited by the GOL into the Special local currency accounts for the LAPSP program will be disbursed only upon mutual agreement between AID and the GOL and only for mutually approved uses. Following release of funds from the Special Account, USAID will receive a copy of the transfer order showing to whom transfers were made.

Books and records related to the LAPSP activities will be audited regularly by an independent accounting firm under a contract with GOL, in accordance with generally accepted auditing standards, and maintained for at least three years.

E. PROGRAM FINANCIAL PLAN

I. Type of Assistance Proposed

This $15,000,000 grant program consists of $12,750,000 in the form of dollar disbursements under the program assistance component and $2,250,000 in project assistance, in support of GOL policy reform efforts.

Of the $12,750,000 for dollar disbursements, $7,750,000 will be from the Sub-Saharan Africa, Development Assistance Appropriation (DFA) and $5,000,000 will be from the Southern Africa Development Assistance appropriations, assuming SADCC consent is obtained for the last two phases of the Livestock Management Program. On instructions to transfer funds under this component, RAMC/Paris will issue a U.S. Dollar check to USAID/Lesotho which will transfer the funds to the GOL after the Maloti equivalent of the Dollar funds has been deposited by the GOL into a special local currency account in the Central Bank. The U.S. Dollar/Maloti equivalency rate for this program will be at the highest legal rate available at the time of dollar disbursement but no lower than the US DO RAMC/Paris published exchange rate for the date of transfer. As dollar disbursements under a DFA-funded sector support program, the dollars are not placed into a special account, nor is their use tracked or restricted. The provision of the FY 1988 Continuing Resolution requiring separate accounts for ESF-funded cash transfers is inapplicable.

Prior to the USAID dollar disbursement under each tranche, the GOL will deposit the Maloti equivalent in value into special local currency accounts in the Lesotho Central Bank. Two special local currency accounts will be created - one for the Agricultural Inputs Component; another for the Livestock Component. Funds from these accounts will be used in support of policy reforms to be undertaken as part of the Program, in accordance with the priorities set forth in Section B.IIIc.

Appropriated under the $2,250,000 project component (e.g. for expenses in connection with the salary/logistics costs of U.S. technical assistance and program management personnel, studies and evaluations and the like described herein) will be disbursed in accordance with standard AID program procedures and documentation.

Financing the non-project assistance component of the program by dollar disbursements and specific programming of GOL-aimed local currency generation is most appropriate, because most of the sepcific costs of the program will be local currency costs. A dollar disbursement, rather than a CIP, is more appropriate as a means to generate the local currency for several reasons.

1. The program design requires disbursement in a number of small tranches and these tranches are too small to be workable as a CIP.

2. The costs of the policy reforms are ones that will occur immediately, not on a delayed basis. Thus, the GOL needs resources immediately, not on the delayed basis that would result from a CIP.

3. The program design which uses dollar disbursements rather than commodity imports is less likely to introduce undesirable price distortions into the relatively small Lesotho commodity markets.

4. Dollar disbursements avoid complications resulting from import regulations called for by Lesotho's customs agreement with the Republic of South Africa.

II. Lesotho and the Common Monetary Area (CMA)

The Trilateral Monetary Agreement between Lesotho, Swaziland and South Africa, effective April 1, 1986, establishes a shared monetary policy among the three parties under a Common Monetary Area (CMA), superceding the Rand Monetary Agreement effected in 1974 to provide a uniform monetary control regime for the three states. Under current arrangements, Lesotho and Swaziland may issue their own national currencies, although the South African Rand remains available as the legal tender throughout the area; Loti issued by the Central Bank of Lesotho must be backed by one hundred percent (100%) reserve cover but investments by the CBL in the South African Corporation for Public Deposits (est. in 1984) are now acceptable as cover for the Loti in circulation; the CBL also has the right to hold and manage gold and foreign exchange reserves up to a maximum of thirty-five (35%) of the total of its gold and foreign exchange reserves and Rand holdings, but the Reserve Bank of South Africa is otherwise responsible for managing gold and foreign exchange reserves of the members; transfer of funds within the CMA is unrestricted; there is free access to South African capital and money markets; and, members may withdraw from the CMA on six months advance notice to the other parties.

III. Lesotho Monetary System

As a consequence of the fiscal arrangements noted above, monetary and price development in Lesotho are essentially a reflection of South African monetary policy. The CBL is responsible for issuing currency (Maloti or Loti), administering exchange controls, and regulating financial institutions in Lesotho. The CBL also determines the minimum deposit rates and the prime lending rate for commercial banks. To promote domestic demand for credit, the interest rates set by the CBL are somewhat lower than those in the RSA. Other rates are market-determined but are essentially in line with those in the RSA. Through the pegged exchange rate and the free flow of goods in the CMA, inflation in the RSA is transmitted directly to Lesotho.

IV. Estimated Dollar Amounts Required and the Incremental Nature of Disbursements

AID's contribution to the LAPSP of Fifteen Million United States Dollars ($15,000,000) will be disbursed in increments, after satisfaction of the terms and conditions for the release of funds outlined in herein, and after, for the $12,750,000 dollar disbursement component, the GOL has deposited the Maloti equivalent of each increment into special local currency accounts in the Lesotho Central Bank. The U.S. grant will be composed of program and project funds as follows:

a. $7,750,000 from the Sub-Saharan Africa Development Assistance (DFA) appropriation will be provided as dollar disbursements;

b. $2,250,000 in DFA funds will be provided as project assistance to meet managerial and administrative costs; and,

c. $5,000,000 from the Southern Africa Development Assistance (SADCC) appropriation will be provided as dollar disbursements for the last two phases of the Livestock Management program.

The following LAPSP grant disbursements are planned during implementation of the program:

a. The Agricultural Input Distribution Reform Package

As objectively verifiable evidence is presented that the Government of Lesotho has executed the reform actions listed for Program Phases One, Two, and Three described herein, USAID will disburse $500,000 for Program Phase One accomplishments; $1,000,000 for Program Phase Two accomplishments; and $2,750,000 for Program Phase Three.

b. The Livestock Management Reform Package

As objectively verifiable evidence is presented that the Government of Lesotho has executed the reform actions listed for Program Phases One, Two, Three and Four described herein, USAID will disburse $1,200,000 for Program Phase One accomplishments, $2,300,000 for Program Phase Two accomplishments, $2,500,000 for Program Phase Three accomplishments, and U.S. $2,500,000 for Program Phase Four accomplishments.

c. Technical and Financial Support for the Reform Components

To facilitate timely implementation of the discrete reforms listed under Sections F. III.a. and F. III.b. above, U.S. $2,250,000 will be provided as project assistance for the following support activities:

1. The Resident Program Technical Assistance Team

This team will consist of one specialist to support Government of Lesotho efforts and monitor USAID interests in implementation of the Input Distribution Package reforms and a second specialist to support implementation of the Livestock Management Reform Package. The total cost for this support team is projected at $1,100,000 (8.0 person/years of assistance at $125,000 per person/year).

2. USAID Assistance Team

To assist USAID in implementing and monitoring the Program, approximately $200,000 in foreign exchange funds will be used to finance a team composed of a Program Economist, Program Manager and Secretary. Evaluations, audits, studies of special interest to USAID and contingencies will be funded at U.S. $300,000.

3. Short-Term Technical Assistance Requirements

Under the reform program, certain studies and other actions will require provision of short-term assistance personnel under A.I.D. direct contracts. These studies and actions are expected to be: two national agricultural input supply surveys in Project Years One and Four ($100,000 for each study or $200,000 total); funding for short-term legal services to draw up sales and lease/purchase agreement for Coop Lesotho divestitures ($75,000) ; the independent appraisal of Coop Lesotho assets ($75,000); a national livestock inventory prior to implementation of the national grazing fee program and a series of impact studies during implementation of the grazing fee program ($200,000); short-term assistance to set up a computerized accounting system for the grazing fee system ($100,000).

d. Projected Grant Disbursements Under the LAPSP

Disbursement	FY 1988	FY 1989	FY 1990	FY 1991
		(in thousands of U.S. $)		
Policy Reform Disbursements for the Agricultural Inputs Distribution Component				
First Tranche	500			
Second Tranche		1,000		
Third Tranche			2,750	
Policy Reform Disbursements for the Livestock Management Component				
First Tranche	1,200			
Second Tranche		2,300		
Third Tranche			2,500	
Fourth Tranche				2,500
Long-Term Technical Assistance				
Secretariat:				
- Advisor for Input Distribution Component	125	125	125	125
- Advisor for Livestock Management Component	125	125	125	125
- Logistical Support for Resident Team/	50	20	20	10
USAID:				
- Program Economist	35	35	35	35
- Program Manager	10	10	10	10
- Secretarial/Logistical	5	5	[illegible]	[illegible]
- Evaluations/audits/ contingencies	10	140	50	100

<u>Short-Term Technical Assistance for Studies and Other Actions</u>				
Baseline Agricultural Inputs Survey	100			
End-point Agricultural Inputs Survey				100
Legal Assistance for Coop Lesotho Divestiture		75		
Independent Appraisal of Coop Lesotho Fixed Assets		75		
National Livestock Inventory		100		
Grazing Fee Impact Studies			50	50
Technical Assistance for Installation of the Computerized Accounting System for the National Grazing Fee System		75	25	
<u>Total LAPSP Grant Disbursements</u>	2,260	3,985	5,695	3,060

e. <u>Disbursing Procedures & Mechanisms</u>

Funds under this Program will be disbursed for discrete program reform purposes and for technical, administrative, and financial backstopping in support of these reforms. Upon meeting of the conditions precedent for each phase of the reform package and mutual agreement on the proposed financing for reform activities, the GOL will request USAID/L to release a tranche of funds accompanied by an SF-1034, Public Voucher, for the amount of money requested. USAID/L will process the SF-1034, submit to RAMC, Paris and receive a U.S. Dollar check in return. USAID/L will forward this check to the GOL after the GOL has deposited the Maloti equivalent of the U.S. Dollar check into local currency interest bearing account in the name of the GOL. A special account for each of the two main components of the LAPSP will be maintained for ease of tracking and monitoring. Note that interest earned will be treated as principal.

Disbursement of funds for technical and administrative support will be by direct disbursement/reimbursement methods by the Mission. The procurement and payment procedures, accounting system and internal controls of the pertinent departments of the Ministries have been reviewed vis-a'-vis related projects and have been found to be adequate.

F. THE PROGRAM ASSISTANCE COMPLETION DATE

The two separate policy reform components under this program will be implemented simultaneously and in parallel with each other. While the Agricultural Input component consists of only three phases, the proposed government divestiture plan will necessarily be complex and time consuming to complete. In comparison, the Livestock component consists of four separate and equally complex phases, and considerable time is anticipated to be required for implementation of the new grazing fee program. To ensure that sufficient time is allotted to complete all seven phases under both components, the program will extend over a four year time frame, or to approximately April 30, 1993. The actual Project Assistance Completion Date (PACD) will be four years from the effective date of the Grant Agreement.

G. HOST COUNTRY CONTRIBUTION REQUIREMENT

Section 110(a) of the Foreign Assistance Act of 1961 (FAA), as amended, requires that the GOL provide at least 25 percent of the costs of the entire program. As the local currency to be deposited in the Special Local Currency Account, in an amount equivalent to the dollar disbursements, is host country owned, it may be used to satisfy the host country contribution requirement. The amount of local currency to be deposited in the local currency account is approximately M25,500,000 and far exceeds 25 percent of the cost of the entire program. See Table at page 77 which sets out the schedule for U.S. Dollar transfers; GOL contributions in Maloti will be made immediately prior to these transfers.

H. TERMS AND CONDITIONS

I. Conditions Precedent to Disbursements of United States Dollars

a. Conditions Precedent to Initial Disbursement

No funds will be disbursed under the Grant until the GOL has provided evidence of:

1. A statement representing and warranting that the named persons have the authority to act as the representative or representatives of the GOL pursuant to the following:

   (a) Disbursement of local currency; and

   (b) Official correspondence regarding the Grant together with a specimen signature of each person certified as to its authenticity.

b. Additional Conditions Precedent to Initial Disbursement of the Resource Transfer

Prior to the disbursement of the first tranche of U.S. Dollars for the resource transfers to be provided to the GOL under the Agreement, the GOL shall furnish to AID, in form and substance satisfactory to AID, evidence of:

1. Creation of a Secretariat by the Ministry of Agriculture to assist in program implementation;

2. Establishment in the Central Bank of Lesotho of a Special Local Currency Account for the deposit of local currency in an amount equivalent to the U.S. Dollar disbursements under the of the resource transfer to be provided to the GOL Grant;

3. Appointment of the Program Coordination Committee (PCC) and Component Task Forces for Agricultural Input Supply and Livestock (CTF); and

c. Additional Conditions Precedent to Disbursements Under the Agricultural Input Reform Component

Prior to the disbursement of funds for the first tranche of the resource transfer under the LAPSP Agricultural Input Distribution Reform Component, the GOL will furnish to USAID, in form and substance satisfactory to USAID, evidence that the GOL has carried out the following:

1. Ag Input Phase One

(a) Facilitated and supported the development of an open and competitive market for the supply of agricultural inputs.

(b) Developed and approved an implementation plan for and commencement of implementation of its announced commitment to the progressive removal of all subsidies on fertilizers starting with the 1988-89 crop season.

2. Ag Input Phase Two

Funds will be disbursed under this phase only after evidence is submitted to establish that the GOL has:

(a) Undertaken progressive divestiture by Coop Lesotho of its retail sales outlets and lock-up stores to private sector input suppliers, including primary and secondary cooperatives, private sector input suppliers and general traders, with the objective of reducing Coop Lesotho's role to that of a true cooperative input wholesaler in competition with other private sector suppliers.

(b) Established a program, to ease the transition of redundant Coop Lesotho personnel into other employment.

(c) Implemented phase one of the plan to eliminate fertilizer subsidies.

3. Ag Input Phase Three

Funds will be disbursed under this phase only after evidence is submitted to establish that the GOL has:

(a) Completed the divestiture of Coop Lesotho's retail outlets and lock-up stores.

(b) Completed withdrawal of the GOL as a shareholder in Coop Lesotho.

(c) Implemented the final phase of the plan to eliminate fertilizer subsidies.

d. <u>Conditions Precedent to Subsequent Disbursements Under the Livestock Management Reform Component</u>

Prior to the disbursement of funds for the first tranche of resource transfers under the LAPSP Livestock Management Reform Component, the GOL will furnish to USAID, in form and substance satisfactory to USAID, evidence that the GOL has carried out the following:

1. <u>Livestock Phase One</u>

MOA has prepared and the GOL Cabinet has approved a comprehensive implementation plan for the National Livestock Development and Resource Management Policy enunciated in September 1987. The policy implementation plan must cover the areas of resource management, livestock marketing, and livestock production and animal health.

2. <u>Livestock Phase Two</u>

Funds will be disbursed under this phase only after evidence is submitted to establish that the GOL has:

(a) Established and approved an implementation plan for and completed all preparatory steps toward installation of a national grazing fee system.

(b) Established and adopted an implementation plan to restructure and broaden the system of livestock marketing in Lesotho to allow for:

(1) Greater private sector participation in all phases of livestock marketing;

(2) A larger volume of exports of live animals and livestock products to the RSA; and,

(3) A greater degree of efficiency in the operations of the NAFC, as demonstrated by greater degrees of plant utilization and lower unit costs for livestock products handled.

3. <u>Livestock Phase Three</u>

Funds will e disbursed under this phase only after evidence is submitted to establish that the GOL has implemented the first year of operations under the national grazing fee system, including collection of grazing fees and allocation of grazing fee revenues.

4. Livestock Phase Four

Funds will be disbursed under this phase only after evidence is submitted to establish that the GOL has implemented the second year of operations of the national grazing fee system.

II. Conditions Precedent to Disbursement of Local Currency Deposited in the Special Local Currency Accounts

No funds shall be released from the Special Local Currency Accounts until criteria and procedures for approving allocations to projects or activities determined to be eligible recipients of local currency financing have been mutually agreed to in writing by the GOL and USAID.

Special Covenants

The following are Special Covenants for the LAPSP Program Agreement:

a. The GOL shall not in any way discontinue, reverse or otherwise impede any action it has taken in satisfaction of any condition precedent to disbursement set forth herein, except as mutually agreed to in writing by USAID and the GOL.

b. Pursuant to Section G.1b(2) above, the GOL will establish in the Central Bank of Lesotho a Special Local Currency Account for the Agricultural Input Component and another for the Livestock Component and deposit therein currency of the Government of Lesotho in a total amount equivalent to the U.S. Dollar disbursements of the resource transfer to be provided to the GOL under the Grant. The GOL and USAID shall agree in writing on the exact apportionment of the local currency deposits between the two Special Local Currency Accounts. It is planned that, of the total amount of local currency to be deposited in the Special accounts, Maloti will be deposited in the Account for the Agricultural Input Component and Maloti will be deposited in the Account for the Livestock Component, all in phased tranches which correspond in value to the tranched Dollar resource transfers. Funds in the Special Local Currency Accounts may be used for such purposes as are mutually agreed upon in writing by the GOL and USAID.

c. The GOL shall adhere to the following tenets with respect to the use of local currency deposited in the Special Local Currency Account:

1. Except as agreed to in writing by USAID and the GOL, the Special Local Currency Account shall be used only to finance the following in order of priority:

   (a) Activities or projects contributing to the implementation of the policy changes in the agricultural and livestock sub-sectors proposed under the LAPSP and necessary to the accomplishment of Conditions Precedent for a subsequent Policy Reform Phase or as otherwise agreed to by USAID and the GOL;

   (b) Activities or projects contributing directly to the implementation of the policy changes in the agricultural and livestock sub-sectors proposed under the LAPSP but not necessary to the accomplishment of Conditions Precedent for a subsequent Policy Reform Phase or as otherwise agreed to by USAID and the GOL;

   (c) Recurrent or local costs of USAID-financed agricultural or livestock projects;

   (d) Recurrent or local costs of other donor-financed agricultural or livestock projects which complement or supplement USAID projects; and,

   (e) Extension or continuation of activities or projects under implementation in the agricultural or livestock sub-sectors which will contribute to the rapid increase in the productivity and income growth of the rural population.

2. The GOL shall maintain and cause recipients of funds from the Special Local Currency Account to maintain, in accordance with generally accepted accounting principles and practices consistently applied, books and records relating to the Special Local Currency Account. The GOL shall grant or cause such recipients to grant to USAID or any of its authorized representatives the right to inspect such books and records at all times as USAID may reasonably require. Such books and records shall be maintained for at least three years after the date of the last disbursement by USAID under the LAPSP Grant.

3. The GOL shall refund to the Special Local Currency Account any local currency not used for purposes agreed upon by USAID and the GOL, except as they may otherwise agree in writing.

4. The local currency provided by the GOL for the Program in accordance with this Agreement shall be considered as additional budgetary resources for the Agricultural and Livestock Sectors segregated in two Special Accounts and shall not be a substitute for the GOL's existing budgetary resources for these sectors.

5. Local Currency deposited in the Special Local Currency Accounts shall not be used for police training or military or paramilitary purposes.

III. General Covenants

The LAPSP Grant Agreement will include the following general covenants:

a. Program Evaluation

USAID and the GOL agree to cooperate on an USAID-financed evaluation program as part of the LAPSP. The program may include, during the implementation of the Program and at one or more points thereafter:

1. Evaluation of progress toward attainment of the objectives of the LAPSP;

2. Identification and evaluation of problem areas or constraints which may inhibit such attainment;

3. Assessment of how such information may be used to help overcome such problems; and

4. Evaluation, to the degree feasible, of the overall development impact of the LAPSP

b. Consultation

USAID and the GOL will cooperate to assure that the purpose of the LAPSP will be accomplished. To this end, the Parties, at the request of either, will exchange views on the progress of the LAPSP, the performance of obligations under the Program Agreement, the performance of any consultants, contractors or suppliers engaged under the LAPSP, and other matters relating to the Program.

c. Execution of the LAPSP

The GOL will:

1. Carry out the Program or cause it to be carried out with due diligence and efficiency, in conformity with sound technical, financial and management practices, and in conformity with those documents, plans, specifications, contracts, schedules or other arrangements, and with modifications therein, approved by USAID pursuant to the Program Agreement; and

2. Provide qualified and experienced management for, and train such staff as may be appropriate for the maintenance and operation of the Program, and, as applicable for continuing activities, cause the Program to be operated and maintained in such manner as to assure the continuing and successful achievement of the purposes of the LAPSP.

d Utilization of Goods and Services

1. Any resources financed under the Grant will, unless otherwise agreed in writing by USAID, be devoted to the Program until the completion of the LAPSP, and thereafter will be used so as to further the objectives sought in carrying out the LAPSP.

2. Goods and services financed under the Grant, except as USAID may otherwise agree in writing, will not be used to promote or assist a foreign aid project or activity associated with or financed by a country not included in Code 935 of the AID Geographic Code Book as in effect at the time of such use.

3. Any public sector commodity procurement transactions financed under the Grant are not exempt from identifiable taxes, tariffs, duties or other levies imposed under laws in effect in the territory of the GOL, the GOL will pay or reimburse the same with funds other than those provided under the Grant.

In reply please quote
Your Reference:

CPD/6/02
PEDM/GIM

ANNEX A

Cable address: PLANNOFF
Telephone: 323511 Maseru

CENTRAL PLANNING AND
DEVELOPMENT OFFICE
P.O. BOX MS 630
MASERU 100
LESOTHO

18th January, 1988.

Mr. Jesse L. Snyder
Mission Director
USAID/Lesotho
P.O. Box 333
MASERU. 100

UNITED STATES
A. I. D.
19 JAN 1988
MASERU LESOTHO

Dear Mr. Snyder,

Lesotho Agricultural Policy Support Program Grant-January 1988.

I am pleased to advise you that we have concluded our review of the referenced document collaboratively prepared for the consideration of a program to assist the Government of Lesotho with the adoption of policy reforms in the areas of agricultural input distribution and livestock management.

The program and measures detailed in the proposal for an Agricultural Policy Support Program are directly supportive of the policy actions which the Government of Lesotho desires to undertake at this time.

Accordingly, assistance of the Government of the United States of America in the form of a grant for the purposes detailed in the proposa is hereby formally requested.

Sincerely,

P.E.D. MOSEBO
Acting Principal Secretary

USAID/Lesotho

NAN
Action Taken
File
Initial RA Date 1/21/87

REC'D AG DIVISION
DATE 01. 19. 88

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REPORT ANNEX 1

Government of Lesotho Statement on Agricultural Policy Issues - Crop Production of 18 August 1987

CROP PRODUCTION

GOVERNMENT DECISIONS

18 August 1987

Summary of strategies and action programmes for implementation of Agricultural Policy and structure adjustment:

(1.) In order to ensure that arable land is optimally and productively utilized minimum target yields per acre be established.

(2.) Land leasing and sharecropping between contracting partners be formally endorsed on approved terms particularly where individual landholders are unable to meet the targets.

(3.) Village and District Development Councils be directly involved in the monitoring of these arrangements.

(4.) Contract farming be developed to evolve viable crop production cooperatives and to accelerate achievement of grain self-sufficiency.

(5.) Direct imput subsidies be eliminated in preference to increased price incentives on output when production exceeds minimum targets.

(6.) Consolidated irrigated farming be accelerated to achieve self-sufficiency in vegetables and export of surplus by declaring consolidated irrigable land to be development areas under special management and terms with landholders. Effort should be made to apply grants and concessionary loans rather than commercial loans.

(7.) Agricultural support institutions (Ministry of Agriculture, TOU, Coop Lesotho, Lesotho Agricultural Bank, Mills, etc.) be restructured or phased out to reduce costs to government and deliver efficient services to farming community.

(8.) The implementation of these strategies commence from 1987/88 summer crop season.

POLICY DIRECTIONS FOR MINISTRY OF AGRICULTURE, COOPERATIVES AND MARKETING TO IMPLEMENT POLICY OBJECTIVES

(With Special Reference to Self-Reliance and Cooperatives Development, Food Self-Sufficiency, and Structural Adjustment Programme)

1. Background

The policy objectives and targets of the Ministry are clearly reflected and articulated in the successive three Five Year Development Plans and in the current Fourth Plan. While the plans have served a useful purpose in mobilising donor and local funds, the achievement of targets has never been realized with regard to increasing agricultural production except establishment of physical infrastructural facilities.

The overall investment in agriculture over the past twenty years has been progressively colossal, by Lesotho standards, in terms of donor financing and local contribution, and yet corresponding results have fallen far short of expectations and should raise deep concern regarding justification of these heavy expenditures with negligible returns. Additionally, the farming community which is accepted as one of the poorest sector of the population has also made significant contribution to agricultural investment by way of labour input and financial resources from off-farm income.

The risks and natural disasters associated with agriculture affect Lesotho as much as any country in the world, although the unique geopolitical situation of Lesotho does impose an additional constraint in the realization of policy objectives designed to increase agricultural production.

After twenty years of agricultural development support, three disturbing features have emerged. First, the transition to self-sustaining development after donor support has been withdrawn is negative, thus implying wasteful and ineffective utilization of resources. This situation is characteristic of nearly all donor/Government funded projects and schemes. Secondly, the degradation of two major basic natural resources, soil and grazing which are the sine que non of agricultural production in Lesotho, has increased at an alarming rate over the past two decades. Thirdly, considerable disillusionment and negative attitude prevails amongst farmers regarding the ability of Government to improve their welfare through agricultural projects and programmes. This attitude does not, however, suggest that farmers are resigned to a situation of hopelessness and helplessness. It simply means that we are dealing with people who have shrewedly acquired better experience from development assistance, and thus calling for understanding, skill and determination from policy-makers and developers to regain the farmers confidence as cooperators in agricultural development.

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If agriculture is accepted as the basis and stimulant of economic growth in Lesotho, the above considerations place a crucial challenge and credibility responsibility on the new Government in "Lesotho Le Lecha"- "The New Lesotho" - to transform the experiences of the last twenty years into effective policy guidelines that will create a favourable socio-economic climate for achievement of meaningful results in increasing agricultural productivity. Such policy guidelines must encompass policy implementation strategies which must take into account physical natural agricultural resources, financial and human resources.

As the strategies address the issues of arable and grazing use, water utilization, and farmer cooperative effort to reach the self-sufficiency goal in food, they will in effect be elaborating on Structural Adjustment Programme which urges effective and optimal utilization of available resources for promotion of self-sustaining economic growth.

The strategies also translate the new Government's declared policy of "Lesotho Le Basotho Pele" - Lesotho and The People First - into action/results - oriented policy guidelines.

PART I: CROP PRODUCTION

(Based on the Ministry's internal study July 1987. "An Assessment of Irrigated Horticultural and Field Crop Production Programme")

(a.) Basis of Need for Policy and Structural Adjustments

(1.) The overall policy objectives in Crop Production seek attainment of self-sufficiency in stable food crops and increase in yields of cash crops under both dry land and irrigated conditions.

The fundamental problems that have impeded success in the achievement of above objectives relate to land use, conflicting cooperative/individual farming approaches, relative income returns from farm and off-farm sources, inefficient and inappropriate technical and financial support to agriculture.

The 300,000 hectares of arable land, including 17,000 hectares of irrigable area, is adequate to produce about 270,000 tons of cereals, 23,000 tons of legumes, 70,000 tons of vegetables, and 25,000 tons of fruit to feed our population of 1.6 million and also to export the non-cereals. There is no question that land in Lesotho is mismanaged and abused despite a favourable land rights/use traditional system. The principle of collective ownership of the land by the nation provides the Government and traditional institutions with a flexibility to determine and to ensure that land is optimally and judiciously utilized for the benefit of the community. The Administration has, however, always been hesitant to exercise its right to make decisions on the issue hence the continuing abuse and misuse of the most important resource. Without pre empting the findings and recommendations of the Land Act Commission, it is urged that some measures regarding Land-use must be implemented without delay if self-sufficiency and better farm income goals are to be realized. Land use measures will be an important tool in Structural Adjustment Programme.

(2.) The donor preference for "small farmer" individual production strategies and the Government's preference for small farmer "cooperative schemes" (irrigation) and capital intensive "cooperative block" (TOU) approaches are at the heart of the incompatibility between donor sponsored development projects and the Government's bias towards implementation of capital intensive technologies on consolidated land holdings. This incompatibility has led to costly inconsistencies and dissipation of financial ad technical effort.

The underlying rationale for donor development approach is that there is a large number of underemployed rural workers who need to be supplied with small hand tools, other inputs nad technical instruction in order to increase their production. The assumption overlooks the fact that the target families (male headed with no off farm employment opportunities) are, for the most part, already employed at non farm jobs which provide incomes in excess of those generated from the schemes. Consequently, the effective target group for crop production programmes becomes the resident female labour force. This group is traditionally oriented to producing basic food grains for family subsistence needs and not for commercial market sales, and in addition, heavy child care and domestic responsibilities make it difficult for this group to meet the high production expectations.

The Government approach, while accepting the lack of an appropriate target group able to benefit from small farmer individual production strategies based on extension teaching and training methods to achieve increased production, assumes that available rural farming community is willing and able to effectively transfer the cooperative village based sharing philosophy inherent in traditional production technologies to capital- intensive commercial production technologies which require high level of management and sophistication. These requirements cannot, however, be met by agricultural labour force available to carry out farming. Another aspect often overlooked is that many farmers, from past experience, seem to inherently distrust the "cooperative" approach to farming as an infringement on the traditional use rights on the land allocated to them for crop production purposes.

From interviews it is clear that most schemes participants see themselves as workers, not participants. This severely compromises the "cooperative" philosophy prevalent in these approaches and further reinforces the notion that members see themselves as something less than cooperative participants

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working to achieve common development for the community. In addition, these scheme members, not surprisingly, are very hesitent about their capabilities to manage the financial and production operation once assistance support has been withdrawn.

The desire by Government to retain village cooperative work relationships which tend to promote relatively equal income distribution and maintain stable social relationships under traditional subsistence production methods has provided a strong incentive for government to maintain these traditions within a highly subsidised commercial production framework (TOU) in order to minimize social stress usually associated with individual commercial production strategies which can result in unequal income distribution. But the dilemma inherent in this ideal is that to sustain a viable cooperative there must be adequate income to distribute to members, a situation which would reinforce members' moral obligation and commitment to cooperate. The fact, however, is that while income distribution is equitable in most cooperative schemes, production processes provide little income to distribute and hence their failure.

It is therefore important in Lesotho Le Lecha to strive for elimination of inconsistencies and incompatibilities of different production approaches that have so far been advocated, recognising that true self-reliance in Lesotho can be achieved by progressive collective mobilisation of the rural community into productive socio-economic units. The strategies used will determine the extent of success.

(3.) While most of Government or donor supported approaches have had insignificant or erratic success results in spite of heavy capitalization, one type of production approach - mainly in dryland agriculture and to a small extent in irrigation, which has survived the challenges that overcame the other two, is the local contractor approach. This system of production has prevailed notwithstanding the official neglect, and attracting its only support from the farming community with the least persuasion. The contractor's clientele is the risk-shy landholder with land but little or without financial resources to increase production even up to the subsistence level. The system has ensured better use of land than it would have otherwise been. Through sharecropping arrangement or land renting the innovative contractor has shifted the risks of production from the landowner to himself and yet at the same time "equitably" (in the eyes of the landholder) distribting earned income. The yields in contractors' schemes have been equal to or higher than in other subsidized programmes. The interesting development is that some contractors are evolving a "cooperative" type of association with the landholders in which decision making and participation vary from contractors to contractor.

The relative efficiency of the system derives from the fact that decisions on farming operations are promptly made without going through bureaucratic procedures before any work can be done; the

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ease of communication and mutual understanding also contributes to this efficiency. The contractor can deliver technologies to a greater number of farm households than the extension service with prevailing limited financial support could ever hope to achieve. As he mobilizes and uses his own financial resources he relieves Government from unproductive capital and recurrent expenditures- an important consideration in Structural Adjustment Programme.

The support and the adoption of the contractor approach would form a basis for evolution of viable cooperative farming whereby local managerial skills, technology transfer and collective consciousness in commercial farming could be developed. The deployment of extension staff to concentrate on high-technology intensive systems would also be facilitated. Neglect of a contractor as an important local asset would not be in the spirit of "Lesotho Le Basotho Pele" motto.

(4.) Irrigated agriculture, while more capital and labour intensive than cereal production, is also much more management intensive and requires reasonably sophisicated marketing in the case of vegetables and fruits. These factors are responsible for the failure of most schemes after donor assistance is withdrawn. This suggests that initially labour factor be separated from management and that management be provided with the necessary financial and technical support over a longer period than that normally planned for projects and schemes. The potential of irrigated farming to offer incomes that are competitive with those from off farm sources can be realized on the strength of management that has been provided and to anticipate that irrigation per se justifies commercial loans, particularly after experiences with previous and existing schemes, may be over-presumptous. The greatest challenge is to develop and promote motivated managers, technicians and farmer cooperators on a realistically programmed plan otherwise the need for major Government subsidies to support management inefficiencies cannot be escaped.

(5.) It is apparent that no effort was made in the past to critically assess and analyse regularly the failures leading to non-attainment of set production targets. Consequently, valuable information and experiences which could be adapted to improve the performance of the schemes was missed. It is therefore not surprising that the same mistakes have been repeated over and over at a great cost to Government and donors. The cost to the farmers' morale and expectations has resulted in disillusionment and distrust.

Another aspect of the problem has been the absence of a link between targets and incentives. The subsidies that have been provided were limited to seed and fertilizer. Taking into account the preceeding considerations, it is opportune to challenge whether it is more appropriate to grant subsidies at the production or output level. If the objective is to stimulate production and reward the producer for his efforts, a price

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incentive on the output would generate better results than input subsidies, particularly if a price increase is related to production in excess of established minimum targets. Similarly, production levels below minimum targets should obligate the landholder to partly surrender his or her land use rights to those who can attain the targets, provided that the means of production are available and accessible to him or her. This obligation would ensure that land is productively farmed, and retaining of part of land use rights could be in the form of land rent payable to the landholder or any material aid-in-kind that should be offered by the land user on agreed terms. These arrangements are, in any case, already being commonly practised but not backed by formal agreements. Other advantages would include discouragement of illegal sale of productive farm land for residential purposes and better implementation of anti-erosion measures since land will have a specific economic value.

(6.) Efficient <u>marketing</u> of inputs and outputs is an important factor in encouraging farmers to increase crop production. Except for vegetables and fruits, adequate physical infrastructure exists for marketing of grains and inputs, and to a large extent this function falls within the responsibility of Coop Lesotho. Although the turnover of Coop Lesotho has steadily increased the marketing services to the farming community have not shown much improvement; unwarranted wastages in funds, stocks and human resources continue to render the agency one of the most inefficient. Management inefficiencies, made worse by extensive area coverage which lacks adequate supervision is one of the main causes of Coop Lesotho's failures. The ambiguity regarding its status does not promote its efficiency either. It is only a cooperative by name while functionally it is a parastatal with Government holding 98 percent of the shares. Notwithstanding that a parastatal can become or be transformed into a cooperative, nonetheless the status of any institution must be made clear to its managers and clientele.

The success of any agricultural marketing organisation lies in its ability to reduce unnecessary "marketing" costs to the producer. A high turnover when supported by a deliberate policy to reduce overhead costs can achieve this aim and this is where skillful management comes into play. By manipulating this factor, the margin between production costs and output prices can either be widened or narrowed. Collective marketing of own produce by farmers directly to the mills (similar to collective marketing of wool and mohair by associations) would result in overhead costs reductions.

Efficient marketing of fruits and vegetables is even more called for due to perishability of these crops. It is strange that nearly all the projects that provided considerable assistance in vegetable production completely ignored the establishment of appropriate infrastructural facilities for marketing of the produce. No wonder so many of them have collapsed. The Ministry of Agriculture has also failed to provide the necessary marketing

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information at the right time based on research and market development initiatives. The success of asparagus production is a good example of overall efficiency in production and marketing.

(b.) <u>Recommended Strategies to Implement Policy and Structural Adjustments (To Commence Summer Cropping Season 1987/88)</u>

It is technically easy to achieve self-sufficiency in grains, vegetables and fruits but self-sufficiency which is achieved at a cost beyond the country's means and when it does not actively involve target groups, becomes a questionable development process. Consistent with the new Government's policy of having Village and District Development Councils as the spearhead of rural development, identifiable target groups which have a potential for technology transfer, self-sustenance and equitable income distribution must receive priority attention. Working through such groups will enable a viable foundation of cooperative development which is inescapable in Lesotho considering the small size of landholdings (2 hectares per household) and apparent lack of verile, active agricultural labour force.

(1.) <u>Land Use</u>

Arable land as a national asset intended to benefit the allottee and the nation as a whole must be utilized productively and judiciously and the following measures must be enforced in order to highlight this requirement:

- No suitable land should lie fallow other than as an approved conservation practice (<u>action</u> by Village Development Council in consultation with Ministry of Agriculture).

- Land is considered to be farmed productively if <u>minimum target yields</u> per acre of 10 bags and 8 bags of maize and wheat, respectively, and 4 bags and 6 bags of beans and peas, respectively, are harvested. This implies proper land preparation, appropriate inputs application and the necessary post-planting operations. (<u>Monitoring</u> of these activities by Village Development Councils and the Ministry of Agriculture).

- As records from TOU and private contractors have proven that these minimum targets are easily achievable, landholders whose production falls below these targets should lease or sharecrop their land to contracting partners possessing the necessary means of production. Such arrangements should be on clearly agreed terms - e.g. duration of lease, compensation, etc. - and should be <u>supervised</u> by the Village Development Councils and the Ministry of Agriculture.

- A contracting partner may be private animal or tractor owner, or selected active Village Development Councils with

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good management resources to whom TOU machinery and complementary equipment should be handed over.

(2.) Cooperative Dryland Farming

The contractor's lack of land resources but possession of some positive attributes - managerial skills and financial resources- make him an ideal complementary partner to the landholder. Because he is profit motivated he could make an important contribution in transforming subsistence farming into market oriented commercial farming. Even though his operations are extensive he does not possess land use rights to the same extent as individual landholders and therefore both of them have to establish a mutually dependable association which must be taken advantage of in promoting viable cooperative farming that will have distributable benefits. This arrangement has a good potential in increasing production without direct Government expenditures other than technical support.

- The already existing practice where contractors operate blocks of land in cooperation with landholders should be endorsed and encouraged as a priority activity deserving development more than TOU.

- Proper planning should establish realistic blocks that are consistent with the contractor's production means. Government should be more concerned with targets initially rather than with systems of cooperation between the parties which may include share cropping, land leasing or direct hire services.

- Appropriate training courses on principles of cooperatives should be organised for groups of contractors and landholders, and also for the mixed groups. These training courses will constitute an important aspect of promoting and facilitating productive and cooperative farming.

- TOU must be gradually decentralized by allocating tractors with ancillary equipment to few selected Village Development Councils after consultation with District Development Committees. The operator must be of a sufficiently high calibre comparable to that of a contractor. Option should be given to contractors to either purchase or seasonally rent TOU equipment.

- As contract farming is encouraged and gets established TOU will phase out as a government service; some machinery should, however, be allocated to suitable mountain areas on a purely hire basis since mountains have always been excluded from this type of assistance.

- Targets for contract farming are same as in (1.) above. An additional target for completion of operations could be of great motivational value if it is linked with some incentive

- e.g. completion of planting operations by a certain date could be rewarded by seasonal loan interest reduction.

(3.) Irrigated Farming

Irrigated farming is management, capital and labour intensive as compared to dryland farming. Most schemes have floundered on management factors as soon as donor support was withdrawn and poor marketing systems completely spelled the death of these schemes.

- Strategies similar to those for cooperative dryland farming would be recommended had it not been for the fact that no identifiable local irrigation entrepreneurs have yet surfaced. Government must therefore be a caretaker of irrigation development for some time to come.

- In order to avoid recurrent expenditures far in excess of returns, productivity must be emphasized. Skilled management, competent technicians, motivated operators and diligent labour force will determine the degree of success in irrigated farming.

- Landholders must be divided into three groups: those with potential to be managers/operators, those capable of providing labour only, and those contributing only land. Training and basis of cooperation will apply differently to these groups. The purpose will be to develop a dependable, self-sustaining management which can run a profitable venture.

- All the capital outlay costs of the schemes should be borne by Government/donor, landholders should be responsible for recurrent costs including depreciation, the costs of administrative and technical management should be progressively transferred from Government/donor to the landholders on a programmed plan. As irrigation is a costly undertaking, the objective must be to initially establish an efficient and effective Division of Irrigation, a great part of which would eventually be self-sustaining as a result of increased production.

- Adequate technical assistance must be provided for the larger schemes by undertaking a medium and long term training programme and use of expatriate personnel in the interim.

- Targets must be set for each scheme and the status of achievements must be reviewed periodically. Self-sufficiency in vegetables and fruits can be achieved more rapidly if management and marketing are put in place.

- All irrigable areas must be declared development areas in which the decisions of Government in consultation with

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Village and District Development Councils must override the preferences of individual landholders regarding implementation of above measures.

(4.) Incentives and Subsidies

Incentives in the form of subsidies on inputs assume that the beneficiaries are sufficiently market and commercially oriented to fully utilize the offered assistance and to appreciate the uncertain benefits at a later date after harvesting. On the other hand, a guaranteed price increase in excess of a realistic minimum production can motivate the farmer to increase his production substantially and to carry out efficient operations throughout the farming cycle. In this way, targets, subsidies and incentives would be meaningful both to the policy-maker and to the farmer.

- Incentives on output price would greatly influence cropping patterns more readily than extension messages - e.g. a guaranteed substantial price increase on wheat in the mountains rather than maize production in the mountain areas.

- A guaranteed price increase related to minimum production targets would ensure that efficient farming is encouraged. The less efficient farmer would not enjoy the benefits of these price incentives and therefore his option is to surrender, with compensation, his land use rights to those who can farm efficiently.

- It is recommended that price incentives related to grain yield targets proposed in (b. 1.) above should be selective depending on the crops whose increased production is being promoted. The price increases for production exceeding minimum targets should be substantial in order to be attractive enough - e.g. 25 percent increase for maize and wheat yields in excess of 10 and 8 bags per acre, respectively.

- An incentive differential could also be considered for contractors and individual producers/associations, less in case of contractors since economies of scale will always result in adequate profit - e.g. 10 percent price increase for maize instead of 25 percent.

- Incentives for efficient and timely operations would enhance effectiveness of contractors - e.g. completion of land preparation and planting before a set target date should warrant a 25 percent reduction on Agricultural Bank loan interest.

- The above price incentives (except one on operations) should be provided and administered by Flour and Maize Mills on the basis of records approved by the Village and District

Development Councils in consultation with the Ministry of Agriculture.

(5.) Marketing

- The status of Coop Lesotho must be clearly defined and the institution accepted as a parastatal instead of an apex Cooperative organisation. The latter will evolve as cooperatives development is actively promoted.

- Coop Lesotho input sale services must end at the regional level, thereafter, the services must be privatised either by sale or rental of stores to cooperatives or Chamber of Commerce. Funds generated from these transactions could be used for cooperative development.

- With less overheads and manageable staff numbers the organization could provide better services while the turnover on input sales would not be adversely affected.

- Marketing of outputs will not remain a Coop Lesotho monopoly. With the introduction of a new cereal price incentive system which will be administered by the mills, producers, in particular contractors, would be better off transporting and selling their produce directly to the mills. This would be an advantage to contractors since they will be handling bulk produce.

- Physical marketing facilities for perishable crops should be created in 1987/88 in order to provide an outlet to the farmers' produce.

- A department of Marketing in the Ministry of Agriculture should be established in order to commence planning, market research and development, and market information dissemination to vegetable and fruit farmers as a priority activity.

(6.) Institutional Reorganisation

Over the past five years, the Ministry has ceased to be an effective instrument for improving agriculture. Erratic and uncontrolled creation of new posts and grades, staff misplacements, promotions on personal favouritism, and imbalance between headquarters and field postings necessitate a thorough overhaul of the Ministry as a first exercise in the Structural Adjustment Programme.

- There must be a functional justification for every post in each department - e.g. Department of Crops; appropriateness of grades must be determined and essential posts retained while non-essential ones should be discarded resulting in staff retrenchment or redeployment at all levels.

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- Indiscipline, incompetence and indifference to policy directions indicated in preceding paragraphs should be ruthlessly dealt with by prompt rehabilitative transfer, demotion and dismissal.

- In order to motivate staff, achievement of targets should be used as a yardstick for granting of rewards such as promotions.

- Staff postings, particularly at professional and degree level, should be field - rather than headquarters - oriented in conformity with decentralization policy. The strengthening and improvement of services must first be directed to the field and secondarily to the headquarters.

- Through the District Agricultural Offices crop extension activities should be closer to the farmers; however, in order for extensionists to have credibility, they must have something to extend in the form of technology (research), the means of production (inputs), marketing of produce (outputs) and viable production units (cooperators and innovators).

- Crop specialists cannot therefore become effective if they work in isolation from above-mentioned disciplines with which they must be coordinated at the Field level by the District Agricultural Officer and by the Director of Field Services from the headquarters level.

- Dryland and irrigated farming will constitute the two major sections of the Department of Crop Production and both will be serviced by the Plant Protection Section.

ANNEX C

REPORT ANNEX 2

Policy Statement on the Crop Sector of Agriculture by His Excellency Major-General J.M. Lekhanya on 29 August 1987

When the Government of Lesotho declared that this year, 1987, should be the year of action, we committed ourselves to the important task of reviewing and appraising our policies to ensure their relevance to current problems that face our nation. We committed ourselves to progress and genuine development, we committed ourselves to march forward and resolve some of the problems that have been outstanding in more than twenty years of this country's independence.

One of Lesotho's oldest problems is that of inadequate food production. The previous administration repeatedly talked about this problem without coming up with effective solutions. In this year of action, it is urgent that we should chart new directions for increasing food production. This should be the collective responsibility of the Government and the entire nation.

Africa is facing serious problems of food shortages and many of our countries on the continent are constantly being assisted through appeals to the international community and charity. While we are gratified by the response and generosity of the international family we must never allow ourselves to be perpetual objects of hand outs but we must strenuously seek ways of attaining self sufficiency in food production.

Lesotho is surrounded by a country that has a remarkable agricultural production. We must seriously ask ourselves why there is such a vast difference between our agricultural output and that of our neighbour. We must be concerned about our performance in agriculture, which has made us an island of hunger and shortages in a sea of agricultural prosperity and plenty.

Last year, in an effort to address the problem of low crop yields, I appealed to the farming community to ensure that no land should be left fallow. The Government was encouraged by your positive response to that appeal despite the drought that hit this country in December and January. You will be happy to know that inspite of the adverse conditions that I have just referred to, our overall production of maize, wheat and sorghum exceeded that of the previous year by 8,000 (eight thousand) tons. We congratulate you for this effort, but we are compelled to remind everybody in this nation that we are still far below our national annual requirement which should be 313,000 tons of cereals.

We must remain aware and indeed concerned that crop production in Lesotho is below our national requirements because that in simple and painful language means we are not yet able to feed ourselves. It is therefore a matter of urgency that in the next five years we must accelerate the pace of reaching self sufficiency in crop

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production. It is for this reason that the Government has made some policy decisons on crop production.

I would like the nation to note these policy decisions that now come into effect:

(a.) All who are allocated arable land are required to make optimum use of that land at all times. If you are unable to do so you will be required to exercise two options, namely, to lease your land to someone who can optimise its utilisation for increased production or to resort to sharecropping. These arrangements will be formalised in order to protect the interests and rights of all parties while at the same time making it possible to obtain sustained increased production.

(b.) Chiefs, Village and District Development Councils will be charged with the responsibility of ensuring that land is fully used; that targets are achieved; and that contracting parties work harmoniously. It is also their responsibility to ensure that no more agricultural land is used for erection of houses or any other non agricultural purposes.

(c.) Minimum target production per acre for cereals will be set and announced. Production below the set standards will lead to the options of leasing or sharecropping I have mentioned.

(d.) Production in excess of the set minimum target will qualify for increased selling price of the surplus. This increased selling price will be announced before October this year.

(e.) The Technical Operations Unit T.O.U. (Mants'atlala) will be decentalised and allocated work to include the mountain areas, taking into account the location of private tractors contractors so that no overlap occurs, however, the seed and fertilizer subsidy that was given to those who participated in T.O.U. will be eliminated. The subsidy only benefitted a small section while the envisaged price incentive payment I have mentioned will be for all farmers who have exceeded set targets. T.O.U. operations will be on cash hire basis and farmers will obtain credit facilities from the Agricultural Development Bank either as individuals or collectively. It is expected that, as tractor contractors cover the whole arable area, the need for T.O.U. services will elapse during the next five years.

(f.) Coop Lesotho will be restructured in a way that by the Summer season of 1988 it will be able to deliver better services to the farmers. Before the restructuring Coop Lesotho will however continue to provide its usual services.

(g.) Farmers will be encouraged individually and collectively to embark on intensive fruit and vegetable production under irrigation in order to reduce imports. Water resources development will be undertaken in the next five years to address this important issue and thus encourage Basotho whose fields are near water resources such as rivers and dams to engage in the production of fruits and vegetables under irrigation.

The policy that I have just enunciated will be explained and elaborated upon by the Ministry of Agriculture to ensure that it is understood and implemented.

We have recently been blessed with good rains throughout the country. We hope we shall have more. I therefore appeal to all farmers to plough their land in preparation for the Summer season. Farmers, the private sector and other developmental institutions need to cooperate in eradicating hunger in Lesotho by encouraging and ensuring optimum and judicious utilisation of our land. No single individual can hope to solve our agricultural problems, but unity at our villages, districts and place of work will crown our efforts with success. The Government expects the Ministry of Agriculture to be resourceful, diligent, and dedicated in discharging the challenging task entrusted to it. Their primary responsibility must be to serve the farmers with efficiency and competence. It is for these reasons that we appeal to the whole nation to pool resources, skills, energies and labour in a cooperative spirit and to transform our agriculture which provides livelihood to so many of His Majesty's subjects.

May success crown your efforts, and may we look forward to a prosperous 1987/88 and succeeding years.

KHOTSO PULA NALA

(PEACE, RAIN AND PLENTY)

ANNEX D

REPORT ANNEX 3

Government of Lesotho Statement on Livestock Policy Issues of 22 September 1987

GOVERNMENT DECISIONS ON LIVESTOCK POLICY ISSUES

22 September 1987

Livestock Policy Issues

(a.) Adoption of Livestock Policy Issues Paper as a working document to initiate follow-up actions on the recommendations contained therein.

(b.) That work on obtaining the necessary information and data on proposed cattlepost readjustment be commenced in 1987.

(c.) That consultations be held with chiefs and farmers regarding:

(1.) Introduction in October 1988 of an equitable grazing fee structure that will have positive impact on range restoration and improvement.

(2.) Discontinuation from October 1988 of seasonal migration of stock from the lowlands and foot hills to the mountain grazing.

(d.) That the findings emanating from (c.) be submitted to Government for approval not later than March 1988.

(e.) That the recommendations on marketing and disease control be implemented in 1987.

PART 2: LIVESTOCK PRODUCTION

POLICY DIRECTIONS FOR MINISTRY OF AGRICULTURE, COOPERATIVES AND MARKETING TO IMPLEMENT POLICY OBJECTIVES

(With special reference to Self-Reliance and Cooperatives Development, Food Self-Sufficiency and Structural Adjustment Programme)

1. BACKGROUND

The livestock sector in Lesotho is characterised by three distinct production systems which have direct relevance to policy decisions aimed at increasing livestock productivity. The majority of animals are reared under extensive range conditions in the mountains and include cattle, goats and equines; in the foothills and the lowlands semi-extensive production patterns prevail utilizing grazing and crop residues; semi-intensive and intensive farming is practised to a limited extent with poultry, dairy, pig and fish production enterprises mainly in the lowlands.

Potential exists for the livestock sector to satisfy the food requirements of the population and to enable export of the surplus products to the neighbouring countries by increasing livestock productivity which, in turn, would raise the farmers' incomes.

Livestock is raised primarily for economic reasons and these economic factors dominate over social and cultural factors, which are not unimportant also, in determining how and why Basotho own and manage their livestock. Basotho regard their livestock as capital assets and as capital assets livestock generate returns competitive with other available investments. Surveys show that return to capital investment on cattle, sheep and goats is respectively 8.3, 7.2 and 10.0 percent and that the current production systems are characterised by low productivity and low costs, high acceptability and practicality. This is so because under the communal grazing system, which affects the largest livestock and grazing resources, the benefits accrue to the individual in the immediately visible future and in direct proportion to the number of livestock owned. Costs, in the form of overgrazing, erosion, rangeland deterioration, and reduced animal productivity, are longer term phenomena, much more difficult to perceive and they are broadly spread across society.

Although the communal use of the grazing resource imparts some equity rights to members of the community the tragedy, however, is that none of the individuals sharing this communal resource take account of the social costs inflicted by their animals, so each individual stocks as many animals as he can afford. The sum of these individual actions is overstocking by the group.

The system of labour migration which forces people to continually

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oscillate between Lesotho and South Africa permeates every aspect of Basotho life including the livestock sector. The influences include the strains on the available household resources of labour and management to the point that most productive activities are adversely affected; and the income remitted from migrant earnings eases the demands to sell livestock and livestock products to meet basic and emergency cash needs. Since livestock are one of the most secure paying investments available to Basotho migrant workers, it is a preferred form of investment for saving their remittances until they can be drawn upon to support the family after the man retires from the mines.

Population dynamics reveal the livestock herds (all range species) to be under ecological stress. The age structure is too old, the ratio of males to females is too high, offtake for slaughter is too low, and total numbers exceed carrying capacity of the range in its present condition. As a result, birthrates are very low and mortality very high. Correcting these factors could result in a livestock subsector that could sustain meat and other product outputs at several multiples of present levels.

Much of the livestock industry is vital to the economy of the country and considering its intimate interaction with rangeland which is one of the few resources that Lesotho has in abundance after water and human resources, inadequate assistance has been given to the subsector as compared to crop development.

But, nonetheless, where support was provided some continuity and sustainability has resulted. Programmes on breeding and disease control, cooperatives and poultry and farmers associations in dairying, wool and mohair have shown certain measures of success and benefitted from development assistance but institutional support in marketing and rangeland use has been comparatively inadequate and ineffective.

The livestock sector can contribute significantly to the major national development objectives of employment, income growth income distribution, self-sufficiency and nutritional improvement. However, the particular characteristics of the livestock sector result in developmental roles which differ in important aspects from those expected of the crops sector.

First, livestock, as productive assets, are not as widely distributed as is land; at least half of the rural population will not receive the direct benefits from livestock improvement. Second, livestock production has potentially much stronger forward and backward linkages to related enterprises than does field crop production; rapid change in livestock productivity and output could, therefore, stimulate much higher employment generation. Third, livestock husbandry in Lesotho is inextricably interwoven with management and use of range resources; given that land tenure practices treat pasture and arable land somewhat differently, the institutional setting for change differs between the two.

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The livestock farmers, through their representative organisations, are keenly aware of the need for changes that must occur in order to stimulate the productivity of their sector. The National Farmers Conference that was held in March 1987 made recommendations on rangeland use practices, improvement in technical delivery systems - production and marketing, and their direct involvement in development. Thus, there exists a favourable climate for introduction of policy and structural changes which can positively affect the livestock sector.

2. BASIS OF NEED FOR POLICY AND STRUCTURAL ADJUSTMENTS

2.1 Extensive and Semi-Extensive Farming

The traditional seasonal movement of animals from mountain grazing to village areas where crop residues and limited grown fodder are utilized fuses the extensive range and semi-extensive livestock farming systems into a socio-economic production continuum in which livestock numbers and products, land and grazing resources, livestock farm households, collective production groups, and institutional support services are important elements.

There has been a significant average increase in the numbers of sheep and goats of 5.8 and 4.8 percent over the past five years 1980/81 to 1984/85 while cattle numbers decreased by an average of 2.8 percent. What is more significant is that the increase in one year from 1985 to 1986 has been dramatic for the three classes of livestock, reaching 639,575 cattle, 1,669,670 sheep and 1,239,495 goats. This represents a one year increase of 18, 15 and 17 percent for cattle, sheep and goats, respectively. The inter-annual increases or reductions seem to flucuate with drought occurances particularly with regard to small stock and are not a result of improved reproductive performance (number of surviving offspring to females) which has remained low at an average of 17 percent for cattle and 40 percent for sheep and goats. The offtake (death and slaughter) for national herds and flocks is the same at 14 percent for the three classes of livestock with the offtake accounted for by sales being very low (2 percent).

The nutritional stress due to inadequate grazing and low levels of supplemental feeding results in low production of animal products, low reproduction and high mortality. While there may be some statistical inconsistency with cattle data in 1986, it is apparent that low reproduction rates and deaths have resulted in a decline in the total cattle population since 1980/81. Reproductive rates for sheep and goats, while low have been high enough to generate net flock increases over the same five-year period. On the other hand, wool and mohair production has remained quantitatively (3,400 tons of wool and 800 tons of mohair) and qualitatively constant which further emphasizes the negative impact of nutritional stress. The prices of these products and income earned have however increased over the five year period, for example, M 11 million in 1984/85 as compared to M 13 million in 1985/86, a pattern which may have contributed to flock increases by encouraging the farmers to retain their stock so as to continually harvest the wool and mohair.

The above trends which have policy and structural implications suggest that cattle are more suspectible to nutritional stress than small stock; price incentives on livestock and their products, while stimulating sales and output per animal might encourage overstocking on the other hand unless price and economic incentives are carefully balanced; the advocated stocking rates and carrying capacities must be viewed with caution as many estimates of overstocking - e.g. currently by over 400 percent - are manifestly absurd because, if true, the livestock population in Lesotho would have been dead of starvation long ago rather than growing in numbers as was the case in the past five years. It is, however, indisputable that the large numbers of animals in the three zones of lowlands, foothills and mountains cannot be supported productively by available grazing and feed resources which in turn severely limits the livestock potential while deterioration of the range and soil erosion continue unabated.

Unless measures to limited stock numbers are instituted the effectiveness of livestock development programmes becomes questionable and the objective of improving farmers' incomes is distanced from realization.

Lesotho's <u>rangeland</u> is characterised by three main types of vegetation. "Seboku" grassland (Themeda triandra) is the most palatable grassland species and at one time was the dominant species in Lesotho below 9,000 feet on north-facing mountain slopes and below 7,000 feet on south-facing mountain slopes. The species is now only found on 470,000 hectares (19.5 percent of grassland) after encroachment in the mountains by "Sehalahala" (Chrysocoma and Artermisia) occupying 363,000 hectares (15.1 percent) and by "Letsiri" (Festuca caprina) which is extensive on 346,000 hectares (14.4 percent). In the lowlands and foothills, "Seboku" has been replaced by "Ts'aane" (an eragrostis association of grasses) on 136,000 hectares (1.5 percent). These invasive grasses are less palatable and less productive and can be overtaken by "Seboku" if sufficient resting of grazing pastures is effected. The remaining 55 percent of range consists of "Mohlomo" (Hyparrhenia) and fallow land mixture of weeds and grasses representating 28 percent, mixed shrubs in the foothills and mountain valleys, shallow rocklands and residential areas are found in 27 percent of the rangeland.

Continual stocking of the rangeland beyond its <u>carrying capacity</u> has resulted in an encroachment of unpalatable forage species and a degradation of the soil base through desertification, soil erosion or rock exposure. This degradation of the range reduces forage production and thus production of animal products.

However, a reduction in the current stocking rate to a rate less than the carrying capacity is expected to result in regeneration of the range as more palatable forage species increase and desertification is halted or reversed.

The current stocking rates in Lesotho average about 2 hectares per animal unit (= 1 large or 5 small livestock units) and this carrying capacity can only be expected under well managed grazing conditions and high annual rainfall. There are a total of approximately 1.2 million animal units on a total land base of 3 million hectares for an average density of 2.5 animal units for every hectare. However, there are only about 2.1 million hectares of rangeland, indicating a density of 1.0 animal units per 1.75 hectares of rangeland. Since many animals are grazed on crop residue left on cultivated land, an average of 1 animal unit per 2, instead of 1.75, hectares is a realistic estimate. It is estimated that for much of Lesotho a stocking rate of approximately one animal unit per 10 to 16 hectares would result in maximum production per animal unit under current management and allow significant range improvement under well-managed grazing. This stocking rate would equate to 150,000 to 250,000 animal units as compared to 1.2 million units on available grazing of about 2.4 million hectares. Thus, the grazing area is over 5 times overstocked.

Because of their small numbers, horses (100,000 head) and donkeys (80,000 head) do not play any important role in the livestock/pasture complex. They are kept mainly for transport purposes which presently outweigh economic benefits and horses receive more supplementary feeding than other range animals and hence their restriction from range is not likely to cause much of a problem.

The 33 percent of total rural households (277,586 units) live in the mountains and own 45 percent of cattle, sheep and goats and all these animals have to subsist on mountain grazing and feed resources whereas the lowlands and foothills animals have access to their relative zones and additionally to the mountains. Because of their accessibility, the lowlands and foothills have had a greater advantage of more development assistance in both crop and livestock production than the mountain regions, despite the comparability in fields and livestock ownership. 129,707 rural households (47 percent of the total) own fields and livestock, with 43 percent in the lowlands and foothills and 57 percent in the mountains. The lowest number of households (8 percent for each zone) have no livestock and no fields. By virtue of their range resource capacity, the mountain households make a greater contribution to the national economy and to the incomes of the households in the other zones and yet they are disadvantaged in terms of development assistance and their livestock's accessibility to crop residues in the foothills and lowlands.

Whereas communal grazing of the range in the mountains by animals from all three zones was an equitable system when the human population was very low in the mountains, it is now apparent that, with increased habitation in these areas, seasonal migration of animals is becoming an important factor in overstocking of the mountain range. Despite the fact that seasonal migrating of stock is enforced, the 1985 Livestock Holder Survey and previous estimates brings the effectiveness of the system into question. Seventy-eight percent of cattle, 39 percent of sheep, 33 percent of goats, 43 percent of horses, and 29 percent of donkeys owned by surveyed households were kept in the village grazing areas through the year. Over 80 percent of lowlands livestock owners keep their animals in the village grazing areas throughout the year.

There are valid reasons which compel livestock owning households to keep their animals in the village areas, rather than send them to mountain grazing areas. The concern about stock theft, the lack of herd boys, and the utilitarian functions of stock for cultivation, milk and meat to satisfy family needs are some of the major deterants which discourage farmers from sending their animals to the cattle posts. The trend is understandable when considering the fact that in the lowlands and foothills small herds (1 to 5 cattle) and small flocks (1 to 20 sheep or goats) predominate over larger sizes in the mountains.

When grazing pressure has reached its present levels of degradation, the lowland and foothill/mountain transhumant practice complicates any measures aimed at controlling stock numbers and improving the productivity of the pastures. Moreover, it does not seem to be preferred by the majority of households in the lowlands and foothills.

The examination of distribution of land and livestock show that livestock is much less equitably distributed than land, approximately half of the rural households own no stock. Even among livestock owning households, actual numbers are concentrated into relatively few hands, six percent of livestock owning households own 30 percent of total stock. The situation is particularly noticeable in sheep and goats where 10 percent of total farm households with the largest flocks hold 85 and 78 percent of the national sheep and goats flocks, respectively.

Because of the economic and social values associated with livestock, a socio-economic disparity is created between the minority of livestock owners and the majority of households with few or no livestock. This complicates planning for range management because it forces the question of which group should be the primary focus of range management. Certainly the large livestock holder has a larger impact on the resource as an indiviudal, however, in composite the smaller livestock holders also have a considerable impact on the resource.

Because there are more individual interests involved cooperation within this group is more difficult. It may be easier then to

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collectivise the interest of large holders or "entrepreneurs" but experiences in Mphaki and Thaba Tseka have demonstrated that this is an inappropriate strategy to achieve expected results.

The group of small livestock holders cannot be ignored. When their interests are at stake, as for example when a range area has been removed from use for an exclusive organisation of "entrepreneurs", they have a significant amount of social influence when they trespass in the area. Enforcement is difficult where there is a risk involved for anyone who has rightful access to the area in taking someone to the village headman for trespassing, because the majority in the village will be small livestock holders themselves and in favour of the trespasser. Rather than face disfavour from his fellow villagers, the "entrepreneur" or member of the exclusive organisation might not enforce his exclusive rights to use the area and thus the organisation breaks down.

On the other hand, if the output of livestock and livestock products could be increased, it is these larger units that will be able to contribute significantly to employment in secondary industry. But there is also a problem that the bulk of the range resources is utilized by large flock owners and therefore they must similarly pay the corresponding costs for the advantage they enjoy.

The group husbandry of livestock and/or production of fodders offers a culturally compatible solution to the growth versus equity question. As with crops, community resources can be pooled and management collectively by livestock owners. This permits applying improved management to a greater number of production units and the capturing of certain economies of scale.

Strenuous attempts have been made over the past twenty years to form associations for improved marketing of livestock and livestock products and to rationalise better management of grazing. The exclusivity of these associations to a few progressive livestock owners has either resulted in stagnation (Wool and Mohair Associations) or in collapse (Grazing Associations). This negative development derives from a fundamental problem that occurs when the ownership of land and livestock is separated - i.e. grazing land is owned by many, but the animals using the land are owned by individuals. Under these circumstances, two consequences emerge:

First, adding together the component partial utilities, the rational herdsman concludes that the only sensible course for him to pursue is to add another animal to his herd, and another ad infinitum. But this is the conclusion reached by each and every rational herdsman sharing the common grazing resource. The tragedy is that each man is locked into a system that compels him to increase his herd or flock without limit in a world that is limited. Ruin is the destination toward which all livestock owners rush, each pursuing his own best interest in a society that believes in the freedom of the usage of common property. Such a freedom paradoxically brings ruin to all.

Second, if attempts are made to control or restrict the freedom of individuals in using the common resource, particularly when discrimination is exercised between members and non-members of the association, the familiar counter reaction is trespassing. The specific and primary objective of Wool and Mohair growers associations is to reduce marketing costs by collective marketing of the products belonging to the livestock improvers as one group and non-improvers as another group. In Thaba Tseka, where grazing improvement was another objective of the association, conflict between the identified groups led to trespassing on the range and appeared to be a contributing factor in the downfall of the association.

Marketing of high quality wool and mohair requires that members have improved animals but a major advantage of an association is lost by not using a mechanism which improves breeding on a wider basis.

Because the land used by the association at Mphaki was historically used by the area Chief and his allies, one would expect that the common claim to the land by others would be dissuaded. However, past rights of use may be less important in the trespass problem than the fact that an already existing socio-economic differentiation among people in the area was being highlighted by the association's exclusivity of Brown Swiss Breeders. At Ongeluk's Nek, even members of the association trespassed with small stock because of the requirement of allowing only cattle to graze when they did not have access to other cattleposts. The Sehlabathebe Grazing Association is faced with a trespassing problem of a different nature, from the other associations. Trespassing is not done by members or non-improvers but by livestock owners who traditionally grazed the area but who have been excluded because they reside outside the allocation.

The characteristics of the Sehlabathebe Association differ markedly from those of the other associations and make the prospects of success brighter than those of the others. However, there are characteristics unique to the Sehlabathebe area that may preclude the replication of this concept in other mountainous areas. First, the land allocation is much larger than those of other associations (30,720 hectares). It includes summer and winter rangelands and village grazing. There is enough variation in topography to provide year round forage for animals. Second, membership is restricted only by residence, meaning that anyone residing within the land association can be a member of the association. It is not based on the characteristics of livestock type ownership and, consequently, owners are allowed to manage their herds and flocks together, much the same as they were doing in the past but with the elements of improvement introduced through better breeding, disease control, fodder production, and marketing. Thus the conflict between separation of land use as a communal resource and individual ownership is being minimized. Third, the association has a multipurpose function of both range and livestock improvement and conservation. Fourth, the success of the association will ultimately depend on its ability to control trespass by those that traditionally grazed the area and reside outside the allocation. This suggests that similar development should be offered to those denied this right.

If social organizations of range users are incorporated in the improvement measures affecting livestock and rangeland, they can become useful mechanisms for achieving cooperative range and livestock management units but the various separations that exist within the present system must be eliminated. With geographical (spatial) separation of villages and grazing areas, separation of interests within villages - i.e. different households use different grazing areas - and socio-economic separation, there exists a barrier to communication that must be overcome if improved range management and livestock production is to be achieved through cooperative organisational efforts.

Institutional Support Services play a crucial role in facilitating livestock improvement through range development and in acting as incentives. The enhancement of these roles requires that the traditional institutions and technical agencies interact as much as possible to eliminate communication barriers set up by geographic separation and to establish an effective base for collectivising the interests of livestock owners. The institutions, social and formal, include chieftainship, "maboella", cattleposts, herd boys and the Minstry of Agriculture.

The social institution of "Maboella" was in existence in Lesotho by 1850. It is a complicated system of pasture rotation which included seasonal migration of stock to mountain pastures and yearly burning of vegetative cover. In the lowlands and foothills, a local chief was the sole authority in controlling grazing. The system was originally designed to protect crops in summer and to optimise the use of available range resources but after 1939 it was undertaken to relieve some heavily degraded areas from grazing on other areas. A grazing permit system was introduced in 1973, modified by Range Management and Grazing Control Regulations in 1980, which were amended in 1986 by introducing stiffer penalties for pasture encroachment. A glance at the aggregate data establishes that the Grazing Control Regulations, which could potentially restrict animal units to range carrying capacity, have failed. The impact of increased fines is yet to be assessed, but the indications are that the measures might not be very effective unless some major structural changes in the grazing system are made effective.

There is a long list of problems with the implementation of the regulations - e.g. lack of authority, weak administrative structure, and the reluctance of the chiefs to enforce tough regulations on their people. One of the major problems is a jurisdictional one associated with a livestock system where stock owners from one village have cattleposts scattered across a summer grazing area.

The chieftainship is an important administrative institution. It is especially important on matters of land allocation and grazing. Summer grazing falls under the authority of the Principal Chief while winter grazing is under the jurisdiction of the Ward Chiefs and village headmen. It is clear that the regulatory authority of the chieftainship in the case of grazing has deteriorated with increase pressure on resources and economic change. With increase wage employment and consumerism, people have become more independent and less dependent on the chiefs and headmen for support.

Another level of social organization which is tied to patterns of settlement and kinship is the village. Consequently, villages form fairly discrete social units. In the past, through the headman, the village regulated the use of village rangeland and cropland. The breakdown of authority is most relevant at the village level where there is little respect for some of the headmen. However, the recent establishment of Village Development Councils and the support they are given could certainly restore the lost confidence and authority.

The village can form an organisational base for cooperative management on village rangeland both in the lowlands and foothills and in the mountains; but village rangeland cannot be viewed in isolation. It is part of a larger transhumant range system where most animals are moved to higher elevations away from the village rangelands during the summer. There is an interdependency between the two range types that provides year round forage for livestock. Therefore, changes in use and management on one type would certainly influence use on the other type. But the cattlepost rangelands are located away from villages and their control lies not with a single village or group of villages under a single headman but with another social organisation made up of cattlepost owners and users from different villages.

The institution determining the present pattern of range use is the cattlepost. It is a necessary requirement for using summer rangeland. Rights of use associated with cattlepost access and ownership are well understood by range users. Though grazing lands are common, cattlepost allocation and construction, and associated rights of use has resulted in a de facto allocation of grazing rights whenever a cattlepost is located. This occurs because the distance animals can travel from the cattlepost while grazing during the day is limited by having to return to the same cattlepost each evening. These circumstances have led to the very permanent use areas. Not only do cattlepost users come from different villages, these villages are also separated fairly widely geographically thus making it difficult in a cooperative or collective sense to link the management of village and the highland grazing resources.

Two or more households may share the use of the same cattlepost and herdboys. The closeness of these working relationships make them identifiable and resilient, but they are too small to be associated with any manageable unit of land. Their interests are as different as can be in a heterogeneous group of small units and individuals.

Thus, the cattlepost organisation, though potentially a useful range management tool, does not collectivise the interests of a large enough group of individuals to influence grazing practices. This would be the case if cattlepost owners came from the same village. The limits of a group of cattleposts correspond very closely to watershed boundaries. This means that there is little movement of animals between watersheds. Once animals reach the cattlepost, they remain in the vicinity until they return to the village rangeland. This in fact creates a very definable grazing unit that is unique to a group of individuals.

Apart from range and livestock, another important component of cattlepost organisation is the herdboy. The herdboy is in a somewhat forced situation, influenced by the transition from subsistence livestock production to progressive styles of management, in an environment of declining grazing resource availability. The result is manifested in various attributes of herdboy character, with some evidence that cultural values traditionally associated with herding and livestock are being challenged by external influences - like education and wage employment. Livestock are seen as being important economically and socially and there is resistance to the idea of practising rotational grazing between two summer grazing areas because of the well understood grazing area boundaries and associated rights of use.

The herdboy could play a functionary role in a programme to institute improved range and livestock management. This stems from the fact that herdboys have a substantial store of environmental knowledge, and because they are involved with livestock on a day-to-day basis. If they are provided with more education, they would have the ability to properly stock a range area and participate in livestock disease control and breeding programmes.

Positive education impact in the short term would enable training herders as wool/mohair classers and in disease control practices but would be limited by the separation that occurs in the existing management system. Though herdboys do manage the animals on a day-to-day basis, they do not have the ultimate control of the livestock. This control rests with the owners who reside in the village. Their cooperation in destocking, rotational grazing, disease control, and shearing first depends on the approval to participate from the owners. But there is little opportunity for the herdboy to give animals better grazing on the overgrazed communal range.

In the long term, the educated herdboys would eventually become livestock owners that have the knowledge to recognise overstocking, overgrazing, and unproductive animals. Changes such as decreasing the grazing pressure would still be impossible unless their interests were consolidated, which would not happen if the pattern of range use continues to depend on the location of the family cattlepost which has no significant relationship to the owner's village of residence.

The primary herdboy function should not be overlooked when planning communal rangeland or associations development. Consolidation of herds and flocks under one or two herders may not be desirable at the present time because of possible livestock owners skepticism about putting their animals in a herd under the attention of one or two herders whom he may not know. He might very well question the security of his animals knowing that they would receive closer attention by a herdboy (possibly his son) that he employed directly. It might be argued that consolidating herds and flocks would allow those with households that cannot afford herdboys to take animals to a summer grazing area. However, institutions that enabled households to use summer grazing areas exist in the form of herdboy and cattlepost sharing arrangements for limited number of households.

Reducing the number of individuals involved in livestock herding necessarily increases the number of young men that are unemployed. Though some of the herdboys would rather be attending school, herding is a desirable occupation for those that have a future in livestock.

The Ministry of Agriculture provides, through the Department of Livestock and Veterinary Services, technical institutional support services in range management, livestock management, disease control, and marketing.

The preoccupation of the range officers of the Ministry has been to supervise grazing in both village and cattlepost grazing areas. The supervisory roles include determining the carrying capacity of the range each year, examining all the livestock to ensure that the permit system and rotational grazing is being implemented, marketing undesirable animals until the stocking rate equal the carrying capacity, and instructing owners of undesirable stock to dispose of them within the following year.

As indicated in the preceeding discussion, these measures have not succeeded in reducing stock numbers. If anything, animal populations have increased in 1986. A group of stock owners sharing a communal range could be made better off if any or all of them would reduce their herds. This provides a temptation for technicians to exhort stockowners to be "responsible" and help destock the range by individually and voluntarily reducing their

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castration within breeds. The focus of small stock has been almost entirely on improving the quantity of the wool and mohair and elimination of coloured fibre. Purebred Merino sheep and Angora goats have been used for this purpose. In cattle, Brown Swiss was preferred for its multi-purpose characteristics, large size, draught power, high milk production, and hardiness. The Drakensburger and Afrikaaner breeds have been introduced at Mphaki and Sehlabathebe for their meat production and hardiness and are popular with the stockowners.

Given the variety of environmental, ecological and economic conditions facing Lesotho, it appears that no single cattle breed is appropriate for all of Lesotho. The same is true for small stock.

Breed improvement creates socio-economic differentiation because it involves farmers that have animals of improved breeding and those that do not. These two groups are in conflict because of the potential for mixing and indiscriminate mating of animals. However, the necessity of aiming to be self-reliant, particularly in small stock breeding, should be paramount while the above conflict can be resolved by removing the separation that exists between villages and range use rights. Residents of a village might pool their resources together and buy stud animals of improved breeds which would graze in the mountain range that they controlled as a village. Specialized breeders who would undertake breeding of superior stud animals could also be easily accomodated in such a new set-up.

Any benefits derived from improved breeding are nullified by poor nutrition which reduces the quantity and quality of wool, mohair and meat. Statistics indicate that current reproductive rates are so low that animal attrition through death and slaughter of females two years and older exceeds the number of female offspring born annually. These circumstances leave no room for selection among females as almost all of them are currently kept to maintain the breeding herds and flocks.

The loss of condition of animals in winter due to inadequate feed resources results in permanent stunting of animals as weight gains obtained in summer only only go to compensate for winter losses. This problem is compounded by prolonged transhumant trek between the lowlands/foothills and the mountains. The inefficient utilization of crop residues leads to wastage and deprives the animals of a potential source of supplementary feed. Attempts that have been made to promote fodder production have been directed to small stock at critical periods of breeding and lambing/kidding while feeding of range cattle is nil. Fodder programmes need to be intensified.

Strenuous efforts to tackle the nutritional stress of animals would enhance the effectiveness of disease control programmes. The absence of serious livestock diseases places the sector in a favourable position for improvement but the Veterinary Division

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herds. This reasoning is over-simplified and penalizes stockowners who succumb to the appeal if all other stockowners do not reduce their herds simultaneously.

Only if the society could mount a successful campaign that all stockowners agreed to reduce their herds simultaneously could these programmes be successful. Such a campaign is unlikely to attract such unanimous support, however, and some form of institution or measure is likely to be needed to enforce compliance.

Solutions to Lesotho's overstocking problem will require education at a variety of levels. The range officers alone are unlikely to successfully carry such an immense national burden. Cooperation would be required from the entire Ministry's staff, political leaders, local bureaucrats, principal and village chiefs, regulating agencies such as the police and courts, and local community leaders. Finally, and most importantly, individual stockowners and herders need to support such a programme of stock reduction. Some equitable scheme of sharing benefits from reducing stock is required. Individuals respond best to ideas that promote their own economic interests.

Livestock management has been focused on culling, breeding, and fodder production. There is fairly widespread knowledge among stockowners and herders of a government effort to cull coloured small stock and other inferiour animals.

The culling decisions of an individual livestock owner involves two separate components: the selection of animals to be culled and how, when and where to dispose of the selected animals. If the expected costs exceed the expected benefits, the stockowner will identify the animal as a cull; if the expected benefits exceed the expected costs, the animal will be retained - e.g. wool-producing old sheep. The decision not to cull is the complement of the decision to cull. Marketing culls through the formal market is seldom the most attractive option facing the stockowner, often culled females would grade so low that they would fetch very low prices on the formal market. The location and infrequency of auction sales also result in high transaction costs associated with the formal market. Rather, culled stock may be kept for future household consumption.

If culling is to be accepted by livestock owners as a whole, the size of individual livestock holdings should be an important consideration in deciding what kind of animal reduction programme should be instituted. A blanket type of reduction programme would have a detrimental impact on the livelihood of the small livestock holder, while having little effect on the incomes of the large owners.

Many of the past livestock development programmes in Lesotho have attempted to improve cattle, sheep, goats and horses through the introduction of new breeds, and through the selection and has failed to take advantage of this situation. The Veterinary Service is severely understaffed and is not able to cope with disease surveillance and control. Sheep scab and dourine, formally eradicated, have now become endemic. The demand for veterinary services by the farmers is increasing and at the same time many intensive livestock systems are being developed that require veterinary advice and attention.

Instead, limited professional resources have been devoted to subsidised small animal treatment, rather than prevention of diseases in the national herds and flocks. Reorientation of the division is necessary to deal with veterinary problems of national importance. A network of disease investigation centres should be established at strategic locations in order to improve the disease surveillance measures and small animal clinical work should be left to private veterinarians.

The greatest weakness in the veterinary services concerns legislation on animal diseases and livestock movements - see Proclamation No. 10 of 1876. Movements of livestock are an important factor in disease transmission. Current legislation is confusing as it gives regulatory power to three different ministries - i.e. Finance under the Customary and Excise Act of 1970; Agriculture under the Stock Disease's Proclamation of 1896 and the Importation and Exportation of Livestock and Livestock Production Proclamation of 1952, as amended in 1984; and Health under the Public Health Order of 1970.

Control of livestock products is similarly dealt with by three ministries - Agriculture, Health and Interior under the Local Adminstration Act (Public Health, Food and Abattoir Markets of 1969). The present legislation on sanitary control of livestock and livestock products is inadequate and confusing.

Regardless of the effect of marketing on the stocking rate, the current low levels of commercial marketing of livestock may be symptomatic of certain structural flows which limit market performance.

The low offtake of animals has remained more or less constant over the past fifty years whether the private sector or the Government dominated the marketing scene. More animals seem to have been sold when speculators trade young two-year old animals and cash for older oxen, or traded two tollies for each old ox. In this system of marketing, the net effect on offtake was negative and had detrimental effects on stocking rates. The price incentives resulting from competitive bidding for animals have not had much impact on offtake either. The only significant effect of good prices is evident in livestock products and this is so because sale of products does not entail removal of the animal from the herd or flock.

In order to appreciate the farmer decision-making process underlaying this apparent resistance to marketing of live animals, it is necessary to analyse the stockowner's perceptions of his "wealth".

The decision to keep or sell an animal may be characterised as depending on a comparison of the gains from keeping the animal one more period versus the costs of doing so. By keeping the animal one more period, a pastoralist may benefit from the increase in the animal's sale value due to its increased weight, and the additional value flowing from the animal as a living resource. Such flow values may include milk, calves, wool, mohair, hides and skins, lambs/kids, security, power, liquidity or prestige, and aesthetic pleasure. The cost of keeping an animal one more period includes the costs of herding, feeding, watering, maintaining it in good health, the risk of mortality, and also the one-period gains foregone by not selling the animal and investing the proceeds in another (presumably younger) animal or some other asset. The animal will be sold if the cost of keeping it one more period is perceived to outweigh the benefits of keeping it that additional period. In the first instance, these decisions are made independent of the price of the animal.

The other consideration relates to cash needs. Livestock, particularly cattle, are an illiquid investment which are sold under exceptional circumstances to meet emergency cash needs. Marketing initiatives may well attract more sales through commercial channels, but total sales may actually decrease as farmers' immediate needs are met from other sources of income. The remmi ances of migrant wages into the rural areas may be having this effect on the marketing of animals.

Calculation of the net present value of live animals is least complicated for production systems where one product - e.g. meat or milk - is the only product and more complicated where there is a complex of valuable flow and stock products - e.g. with range cattle, sheep and goats. Because range is a communal property which can be exploited by the individual farmer without any immediate perceptible consequences on the individual using overgrazed pastures, the need to destock does not feature much in his decision to sell his animals

Basotho do market significant numbers of animals - though most of this trade occurs outside of formal marketing channels. In quantity terms, the most important marketing channels are the informal channels which link producers in the rural areas. Most of the animals traded are primarily mature males destined for service as draught animals and ultimately for slaughter. After farmers (which account for 70 percent of the number sold by cattle owners), the second most important marketing channel which cattle owners use for sale are the butcheries (14 percent).

Butcheries dominate the formal marketing channels, purchasing their live animals from Lesotho producers, the National Feedlot, and South African suppliers. They are the dominant purchasers of carcasses from the National Abattoir and have large numbers of

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cattle and sheep custom slaughtered at the abattoir. Butcheries also dominate commercial sales of beef and offals to consumers in both urban and rural areas.

The National Abattoir and Feedlot Complex plays important intermediary functions, though presently inefficient, in the cattle and beef markets and, to a lesser extent, in sheep marketing. It is a dominant purchaser of cattle and sheep at the LPMS rural auction sales and the largest importer of live cattle in Lesotho. It sells both fattened animals and carcasses in Lesotho and South Africa and, lately, to neighbouring countries.

With its problems of low animal productivity and overstocking, the Lesotho livestock sector poses many challenges for development. Market development initiatives appear to have a great potential role in promoting that development. The informal market, with direct involvement of livestock owners through their associations, needs reinforcing while the LPMS rural auctions should be better organised and provide a complementary channel. The intermediary role of the National Abattoir and Feedlot Complex should be refined and efficiency insisted upon. The objective of the structural adjustments in marketing should be aimed at creating a continuous farmer-product link between production and the final product with a view to primarily promoting "commercial mentality" amongst producers. In this way, the role of marketing in destocking programmes can make a significant impact.

The marketing of livestock products - wool, mohair, meat, hides and skins - is less complex than that of live animals. However, improvements need to be made in the payment system so that delays between harvesting and payment are minimised. Proper handling and preparation is underdeveloped in hides and skins. Additional income can be generated in a product sector which presently is of no benefit to the producer.

3. STRATEGIES FOR IMPLEMENTING POLICY AND STRUCTURAL ADJUSTMENTS

The livestock/range system is a complex one as shown in the preceding discussion. In it are embedded social, cultural, economic and technical constraints and potentials. Measures to unlock the negative influences of these will neither be easy nor popular in the short term, but we must seek the means by which large scale participation in growth is possible while at the same time restoring and preserving our most important natural resource, range.

To do so requires strategies based on the resources and skills of multiple groups and larger numbers of farmers. Furthermore, significant roles for village decision-making and enterprise are sought in association with livestock systems, and government must seek indirect methods of stimulating improved livestock and range management systems as a cost effective alternative to direct government delivery systems.

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In recent years, four types of initiatives have been undertaken- the construction of marketing infrastructure, the experimental implementation of grazing associations, the extension of production information, animal health care, and improved breeds, and the forced culling of animals judged to be of inferior genetic stock. While these initiatives have been justified for their supposed effects on reducing the stocking rate and increasing animal productivity, their actual consequences have been varied.

In order to succeed, livestock/range implementation strategies must take account of five criteria: physical and biological feasibility and consequences; economic efficiency; economic welfare and equity; social or cultural acceptibility; and operational or administrative practicability.

3.2 Stock Numbers, Stocking Rates and Carrying Capacity

Livestock herds and flocks contain a high proportion of unproductive animals. With accumulation, rather than production as a management objective, there are excessive numbers of male animals and old stock of both sexes. It would be possible through selective culling to reduce the national herd and flock by at least 20 percent without reducing the livestock sector's contribution to GNP. In fact, if such a reduction were to occur, livestock production and incomes would rise as better nutrition created a positive change in calving/lambing/kidding rates; rates of gain; milk, wool and mohair outputs; draft power; and a reduction in mortality.

A recommended mechanism for stock reduction is introduction of a <u>Grazing Fee</u>. The precedent exists; wool and mohair levies have been in existence for many years. One very significant value, in addition to possible stock reduction if the grazing fee is levied, would be the contribution toward perceiving livestock by farmers more as economic, rather than social, goods.

In order to permit prior discussions and consultations with Chiefs, farmers and Development Councils, the implementation of grazing fees should be effected in October 1988. Widespread publicity should be launched after the necessary approaches have been made with the Public.

The fee should be significant, and not a token amount. It should be high enough to induce farmers to remove, initially, off-colour and non-productive animals from their herds and flocks. As a result, farmers will be guided to make decisions based upon economic criteria, instead of being forced to reduce livestock numbers. This will eventually lead to increased production per animal. The charging of such a significant amount will also serve to make other alternative investments more attractive to livestock producers, who are only marginally involved with livestock (see Semi-Intensive and Intensive Farming).

An annual fee of M 25 and M 5 for large and small stock, respectively, means that a farmer would be force to sacrifice, in value terms, one large stock and one small stock out of every twelve large and eighteen small stock, respectively. These fees generate approximately M 34,500,000 per year (based upon approximately 800,000 large stock and 2,900,000 small stock) and would be subject to review annually.

As an incentive to promote intensive livestock enterprises, dairy animals and stall-fed stock of all types should be exempt from taxation, thus reducing total revenues to about M 25 to 30 million. Furthermore, the grazing fee should be set up whereby farmers could be given a credit to exempt three animals against the following year's grazing fee for each animal sold at a livestock sale and upon presentation to the chief of a stamped receipt when a grazing permit is issued. This would induce farmers to sell their animals. Finally, the institution of a grazing fee should be such that substantial portion of the revenues generated by the fee should be returned to the communities from where the money originated to meet some of the recurrent costs of administering the fee and the permit system. Any balances could be used for livestock development purposes, such as purchase of breeding stock, etc..

As pointed out earlier, actual animal numbers are concentrated into relatively few hands, thus creating a socio-economic disparity between the minority of households that own a high percentage of the total number of stock, and the majority that own few or none at all. As individuals, the large livestock holders have a greater negative impact on the grazing resource and therefore they should pay the social costs for their privileged position. These equity considerations suggest that some graded fee structure could be worked out in the second or third year of grazing fee implementation.

The inequitability of transhumance, characterised by annual influx of stock from lower elevations to the mountain areas in summer, was discussed earlier in this paper. To permit large numbers of animals which must utilize part of the mountain range for survival, permits income growth in the lowlands and foothills at the expense of mountain residents. Small stock are held primarily for their contribution to diets and incomes. Yet the incomes thus derived in the lowlands are extracted directly from the high mountain pastures which form the principal productive resource for mountain area dwellers.

It is recommended that the practice should be discouraged by charging a stock tax of M 5 and M 2 for large and small stock, respectively, in addition to a grazing fee for all animals seasonally migrating to the mountain grazing from the lowlands and foothills. However, the tax should be introduced in the second year of grazing fee implementation to enable sufficient publicity and readiness of farmers to consider alternative strategies.

The current estimates on the carrying capacity of the range are somewhat exaggerated on the negative side, thus the optimum stocking rate of the range under different biological (multi-species grazing) and physical conditions requires further investigation. Destocking will cause production in the short term to decrease but then increase as improvements are achieved in range and potential livestock productivity. However, once this is accomplished, there are even greater potential short-term gains to be obtained through increased stocking rates.

The importance of cattleposts in the present pattern of range use was emphasized earlier. The exploitation of its potential in improvement of range on a cooperative basis is limited by the geographic separation between village residence and summer grazing area.

In order to establish the desired relationship between the two, cattleposts should be reallocated. The modification should be carried out in four stages:

(1.) Inventory of villages, cattleposts and owners, and watersheds

Once this information is obtained for an entire district, some relationships between village areas and summer grazing areas would emerge on a larger scale.

(2.) These broader based relationships would be used to begin the assignment of cattleposts.

(3.) After these general grazing regions are established, it will be necessary to associate residents of villages located in close proximity within a single watershed.

(4.) The last stage would be the transfer of cattlepost rights among owners from different watersheds as determined by their village residence.

Cattlepost reallocation could significantly offer opportunities for enforcement of the Grazing Control Regulations and carrying capacity limits would be more realistically worked out and applied. Cattlepost assessment should commence in 1987.

As range users would be together both at the village and at the summer grazing area, there is a good opportunity for the village to collectivise the interests of its members to reduce stocking in an area in which they all graze their animals.

The cattlepost institution will be used to strengthen the management and activities of livestock Associations. It will be necessary to station a member of the Range Division staff at each Livestock Improvement Centre, together with a Livestock Assistant to help village group members in organisational skills as they attempt to participate in range management and livestock improvement. This will also eliminate the unnecessary duplication created by formation of two organisations, grazing associations, and wool and mohair associations, both of which have the same objective.

Extension of the Sehlabathebe Grazing Association, which is based on the area of residence, to other areas of the country will require land allocations to groups of range users. These land allocations would actually be allocations of cattleposts. However, <u>until cattlepost allocation takes place</u>, there is really <u>no basis for the land allocation for an association</u>. Those that are excluded as non-members because they reside in a different area or, worse still, because they are livestock non-improvers, will be excluded from cattleposts that are rightfully theirs.

The need to provide some basis <u>education</u> for the <u>herdboys</u>, as an important component of cattlepost organisation, was stressed earlier in this report. Positive educational impact - e.g. expecting herdboys with an education to begin instituting management in cattlepost areas - in the short and long term would be reduced if the pattern of range use continued to depend on the location of a family cattlepost which has no significant relationship to the owner's village of residence.

Cattlepost reorganisation would also facilitate introduction of <u>tatooing</u> of animals, control of stock theft and rnage trespassing.

Acceleration of breed improvement can be achieved by removing the separation that exists between the village and range use rights at the cattlepost. General and specialized <u>breeding</u> can be facilitated both for large and small stock.

Given the variety of environmental, ecological and economic conditions facing Lesotho, different suitable breeds should be introduced over a carefully planned period.

The depression of livestock productivity and losses caused by <u>diseases</u> negatively affects the quality and quantity of products - meat, milk, wool and mohair. Disease control measures should be strengthened by adequate provision of professional and middle level technicians, and by training of farmers to dose and vaccinate their stock themselves.

Small animal clinical work should be phased out from government involvement and increasely be left to private veterinarians as they increase in numbers. In this way, government veterinarians will be able to devote their time and efforts to major disease surviellance and control of major disease outbreaks.

Analysis of the farmers' decision-making process on whether to seel or retain animals suggests that they are not primarily commercially oriented but <u>market</u> their stock in response to cash needs and that this is done in a declining livestock/range environment. In this kind of environment, even regular auction sales may not in themselves be an incentive to unleash higher levels of offtakes. People who need cash have always been able to find other sale outlets in the informal markets. Significantly higher rates of offtake will follow major structural changes in national herds and flocks, range improvements, and better services.

The major objective in marketing should be, in the short term, to encourage destocking, and, in the long term, efforts must be made to create a sense of commercialization of livestock. Auction sales through the LPMS must be regular and widely publicised. Movements of animals should be expedited by trucking, rather than by driving animals on the hoof whereby considerable deterioration in the condition of animals occurs with consequent loss of weight. As the majority of such animals will invariably be old, suitable markets should be sought outside of Lesotho. In this regard, the National Abattoir's certification for export and procurement of an export quota should be expedited.

Options should be given to the farmer at auction sales to either receive on-the-spot payment or to be paid later for his carcass value. For those needing cash immediately, arrangements should be made to institute a part-payment.

To stimulate commercial consciousness, a direct link between the animal and the final product must be effected. This can be achieved by the farmer's direct participation in and eventual ownership of the processing enterprises, which can initially be run by hired management. The informal markets offer a good opportunity through which farmers can own and supply rural slaughterhouses with animals.

The establishment of the feedlot was premature considering the present level of livestock production systems, where old rather than young animals are marketed. Rural individual or cooperative stall-feeding units should be promoted first and, if efforts are successful, no need would arise for centralised feedloting. However, the facility could temporarily serve a useful purpose in a destocking programme as a holding ground. It should be linked to other satellite holding grounds, established at strategic locations. When restructured in this manner, its management would best be under the supervision of LMPS, rather than the abattoir.

As an adjunct to the abattoir, a modest meat processing plant could handle a large number of carcasses which are presently of very low grades and unsuitable for sale as fresh product.

The marketing of wool and mohair has been satisfactory after minimising payment delays. The establishment of scouring and processing plants should bring about more improvements.

Little attention has been paid to marketing of hides and skins.

Farmers are presently forfeiting additional income as a result of neglect of proper preparation of their hides and skins. Evidently, marketing of these products is chaotic and therefore a disincentive to farmers. Establishment of suitable facilities in rural areas should be a priority, backed up by training programmes.

A processing plant to the final product would enhance the value of hides and skins, reduce market bottlenecks and also create job opportunities.

REPORT ANNEX 4

The Financial Viability Of Coop Lesotho Depots And Sales Outlets

I. Coop Lesotho Depots and Sales Outlets Judged to be Commercially Viable

1. Butha Buthe
2. Liqhobong
3. Leribe
4. Mahobong
5. Maputsoe
6. Mokomahatsi
7. Peka
8. Moletsane
9. Teyateyaneng
10. Thuathe
11. Maseru Main
12. Ha Ntsi
13. Mazenod
14. Matsieng
15. Mafeteng
16. Kotisephola
17. Tsoloane
18. Quthing
19. Alwyn's Kop
20. Mantsonyane
21. Mohale's Hoek Main

II. Coop Lesotho Depots and Sales Outlets Pending Classification

1. Pitseng
2. Likalaneng
3. Thaba Tseka

III. Coop Lesotl Depots and Sales Outlets Judged to be Commercially Non-Viable

1. Mokhotlong
2. Pilot
3. Sefikeng
4. Malt Yard
5. Semonkong
6. Ntjepeleng
7. Matelile
8. Mpharane
9. Mt. Moorosi
10. Seapa
11. Qacha's Nek
12. Sehlabathebe
13. Mohale's Hoek Sub-Depot

IV. Coop Lesotho Sales Outlets and Lock-Up Stores

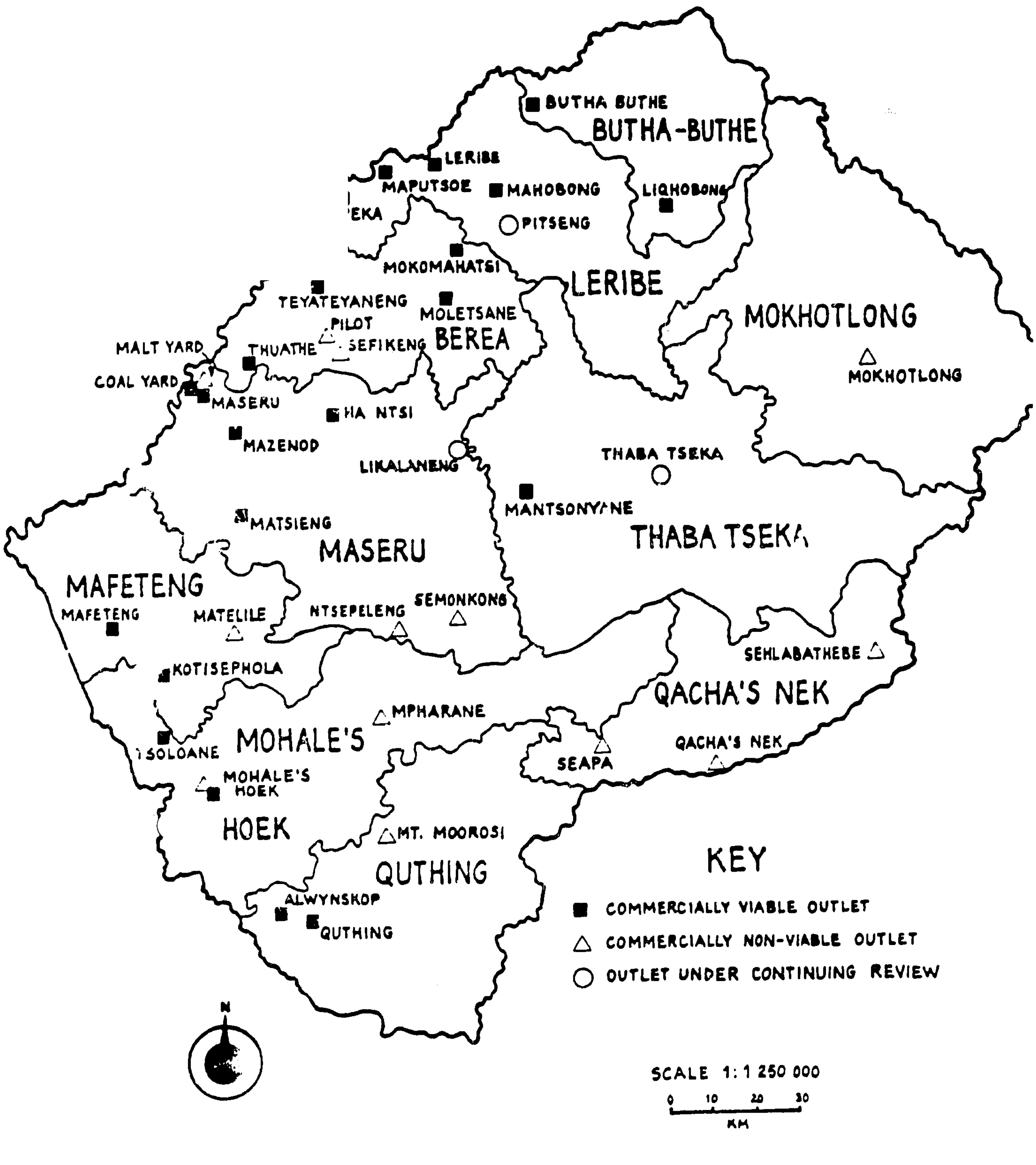
1. Mofoka
2. Makhiseng
3. Thuhloane
4. Letseng-la-dry
5. Qamo
6. Kolo
7. Mpalipali
8. Mpharane
9. Corn Exchange
10. Koali
11. Makhalaneng

V. Coop Lesotho Sales Outlets and Lock-Up Stores Transferred to Development Projects

1. Khabo
2. Mapoteng
3. Sebalabala
4. Lekokoaneng
5. Kolonyama
6. Khukhune

ANNEX FIG. 4.1

A FINANCIAL MAP OF CO-OP LESOTHO DEPOTS AND SALES OUTLETS



SOURCE: MAINI, N.S. AND RAMN SARAN REPORT OF MANAGEMENT SPECIALISTS ON CAPITALIZATION AND RATIONALIZATION PLANS OF CO-OP LESOTHO LTD. (GOVERNMENT OF

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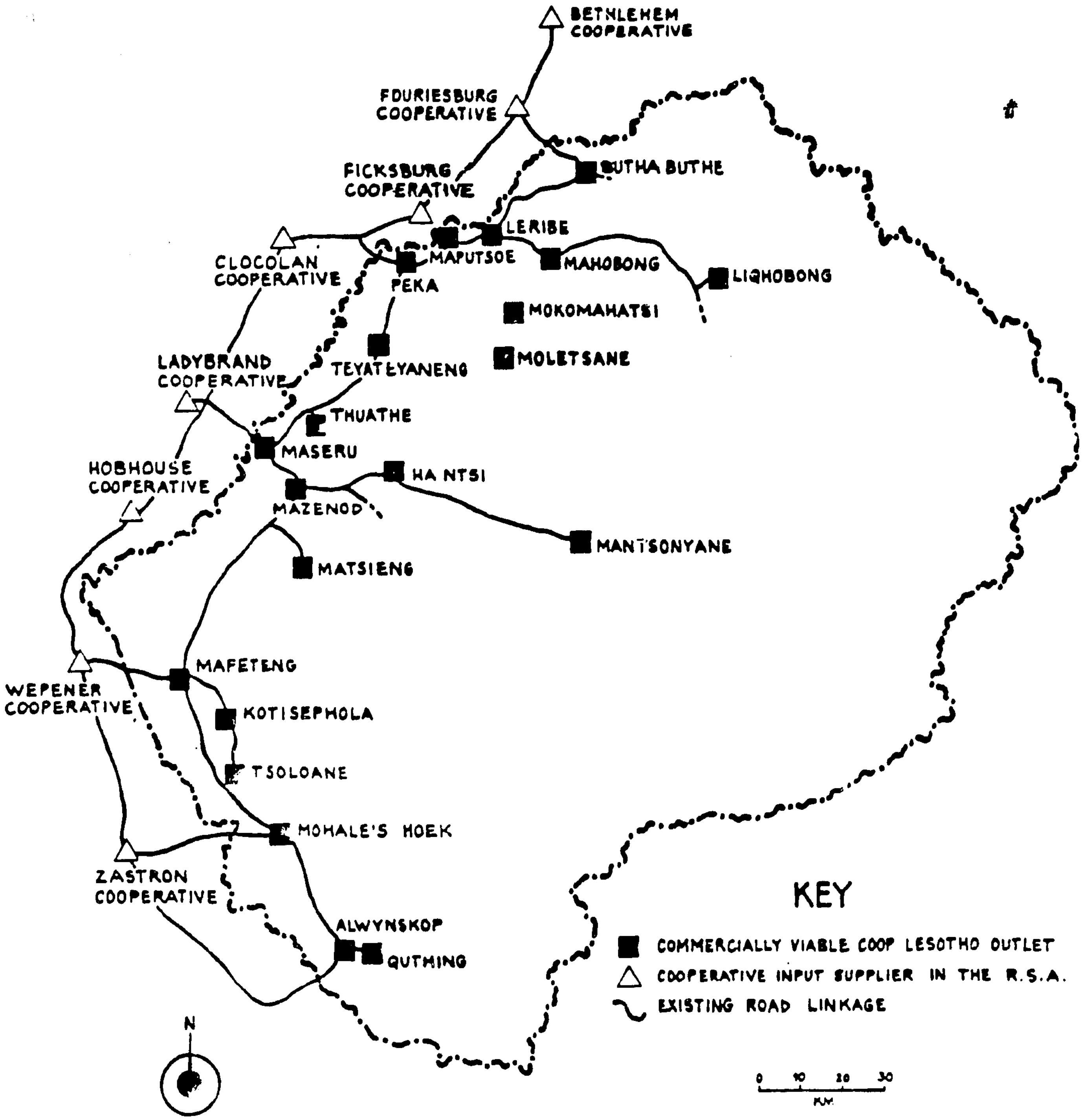
ANNEX FIG. 4.2

A MAP OF CO-OP LESOTHO DEPOTS AND SALES OUTLETS AND COOPERATIVE INPUT SUPPLIERS IN THE R.S.A.



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REPORT ANNEX 5

List of Persons Contacted During the PAIP and PAAD Consultancies

A. Ministry of Agriculture

Dr. D.R. Phororo, Minister of Agriculture and Senior FAO Representative
Mr. P.L. 'Mabathoana, Minister of State
Mr. R. Ntokoane, Principal Secretary
Mr. N. Khuele, Director, Livestock Department
Mr. T.M. Motsoene, Director of Field Services
Mr. E.P. Moeketsi, Acting Commissioner of Cooperatives
Mrs. M. Morojele, Chief Planning Officer
Mr. B. Motsamai, Chief Range Officer
Mr. T.J. Ramotsoari, Senior Planning Officer
Mr. L. Lehloba, Chief Animal Production Officer
Mr. M. Ramaema, Agricultural Planning Officer
Mr. K.E. Matsaba, District Agricultural Officer, Quthing
Mr. J. Mokotjo, Head of Agricultural Marketing Division
Mr. C.F. Fritsch, Team Leader, Agricultural Planning Project
Mr. C. Weaver, Team Leader, Land Conservation and Range Development Project
Mr. B. Freeman, Chief-of-Party, LAPIS Project
Mr. C.R. Franck, Team Leader/Production Component, LAPIS Project
Dr. N. Artz, Sociologist, LAPIS Project
Dr. R. Olson, Marketing Specialist, Agricultural Planning Project
Mr. D. Magers, Leader, Credit Union Project
Dr. W. Schacht, LAPIS/Range and Livestock Research
Mr. E.M. Pomela, Agronomist, Research Division
Dr. G.D. Massey, Research Agronomist, LAPIS Project
Mr. M. Lesenya, Chief Agricultural Information Officer
Ms. F.M. Thabisi, Librarian, Agricultural Research Library
Mr. T.Namane, Director, Agricultural Research Division
Ms. P.M. Radebe, Matela Farmer Training Centre
Ms. M.L. Morupeli, Instructor, Matela Farmer Training Centre
Mr. M. Seisa, Young Farmers Clubs
Mrs. M.M. Mpeta, Acting Chief Nutrition Officer, Nutrition Division
Mr. H. Liu, Chief of Operations, Technical Operations Unit
Mr. M.D. Rahlao, Crop Production and Logistics Manager, Technical Operations Unit
Mr. D. Khusu, Livestock Product Marketing Service

B. Ministry of Planning, Economic and Manpower Development

Mr. N.M.M. Sefali, Minister

Mr. K.M. Manyeli, Principal Secretary
Mr. D. Mosebo, Director of Development Implementation
Mrs. M. Moshoeshoe, Senior Planning Officer
Mrs. M. Rapolaki, Director of Donor Coordination
Ms. M. Mapetla, Senior Planning Officer
Mr. L. Tuoane, Director of Statistics

C. Ministry of Finance

Mr. L.A. Thoahlane, Principal Secretary

D. The Central Bank of Lesotho

Mr. E.K. Molemohi, Deputy Governor
Mr. F.M. Borotho, Research Director

E. American Embassy and USAID Mission

The Honorable R.M. Smalley, Ambassador of the United States of America
Mr. J. Snyder, Director
Dr. C. Tyson, Deputy Director
Mr. A. DeGraffenreid, Project Implementation Officer
Mr. B. Hill, Agricultural Development Officer
Dr. A.M. Moustafa, Deputy Agricultural Development Officer
Mr. R. Dunbar, Supervisory Executive Officer
Mr. A. Gordon, Controller

F. Government Parastatals

Mr. P.M. Khanyane, Managing Director, Coop Lesotho
Mr. P. Williams, Financial Advisor, Coop Lesotho
Mr. M. Leteka, Coop Lesotho Store/Semonkong
Ms. M. Musi, Coop Lesotho Store/Mafeteng
Mrs. M. Makhetha, Coop Lesotho Store/Tsoloane
Mr. Kabi, Manager, Coop Lesotho Maseru Main Depot
Mrs. M. Masheane, Coop Lesotho Mazenod Depot
Mr. E.T. Rafeeea, Coop Lesotho Thaba Tseka Depot
Mr. A.M. Masia, Coop Lesotho Likalane Depot
Mr. P. Mokhesi, General Manager, Basuto Fruit and Vegetable Canners (Pty.) Limited
Mr. M.M. Wauters, Agronomist, Basuto Fruit and Vegetable Canners (Pty.) Limited
Mr. J. Lepele, Manager, Lesotho National Abattoir and Feedlot Complex
Mr. J.W. Jorgensen, General Manager, Lesotho National Abattoir and Feedlot Complex

G. Private Sector Agents

Dr. R. Mckee, Co-owner, Garden Centre
Ms. M. Kotsokoane, Co-owner, Garden Centre

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Mr. T.L. Makhoane, AVA Agrivet and Agencies
Mr. R.T. Mochebelele, Dairy Farmer
Mr. M. Moletsane, Dairy Farmer
Mr. C. Ntsane, Dairy Farmer
Dr. E.M. Malie, Dairy Farmer
Mr. D. Motikoe, Private Tractor Owner/Custom Operations
Mr. D.J. Wyatt-Smith, Lesotho Manager, Barclays Bank
Mr. P. Kotelo, Assistant Manager, Lesotho Bank
Mr. T.M. Motseki, Acting Director for Loans, Lesotho Agricultural Development Bank
Mr. A. Petersen, Swec Pty. Ltd.
Mr. W.J. Pretorius, Manager, Lesotho Tractors and Construction Machinery
Mr. G. Schepers, Export Officer, Pioneer Seed Company RSA (Pty) Ltd.
Mr. H. Taljaard, Kombat Chemicals (Pty) Ltd.
Mr. H. Winterleitner, Project Manager, Bauer Project
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Mr. L.J. Jordan, Accountant, Drankesberg Cooperative, Bethlehem
Mr. G. Delport, Abattoir Division Manager, Natal Livestock Association
Mr. J.L. Bruwer, Manager, Natal Livestock Auctioneers (Pty.) Ltd.
Mr. Ferns, Durban Branch Manager, South African Meat Board
Mr. C.L. Muller, Managing Director, Jack Yudelman Wholesalers, Matatiele
Mr. G.K.M. Casalis, Manager, Maseru Roller Mills (Pty.) Ltd.
Mr. C. Makhoalibe, Private Trader/Pitseng
Mr. W. Herbert, Private Trader/Jandrell Store/Mohale's Hoek
Mr. B. Paku, Chairman/Phela-U-Phelise Cooperative
Mr. M.E. Pefola, Manager/Phela-U-Phelise Cooperative
Mrs. C.M. Senephane, Assistant Accountant/Phela-U-Phelise Cooperative

H. Other Consultants

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Mr. T. Bager, World Bank Mission/Coop Lesotho
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Mr. U. Taalikka, World Bank Mission/Coop Lesotho
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Mr. D.C. Marsden, Senior Economist, Louis Berger International, Inc.
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Mr. R.E. Highfill, Consulting Agricultural Engineer
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Mr. Kinyua, IMF
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I. Public Officials in the Republic of South Africa

Mr. P.H. Coetzee, General Manager/Meat Board
Mr. P. Kemper, Assistant General Manager/Meat Board
Mr. S.J. du Toit, Managing Director/Abattoir Corporation
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ANNEX G

REPORT ANNEX 6

Report Bibliography

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ANNEX I

INITIAL ENVIRONMENTAL EXAMINATION

OR

CATEGORICAL EXCLUSION

Project Country: LESOTHO

Project Title: ECONOMIC POLICY REFORM PROGRAM

Funding: FY (s) 1988 $ 15M

IEE Prepared by: Carole Tyson, Deputy Director, Lesotho

Environmental Action Recommended:

Positive Determination ____________
Negative Determination ____________

Categorical Exclusion: Proposed Activities

This activity meets the criteria for Categorical Exclusion in accordance with Section 216.2 (C) and is excluded from further review because: The purpose of the Lesotho AEPRP is to assist the GOL to:

a) Reduce expenditures by privatizing agricultural input marketing expenditures;
b) Raise agricultural production; and
c) Increase credit availability to small scale entrepreneurs.

AID's funds will be disbursed as a cash transfer ($13.75 million), which will be conditional on GOL policy reform to increase the role of the private sector, thus eliminating the present drain on the national Budget, and as a grant for complementary policy studies and technical assistance in implementing the policy reforms ($1.25 million).

The cash transfer qualifies for a categorical exclusion under Section 216.2(c)(1)(ii) of the A.I.D. Environmental Procedures, 22 CFR Part 216.

The funding of complementary studies and technical assistance to facilitate implementation of the stated policy reforms meets the requirements for exclusion under Section 216.2 (c)(2)(i) - "education, technical assistance, or training program except to the extent such programs include activities directly affecting the environment (such as construction of facilities etc.)," and 216.2(c)(2)(iii) "studies". The AID technical assistance and studies grant will not be used for construction.

Section 216.2(e) provides that the categorical exclusions in Section 216.2 (c)(2) "are not applicable to assistance for the Procurement of Pesticides."

Concurrence:

Bureau Environmental Officer
Bessie L. Boyd, AFR/TR/PRO

APPROVED ____________

DISAPPROVED ____________

DATE 10/29/87

Clearance: GC/AFR ______ Date ______
Mary Alice Kleinjan, GC/AFR 10/27/87

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3(A)2 - NONPROJECT ASSISTANCE CHECKLIST

The criteria listed in Part A are applicable generally to FAA funds, and should be used irrespective of the program's funding source. In Part B a distinction is made between the criteria applicable to Economic Support Fund assistance and the criteria applicable to Development Assistance. Selection of the criteria will depend on the funding source for the program.

CROSS REFERENCES: IS COUNTRY CHECKLIST UP TO DATE? Yes HAS STANDARD ITEM CHECKLIST BEEN REVIEWED? Yes

A. GENERAL CRITERIA FOR NONPROJECT ASSISTANCE

1. FY 1988 Continuing Resolution Sec. 523; FAA Sec. 634A. Describe how authorization and appropriations committees of Senate and House have been or will be notified concerning the project.

   CN was submitted on May 13, 1988 and the 15 day waiting period expired without objection on May 28, 1988.

2. FAA Sec. 611(a)(2). If further legislative action is required within recipient country, what is basis for reasonable expectation that such action will be completed in time to permit orderly accomplishment of purpose of the assistance?

   The LAPSP is part of a program which has already been approved by the GOL.

3. FAA Sec. 209. Is assistance more efficiently and effectively provided through regional or multilateral organizations? If so, why is assistance not so provided? Information and conclusions on whether assistance will encourage developing countries to cooperate in regional development programs.

   The assistance is more appropriately disbursed directly to the GOL, because it is the GOL that will bear the cost of implementing the policy reform. However, Lesotho has responsibility for soil and water conservation within SADCC, and a demonstration here that the program's reforms promote conservation will be a model for similar reforms in other SADCC member countries.

4. FAA Sec. 601(a). Information and conclusions on whether assistance will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture, and commerce; and (f) strengthen free labor unions.

Policy Reforms will a)minimally increase Regional Trade i: medium and long term; b) Foste private initiate and competition by privatizing a Government parastatal for agricultural inputs and improving livestock marketing; c) enable ag input supply agency to become an Apex Cooperative; d) discourage monopolistic practices by ensuring open competition in proving Ag. inputs; e) will improve tech. efficiency in agriculture by removal of inefficient subsidies and increased availability of goods from open competitions; and f) will not affect labor unions.

5. FAA Sec. 601(b). Information and conclusions on how assistance will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).

The Selected Policy Reforms will not affect US private trade or investment.

6. FAA Secs. 612(b), 636(h); FY 1988 Continuing Resolution Secs. 507, 509. Describe steps taken to assure that, to the maximum extent possible, foreign currencies owned by the U.S. are utilized in lieu of dollars to meet the cost of contractual and other services.

US does not own Maloti.

7. FAA Sec. 612(d). Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release?

No

8. FAA Sec. 601(e). Will the assistance utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise?

Yes

9. FAA 121(d). If assistance is being furnished under the Sahel Development Program, has a determination been made that the host government has an adequate system for accounting for and controlling receipt and expenditure of A.I.D. funds?

N/A

B. FUNDING CRITERIA FOR NONPROJECT ASSISTANCE

1. Nonproject Criteria for Economic Support Fund — N/A - NO ESF FUNDS TO BE USED.

a. FAA Sec. 531(a). Will this assistance promote economic and political stability? To the maximum extent feasible, is this assistance consistent with the policy directions, purposes, and programs of Part I of the FAA?

b. FAA Sec. 531(e). Will assistance under this chapter be used for military or paramilitary activities? — N/A

c. FAA Sec. 531(d). Will ESF funds made available for commodity import programs or other program assistance be used to generate local currencies? If so, will at least 50 percent of such local currencies be available to support activities consistent with the objectives of FAA sections 103 through 106? — N/A

d. FAA Sec. 609. If commodities are to be granted so that sale proceeds will accrue to the recipient country, have Special Account (counterpart) arrangements been made? — N/A

e. FY 1988 Continuing Resolution. If assistance is in the form of a cash transfer: (a) are all such cash payments to be maintained by the country in a separate account and not to be commingled with any other funds? (b) will all local currences that may be generated with funds provided as a cash transfer to such a country also be deposited in a special account to be used in accordance with FAA Section 609 (which requires such local currencies to be made available to the U.S. governnent as the U.S. determines necessary for the requirements of the U.S. Government, and which requires the remainder to be used for programs agreed to by the U.S. Government to carry out the purposes for which new funds authorized by the FAA — N/A

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would themselves be available)? (c) Has Congress received prior notification providing in detail how the funds will be used, including the U.S. interests that will be served by the assistance, and, as appropriate, the economic policy reforms that will be promoted by the cash transfer assistance?

f. FY 1988 Continuing Resolution. Have local currencies generated by the sale of imports or foreign exchange by the government of a country in Sub-Saharan Africa from funds appropriated under Sub-Saharan Africa, DA been deposited in a special account established by that government, and are these local currencies available only for use, in accordance with an agreement with the United States, for development activities which are consistent with the policy directions of Section 102 of the FAA and for necessary administrative requirements of the U. S. Government?

The GOL will deposit into Special Accounts Maloti equal to the amount of the dollar disbursements, which will be used in support of LAPSP policy reforms.

2. Nonproject Criteria for Development Assistance

a. FAA Secs. 102(a), 111, 113, 281(a). Extent to which activity will (a) effectively involve the poor in development, by expanding access to economy at local level, increasing labor-intensive production and the use of appropriate technology, spreading investment out from cities to small towns and rural areas, and insuring wide participation of the poor in the benefits of development on a sustained basis, using the appropriate U.S. institutions; (b) help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward better life, and otherwise encourage democratic private and local governmental institutions; (c) support the self-help efforts of developing countries; (d) promote the participation of women in the national economies of developing countries and the improvement of women's status; and (e) utilize and encourage regional cooperation by developing countries?

The Policy Reforms respon to Government initiatives to increase and improve Agricultural Production by: a) Diversting its majority ownership of the Agricultural input agency and enabling it to become a Cooperative Apex Organization; b) Assistir Rural farmers (primarily women farmers) to obtain Ag. inputs through open competition market place; c) Ensuring that farmers, who constitute majority of those living at povert levels, to improve their income on farm employment opportunities.

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b. FAA Secs. 103, 103A, 104, 105, 106, 120-21. Is assistance being made available (include only applicable paragraph which corresponds to source of funds used; if more than one fund source is used for assistance, include relevant paragraph for each fund source):

(1) [103] for agriculture, rural development or nutrition; if so (a) extent to which activity is specifically designed to increase productivity and income of rural poor; [103A] if for agricultural research, account shall be taken of the needs of small farmers, and extensive use of field testing to adapt basic research to local conditions shall be made; (b) extent to which assistance is used in coordination with efforts carried out under Sec. 104 to help improve nutrition of the people of developing countries through encouragement of increased production of crops with greater nutritional value; improvement of planning, research, and education with respect to nutrition, particularly with reference to improvement and expanded use of indigenously produced foodstuffs; and the undertaking of pilot or demonstration programs explicitly addressing the problem of malnutrition of poor and vulnerable people; and (c) extent to which activity increases national food security by improving food policies and management and by strengthening national food reserves, with particular concern for the needs of the poor, through measures encouraging domestic production, building national food reserves, expanding available storage facilities, reducing post harvest food losses, and improving food distribution.

Funds will be provided from the Sub-Saharan Africa, Development Assistance and the Southern Africa, Development Assistance appropriation which appropriate funds to carry out sections 103-106. This program will assist the agricultural sector.

(2) [104] for population planning under Sec. 104(b) or health under Sec. 104(c); if so, extent to which activity emphasizes low-cost, integrated delivery systems for health, nutrition and family planning for the poorest people, with particular attention to the needs of mothers and young children, using paramedical and auxiliary medical personnel, clinics and health posts, commercial distribution systems, and other modes of community outrearch.

(3) [105] for education, public administration, or human resources development; if so, (a) extent to which activity strengthens nonformal education, makes formal education more relevant, especially for rural families and urban poor, and strengthens management capability of institutions enabling the poor to participate in development; and (b) extent to which assistance provides advanced education and training of people of developing countries in such disciplines as are required for planning and implementation of public and private development activities.

(4) [106] for technical assistance, energy, research, reconstruction, and selected development problems; if so, extent activity is:

(i)(a) concerned with data collection and analysis, the training of skilled personnel, research on and development of suitable energy sources, and pilot projects to test new methods of energy production; and (b) facilitative of research on and development and use of small-scale, decentralized, renewable energy sources for rural areas, emphasizing development of energy resources which are environmentally acceptable and require minimum capital investment;

(ii) concerned with technical cooperation and development, especially with U.S. private and voluntary, or regional and international development, organizations;

(iii) research into, and evaluation of, economic development processes and techniques;

(iv) reconstruction after natural or manmade disaster and programs of disaster preparedness;

(v) for special development problems, and to enable proper utilization of infrastructure and related projects funded with earlier U.S. assistance;

(vi) for urban development, especially small, labor-intensive enterprises, marketing systems for small producers, and financial or other institutions to help urban poor participate in economic and social development.

(5) [120-21] for the Sahelian region; if so, (a) extent to which there is international coordination in planning and implementation; participation and support by African countries and organizations in determining development priorities; and a long-term, multi-donor development plan which calls for equitable burden-sharing with other donors; (b) has a determination been made that the host government has an adequate system for accounting for and controlling receipt and expenditure of projects funds (dollars or local currency generated therefrom)? N/A

c. FAA Sec. 107. Is special emphasis placed on use of appropriate technology (defined as relatively smaller, cost-saving, labor using technologies that are generally most appropriate for the small farms, small businesses, and small incomes of the poor)? YES

d. <u>FAA Sec. 281(b)</u>. Describe extent to which the activity recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage institutional development; and supports civic education and training in skills required for effective participation in governmental and political processes essential to self-government.

Policy Reform actions respond to specific Government requests and will complement planned programs of the Ministry of Agricultur

e. <u>FAA Sec. 101(a)</u>. Does the activity give reasonable promise of contributing to the development of economic resources, or to the increase of productive capacities and self-sustaining economic growth?

YES

5C(1) - COUNTRY CHECKLIST - LESOTHO FY1988

Listed below are statutory criteria applicable to: (A) FAA funds generally; (B)(1) Development Assistance funds only; or (B)(2) the Economic Support Fund only.

A. GENERAL CRITERIA FOR COUNTRY ELIGIBILITY

1. FY 1988 Continuing Resolution Sec. 526. Has the President certified to the Congress that the government of the recipient country is failing to take adequate measures to prevent narcotic drugs or other controlled substances which are cultivated, produced or processed illicitly, in whole or in part, in such country or transported through such country, from being sold illegally within the jurisdiction of such country to United States Government personnel or their dependents or from entering the United States unlawfully? — No

2. FAA Sec. 481(h). (This provision applies to assistance of any kind provided by grant, sale, loan, lease, credit, guaranty, or insurance, except assistance from the Child Survival Fund or relating to international narcotics control, disaster and refugee relief, or the provision of food or medicine.) If the recipient is a "major illicit drug producing country" (defined as a country producing during a fiscal year at least five metric tons of opium or 500 metric tons of coca or marijuana) or a "major drug-transit country" (defined as a country that is a significant direct source of illicit drugs significantly affecting the United States, through which such drugs are transported, or through which significant sums of drug-related profits are laundered with the knowledge or complicity of the government), has the President in the March 1 International Narcotics Control Strategy Report (INSCR) determined and certified to the Congress (without — N/A

Congressional enactment, within 30 days of continuous session, of a resolution disapproving such a certification), or has the President determined and certified to the Congress on any other date (with enactment by Congress of a resolution approving such certification) that (a) during the previous year the country has cooperated fully with the United States or taken adequate steps on its own to prevent illicit drugs produced or processed in or transported through such country from being transported into the United States, and to prevent and punish drug profit laundering in the country, or that (b) the vital national interests of the United States require the provision of such assistance?

3. Drug Act Sec. 2013. (This section applies to the same categories of assistance subject to the restrictions in FAA Sec. 481(h), above.) If recipient country is a "major illicit drug producing country" or "major drug-transit country" (as defined for the purpose of FAA Sec 481(h)), has the President submitted a report to Congress listing such country as one (a) which, as a matter of government policy, encourages or facilitates the production or distribution of illicit drugs; (b) in which any senior official of the government engages in, encourages, or facilitates the production or distribution of illegal drugs; (c) in which any member of a U.S. Government agency has suffered or been threatened with violence inflicted by or with the complicity of any government officer; or (d) which fails to provide reasonable cooperation to lawful activities of U.S. drug enforcement agents, unless the President has provided the required certification to Congress pertaining to U.S. national interests and the drug control and criminal prosecution efforts of that country? N/A

4.	FAA Sec. 620(c). If assistance is to a government, is the government liable as debtor or unconditional guarantor on any debt to a U.S. citizen for goods or services furnished or ordered where (a) such citizen has exhausted available legal remedies and (b) the debt is not denied or contested by such government?	NO
5.	FAA Sec. 620(e)(1). If assistance is to a government, has it (including any government agencies or subdivisions) taken any action which has the effect of nationalizing, expropriating, or otherwise seizing ownership or control of property of U.S. citizens or entities beneficially owned by them without taking steps to discharge its obligations toward such citizens or entities?	NO
6.	FAA Secs. 620(a), 620(f), 620D; FY 1988 Continuing Resolution Sec. 512. Is recipient country a Communist country? If so, has the President determined that assistance to the country is vital to the security of the United States, that the recipient country is not controlled by the international Communist conspiracy, and that such assistance will further promote the independence of the recipient country from international communism? Will assistance be provided directly to Angola, Cambodia, Cuba, Iraq, Libya, Vietnam, South Yemen, Iran or Syria? Will assistance be provided to Afghanistan without a certification?	NO
7.	FAA Séc. 620(i). Has the country permitted, or failed to take adequate measures to prevent, damage or destruction by mob action of U.S. property?	NO
8.	FAA Sec. 620(l). Has the country failed to enter into an investment guaranty agreement with OPIC?	NO. AGREEMENT IS IN FORCE (SEE TIAS 6227)

9. FAA Sec. 620(o); Fishermen's Protective Act of 1967 (as amended) Sec. 5. (a) Has the country seized, or imposed any penalty or sanction against, any U.S. fishing vessel because of fishing activities in international waters? (b) If so, has any deduction required by the Fishermen's Protective Act been made?	NO
10. FAA Sec. 620(q); FY 1988 Continuing Resolution Sec. 518. (a) Has the government of the recipient country been in default for more than six months on interest or principal of any loan to the country under the FAA? (b) Has the country been in default for more than one year on interest or principal on any U.S. loan under a program for which the FY 1988 Continuing Resolution appropriates funds?	NO
11. FAA Sec. 620(s). If contemplated assistance is development loan or to come from Economic Support Fund, has the Administrator taken into account the percentage of the country's budget and amount of the country's foreign exchange or other resources spent on military equipment? (Reference may be made to the annual "Taking Into Consideration" memo: "Yes, taken into account by the Administrator at time of approval of Agency OYB." This approval by the Administrator of the Operational Year Budget can be the basis for an affirmative answer during the fiscal year unless significant changes in circumstances occur.)	ASSISTANCE IS NOT DEVELOPMENT LOAN OR ES[illegible]
12. FAA Sec. 620(t). Has the country severed diplomatic relations with the United States? If so, have relations been resumed and have new bilateral assistance agreements been negotiated and entered into since such resumption?	NO

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13. FAA Sec. 620(u). What is the payment status of the country's U.N. obligations? If the country is in arrears, were such arrearages taken into account by the A.I.D. Administrator in determining the current A.I.D. Operational Year Budget? (Reference may be made to the Taking into Consideration memo.)	LESOTHO IS NOT DELINQUENT WITH RESPECT TO SUCH OBLIGATIONS FOR PURPOSES OF ART. 19, UN CHARTER
14. FAA Sec. 620A. Has the President determined that the recipient country grants sanctuary from prosecution to any individual or group which has committed an act of international terrorism or otherwise supports international terrorism?	NO
15. FY 1988 Continuing Resolution Sec. 576. Has the country been placed on the list provided for in Section 6(j) of the Export Administration Act of 1979 (currently Libya, Iran, South Yemen, Syria, Cuba, or North Korea)?	NO
16. ISDCA of 1985 Sec. 552(b). Has the Secretary of State determined that the country is a high terrorist threat country after the Secretary of Transportation has determined, pursuant to section 1115(e)(2) of the Federal Aviation Act of 1958, that an airport in the country does not maintain and administer effective security measures?	NO
17. FAA Sec. 666(b). Does the country object, on the basis of race, religion, national origin or sex, to the presence of any officer or employee of the U.S. who is present in such country to carry out economic development programs under the FAA?	NO
18. FAA Secs. 669, 670. Has the country, after August 3, 1977, delivered to any other country or received nuclear enrichment or reprocessing equipment, materials, or technology, without specified arrangements or safeguards, and without special certification by the President? Has it transferred a nuclear explosive device to a non-nuclear weapon state, or if such a state, either received or detonated a nuclear explosive device? (FAA Sec. 620E permits a special waiver of Sec. 669 for Pakistan.)	NO

19. FAA Sec. 670. If the country is a non-nuclear weapon state, has it, on or after August 8, 1985, exported (or attempted to export) illegally from the United States any material, equipment, or technology which would contribute significantly to the ability of a country to manufacture a nuclear explosive device?

NO

20. ISDCA of 1981 Sec. 720. Was the country represented at the Meeting of Ministers of Foreign Affairs and Heads of Delegations of the Non-Aligned Countries to the 36th General Assembly of the U.N. on Sept. 25 and 28, 1981, and did it fail to disassociate itself from the communique issued? If so, has the President taken it into account? (Reference may be made to the Taking into Consideration memo.)

Yes. Lesotho was represented at the subject meeting and to date has not dis-associated itself from the Communique. This factor was taken into account by the Administrator in approving the FY88 OYB budget.

21. FY 1988 Continuing Resolution Sec. 528. Has the recipient country been determined by the President to have engaged in a consistent pattern of opposition to the foreign policy of the United States?

No

22. FY 1988 Continuing Resolution Sec. 513. Has the duly elected Head of Government of the country been deposed by military coup or decree? If assistance has been terminated, has the President notified Congress that a democratically elected government has taken office prior to the resumption of assistance?

No

23. FY 1988 Continuing Resolution Sec. 543. Does the recipient country fully cooperate with the international refugee assistance organizations, the United States, and other governments in facilitating lasting solutions to refugee situations, including resettlement without respect to race, sex, religion, or national origin?

Yes

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B. <u>FUNDING SOURCE CRITERIA FOR COUNTRY ELIGIBILITY</u>

1. <u>Development Assistance Country Criteria</u>

<u>FAA Sec. 116</u>. Has the Department of State determined that this government has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, can it be demonstrated that contemplated assistance will directly benefit the needy?	No
<u>FY 1988 Continuing Resolution Sec. 538</u>. Has the President certified that use of DA funds by this country would violate any of the prohibitions against use of funds to pay for the performace of abortions as a method of family planning, to motivate or coerce any person to practice abortions, to pay for the performance of involuntary sterilization as a method of family planning, to coerce or provide any financial incentive to any person to undergo sterilizations, to pay for any biomedical research which relates, in whole or in part, to methods of, or the performance of, abortions or involuntary sterilization as a means of family planning?	No

2. <u>Economic Support Fund Country Criteria</u>	N/A
<u>FAA Sec. 502B</u>. Has it been determined that the country has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, has the President found that the country made such significant improvement in its human rights record that furnishing such assistance is in the U.S. national interest?	N/A
<u>FY 1988 Continuing Resolution Sec. 549</u>. Has this country met its drug eradication targets or otherwise taken significant steps to halt illicit drug production or trafficking?	N/A

5C(2) - PROJECT CHECKLIST

Listed below are statutory criteria applicable to projects. This section is divided into two parts. Part A includes criteria applicable to all projects. Part B applies to projects funded from specific sources only: B(1) applies to all projects funded with Development Assistance; B(2) applies to projects funded with Development Assistance loans; and B(3) applies to projects funded from ESF.

CROSS REFERENCES: IS COUNTRY CHECKLIST UP TO DATE? HAS STANDARD ITEM CHECKLIST BEEN REVIEWED FOR THIS PROJECT?

Yes

Yes

A. <u>GENERAL CRITERIA FOR PROJECT</u>

1. <u>FY 1988 Continuing Resolution Sec. 523; FAA Sec. 634A</u>. If money is sought to obligated for an activity not previously justified to Congress, or for an amount in excess of amount previously justified to Congress, has Congress been properly notified?

   CN was submitted on May 13, 1988 and the 15 day waiting period expired without objection on May 28, 1988.

2. <u>FAA Sec. 611(a)(1)</u>. Prior to an obligation in excess of $500,000, will there be (a) engineering, financial or other plans necessary to carry out the assistance, and (b) a reasonably firm estimate of the cost to the U.S. of the assistance?

   Yes

3. <u>FAA Sec. 611(a)(2)</u>. If legislative action is required within recipient country, what is the basis for a reasonable expectation that such action will be completed in time to permit orderly accomplishment of the purpose of the assistance?

   The LAPSP is part of a program which has already been approved by the GOL.

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4. <u>FAA Sec. 611(b); FY 1988 Continuing Resolution Sec. 501</u>. If project is for water or water-related land resource construction, have benefits and costs been computed to the extent practicable in accordance with the principles, standards, and procedures established pursuant to the Water Resources Planning Act (42 U.S.C. 1962, <u>et seq</u>.)? (See A.I.D. Handbook 3 for guidelines.)

N/A

5. <u>FAA Sec. 611(e)</u>. If project is capital assistance (<u>e.g.</u>, construction), and total U.S. assistance for it will exceed $1 million, has Mission Director certified and Regional Assistant Administrator taken into consideration the country's capability to maintain and utilize the project effectively?

N/A

6. <u>FAA Sec. 209</u>. Is project susceptible to execution as part of regional or multilateral project? If so, why is project not so executed? Information and conclusion whether assistance will encourage regional development programs.

The assistance is more appropriately disbursed directly to the GOL, because it is the GOL that will bear the cost of implementing the policy reform. However, Lesotho has responsibility for soil and water conservation within SADCC, and a demonstration here that the program's reforms promote conservation will be a model for similar reforms in other SADCC member countries.

7. <u>FAA Sec. 601(a)</u>. Information and conclusions on whether projects will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture and commerce; and (f) strengthen free labor unions.

Policy Reforms will a) minimally increase Regional Trade in medium and long term; b) Foster private initiate and competition by privatizing a government parastatal for agricultural inputs and improving livestock marketing; c) enable ag input supply agency to become an Apex Cooperative; d) discourage monopolistic practices by ensuring open competition in providing Ag inputs; e) will improve tech. efficiency in agriculture by removal of inefficient subsidies and increased availability of goods from open competition; and f) will not affect labor unions.

8. <u>FAA Sec. 601(b)</u>. Information and conclusions on how project will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).

9. <u>FAA Secs. 612(b), 636(h)</u>. Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the U.S. are utilized in lieu of dollars.

8. The selected Policy Reforms will not affect US private trade or investment.

9. US does not own Maloti. The GOL is contributing GOL-owned Maloti toward the program purpose in an amount equal to the amount of the U.S. dollar disbursements.

10. FAA Sec. 612(d). Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release? No

11. FY 1988 Continuing Resolution Sec. 521. If assistance is for the production of any commodity for export, is the commodity likely to be in surplus on world markets at the time the resulting productive capacity becomes operative, and is such assistance likely to cause substantial injury to U.S. producers of the same, similar or competing commodity? No

12. FY 1988 Continuing Resolution Sec. 553. Will the assistance (except for programs in Caribbean Basin Initiative countries under U.S. Tariff Schedule "Section 807," which allows reduced tariffs on articles assembled abroad from U.S.-made components) be used directly to procure feasibility studies, prefeasibility studies, or project profiles of potential investment in, or to assist the establishment of facilities specifically designed for, the manufacture for export to the United States or to third country markets in direct competition with U.S. exports, of textiles, apparel, footwear, handbags, flat goods (such as wallets or coin purses worn on the person), work gloves or leather wearing apparel? No

13. FAA Sec. 119(g)(4)-(6). Will the assistance (a) support training and education efforts which improve the capacity of recipient countries to prevent loss of biological diversity; (b) be provided under a long-term agreement in which the recipient country agrees to protect ecosystems or other wildlife habitats; (c) support efforts to identify and survey ecosystems in recipient countries worthy of protection; or (d) by any direct or indirect means significantly degrade national parks or similar protected areas or introduce exotic plants or animals into such areas? No

14. FAA 121(d). If a Sahel project, has a determination been made that the host government has an adequate system for accounting for and controlling receipt and expenditure of project funds (either dollars or local currency generated therefrom)? N/A

15. FY 1988 Continuing Resolution. If assistance is to be made to a United States PVO (other than a cooperative development organization), does it obtain at least 20 percent of its total annual funding for international activities from sources other than the United States Government? N/A

16. FY Continuing Resolution Sec. 541. If assistance is being made available to a PVO, has that organization provided upon timely request any document, file, or record necessary to the auditing requirements of A.I.D., and is the PVO registered with A.I.D.? N/A

17. FY 1988 Continuing Resolution Sec. 514. If funds are being obligated under an appropriation account to which they were not appropriated, has prior approval of the Appropriations Committees of Congress been obtained? N/A

18. FY Continuing Resolution Sec. 515. If deob/reob authority is sought to be exercised in the provision of assistance, are the funds being obligated for the same general purpose, and for countries within the same general region as originally obligated, and have the Appropriations Committees of both Houses of Congress been properly notified? N/A

19. State Authorization Sec. 139 (as interpreted by conference report). Has confirmation of the date of signing of the project agreement, including the amount involved, been cabled to State L/T and A.I.D. LEG within 60 days of the agreement's entry into force with respect to the United States, and has the full text of the agreement been pouched to those same offices? (See Handbook 3, Appendix 6G for agreements covered by this provision). L/T and LEG will be notified when the agreements are signed.

B. FUNDING CRITERIA FOR PROJECT

1. Development Assistance Project Criteria

a. FY 1988 Continuing Resolution Sec. 552 (as interpreted by conference report). If assistance is for agricultural development activities (specifically, any testing or breeding feasibility study, variety improvement or introduction, consultancy, publication, conference, or training), are such activities (a) specifically and principally designed to increase agricultural exports by the host country to a country other than the United States, where the export would lead to direct competition in that third country with exports of a similar commodity grown or produced in the United States, and can the activities reasonably be expected to cause substantial injury to U.S. exporters of a similar agricultural commodity; or (b) in support of research that is intended primarily to benefit U.S. producers?

No

b. FAA Secs. 102(b), 111, 113, 281(a). Describe extent to which activity will (a) effectively involve the poor in development by extending access to economy at local level, increasing labor-intensive production and the use of appropriate technology, dispersing investment from cities to small towns and rural areas, and

The LAPSP provides for development of a national grazing fee system which includes recycling of revenues for local development activities and a more efficient and effective market mechanism for distribution of appropriate agricultural inputs in the rural areas of Lesotho which are populated predominantely by women who are small farmers. Additionally, the national grazing fee system will serve as a model for replication by other SADCC countries in their natural resource conservation.

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insuring wide participation of the poor in the benefits of development on a sustained basis, using appropriate U.S. institutions; (b) help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward a better life, and otherwise encourage democratic private and local governmental institutions; (c) support the self-help efforts of developing countries; (d) promote the participation of women in the national economies of developing countries and the improvement of women's status; and (e) utilize and encourage regional cooperation by developing countries.

c. FAA Secs. 103, 103A, 104, 105, 106, 120-21. Does the project fit the criteria for the source of funds (functional account) being used? — Yes

d. FAA Sec. 107. Is emphasis placed on use of appropriate technology (relatively smaller, cost-saving, labor-using technologies that are generally most appropriate for the small farms, small businesses, and small incomes of the poor)? — Yes

e. FAA Secs. 110, 124(d). Will the recipient country provide at least 25 percent of the costs of the program, project, or activity with respect to which the assistance is to be furnished (or is the latter cost-sharing requirement being waived for a "relatively least developed" country)? — Yes

f. FAA Sec. 128(b). If the activity attempts to increase the institutional capabilities of private organizations or the government of the country, or if it attempts to stimulate scientific and technological research, has it been designed and will it be monitored to ensure that the ultimate beneficiaries are the poor majority? — Yes

g. FAA Sec. 281(b). Describe extent to which program recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage institutional development; and supports civil education and training in skills required for effective participation in governmental processes essential to self-government.

Policy Reform actions respond to specific Government requests and will complement planned programs of the Ministry of Agriculture.

h. FY 1988 Continuing Resolution Sec. 538. Are any of the funds to be used for the performance of abortions as a method of family planning or to motivate or coerce any person to practice abortions?

No

Are any of the funds to be used to pay for the performance of involuntary sterilization as a method of family planning or to coerce or provide any financial incentive to any person to undergo sterilizations?

No

Are any of the funds to be used to pay for any biomedical research which relates, in whole or in part, to methods of, or the performance of, abortions or involuntary sterilization as a means of family planning?

No

i. FY 1988 Continuing Resolution. Is the assistance being made available to any organization or program which has been determined to support or participate in the management of a program of coercive abortion or involuntary sterilization?

No

If assistance is from the population functional account, are any of the funds to be made available to voluntary family planning projects which do not offer, either directly or through referral to or information about access to, a broad range of family planning methods and services?

N/A

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j.	<u>FAA Sec. 601(e)</u>. Will the project utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise?	Yes
k.	<u>FY 1988 Continuing Resolution</u>. What portion of the funds will be available only for activities of economically and socially disadvantaged enterprises, historically black colleges and universities, colleges and universities having a student body in which more than 20 percent of the students are Hispanic Americans, and private and voluntary organizations which are controlled by individuals who are black Americans, Hispanic Americans, or Native Americans, or who are economically or socially disadvantaged (including women)?	Normal A.I.D. contracting procedures will be followed.
l.	<u>FAA Sec. 118(c)</u>. Does the assistance comply with the environmental procedures set forth in A.I.D. Regulation 16? Does the assistance place a high priority on conservation and sustainable management of tropical forests? Specifically, does the assistance, to the fullest extent feasible: (a) stress the importance of conserving and sustainably managing forest resources; (b) support activities which offer employment and income alternatives to those who otherwise would cause destruction and loss of forests, and help countries identify and implement alternatives to colonizing forested areas; (c) support training programs, educational efforts, and the establishment or strengthening of institutions to improve forest management; (d) help end destructive slash-and-burn agriculture by supporting stable and productive farming practices; (e) help conserve forests which have not yet been degraded by helping to increase production on lands already cleared	A categorical exclusion has been approved for A.I.D. appropriated funds.

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or degraded; (f) conserve forested watersheds and rehabilitate those which have been deforested; (g) support training, research, and other actions which lead to sustainable and more environmentally sound practices for timber harvesting, removal, and processing; (h) support research to expand knowledge of tropical forests and identify alternatives which will prevent forest destruction, loss, or degradation; (i) conserve biological diversity in forest areas by supporting efforts to identify, establish, and maintain a representative network of protected tropical forest ecosystems on a worldwide basis, by making the establishment of protected areas a condition of support for activities involving forest clearance or degradation, and by helping to identify tropical forest ecosystems and species in need of protection and establish and maintain appropriate protected areas; (j) seek to increase the awareness of U.S. government agencies and other donors of the immediate and long-term value of tropical forests; and (k)/utilize the resources and abilities of all relevant U.S. government agencies?

m. FAA Sec. 118(c)(13). If the assistance will support a program or project significantly affecting tropical forests (including projects involving the planting of exotic plant species), will the program or project (a) be based upon careful analysis of the alternatives available to achieve the best sustainable use of the land, and (b)/take full account of the environmental impacts of the proposed activities on biological diversity? N/A

n. FAA Sec. 118(c)(14). Will assistance be used for (a) the procurement or use of logging equipment, unless an environmental assessment indicates that all timber harvesting operations involved will be conducted in an environmentally sound manner and that the proposed activity will produce positive economic benefits and sustainable forest management systems; or (b) actions which will significantly degrade national parks or similar protected areas which contain tropical forests, or introduce exotic plants or animals into such areas? No

o. FAA Sec. 118(c)(15). Will assistance be used for (a) activities which would result in the conversion of forest lands to the rearing of livestock; (b) the construction, upgrading, or maintenance of roads (including temporary haul roads for logging or other extractive industries) which pass through relatively undegraded forest lands; (c) the colonization of forest lands; or (d) the construction of dams or other water control structures which flood relatively undegraded forest lands, unless with respect to each such activity an environmental assessment indicates that the activity will contribute significantly and directly to improving the livelihood of the rural poor and will be conducted in an environmentally sound manner which supports sustainable development? No

p. FY 1988 Continuing Resolution If assistance will come from the Sub-Saharan Africa DA account, is it (a) to be used to help the poor majority in Sub-Saharan Africa through a process of long-term development and economic growth that is equitable, participatory, environmentally sustainable, and self-reliant; (b) being provided in Yes accordance with the policies contained in section 102 of the FAA; (c) being provided, when conistent with the objectives of such assistance, through African, United States and other PVOs that have demonstrated effectiveness in the promotion of local grassroots activities on behalf of long-term development in Sub-Saharan Africa; (d) being used to help overcome shorter-term constraints to long-term development, to promote reform of sectoral economic policies, to support the critical sector priorities of agricultural production and natural resources, health, voluntary family planning services, education, and income generating opportunities, to bring about appropriate sectoral restructuring of the Sub-Saharan African economies, to support reform in public administration and finances and to establish a favorable environment for individual enterprise and self-sustaining development, and to take into account, in assisted policy reforms, the need to protect vulnerable groups; (e) being used to increase agricultural production in ways that protect and restore the natural resource base, especially food production, to maintain and improve basic transportation and communication networks, to maintain and restore the natural resource base in ways that increase agricultural production, to improve health conditions with special emphasis on meeting the health needs of mothers and children, including the establishment of self-sustaining primary health care systems that give priority to preventive care, to provide increased access to voluntary family planning services, to improve basic literacy and mathematics especially to those outside the formal educational system and to improve primary education, and to develop income-generating opportunities for the unemployed and underemployed in urban and rural areas?

2. <u>Development Assistance Project Criteria (Loans Only)</u> N/A

a. <u>FAA Sec. 122(b)</u>. Information and conclusion on capacity of the country to repay the loan at a reasonable rate of interest.

b. <u>FAA Sec. 620(d)</u>. If assistance is for any productive enterprise which will compete with U.S. enterprises, is there an agreement by the recipient country to prevent export to the U.S. of more than 20 percent of the enterprise's annual production during the life of the loan, or has the requirement to enter into such an agreement been waived by the President because of a national security interest?

c. <u>FY 1988 Continuing Resolution</u>. If for a loan to a private sector institution from funds made available to carry out the provisions of FAA Sections 103 through 106, will loan be provided, to the maximum extent practicable, at or near the prevailing interest rate paid on Treasury obligations of similar maturity at the time of obligating such funds?

d. <u>FAA Sec. 122(b)</u>. Does the activity give reasonable promise of assisting long-range plans and programs designed to develop economic resources and increase productive capacities?

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3. Economic Support Fund Project Criteria N/A

a. FAA Sec. 531(a). Will this assistance promote economic and political stability? To the maximum extent feasible, is this assistance consistent with the policy directions, purposes, and programs of Part I of the FAA?

b. FAA Sec. 531(e). Will this assistance be used for military or paramilitary purposes?

c. FAA Sec. 609. If commodities are to be granted so that sale proceeds will accrue to the recipient country, have Special Account (counterpart) arrangements been made?

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5C(3) - STANDARD ITEM CHECKLIST

Listed below are the statutory items which normally will be covered routinely in those provisions of an assistance agreement dealing with its implementation, or covered in the agreement by imposing limits on certain uses of funds.

These items are arranged under the general headings of (A) Procurement, (B) Construction, and (C) Other Restrictions.

A. PROCUREMENT

1. FAA Sec. 602(a). Are there arrangements to permit U.S. small business to participate equitably in the furnishing of commodities and services financed? Yes

2. FAA Sec. 604(a). Will all procurement be from the U.S. except as otherwise determined by the President or under delegation from him? Yes

3. FAA Sec. 604(d). If the cooperating country discriminates against marine insurance companies authorized to do business in the U.S., will commodities be insured in the United States against marine risk with such a company? Yes

4. FAA Sec. 604(e); ISDCA of 1980 Sec. 705(a). If non-U.S. procurement of agricultural commodity or product thereof is to be financed, is there provision against such procurement when the domestic price of such commodity is less than parity? (Exception where commodity financed could not reasonably be procured in U.S.) N/A

5. FAA Sec. 604(g). Will construction or engineering services be procured from firms of advanced developing countries which are otherwise eligible under Code 941 and which have attained a competitive capability in international markets in one of these areas? (Exception for those N/A

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countries which receive direct economic assistance under the FAA and permit United States firms to compete for construction or engineering services financed from assistance programs of these countries.)

6.	<u>FAA Sec. 603</u>. Is the shipping excluded from compliance with the requirement in section 901(b) of the Merchant Marine Act of 1936, as amended, that at least 50 percent of the gross tonnage of commodities (computed separately for dry bulk carriers, dry cargo liners, and tankers) financed shall be transported on privately owned U.S. flag commercial vessels to the extent such vessels are available at fair and reasonable rates?	No
7.	<u>FAA Sec. 621(a)</u>. If technical assistance is financed, will such assistance be furnished by private enterprise on a contract basis to the fullest extent practicable? Will the facilities and resources of other Federal agencies be utilized, when they are particularly suitable, not competitive with private enterprise, and made available without undue interference with domestic programs?	Yes N/A
8.	<u>International Air Transportation Fair Competitive Practices Act, 1974</u>. If air transportation of persons or property is financed on grant basis, will U.S. carriers be used to the extent such service is available?	DFA procurement procedures will be followed.
9.	<u>FY 1988 Continuing Resolution Sec. 504</u>. If the U.S. Government is a party to a contract for procurement, does the contract contain a provision authorizing termination of such contract for the convenience of the United States?	Yes
10.	<u>FY 1988 Continuing Resolution Sec. 524</u>. If assistance is for consulting service through procurement contract pursuant to 5 U.S.C. 3109, are contract expenditures a matter of public record and available for public inspection (unless otherwise provided by law or Executive order)?	Yes

B. CONSTRUCTION N/A

1. FAA Sec. 601(d). If capital (e.g., construction) project, will U.S. engineering and professional services be used?

2. FAA Sec. 611(c). If contracts for construction are to be financed, will they be let on a competitive basis to maximum extent practicable?

3. FAA Sec. 620(k). If for construction of productive enterprise, will aggregate value of assistance to be furnished by the U.S. not exceed $100 million (except for productive enterprises in Egypt that were described in the CP), or does assistance have the express approval of Congress?

C. OTHER RESTRICTIONS

1. FAA Sec. 122(b). If development loan repayable in dollars, is interest rate at least 2 percent per annum during a grace period which is not to exceed ten years, and at least 3 percent per annum thereafter? N/A

2. FAA Sec. 301(d). If fund is established solely by U.S. contributions and administered by an international organization, does Comptroller General have audit rights? N/A

3. FAA Sec. 620(h). Do arrangements exist to insure that United States foreign aid is not used in a manner which, contrary to the best interests of the United States, promotes or assists the foreign aid projects or activities of the Communist-bloc countries? Yes

4. Will arrangements preclude use of financing:

a. FAA Sec. 104(f); FY 1987 Continuing Resolution Secs. 525, 538. (1) To pay for performance of abortions as a method of family planning or to motivate or coerce persons to practice abortions; (2) to pay for performance of involuntary sterilization as method of family planning, or to coerce or provide financial incentive to any person to undergo sterilization; (3) to pay for any biomedical research which relates, in whole or part, to methods or the performance of abortions or involuntary sterilizations as a means of family planning; or (4) to lobby for abortion? — Yes

b. FAA Sec. 483. To make reimbursements, in the form of cash payments, to persons whose illicit drug crops are eradicated? — Yes

c. FAA Sec. 620(g). To compensate owners for expropriated or nationalized property, except to compensate foreign nationals in accordance with a land reform program certified by the President? — Yes

d. FAA Sec. 660. To provide training, advice, or any financial support for police, prisons, or other law enforcement forces, except for narcotics programs? — Yes

e. FAA Sec. 662. For CIA activities? — Yes

f. FAA Sec. 636(i). For purchase, sale, long-term lease, exchange or guaranty of the sale of motor vehicles manufactured outside U.S., unless a waiver is obtained? — DFA procurement procedures will be followed.

g. FY 1988 Continuing Resolution Sec. 503. To pay pensions, annuities, retirement pay, or adjusted service compensation for prior or current military personnel? Yes

h. FY 1988 Continuing Resolution Sec. 505. To pay U.N. assessments, arrearages or dues? Yes

i. FY 1988 Continuing Resolution Sec. 506. To carry out provisions of FAA section 209(d) (transfer of FAA funds to multilateral organizations for lending)? Yes

j. FY 1988 Continuing Resolution Sec. 510. To finance the export of nuclear equipment, fuel, or technology? Yes

k. FY 1988 Continuing Resolution Sec. 511. For the purpose of aiding the efforts of the government of such country to repress the legitimate rights of the population of such country contrary to the Universal Declaration of Human Rights? Yes

l. FY 1988 Continuing Resolution Sec. 516; State Authorization Sec. 109. To be used for publicity or propaganda purposes designed to support or defeat legislation pending before Congress, to influence in any way the outcome of a political election in the United States, or for any publicity or propaganda purposes not authorized by Congress? Yes

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ANNEX J

Department of State

OUTGOING TELEGRAM

ORIGIN AID-00

ORIGIN OFFICE AFPD-04
INFO AAAF-03 AFSA-03 AFDP-06 AFTR-05 PPPB-02 GC-01 GCAF-01
PPEA-01 GCCM-02 RELO-01 PRE-06 AFDA-01 /036 A2 1006

INFO LOG-00 AF-00 /000 R

DRAFTED BY: AID/AFR/PD/SA:VGARY:ELD:W3584L
APPROVED BY: AID/DAA/AFR:LSAIERS
AID/AFR/PD/SA:PTHORN (DRAFT) AID/AFR/PD:JGRAHAM
AID/AFR/SA:BWRIN (DRAFT) AFR/DP:JWESTLEY (DRAFT)
AFR/DP/PAR:JWOLGIN (DRAFT) GC/AFR:MAKLEINJAN (DRAFT)
AFR/TR/ARD:BFLYNN (DRAFT) AFR/PRE:BMUNSON (DRAFT)

PPC/EA:ABATCHELDER (DRAFT)
PPC/PB:BHAUSHAMMER (DRAFT)
------------------135000 061937Z /38

R 061937Z OCT 87
FM SECSTATE WASHDC
TO AMEMBASSY MASERU
INFO AMEMBASSY MBABANE
AMEMBASSY HARARE

UNCLAS STATE 311794

AIDAC MBABANE FOR RLA

E.O. 12356: N/A

SUBJECT: LESOTHO AEPRP PAAD GUIDANCE

1. SUMMARY: THE ECPR HELD ON 9/22 RECOMMENDED THAT THE LESOTHO AEPRP PAAD BE DEVELOPED WITHIN THE CONSTRAINTS AND GUIDELINES CONTAINED HEREIN. A FUNDING LEVEL WAS NOT ARRIVED AT AND IT WAS ADVISED PAAD DEVELOPMENT AWAIT MORE DEFINITIVE FIGURES. THE MISSION WAS COMMENDED ON A THOROUGH AND WELL PRESENTED PROPOSAL. THE PAIP, HOWEVER, APPEARS TO BE QUITE AMBITIOUS. THE PAAD TEAM WILL HAVE TO CLOSELY EXAMINE THE PROPOSAL IN LIGHT OF FUNDING, STAFFING AND IMPLEMENTATION CAPACITY LIMITATIONS. A MAJOR TASK IN DEVELOPING THE PAAD WILL BE TO DIFFERENTIATE BETWEEN THE ESSENTIAL ELEMENTS OF A REFORM PACKAGE AND THOSE ACTIONS WHICH CAN BE ADDRESSED AT A LATER DATE. THIS CABLE PROVIDES MORE DETAILED GUIDANCE FOR PAAD DEVELOPMENT WITHIN A CENTRAL THEME OF SIMPLIFICATION. END SUMMARY.

2. THE LESOTHO AEPRP PAIP WAS WELL RECEIVED AND PRESENTED. THE ECPR, HELD ON 9/22/87, WAS CHAIRED BY DAA/AFR L. SAIERS AND THE MISSION WAS REPRESENTED BY ASSISTANT DIRECTOR C. TYSON. THE ECPR CONCLUDED THAT THE MISSION SHOULD PROCEED WITH PAAD DEVELOPMENT AFTER OBTAINING A CLEARER IDEA OF WHAT FUNDING MIGHT BE AVAILABLE AND TAKING NOTE OF THE ISSUES DISCUSSED BELOW. DUE TO THE CURRENT STATE OF LEGISLATION, IT IS UNLIKELY AN INDICATIVE FUNDING LEVEL WILL BE AVAILABLE BEFORE LATE NOVEMBER. GUIDANCE FOR PAAD DEVELOPMENT FOLLOWS:

3. FUNDING LEVEL: NO DECISION ON FUNDING LEVEL WAS REACHED. HOWEVER, THE POSSIBILITY OF DOLS 15 MILLION IN AEPRP FY88 FUNDS WAS EXCLUDED AND A FIGURE OF DOLS 5-8 MILLION WAS MENTIONED AS A REASONABLE TARGET THOUGH NOT CONFIRMED. AFR/DP IS TO REVIEW AEPRP ALLOCATIONS AND PROVIDE MORE DEFINITIVE GUIDANCE. [illegible] THE ISSUE WAS THE AVAILABILITY OF AND PRIORITY FOR AEPRP FUNDING NOT THE QUALITY OF THE PROPOSED REFORMS AND PAIP. WHILE THE POSSIBILITY OF INCREMENTAL AEPRP FUNDING WAS VIEWED AS UNLIKELY, THE FOLLOWING OPTIONS FOR AUGMENTING AEPRP FUNDS WERE PUT FORWARD FOR INVESTIGATION: A) WORLD BANK COFINANCING; B) OTHER DONOR COFINANCING; C) FUNDS FROM THE SOUTHERN AFRICAN REGIONAL PROGRAM EARMARK; D) DOWNSTREAM LESOTHO BILATERAL PROGRAM BUDGETS; E) ANY COMBINATION OF THE ABOVE. THESE OPTIONS ARE TO BE PURSUED BOTH BY THE MISSION AND AID/W AND TENTATIVELY RESOLVED PRIOR TO PAAD DEVELOPMENT.

4. THE TWO PRONGED APPROACH: AS DISCUSSED FURTHER IN PARA 9 BELOW, THE FEASIBILITY OF IMPLEMENTING THE PROGRAM AS PROPOSED WAS QUESTIONED BECAUSE OF THE NUMBER AND COMPLEXITY OF REFORM ACTIONS PROPOSED. THE PROPOSAL IS EXTRAORDINARILY AMBITIOUS REGARDLESS OF FUNDING ISSUES. THE COMPLEXITY ISSUE COMBINED WITH THE VIRTUAL CERTAINTY OF A REDUCED FUNDING LEVEL LED TO A DISCUSSION OF WHETHER IT IS ADVISABLE TO PURSUE BOTH AGRICULTURAL INPUTS AND LIVESTOCK MANAGEMENT REFORMS SIMULTANEOUSLY. THERE ARE MERITS TO THE INTEGRATED APPROACH PROPOSED. HOWEVER, THE MISSION HAS TO BE CAREFUL AS TO PROGRAM SIZE AND COMPLEXITY AND NOT GO BEYOND WHAT IS ESSENTIAL. WHILE THE ECPR DID NOT BELIEVE IT APPROPRIATE TO LIMIT PAAD DEVELOPMENT TO ONE OR THE OTHER OF THE REFORM PACKAGES, IT BELIEVED THAT THE MISSION SHOULD BE PROVIDED WITH A FLAVOR OF AID/W'S VIEWS ON POTENTIAL OPTIONS. THE GENERIC OPTIONS FOR PAAD DEVELOPMENT ARE: PROCEEDING WITH THE INTEGRATED TWO PRONGED APPROACH OR CONCENTRATION ON ONE SUBSECTOR. A QUESTION IS WHETHER IT IS BETTER TO PURSUE BOTH FRONTS SLOWLY OR APPROACH ONE SUBSECTOR WITH VIGOR. THE ECPR POSED THE QUESTION, "IF YOU COULD ONLY DO ONE PRONG WHICH WOULD YOU CHOOSE?" THE CONSENSUS WAS THAT, AT FACE VALUE, THE LIVESTOCK MANAGEMENT REFORM IS MORE ATTRACTIVE BECAUSE IT: 1) PROVIDES A NECESSARY PRE-CONDITION FOR INCREASED CROP PRODUCTION; 2) LIVESTOCK IS A MORE IMPORTANT ECONOMIC SECTOR THAN CROP PRODUCTION; 3) IT ADDRESSES CRITICAL ENVIRONMENTAL CONCERNS, AN AREA OF INCREASING IMPORTANCE WITHIN THE BUREAU AND 4) LAPIS IS CLOSELY RELATED TO AGRICULTURAL INPUT REFORMS AND PERHAPS LAPIS COULD BE AMENDED TO ADDRESS IMPLEMENTATION OF THE MOST IMPORTANT OF THESE REFORMS. IN ANY SCENARIO, SIMPLIFICATION OF THE PROPOSAL IS REQUIRED. THE FINAL DESIGN OF THE PROGRAM BY THE MISSION WILL DEPEND UPON ADDITIONAL INFORMATION SUCH AS COMPATIBILITY WITH SAFA, MISSION AND GOL IMPLEMENTATION CAPACITY AND REDUCING THE PROPOSAL TO ITS ESSENTIAL ELEMENTS.

5. TECHNICAL ASSISTANCE: THE QUESTION WAS RAISED AS TO WHETHER TA IS AN APPROPRIATE USE OF AEPRP FUNDS. IT WAS CONCLUDED THAT TA CAN BE FUNDED WITH AEPRP FUNDS; HOWEVER, BECAUSE OF THEIR LIMITED AVAILABILITY IT WOULD BE ADVISABLE TO EXPLORE OTHER SOURCES WHEREVER POSSIBLE. FOR EXAMPLE, LAPIS PROJECT ACTIVITIES MAY BE SUITABLE FOR SOME AG INPUT RELATED TA AND PRE MAY BE ABLE TO PROVIDE SOME INITIAL ASSISTANCE RELATED TO PRIVATIZATION. THE TA FUNDS WOULD BE APPROVED AS PART OF THE PAAD BUT WOULD BE TREATED AS A TRADITIONAL GRANT NOT AS A CASH TRANSFER. IN DEVELOPING THE PAAD, THE MISSION SHOULD ENSURE THAT TA ACTIVITIES ARE IN NO WAY TIED TO FUND DISBURSEMENTS.

6. CASH TRANSFER MECHANISM AND TRACKING. SEPTEL FOLLOWS ON THIS SUBJECT.

7. THE WORLD BANK/IMF PFP AND SAFA. THE ISSUE WAS RAISED AS TO WHETHER THE AEPRP SHOULD BE CONTINGENT UPON SAFA APPROVAL. THE DISCUSSION WAS NO[illegible]. THE IMPORTANT POINT IS TO ENSURE THAT IF A SAFA IS ESTABLISHED THERE

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IS CONSISTENCY BETWEEN THE AEPRP AND SAFA CONDITIONS, AND THAT THE PROGRAMS COMPLEMENT ONE ANOTHER. ADDITIONALLY, THE POSSIBILITY OF THE WORLD BANK FINANCING SOME OF THE ACTIVITIES ORIGINALLY PROPOSED IN THE PAIP SHOULD BE EXPLORED. THE PAAD TEAM SHOULD COORDINATE ITS EFFORTS WITH IBRD AND AN UPDATE ON THE SAFA SHOULD BE INCLUDED IN THE PAAD.

8. LOCAL CURRENCY PROGRAMMING: WHILE MORE DETAILED PPC GUIDANCE ON LOCAL CURRENCY PROGRAMMING WILL FOLLOW IN SEPTEL, THE BASIC OPTIONS FOR LOCAL CURRENCY PROGRAMMING INCLUDE: A) PROJECTIZING OF FUNDS, WHICH ENTAILS SUBSTANTIAL MONITORING RESPONSIBILITIES; B) SECTORAL OR PROGRAM SUPPORT; AND C) A COMBINATION OF THE TIGHT PROJECTIZATION AND LOOSER SECTORAL/PROGRAM SUPPORT APPROACHES. AT THE ECPR, THERE WAS CONCERN ABOUT THE ADDITIONAL MISSION MANAGEMENT BURDEN IMPOSED BY THE PAIP'S PROPOSED USES FOR LOCAL CURRENCY IN SUPPORT OF ECONOMIC REFORMS (PP 2123). SOME OF THE ITEMS COULD BE PROGRAMMED UNDER THE LAPIS PROJECT AND THESE SHOULD BE IDENTIFIED AS SUCH. MORE GENERALLY, IN DEVELOPING THE PAAD THE MISSION SHOULD CAREFULLY ASSESS WHAT PARTS OF THE PROGRAM NEED TO BE PROJECTIZED. IT SHOULD BE CLEAR THE GOL IS THE IMPLEMENTING BODY FOR ALL PROGRAM/SECTORAL ACTIVITIES. ALSO, MISSION SHOULD BE AWARE THAT DIFFERENT REQUIREMENTS MIGHT FLOW FROM DIFFERENT CASH TRANSFER MECHANISMS.

9. NUMBER, COMPLEXITY AND DEPTH OF REFORM ACTIONS: THE PAIP CURRENTLY INCLUDES A TOTAL OF 23 DISCRETE ACTIONS. THESE INCLUDE SUCH COMPLEX TASKS AS ESTABLISHMENT OF A LINE OF CREDIT, SELL OFF OF COOP LESOTHO ASSETS, PRIVATIZATION OF THE NATIONAL ABATTOIR, AND INSTITUTION OF GRAZING FEES. THE PAAD TEAM SHOULD REVIEW THE PROPOSED ACTIONS IN LIGHT OF WHAT IS BOTH FEASIBLE AND NECESSARY FOR A BASIC REFORM PACKAGE. THE PACKAGE SHOULD BE SIMPLIFIED TO INCLUDE ONLY WHAT IS ESSENTIAL TO GET BASIC REFORMS UNDER WAY. FOR INSTANCE, IS IMMEDIATE INVOLVEMENT WITH THE ABATTOIR AND/OR FEEDLOT COMPLEX NECESSARY FOR BASIC LIVESTOCK REFORM OR CAN THE FACILITIES FUNCTION ADEQUATELY FOR NOW AND THEIR SHORT-COMINGS BE ADDRESSED AT A LATER DATE? ADDITIONALLY THE AMOUNT OF TIME REQUIRED TO COMPLETE SOME OF THE MORE COMPLEX ACTIVITIES NEEDS TO BE REASSESSED.

10. SEQUENCING AND TIMING OF REFORM ACTIONS AND DISBURSEMENTS: THE PAAD TEAM SHOULD MAKE CERTAIN THAT REFORM ACTIONS AND DISBURSEMENTS ARE TIMED SO AS TO ENSURE LEVERAGE FOR ALL DESIRED ACTIONS. FOR EXAMPLE (P. 19), ONE REFORM ACTION IS A GOL COMMITMENT FOR A FOUR YEAR PROGRESSIVE REMOVAL OF FERTILIZER SUBSIDIES. HOWEVER, THERE IS NO DISBURSEMENT TIED TO ACTUAL IMPLEMENTATION OF THIS COMMITMENT. FINAL PROGRAM DISBURSEMENT SHOULD NOT BE SCHEDULED PRIOR TO FULL REMOVAL OF THESE SUBSIDIES AND ANY OTHER SUCH GOL COMMITMENTS. THIS WILL REQUIRE EITHER SHORTENING OF THE IMPLEMENTATION PERIOD OR EXTENSION OF THE DISBURSEMENT. ANOTHER EXAMPLE IS IN THE LIVESTOCK MANAGEMENT PACKAGE (P.21). "APPROVAL OF THE NATIONAL GRAZING FEE SYSTEM AT THE HIGHEST LEVELS OF THE GOVERNMENT..." IS CURRENTLY LISTED AS A SECOND TRANCHE ACTION. SINCE THIS APPROVAL SEEMS ESSENTIAL TO THE SUCCESS OF THE PROPOSAL IT SHOULD BE REQUIRED IN THE FIRST TRANCHE PERIOD.

11. MONITORING AND EVALUATION PLAN: CRITICAL TO THE EFFECTIVE ADMINISTRATION OF THE AEPRP IS THE FORMULATION OF A DETAILED MONITORING AND EVALUATION PLAN (M & E).

THIS PLAN SHOULD SPECIFY VERIFIABLE INDICATORS THAT ARE TARGETED IN TERMS OF QUANTITY, QUALITY AND TIME FOR EACH OF THE TRANCHE BENCHMARKS. THE PAAD SHOULD INCLUDE A M & E PLAN AND BUDGET, IDENTIFYING PERSONNEL REQUIREMENTS TO INSTITUTE THE EVALUATION SYSTEM AND MEANS OF VERIFICATION AGREED UPON JOINTLY BY THE GOL AND USAID.

12. PROJECT MANAGMENT: THERE WAS CONCERN THAT THE USAID STAFF MIGHT NOT HAVE THE APPROPRIATE MIX OF SKILLS AND THE STAFF PLUS PROPOSED RESIDENT TECHNICAL ASSISTANCE MIGHT BE INSUFFICIENT FOR THE CURRENTLY PROPOSED PROGRAM. ADDITIONALLY, THE GOL'S CAPACITY TO IMPLEMENT THE REFORMS IS UNCLEAR. MISSION AND GOL STAFFING REQUIREMENTS AND GOL REPORTING AND ACCOUNTABILITY ISSUES NEED TO BE ASSESSED AND ADDRESSED IN THE PAAD.

13. AVAILABILITY OF CREDIT: A KEY ELEMENT IN THE SUCCESSFUL IMPLEMENTATION OF THE PRIVATIZATION STRATEGY MAY BE THE AVAILABILITY OF CREDIT TO SMALL PRIVATE ENTREPRENEURS. IT IS UNDERSTOOD INTEREST RATE POLICY REFORM AND LOAN GUARANTEE MECHANISMS MAY BE INTRODUCED IN THE IBRD PROGRAM AND THE PAIP ALREADY PROPOSES A LINE OF CREDIT TO LOCAL BANKS. HOWEVER THERE IS A NEED FOR A CLEARER UNDERSTANDING OF WHETHER THERE WILL BE SUFFICIENT ACCESS TO CREDIT TO FINANCE PRIVATIZATION INITIATIVES AND WHETHER THERE ARE LIKELY TO BE BIASES AGAINST SMALL LOCAL BORROWERS. THE PAAD TEAM SHOULD ASSESS: TO WHAT DEGREE ACCESS TO CREDIT IS A PROBLEM; IF IT IS A POLICY AND/OR INSTITUTIONAL ISSUE; HOW LACK OF ACCESS BY SMALL LOCAL ENTREPRENEURS WOULD AFFECT PROGRAM ACHIEVEMENTS; AND WHAT, IF ANYTHING, CAN BE DONE WITHIN THE AEPRP PROGRAM TO ENSURE CREDIT AVAILABILITY TO SMALL LOCAL ENTREPRENEURS FOR PRIVATIZATION.

14. LIVESTOCK MANAGEMENT: IN ADDITION TO AN OVERALL REVIEW OF THE REFORM ACTIONS REQUIRED AND THEIR SEQUENCING THE FOLLOWING ITEMS SHOULD BE EXPLORED BY THE PAAD TEAM: 1) INVESTIGATION OF THE PATTERN OF LIVESTOCK OWNERSHIP AND ITS IMPLICATION FOR THE SUCCESS OF THE REFORM PACKAGE AND THE EFFECT OF THE PROPOSED GRAZING FEE STRUCTURE ON SMALL HERDERS. 2) REVIEW OF THE TIME REQUIRED TO EFFECT THE REFORMS GIVEN POLITICAL SENSITIVITIES AND THE SOCIOLOGICAL CHANGES REQUIRED.

15. COOP LESOTHO. IN ADDITION TO AN OVERALL REVIEW OF THE REFORM ACTIONS REQUIRED AND THEIR SEQUENCING CLEAR UNDERSTANDING IS NEEDED BETWEEN AID AND THE [illegible] WHETHER COOP LESOTHO SHARES ARE TO BE SOLD TO COOPERATIVES OR ITS ASSETS SOLD TO THE PRIVATE SECTOR. GIVEN THE SMALL NUMBER OF ACTIVE COOPERATIVES, LIQUIDATION VIA THE SALE OF ASSETS SEEMS PREFERABLE. IN THIS CASE THE PAAD TEAM SHOULD DETERMINE WHETHER THERE ARE SUFFICIENT POTENTIAL LOCAL PRIVATE BUYERS.

16. AID/W LOOKS FORWARD TO REVIEWING THE PAAD. UNFORTUNATELY THE MISSION'S PROPOSED PAAD DEVELOPMENT DATES, 10/14 - 11/23/87, WILL HAVE TO BE DELAYED UNTIL WE HAVE A CLEARER IDEA OF WHAT FUNDING CAN BE MADE AVAILABLE FOR LESOTHO'S AEPRP, PROBABLY LATE NOVEMBER. SHULTZ

Department of State

OUTGOING TELEGRAM

ORIGIN AID-00

ORIGIN OFFICE AFPD-04
INFO AAAF-03 AFSA-03 AFDP-06 FPA-02 AFTR-05 POPR-01 PPPB-02 GC-01 GCAF-01 PPEA-01 PPDC-01 STAG-02 PPR-01 SAST-01 AFPE-07 AGRI-01 RELO-01 PRE-06 /049 A4 KL09

INFO LOG-00 AF-00 EB-00 TRSE-00 /000 R

DRAFTED BY: AID/PD/SA:VGRARY:LMB:3989L
APPROVED BY: AID/AA/AFR:LSAIERS
AID/AFR/PD:CPEASLEY
AID/AFR/PD/SA:MRIEGLEMAN (DRAFT)
AID/AFR/DP/PAR:JVOLGIN (DRAFT)
AID/PPC/PDPR:JATHERTON (DRAFT)
AID/AFR/PRE:MMUNSON (DRAFT)
AID/AFR/TR/ARD:WFLYNN (DRAFT)
AID/AFR/EP/PAB:GCAUVIN (DRAFT)
AID/PPC/EA:ABATCHELDER (DRAFT)
AID/AFR/PD:JGRAHAM (DRAFT)
AID/GC/AFR:MAKLEINJAN (DRAFT)
AID/AFR/DP:CCLAPP-WINCEK (DRAFT)
AID/AFR/SA:RBROWN (DRAFT)
------------------333015 082224Z /38

P 082213Z MAR 88
FM SECSTATE WASHDC
TO AMEMBASSY MASERU PRIORITY
AMEMBASSY HARARE
AMEMBASSY MAPUTO
INFO AMEMBASSY MBABANE PRIORITY

UNCLAS STATE 072569

AIDAC MBABNE FOR RLA MAPUTO FOR RLA

E.O. 12356: N/A

SUBJECT: LESOTHO AGRICULTURAL POLICY SUPPORT PROGRAM (LAPSP- 632-0224) ECPR GUIDANCE

1. SUMMARY: ECPR FOR SUBJECT PAAD WAS HELD ON 2/19/88 CHAIRED BY DAA/AFR, E. SAIERS. THE PROGRAM WAS APPROVED AT THE PROPOSED LEVEL OF DOLS. 15 MILLION: DOLS. 12.75 MILLION IN NON-PROJECT ASSISTANCE AND DOLS. 2.25 MILLION IN PROJECT ASSISTANCE SUBJECT TO: 1) SADCC ACCEPTANCE OF DOLS. 5 MILLION LIVESTOCK COMPONENT AS A SADCC ACTIVITY; 2) REVISION OF CASH DISBURSEMENT MECHANISM; 3) ELIMINATION OF THE TOU SUBACTIVITY; 4) ELABORATIONS IN TEXT AS DESCRIBED IN THIS CABLE INCLUDING: A) A SECTION OF PAAD WHICH INCORPORATES IN ONE PLACE AN ILLUSTRATIVE LIST OF ACTIONS WHICH NEED TO BE TAKEN IN ORDER TO REACH THE OBJECTIVES OF THE REFORMS; B) SPECIFICATION OF INDICATORS FOR DESIRED OUTCOMES AT THE MICRO AS WELL AS MACRO LEVEL WHICH WILL ENABLE MONITORING AND EVALUATION ACTIVITIES TO ASSESS WHETHER ADJUSTMENTS IN THE PROGRAM ARE NEEDED; C) DIFFERENTIATION BETWEEN PROJECT AND NON-PROJECT ASSISTANCE; AND D) 25 PERCENT HOST COUNTRY CONTRIBUTION. END SUMMARY.

2. THE LAPSP PAAD WAS PRESENTED BY USAID/LESOTHO DIRECTOR J. SNYDER TO THE ECPR ON 2/19/88. THE ECPR WAS CHAIRED BY DAA/AFR, E. SAIERS AND ATTENDED BY REPRESENTATIVES OF AFR/PD, DP, TR, SA, PRE, GC/AFR PPC/PDPR, EA AND STATE. THE MISSION IS TO BE COMMENDED ON THE DEVELOPMENT OF AN INNOVATIVE AND CHALLENGING PROGRAM. THE PAAD WAS APPROVED AT THE PROPOSED LEVEL OF DOLS. 15 MILLION SUBJECT TO THE APPROVALS AND REVISIONS AS DETAILED IN THE FOLLOWING PARAGRAPHS.

3. FUNDING: TOTAL OF DOLS. 15 MILLION WAS APPROVED FOR LAPSP: DO 2.25 MILLION IN PROJECT ASSISTANCE AND 12.75 MILLION IN NON-PROJECT ASSISTANCE SUBJECT TO THE ACCEPTANCE BY SADCC OF THE LIVESTOCK MANAGEMENT

COMPONENT AS A SADCC ACTIVITY.

A. PROJECT ASSISTANCE: THE DOLS. 2.25 MILLION IN PROJECT ASSISTANCE WILL BE FUNDED FROM DFA/AEPRP. IT WILL HAVE A PROJECT FACESHEET WHICH WILL USE PROJECT NUMBER 632-0224 AND NAME OF LAPSP SUPPORT AND WILL REQUIRE A SEPARATE PROJECT AUTHORIZATION.

ACTION: USAID/LESOTHO SHOULD PREPARE AND SIGN A PROJECT FACESHEET. AID/W WILL PREPARE AUTHORIZATION. BOTH WILL FOLLOW DIRECTLY AFTER THE PAAD FACESHEET WITHIN THE LAPSP DOCUMENT.

ACTION: USAID/LESOTHO SHOULD REVISE TEXT OF THE PAAD TO ENSURE THE PROJECT COMPONENT IS CLEARLY DISTINGUISHED FROM THE NON-PROJECT ASSISTANCE COMPONENTS OF THE PROGRAM. FOR EXAMPLE ALL PARAGRAPHS DEALING WITH PROCUREMENT, WAIVERS AND OTHER PROJECT ACTIVITIES SHOULD BE INTRODUCED AS PERTAINING TO THE PROJECT COMPONENT. AID/W ANTICIPATES PROCUREMENT PROCEDURES FOR DFA FUNDS TO BE ISSUED SHORTLY. REQUEST MISSION REVIEW WITH RLA AND REFINE PROCUREMENT SECTION PG. 65-66 ACCORDINGLY.

B. NON-PROJECT ASSISTANCE: THE DOLS. 12.75 IN NON-PROJECT ASSISTANCE WILL BE FUNDED BY (1) DOLS. 7.75 IN DFA/AEPRP FUNDS AND (2) SUBJECT TO SADCC ACCEPTANCE AND USAID/HARARE CONCURRENCE, DOLS. 5 MILLION IN SARP FUNDING. ENCOURAGE USAID/LESOTHO TO WORK WITH SADCC SECTOR COORDINATING UNIT FOR SOIL CONSERVATION AND LAND UTILIZATION TO PROVIDE A DESCRIPTION OF A DOLS. 5 MILLION DOLLAR ACTIVITY THAT THEY CAN PROPOSE FOR APPROVAL UNDER THE SADCC PROGRAM OF ACTION. ALSO REQUEST THE MISSION REVIEW THE TRANCHE DISBURSEMENTS FOR THE LIVESTOCK COMPONENT TO SEE IF THE LAST TWO TRANCHES, GRAZING FEE IMPLEMENTATION, CAN BE MADE TO TOTAL EXACTLY DOLS. 5 MILLION. THIS WOULD FACILITATE IDENTIFICATION AND TRACKING OF THE SADCC PORTION OF THE PROGRAM.

ACTION: PLEASE ADVISE VIA CABLE AS SOON AS SADCC HAS MADE A DETERMINATION REGARDING PROGRAM ACCEPTANCE AND IDENTIFY WHICH OF THE CASH TRANSFER DISBURSEMENTS UNDER THE LIVESTOCK COMPONENT WILL BE FUNDED FROM THE SARP MONIES. REVISE PAAD TO: REFLECT ANY CHANGES IN PHASED DISBURSEMENT AMOUNTS FOR THE LIVESTOCK COMPONENT AND TO PROVIDE FOR AA/AFR DELEGATION OF AUTHORITY TO USAID/LESOTHO TO IMPLEMENT SARP PORTION OF THE PROGRAM.

C. ACTIVITY NUMBERS: USAID/LESOTHO HAS PROVIDED THE PROJECT NUMBER 632-0224 WHICH WILL BE USED FOR THE TA COMPONENT: LAPSP SUPPORT, DOLS. 2.25 MILLION. IN ADDITION TO THIS NUMBER, AID/M/FM HAS RESERVED TWO NON-PROJECT ASSISTANCE (NPA) NUMBERS FOR THE NPA COMPONENTS OF LAPSP: LESOTHO AEPRP, 632-K-601, DOLS. 7.75 MILLION AND SARP, 690-T-601, DOLS. 5 MILLION. THESE THREE NUMBERS WILL BE USED FOR CN REQUIREMENTS FOR THE DOLS. 15 MILLION PROGRAM.

D. HOST COUNTRY CONTRIBUTION: THE DFA AND SADCC FUND SOURCES REQUIRE A 25 PERCENT HOST COUNTRY CONTRIBUTION.

ACTION: USAID/LESOTHO REVIEW PROGRAM AND PROJECT COMPONENTS TO COME UP WITH LEVEL OF HOST COUNTRY (HC) CONTRIBUTION AND TEXT FOR WAIVER IF 25 PERCENT CONTRIBUTIONS CANNOT BE MET. NOTE: LOCAL CURRENCY GENERATION COULD BE VIEWED AS HOST COUNTRY CONTRIBUTION SINCE THEY ARE HC OWNED. HOWEVER AS CURRENTLY WRITTEN LAPSP LOCAL CURRENCIES ARE APPROPRIATED FUNDS UNDER A LOCAL CURRENCY PROJECT, NOT HC OWNED GENERATIONS. (SEE

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4 BELOW FOR DISCUSSION OF DISBURSEMENT MECHANISM.)

4. DISBURSEMENT MECHANISM: AS CURRENTLY WRITTEN THE PAAD DESCRIBES A MECHANISM WHEREBY A.I.D. PROVIDES THE GOL WITH LOCAL CURRENCY (LC) FOR SPECIFIC ACTIVITIES, I.E. A LOCAL CURRENCY PROJECT. THIS METHOD TRIGGERS REGULATIONS NOT ENVISIONED IN THE PAAD. E.G. 611A, REG16 AND HB18 CH. 18.

THUS AID/W RECOMMEND MISSION REVISE DISBURSEMENT MECHANISM FOR NPA COMPONENTS OF PROGRAM. DOLLARS SHOULD

BE DISBURSED AS CASH GRANT WITH THE GOL SEPARATELY GENERATING LC. IN THIS CASE THE GOL WOULD HAVE TO SET UP A SPECIAL LOCAL CURRENCY ACCOUNT AND DEPOSIT LC IN THE AMOUNT EQUIVALENT TO THE DOLLAR SUM PRIOR TO EACH DOLLAR DISBURSEMENT. IN THIS, THE PREFERRED CASE, THE HOST COUNTRY CONTRIBUTION REQUIREMENT COULD BE IDENTIFIED AS THE LOCAL CURRENCY GENERATIONS AND THE REQUIREMENTS APPLICABLE TO THE LC WOULD BE ONLY THOSE CONTAINED IN 87 STATE 327494 PARA 3.13A, AGENCY POLICY GUIDANCE ON USE OF HC - OWNED LOCAL CURRENCIES. ALTHOUGH FINAL PROCEDURE FOR DFA CASH GRANTS HAVE NOT YET BEEN DETERMINED, WE EXPECT THAT DOLLARS WILL NOT BE TRACKED.

ACTION: MISSION REVISE PAAD TEXT TO PROVIDE DETAILED DESCRIPTION OF THE MECHANISM AND ENSURE ALL PORTIONS OF THE PROGRAM REFLECT A TRUE CASH GRANT INCLUDING PROGRAM DESCRIPTION ON FACESHEET, COVENANTS, AND PROCUREMENT PROVISIONS. (I.E. DELETE THIRD AND FOURTH TICKS UNDER LOCAL CURRENCY UTILIZATION PG. 61). SUGGEST THE RLA REVIEW PAAD ON THESE POINTS.

5. TOU SUBACTIVITY IN AGRICULTURAL INPUT COMPONENT: THE PAAD NOTES THAT THE GOL HAS ANNOUNCED ITS INTENTION TO PROGRESSIVELY TRANSFER ACTIVITIES OF THE TECHNICAL OPERATIONS UNIT (TOU) TO THE PRIVATE SECTOR. PHASE ONE OF THE AGRICULTURAL INPUT COMPONENT OF THE PAAD INCLUDES A CP CALLING FOR THE ADOPTION OF AN IMPLEMENTATION PLAN FOR THIS TRANSFER OF TOU ACTIVITIES. HOWEVER, FOLLOW-THROUGH ON IMPLEMENTATION OF THIS PLAN IS NOT INCLUDED IN THE CP'S TO SUBSEQUENT PHASES OF THE PROGRAM. THIS RAISED THE ISSUE OF WHETHER THE TOU SUBACTIVITY WAS ESSENTIAL TO THE PROGRAM. GIVEN THE GOL COMMITMENT, THE REPERCUSSIONS OF FERTILIZER SUBSIDY REMOVAL AND THE ADDITIONAL PROGRAM ACTIVITIES WHICH MIGHT RESULT FROM FOLLOW THROUGH IN PHASES TWO AND THREE OF THE AGRICULTURAL INPUT COMPONENT, IT WAS DECIDED THAT TOU SUBCOMPONENT BE REMOVED FROM THE PROGRAM.

ACTION: MISSION SHOULD REVISE THE PAAD TEXT TO DELETE TOU SUBACTIVITY.

6. CLEARER DEFINITION AND CORRESPONDENCE BETWEEN CP'S AND PERFORMANCE INDICATORS: WHILE IT IS UNDERSTOOD THAT THE LAPSP PROCESS CALLS FOR IMPLEMENTATION PLANS FOR THE TWO PROGRAM COMPONENTS, THE LACK OF SPECIFICITY OF INDICATORS WAS OF CONCERN. ADDITIONALLY THE GENERALITY OF THE CP'S AND THEIR SOMETIMES WEAK RELATIONSHIP TO

PERFORMANCE INDICATORS WAS NOTED. SPECIFICALLY, THE ECPR CALLED FOR: 1) INCLUSION IN ONE PLACE OF A LIST OF ACTIONS WHICH NEED TO BE TAKEN IN ORDER TO ACCOMPLISH THE OBJECTIVES; AND 2) INDICATORS WHICH PROVIDE A BASIS FOR ASSESSING PROGRAM PROGRESS AT THE MICRO AS WELL AS MACRO LEVEL.

A. TO ASSIST THE MISSION IN ITS REVIEW OF PERFORMANCE INDICATORS AND THEIR RELATIONSHIP TO CP'S, AFR/TR/ARD

AND PPC/PDPR/RP HAVE PROVIDED RECOMMENDATIONS FOR THE NATIONAL GRAZING FEE PORTION OF THE LIVESTOCK COMPONENT WHERE INDICATORS OF PERFORMANCE WERE FELT TO BE MOST DEFICIENT. THE RECOMMENDATIONS FOR THE NATIONAL GRAZING FEE ELEMENTS ARE TAKEN FROM THE HANDOUT, ENTITLED STEPS TO INTRODUCE THE NATIONAL GRAZING FEE, WHICH WAS DISTRIBUTED BY DIRECTOR USAID/LESOTHO AT THE ECPR. THE RECOMMENDATIONS INCLUDE SUGGESTED CP LANGUAGE AND REVISIONS AND/OR ELABORATIONS OF CORRESPONDING PERFORMANCE INDICATORS KEYED TO THE PAAD DOCUMENT BY PAGE NUMBER. THE NOTES IN PARENTHESES REPRESENT SUGGESTED LANGUAGE FOR MEANS OF VERIFICATION WHICH CAN BE USED WITHIN THE MATRIX, PG. 64 A-E.

(1) LIVESTOCK COMPONENT - NATIONAL GRAZING FEE ELEMENTS

PHASE ONE: SUGGESTED CP LANGUAGE: NO CHANGE

P. 21 -
(B) (2) - A CABINET DECISION NUMBER AND DATE FOR ACCEPTANCE OF NATIONAL LIVESTOCK POLICY AND CORRESPONDING MILITARY COUNCIL RECORD. (REVIEW OF RECORDS)

PHASE TWO: SUGGESTED CP LANGUAGE FOR THE FIRST POLICY REFORM: APPROVED AN IMPLEMENTATION PLAN FOR AND COMPLETED ALL PREPARATORY STEPS TOWARD INSTALLATION OF A NATIONAL GRAZING FEE SYSTEM.

P. 22 -
(B) (3) - NATIONAL LIVESTOCK INVENTORY COMPLETED AND DATA INSTALLED ON GRAZING FEE COMPUTER PROGRAMS. (REVIEW OF RECORDS)

(B) (4) - INITIAL EXTENSION INFORMATION CAMPAIGN RE: NATIONAL GRAZING FEE COMPLETED IN ALL DISTRICTS. (REVIEW OF RECORDS AND ON-SITE INSPECTION)

(B) (5) - WRITTEN PROTOCOL IN PLACE BETWEEN MOA AND MOI RE: GRAZING FEE COLLECTION AND PROCEDURES. (REVIEW OF RECORDS)

(B) (6) - ESTABLISHMENT, DEFINITION OF DUTIES, STAFFING OF AND PERSONNEL TRAINING FOR MOA NATIONAL GRAZING FEE ADMINISTRATIVE UNIT COMPLETED. (REVIEW OF RECORDS)

(B) (7) - APPROVAL BY CABINET AND MILITARY COUNCIL OF CREATION OR IDENTIFICATION OF APPROPRIATE INSTITUTIONAL STRUCTURES TO ASSURE PROPER DISBURSEMENT AND UTILIZATION OF GRAZING FEE REVENUES OF CRITERIA FOR LOCAL COMMUNITY USE OF GRAZING FEE REVENUES. (REVIEW OF RECORDS)

(B) (8) - COMPLETION AND ACCEPTANCE BY P.S. AND MINISTERS OF AGRICULTURE AND MOI'S CHIEFTAINSHIP OF FINAL DESIGN OF GRAZING FEE COLLECTION PROCESSES. (REVIEW OF RECORDS)

PHASE THREE: SUGGESTED CP LANGUAGE. THE GOL HAS IMPLEMENTATED THE FIRST YEAR OF OPERATIONS, INCLUDING COLLECTION OF GRAZING FEES AND ALLOCATION OF GRAZING FEE REVENUES, OF THE NATIONAL GRAZING FEE SYSTEM.

P. 23 -
(B) (1) - GOL PRESENTATION OF DETAILED RECORDS AND ACCOUNTS OF: THE TOTAL GRAZING FEE RECEIPTS IN THE FIRST YEAR OF SYSTEM OPERATIONS; THE ADMINISTRATIVE COSTS INCURRED IN IMPLEMENTING THE SYSTEM; AND THE DISPOSITION OF ALL RECEIPTS DISBURSED BY THE GOL, INCLUDING THOSE TO LOCAL COMMUNITIES FOR DEVELOPMENT ACTIVITIES. THIS PRESENTATION TO BE ACCOMPANIED BY A DETAILED REPORT OF: (A) THE PROBLEMS ENCOUNTERED, (B) THE ESTIMATED IMPACTS

OF THE GRAZING FEES SYSTEM ON LIVESTOCK OFFTAKE AND ANIMAL OWNERS' INCOME AND (C) DEVELOPMENT ACTIVITIES IMPLEMENTED BY LOCAL COMMUNITIES USING GRAZING FEE RECEIPTS. (SAME AS THOSE CURRENTLY IN MATRIX WITH THE ADDITION OF FREQUENCY OF INSPECTIONS)

PHASE FOUR: SUGGESTED CP LANGUAGE: NO CHANGE.

P. 24 -
B) (1) - SAME AS B) (1) ABOVE WITH SUBSTITUTION OF "SECOND" FOR "FIRST".

ADDITIONALLY:

P. 27 -
UNDER SHORT-TERM TECHNICAL ASSISTANCE REQUIREMENTS, ONE OF THE STUDIES SHOULD BE AN ASSESSMENT OF THE EFFECTIVENESS OF IMPLEMENTATION OF NATIONAL GRAZING FEE COLLECTION AND GRAZING FEE REVENUE ALLOCATION IN PROMOTING IMPROVED GRAZING LAND USE MANAGEMENT (DOLS. 100,000).

ON SEPARATE HAND-OUT ENTITLED STEPS TO INTRODUCE THE NATIONAL GRAZING FEE, ITEMS 18-20 SHOULD REFLECT AN EQUAL EMPHASIS ON THE ALLOCATION AND END USE OF FEES AS ON THE COLLECTION.

(2) OTHER ELEMENTS OF PROGRAM COMPONENTS. THE MISSION SHOULD REVIEW AND SHARPEN AS NECESSARY OTHER PERFORMANCE INDICATORS. FOR INSTANCE WITH REGARD TO FERTILIZER SUBSIDY REMOVAL, A FINAL INDICATOR OF PERFORMANCE COULD BE THAT THERE ARE NO GOVERNMENT OUTLAYS FOR THE SUBSIDY. AFR/TR/ARD AND PPC/PDPR/PR WOULD BE WILLING TO PROVIDE RECOMMENDATIONS TO ASSIST THE MISSION IN THIS EFFORT IF SO REQUESTED.

ACTION: THE MISSION REVIEW AND REVISE INDICATORS SO THAT THEY PROVIDE A BASIS FOR ASSESSING PROGRAM PROGRESS AND PROVIDE A SEPARATE LIST OF ALL ACTIONS WHICH NEED TO BE TAKEN IN ORDER TO ACCOMPLISH PROGRAM OBJECTIVES. GC/AFR NOTED THAT TWO PERFORMANCE INDICATORS REQUIRED REAPPEAL OF "ALL LEGISLATION" (PG. 15 AND 22) AND ASKED WHETHER IT WAS POSSIBLE TO SPECIFY PARTICLUAR LEGISLATION NOW, TO AVOID DISPUTE LATER.

B. CONDITIONS PRECEDENT (CP'S) AND COVENANTS: THESE ARE LISTED IN SEVERAL PLACES AND ARE NOT CONSISTENT. ADDITIONALLY CP'S ARE NOT ALWAYS CONSISTENT WITH THE INDICATORS BY WHICH THEIR FULLFILLMENT IS MEASURED. THE SUGGESTIONS PROVIDED ABOVE FOR THE NATIONAL GRAZING FEE ELEMENTS OF THE PROGRAM SHOULD PROVIDE GUIDANCE FOR THE MISSION REVIEW OF THE CP'S AND THEIR RELATION TO INDICATORS.

ACTION: MISSION SHOULD REVIEW CP'S TO ENSURE CONSISTENCY BETWEEN CP'S AND PERFORMANCE INDICATORS AND BETWEEN STATEMENT OF CP'S IN VARIOUS PARTS OF THE PAAD.

DESIRED CP'S SHOULD BE INCLUDED IN FACESHEET AND RLA SHOULD ASSIST IN PUTTING THEM IN PROPER LEGAL FORMAT.

7. EVALUATION AND MONITORING:

THESE SECTIONS OF THE PAAD WERE CONFUSING AND IN SOME CASES SEEM TO HAVE CONFLICTING CONCEPTS. GENERALLY, EVALUATION AND MONITORING ACTIVITIES SHOULD INCLUDE POTENTIAL IMPACT INDICATORS. FOR THIS DISCUSSION, THE TERM IMPACT INDICATORS WILL BE DEFINED TO MEAN THE TOOLS USED TO PROVIDE A BASIS FOR ASSESSING WHETHER THE DESIRED OUTCOMES OF THE REFORMS ARE BEING REALIZED.

THESE ARE DIFFERENT FROM THE INDICATORS OF PERFORMANCE WHICH ARE USED TO TRIGGER LAPSP DISBURSEMENTS. FOR INSTANCE, AN IMPACT INDICATOR FOR THE AGRICULTURAL INPUT COMPONENT MIGHT BE THE SUPPLY OF AGRICULTURAL INPUTS AVAILABLE TO FARMERS. IF THE REFORMS ARE SUCCESSFUL ONE WOULD HOPE TO SEE AN INCREASE IN THE SUPPLY OF INPUTS AS WELL AS A MORE EFFECTIVE USE OF THE INPUTS. WHILE THE PROPOSED BENCHLINE SURVEY WILL HELP DEFINE RELEVANT AND ACCESSIBLE DATA, THE MISSION SHOULD IDENTIFY, TO SOME DEGREE, THE DESIRED OUTCOMES STEMMING FROM THE IMPLEMENTATION OF THE REFORMS. THESE OUTCOMES, IMPACT INDICATORS, COULD THEN BE USED IN THE VARIOUS ANALYSES AND EVALUATIONS CALLED FOR IN THESE SECTIONS OF THE REPORT. IN ADDITION TO THIS GENERAL OBSERVATION, MEMBERS OF THE ECPR IDENTIFIED THE FOLLOWING SPECIFIC CONCERNS AND QUESTIONS IN THE MONITORING AND EVALUATION SECTIONS OF THE PAAD.

A. EVALUATION PLAN: THE ECPR QUESTIONED THE PASSAGE OF TIME AS THE SOLE CRITERIA FOR DETERMINING WHEN TO CONDUCT AN EVALUATION. MISSION SHOULD DESCRIBE WHAT OTHER FACTORS MIGHT TRIGGER AN EVALUATION EITHER BEFORE OR AFTER A TWO YEAR PERIOD.

B. PROGRAM MONITORING AND INFORMATION SYSTEM:
(1) PG. 59 II A 1. EITHER DEFINE WHAT IS MEANT BY "RELEVANT DATA" OR GIVE CRITERIA TO ASSIST SURVEY TEAM IN DETERMINING WHAT RELEVANT DATA ARE EXPECTED TO BE USEFUL.

(2) PG. 60 II A 5. MISSION SHOULD CLARIFY HOW, WHEN AND WHY (WHAT TRIGGERS) THESE ANALYSES AND EVALUATIONS. THIS ITEM MENTIONS AGRICULTURAL PRODUCTION WHILE THE EVALUATION PLAN CITES PRODUCTIVITY AS THE GOAL.

(3) PG. 60 II B REFERS TO THE MATRIX WHICH DEALS WITH

SPECIFIC INDICATORS OF PERFORMANCE. THIS MATRIX AND PAAD PGS 14-25 ARE NOT CONSISTENT, E.G., WHAT THE TEXT CALLS INDICATORS ARE OFTEN IN THE COLUMN LABLED MEANS OF VERIFICATION IN THE MATRIX. THESE INCONSISTENCIES SHOULD BE RECONCILED AFTER THE INDICATORS FOR PERFORMANCE HAVE BEEN REASSESSED.

(4) PG. 61 II C (3): THIS SECTION SHOULD BE MADE MORE CLEAR, I.E. IS THIS SECTION INCLUDED UNDER THE MONITORING HEADING BECAUSE THERE ARE ISSUES TO BE MONITORED? IF SO, WHAT ARE THE SOURCES OF DATA? MUCH OF THIS TEXT SEEMS DESCRIPTIVE RATHER THAN DEALING WITH MONITORING ISSUES.

ACTION: THE MISSION SHOULD REVIEW THE EVALUATION PLAN MONITORING AND INFORMATION SYSTEM SECTIONS OF THE PAAD AND REVISE OR ELABORATE AS PER THE COMMENTS/SUGGESTIONS ABOVE.

8. IMPLEMENTATION PLAN: THE CURRENT IMPLEMENTATION SCHEDULE APPEARS OVERLY OPTIMISTIC ESPECIALLY WITH RESPECT TO INITIAL CONTRACTING FOR TECHNICAL ASSISTANCE WHICH WE UNDERSTAND WILL PROBABLY BE AN INSTITUTIONAL CONTRACT. HOWEVER, WE CANNOT TELL FROM THE IMPLEMENTATION SCHEDULE, P. 67, WHEN TO BE ABLE TO EXPECT THE ITERATIONS OF STEPS 5-14 TO OCCUR AND THEREFORE ARE UNABLE TO JUDGE IF THE FOUR YEAR PACD IS REALISTIC. WILL STEPS 5-14 BE USED FOR EACH OF THE TRANCHES OF THE TWO INDIVIDUAL COMPONENTS, E.G. A TOTAL OF 7 TIMES?

ACTION: MISSION SHOULD CLARIFY THE IMPLEMENTATION PLAN AND INCLUDE POSSIBLE TIME FRAMES FOR THE DISBURSEMENTS

ADDITIONALLY THE MISSION SHOULD REASSESS IF THE FOUR YEAR TIME FRAME IS REALISTIC GIVEN THE COMPLEXITY OF GOL IMPLEMENTATION OF A GRAZING FEE SYSTEM AND THE START-UP TIME NEEDED TO GET THE TA CONTRACTORS IN PLACE. ADVISE MISSION PREPARE TA SCOPE OF WORK NOW TO BE READY FOR ISSUANCE OF RFP IMMEDIATELY AFTER SIGNING OF GRANT AGREEMENT.

9. FY88 STATUTATORY CHECKLIST HAS BEEN SENT TO RLA. REQUEST THAT IT BE USED IN THE PAAD.

10. SEPTEL WILL FOLLOW REGARDING CN.

11. TO REITERATE, THE ECPR WAS VERY SUPPORTIVE OF THE

PROGRAM AND WAS IMPRESSED WITH THE EFFORTS THAT HAVE GONE INTO THE DESIGN OF LAPSP. THE COMMENTS AND RECOMMENDATIONS NOTED ABOVE ARE MEANT TO BE CONSTRUCTIVE WITH THE AIM OF AVOIDING CONFUSION AND/OR FALLING BEHIND SCHEDULE LATER.

12. RECEIVED MASERU 00618 3/4/88. MISSION SHOULD REVIEW PAAD FOR ALL ITEMS NOTED ABOVE AND HAVE RLA REVIEW DOCUMENT PRIOR TO SENDING REVISED PAAD TO AID/W. IMMEDIATELY AFTER RECEIPT, WE WILL CIRCULATE FINAL PACKAGE FOR AUTHORIZATION. WE HOPE PROGRAM CAN BE AUTHORIZED BY APRIL 11 AND OBLIGATED BY APRIL 30.
SHULTZ

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