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Annex A  
LESOTHO

*A Report to the Congress on*

**DEVELOPMENT NEEDS  
and OPPORTUNITIES for  
COOPERATION in  
SOUTHERN AFRICA**



United States Agency for International Development/March 1979

## LESOTHO

## COUNTRY DEVELOPMENT STRATEGY STATEMENT

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## I. SUMMARY AND RECOMMENDATIONS

### A. Overview

Lesotho is a stark mountainous country, landlocked by the Republic of South Africa. Approximately 13 percent of Lesotho's 12,000 square miles is arable land. Most of the arable land is in the lowland western third of the country, where about 70 percent of the population resides.

The Kingdom of Lesotho was created in 1868 under the leadership of Moshoeshoe I, who was able to achieve protection from the British Imperial government in 1866 to avoid incorporation into South Africa. Independence came to Lesotho in 1966, in the form of a constitutional monarchy.

The population of Lesotho was estimated at slightly more than 1.2 million in 1976, when the last census was taken. The de facto population is lower, however, with up to 200,000 Basotho working in South Africa. Remittances from migrant laborers constitute over 40 percent of Lesotho's GNP. Thus, Gross Domestic Product per capita is estimated at \$15 in 1978, while GNP (which includes remittances from South African employment) is about \$239.

### B. Constraints to Economic Growth and Development

There are many constraints which operate against economic development in Lesotho. While the economy has grown in recent years, the source of approximately 77 percent of this growth has been accounted for by Basotho employment

in South Africa and the subsequent earnings remittances. Lesotho experiences developmental constraints based on its limited natural resource endowment, poor soils, dependence on South Africa in terms of transport, trade, expatriate domination of its private sector, the monetary relations and customs union arrangements; structural causes in terms of internal transport and marketing; and institutional and manpower deficiencies.

#### C. Government Development Plan

The Government of Lesotho's planning efforts have attempted to lay the foundation for future growth by emphasizing institutional and manpower development particularly in agriculture, roads, handicrafts and small industry. The general aims of the Second Development Plan (1975-1980) are economic growth, social justice, maximum domestic employment and economic independence. The GOL has consistently placed a heavy emphasis on agriculture and rural development, including livestock; economic infrastructure, social infrastructure; tourism and education.

#### D. Role of Foreign Assistance

Foreign assistance plays a substantial role in Lesotho. Of total capital expenditures projected for 1978/79, 70.8 percent are provided by donors. The primary donors are the United Kingdom, Canada, Germany, and the United States. Multilateral donors include the World Bank, the United Nations,

the African Development Bank and the European Development Fund.

E. Summary of Proposed Strategy

The long-term goals of a development assistance strategy in Lesotho are:

- 1) To promote self-reliance in terms of human resources and institutional capabilities.
- 2) To generate Basotho employment in all of Lesotho's sectors, particularly those where skilled expatriates currently fill in. These included construction, transport, commerce, industry, etc.
- 3) To increase the margin of self-reliance vis-a-vis South Africa by promoting interdependence or a reciprocal dependence. While geography dictates that there will always be an interdependent relationship, the stronger Lesotho's economy, the more easily steps in moving from dependence to normal economic relationships can be made.
- 4) To preserve Lesotho's natural resource base by halting and possibly reversing erosion through basic changes in agricultural production systems, conservation programs, the introduction of range management, and significant alterations in land tenure and use.
- 5) To generate domestic revenues through the exploitation of Lesotho's limited resource base (water, power, tourism, livestock).
- 6) To foster areas of regional cooperation between

Lesotho and other Majority Rule States in the Southern Africa periphery.

The approach to the strategy is to alleviate simultaneously the most critical constraints to absorptive capacity within the overall economy. These constraints are: 1) Manpower, human resource capability and institutional capacity, which are closely related; 2) Transport and Communications to integrate the now separated geographic regions and sectors of the economy; 3) Creation of economic incentives for a sound basis for development whereby crops and livestock could be profitably produced and revenues increased from tourism and exploitation of Lesotho's abundant water supplies for export, power and possibly irrigation. A viable marketing system is probably the essential first step in this direction. Rural enterprises and agri-businesses are also critical. In addition, livestock, which constitutes one of Lesotho's few comparative advantages, must be developed through less extensive and environmentally degrading production systems. 4) Preservation of the country's fragile natural resource base with a sound program of conservation and range management based on economic incentives, particularly adequate cash salaries, for Basotho participating in the program.

## F. Issues

Recurrent Costs. The recurrent cost implications of current and planned development activities constitute a potential problem of major proportions. Budgetary revenues from the South African Customs Union, which constituted 74 percent of total government revenue in 1977, are projected to decline in the early 1980's. Recurrent costs for the maintenance of capital projects such as roads, possible hospital construction, and salaries for non-capital development activities, will probably strain government resources by the 1980's. This issue constitutes a fundamental constraint on the government's absorptive capacity, and can only be alleviated if careful attention is given to the recurrent cost implications of all GOL and donor investments. The GOL will have to develop its capability to project revenues and expenditures on macro-level as well as carefully weigh the comparative recurrent costs of competing development activities to be able to judge the comparative worth of competing investments.

## II. OVERVIEW

### A. Geography

Lesotho is a stark, mountainous country, landlocked by the Republic of South Africa. Its total land area is less than 12,000 square miles, with altitudes ranging from 5,000 to 11,000 feet. Rugged foothills and mountains constitute nearly two-thirds of the land area, and are utilized for the raising of cattle, sheep and mohair goats. Most of the arable land is in the lowland western third of the country, where about 70 percent of the population reside.

Topographically, Lesotho has been divided into five regions:<sup>1/</sup> 1) border lowlands, 2) lowlands, 3) foothills, 4) Orange River Valley, and 5) mountains. These regions exhibit distinct climatic conditions, temperature ranges, vegetation, altitudes, and soil types. Only about 13 percent of the land (393,000 hectares) is considered suitable for crop production. Improved technology, irrigation, and access roads could result in modest increases in the amount of arable land. About half of the cultivated areas and mountain pastures are affected by erosion, with an estimated one percent of the nation's topsoil lost each year. The lowlands region rings the northeastern section of the country, where altitudes range from 5 000 to 7,000 feet and rainfall per annum averages

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<sup>1/</sup> Douglas and Tennant (1952) and Moody (1975).

500 to 900 mm.

#### B. History

The Kingdom of Lesotho was created in the mid-19th century under the leadership of Moshoeshoe I, who was able to achieve protection from the British Imperial government in 1868 to avoid incorporation into South Africa. The country suffered economic neglect during the century of British rule. As the Boers took over traditional farm and grazing lands, the Basotho were confined into a more narrow strip. Population pressure and soil erosion combined to produce a declining agricultural economy and temporary migration to South Africa became a mainstay of economic life.

Independence came to Lesotho in 1965, in the form of a constitutional monarchy. A multi-party system existed until the suspension of the constitution following the 1970 elections. Two turbulent periods of protest in 1970 and 1974 resulted in the detention of several hundred persons. The Prime Minister ruled by decree under a state of emergency from 1970 to April 1975. The National Assembly was appointed in 1973, including some members of the opposition. The government continues to function as a constitutional monarchy.

#### C. Social Structure

The population of the Kingdom of Lesotho was estimated at slightly more than 1.2 million de jure in 1976, when the

last census was taken. Population growth is estimated between 2.2 and 2.7 percent. The de facto population is considerably lower, with up to 200,000 Basotho (mostly men) working in South Africa. About 40 percent of the population is under the age of 15. The population is concentrated in the lowlands where density averages 280 persons per square kilometer or 717 persons per square mile.

Lesotho is essentially a mono-ethnic country. A single culture and language thus bind the nation together, with King Moshoeshoe II retaining ceremonial leadership. The traditional Basotho value structure is conservative, and is molded in some aspects by the influence of Christianity. Massive out-migration to South Africa has had the effect of detribalizing many Basotho.

The non-African population is reported to be about one percent. Expatriates have an influence on national life out of proportion to their numbers. Many businesses and commercial operations are controlled by the residual colonial community, British, Indians and South Africans.

Lesotho's major social problem relates to the substantial out-migration of the labor force to South Africa. An estimated 200,000 Basotho depend on jobs in South Africa. This includes 140,000 in the mining sector (about 120,000 at a given time); 20,000 in industry and manufacturing; and 30,000 in agriculture and domestic employment. The social problems

related to the absence of the heads of 60 percent of rural households are obvious, particularly when the absent men continue to make major decisions regarding agricultural production. The rural labor force is disproportionately comprised of women, children and elderly people.

#### D. Government

Lesotho's constitution is based on the Westminster parliamentary model. The government is headed by a Prime Minister who appoints a Cabinet from members of his party as well as opposition parties. The Cabinet provides guidelines to officials and is responsible for the operation of the government. Parliament, representing the people of the country, has a key role in policy formulation through its authority for approval of development plans and annual budget estimates.

The institutional capacity of the Government has evolved considerably since independence. In the past the shortage of high and middle-level manpower has constituted a constraint on the nation's capacity to implement its development strategy and to utilize available aid. This constraint is being eased as more people are trained and are gaining experience, and incentives are introduced to attract and retain necessary skills. The GCI continues to be concerned about the manpower constraint and administrative weaknesses in executing ministries. These problems are being increasingly addressed by the GCI in collaboration with donors, who regard institution-building as an integral part of their assistance. In the interim, substantial reliance

continues to be placed on expatriate advisors for technical expertise, since the demands on Government outpace its ability to train technicians.

The Government places high priority on economic growth as a vehicle for the promotion of social justice and increased employment, and for the reduction of dependence on expatriates in the business sector and as advisors to the Government. The Government is also concerned about reducing dependence on South Africa through strengthening its own economy and increasing mutual dependence. Given Lesotho's geographic location, the GOL accepts mutual dependence on South Africa as a fact of life.

E. Macro-Economic Situation and Trends

The domestic economy continues to be dominated by the agricultural sector, although the share of this sector declined from 42 percent in 1967/68 to 30 percent in 1977/78. In part the relative decline of agriculture is attributable to the growth of other sectors, mainly construction and tourism. However, agriculture has declined in absolute terms in recent years, with inflation eroding income, and areas under cultivation declining. The construction and tourism sectors have shown the most growth over this period, filling the gap created by agriculture. The reader is referred to Table I for economic trends in all sectors.

The growth of the economy during the first three years of the Second Plan is estimated at 5 percent in real

terms. The growth has occurred primarily in the public sector, the construction industry and the earnings of migrant workers. Industrial growth has been disappointing.<sup>1/</sup>

National income growth is good, as demonstrated in Tables 1 and 2. Gross Domestic Product per capita was \$115 in 1978, or \$66 in 1972 prices. Gross National Product is considerably higher than GDP owing primarily to remittances by miners. Thus GNP per capita was \$239 in 1977/78, or \$137 in 1972 prices. GNP has grown by 12.8 percent per annum in real terms, owing to higher miner wages and increased out-migration. Inflation has accelerated to 16 percent in 1977, reflecting world-wide trends. Gains in real terms have averaged 5 percent per annum for GDP and 13 percent per annum for GNP, reflecting labor remittances from South Africa. Real per capita gains in GNP have been nearly 11 percent per annum, while GNP per capita grew at about 5 percent per annum. These facts underscore the critical dependence of the Lesotho economy on employment in South Africa. As this source of GNP is declining, economic growth could slow considerably. The gains of economic growth are remarkably evenly distributed, since most of it is attributable to remittances from Basotho miners in South Africa, who originate from the poor majority.

## 2. Balance of Payments

It is difficult to collect balance of payments statistics in Lesotho. Owing to porous borders with South

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<sup>1/</sup> Kingdom of Lesotho, the State of the Nation,  
Ministry of Planning, October 1978

Africa, many external transactions go unrecorded, and errors and omissions are considerable. The IMF staff has prepared balance of payments estimates for the period 1974-77 with the assistance of Lesotho's Bureau of Statistics and the Ministry of Finance. (See Table 3.) More than 90 percent of Lesotho's external transactions are within the Rand Monetary Area.

Lesotho's balance of payments from 1974 to 1977 has been characterized by a persistent and widening trade deficit and a sizeable and increasing surplus on the services account, which is primarily the result of repatriations of Basotho working abroad. The large trade deficit should therefore be viewed in conjunction with the services account surplus. With exports constituting ten percent of imports in 1976 and only 7 percent in 1977, the overall balance of payments have been negative since 1975, reflecting a rapidly rising level of imports and the impact of an expanding GCL budget in recent years.

Recorded exports and imports are listed in Table 4. Imports rose at an average annual rate of 41 percent between 1974 and 1976, of which price increases are estimated to account for 20 percent, a product of the high inflation in South Africa. Three broad categories of imports: 1) food and beverages; 2) fuel and petroleum products; and 3) manufactured goods, machinery and transport equipment, grew at average annual rates of 50 percent, 47 percent and 46 percent, respectively.

These imports represent mainly consumer goods, and some investment goods. Consumer goods are expected to decline in 1977, as migrant earnings decelerate. Investment goods are expected to expand as the Government intensifies its development efforts.

Lesotho's recorded merchandise exports constitute a small and declining proportion of the country's external transactions. This trend reflects the poor performance of wool and mohair which declined from 52 percent of recorded exports in 1974 to 25 percent in 1976 despite buoyant world prices. Difficulties in marketing arrangements are thought to account for this decline, with an increase in smuggling. As marketing arrangements improve, and domestic manufacturing expands, the export prospects for Lesotho will become more favorable.

External assistance accounts for a major element in Lesotho's balance of payments with inflows totalling about \$46.4 million in 1977. This figure is estimated at over \$75 million in 1978.

### 3. Public Finance

Lesotho's fiscal year runs from April 1 through March 31 of the following year. Government receipts and expenditure are included in Table 5. Revenues derive from taxes, export duties, and the Customs Union pool. Most of the increases recorded in revenue in 1977 and 1978 arise

from increased Customs Union receipts, which were boosted by two extraordinary events whose influence will extend for only a limited period. One was the unusually high rate of growth of imports in 1975 and 1976, of which the major portion consisted of capital imports for development of a diamond mine. The second was an adjustment in the Union's revenue sharing formula in 1977. Revenues from the Customs Union in 1977 and 1978 are thus roughly double and triple, respectively, what they were in 1976. Temporary imposition by South Africa of an imports surcharge will continue the high revenue level through 1979. With the drop of imports to a more normal level, diminution of the effects of the adjustment of the revenue sharing formula, and the phasing out of the surcharge, Customs revenues are projected to decline in money terms in the early 1980's and will fall back to a real level slightly above that of 1977.

On the expenditure side, salaries account for about two-thirds of recurrent expenditures. Capital expenditures have been increasing rapidly from about one-third of current expenditures in 1973 and 1974 to 57 percent in 1977 and 126 percent in 1978. Increased capital expenditures now will lead to increased recurrent expenditures later. The increased requirements for recurrent expenditures to operate development activities and to meet other needs point to a major budgetary crisis in the early 1980's. The high expenditure

tax burden inherent in current Customs Union arrangements makes increasing the burden of domestic taxation to meet a crisis very difficult. Using the standard tax ratio recommended by the IMF, Lesotho's ratio is 0.909, making it one of the highest taxed countries in the developing world.

Senior government officials are cognizant of this situation and have indicated their intention to build a reserve fund for recurrent expenditures within the Ministry of Finance. The Government of Lesotho also reports that it has requested donor assistance in analyzing fiscal trends.

#### 4. Economic Sectors

##### a. Agriculture <sup>1/</sup>

Agriculture constitutes the most important economic sector in terms of size and local employment. Agriculture, supplemented by mine wages, provides a livelihood for about 90 percent of the rural population and accounted for 45 percent of exports in 1977, as well as roughly 30 percent of GDP. Agriculture is almost entirely small-holders, with slightly more than half of output derived from crop production, the remainder from livestock. Most agricultural production is for household subsistence. An estimated one-third of output, particularly of livestock products, enters the market.

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<sup>1/</sup> Paragraph 2 through 4 are taken from: Walton, M.J.P., Conditions of Rural Development in Lesotho, Ministry of Planning, October 1978, pp. 10-13.

Average farm holdings have diminished to about 5 acres. Though sufficient in principle, the current agricultural technology and adverse conditions make most holdings inadequate even to satisfy subsistence requirements. Most ordinary families produce around two thirds of their starch requirements, though this varies greatly from year to year. Poor cropping techniques, poor soil structure (in the lowlands) steep slopes and severe overgrazing by livestock has also produced a severe erosion problem. It has been estimated that the arable land is diminishing at a rate of 1 percent per annum. 1/

The problems of farming outlined above should be viewed as part of a broader syndrome. The importance of migrant employment and income reduces the necessity and relative attractiveness of investing time, resources and organization in farming. The low level of farming practice and lack of immediate opportunities makes farming a low return, high risk affair. For most Basotho it is rational and sensible not to risk or waste more of their scarce resources on agriculture than is really necessary.

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1/ Paragraph 2 through 4 are taken from: Walton, M.J.P., "Conditions of Rural Development in Lesotho," Ministry of Planning, October 1978, pp 10-13.

There is a small minority of farming households who are making a success of farming in Lesotho, and acquiring a reasonable standard of living. These characteristically have more resources, devote more effort and investment to agriculture, achieve good yields and are able to market a significant surplus. It remains unclear whether they can be a model for the "ordinary" farmers to follow. Exchange of farming knowledge could be highly beneficial, as these farmers are probably the best experts in the country. However, the key problem of absolute lack of resources also has to be tackled. This must involve getting additional income generating activities to the average rural households, and finding ways of channelling existing income (e.g. from migrant earnings) into more productive areas.

Owing to agricultural conditions described above, crop production fell from 25 percent of GDP in 1967 to 14 percent in 1977, while livestock roughly maintained its share from 17 percent to 16 percent over the same period.

Lesotho's major crops are maize, sorghum, wheat, beans and peas. Maize and sorghum are grown almost entirely for subsistence, whereas beans, peas and wheat are grown mainly for sale. There are indications that production is experiencing a long term secular decline, apart from very favorable years such as 1973/74 and 1976/77. Yields tend to be very low throughout Lesotho and are extremely erratic.

Approximately fifty percent of maize and wheat consumption requirements are imported. The main crop exports are beans, peas and canned asparagus.

Domestic agriculture is strongly influenced by South African price policies. GOL price policy is to follow South African prices plus a margin for local collection costs. It is not always true that farmers reap the **entire** benefit from the established price, as traders often are able to maintain a non-competitive advantage. As competition increases within the trade sector, trader margins may be reduced.

**Low** agricultural productivity and the declining share of agriculture in GDP reflect declining soil fertility and erosion; the unavoidable dependence on women and children for the labor force, as male labor migrates temporarily to South Africa; poor management and cultivation practices; inadequate transport and marketing infrastructure; and difficulties in identifying appropriate mix of policies and programs to generate significant farmer motivation. Thus the area under cultivation declined by a third from 1973 to 1976 for the five principal crops. The GOL is placing high priority on agricultural development in order to arrest declining productivity in the sector.

b. Livestock

Livestock constitutes the most important single source of export receipts (39 percent in 1977). About 75 percent of the land of Lesotho is utilized as pasture in the mountainous north-western and south-central parts of the country.

Livestock husbandry is traditionally a more prestigious farming pursuit than crop production. The problems of low level of farm practices and low productivity are, however, equally important. Meat and milk production is low, reproductive rates poor, animals are weak and underfed (thus the need for large plough teams) and clips of wool and mohair low. However, investment in livestock remains a rational commercial decision because of the lack of alternative opportunities. A central problem, as perceived by outside observers, is serious overstocking and deterioration of the range. This is very much due to the institutional fact of communal grazing, while individual incentives to increase livestock holdings are strong. The traditional system of range management and rotational grazing under the Chief's direction is breaking down because of over-stocking. Most Basotho farmers do not consider this to be a major problem.<sup>1/</sup>

Recent years have witnessed a decline in the stock of sheep and goats. The estimated 12.8 percent annual cattle off-take rate tends to be replenished by returning migrants who treat livestock as an asset for holding wealth.

<sup>1/</sup> Walton, op.cit., p 12.

Overgrazing accounts in part for recent declines in sheep and goat populations. It is estimated that relative to climate/vegetation potential under modern management techniques, Lesotho pasture land produces only 30 to 60 percent of capacity. Under present production systems, the resource value of the land is diminishing.

Recorded exports of cattle and sheep to South Africa have declined in recent years owing to the South African quota for imports. Exports of wool and mohair are beginning to recover after disruptions in marketing arrangements, which are thought to have resulted in increased smuggling of wool and mohair to South Africa.

The GOL is making a concerted effort to improve the livestock sector through a Mountain Livestock Development Program, which includes long-term grazing control regulations; wool and mohair promotion programs; slaughter facilities to stimulate domestic meat production; and a more flexible marketing system with prompt and just payments to producers.

c. Manufacturing, Construction and Commerce

The manufacturing, construction, commercial and service sector expanded from 22.6 percent of GDP in 1967 to 38.1 percent in 1977 (See Table 1). Manufacturing activity comprises processing of local agricultural produce; manufacture of textiles; construction materials; handicrafts based on wool, mohair, pottery, semi-precious jewels, candles and leather; lighting equipment; furniture; and umbrellas. The GOL places a high priority on attracting foreign investments. In recent years the GOL has been attempting to promote Basotho businesses. See Table 8 for further detail.

The wholesale/retail sector is oriented toward the modern sector. As of March 1976, 201 firms were licensed in this sector, with nearly 80 percent having few than 20 employees. Both marketing and the provision of consumer goods are relatively undeveloped in rural areas.

The construction sector has been growing at a very rapid rate (see Table 1) and accounted for 10.2 percent of GDP in 1977. There is room for considerable expansion, as 70 percent of building materials and some skilled labor are imported from South Africa. The availability of registered contractors in Lesotho has risen from 39 in 1976 to 75 in 1978. Most of the larger firms are owned or managed by expatriates. Employment in construction was 1,703 in 1975, and has risen to about 2,887 by April 1978. This does not

include secondary employment generated through sub-contracting.

The Lesotho National Development Corporation (LNDC), founded in 1967, was the first institution established for the promotion of Basotho enterprises. As of the end of 1976, the LNDC has assisted 46 subsidiary companies, joint ventures and associated enterprises which have provided about 5,000 jobs. These enterprises include primary processing activities such as food industries, and mohair; a tire company and automobile dealers; construction materials industry; consumer products such as pharmaceuticals and clothing; handicrafts; housing; tourism and hotel groups; and mining. LNDC investments through 1976 totalled about \$4,000,000. LNDC participation ranges from 50 percent to 100 percent for these enterprises. Some of these enterprises have suffered from poor management. The LNDC is planning to divest some of these enterprises to the private sector, in order to increase the availability of funds for other investments.

The Lesotho National Development Bank, subsequently known as the Lesotho Bank, was founded in 1973 as a result of studies assessing the banking situation in Lesotho. At the time the GOL was particularly concerned about the excessive outflow of capital from Lesotho where only two foreign banks were established. The studies, done by the

World Bank and other organizations, suggested that a national bank may be more capable of identifying prospects which could be financed from domestic savings. The assets of the Bank have increased from about R 5 million in 1973 to R 40 million in 1977. Customer deposits account for over half of the Bank's resources. Profits have risen from R 24,000 in 1973 to R 521,000 in 1977.

Apart from a contribution of paid-in capital, the Lesotho Bank has received no further capital support from the GOL, and pays taxes as any private bank would. Thus the Lesotho Bank operates as a commercial bank in order to generate funds for reinvestment. Despite its commercial orientation, the philosophy of the Lesotho Bank has been strongly development-oriented. The Bank lends primarily to its own customers and to local corporations. The 46,000 savings accounts average only R 6, and some are only R 1, the minimum deposit for a savings account. Most loans to customers range from R 600 to R 2,000, with exceptional loans as high as R 150,000. The Lesotho Bank has investments of over R 15 million, and interests in subsidiaries totalling almost R 500,000. The Lesotho Bank's current priority for reinvesting profits is the establishment of 5 additional branch outlets, bringing the total to 15 with at least one in every district.

The Basotho Enterprise Development Corporation (BEDCO) was founded in 1975 as a 100 percent LNDC-owned subsidiary, with financing from Canada (CIDA). The purpose of BEDCO

is to promote Basotho ownership and participation in Lesotho's industrial and business sectors. With a staff of 30, BEDCO's activities include:

- 1) A Credit Scheme which has made loans to about 20 enterprises for a total of R 100,000. Those receiving credit include chain and brick manufacturers, construction enterprises, leather goods, watchmaker, tailor, radio repair and materials prefabricator. Many applications have been received for small manufacturing and service industries.
- 2) Construction of Industrial and Commercial Estates. BEDCO has built one estate for small shops and artisans in Maseru at a cost of R 1.3 million. Estates are planned for each district as a central point for other activities.
- 3) Establishment of Viable Industries. BEDCO participates in the establishment of key industries which are identified by its staff. BEDCO thus plays a role in the economy by taking the initiative in an entrepreneurial manner. BEDCO as had equity investments and management-training responsibilities for a construction company, garments companies, and various handicrafts. Under the Phase II project, other enterprises such as a small scale foundry will be established.
- 4) Training and Extension for local entrepreneurs. BEDCO offers training, both on-the-job and short courses, in stock/inventory, marketing bookkeeping, accounting, etc.

In addition to national development initiatives, there exist a series of programs dealing with specific handicrafts. CARE, for example, has a mohair project which has trained 770 spinners at 10 centers. CARE supplies the mohair which local spinners often cannot get because South African auctions bring higher prices. Moreover, there was limited local capacity to purchase and process the mohair, which also forced local spinners to buy from South Africa at higher prices.

CARE is planning expansion in the area of weaving and dyeing mohair products. The production of spun mohair reached almost 700 kg. in May 1978, and is expected to reach 850,000 kg. per annum. The aim of CARE is to train 5,000 spinners within 6 years, and to market at a national level. CARE offers loans of R 50 in kind to establish new spinning "entrepreneurs."

The FRIDA (Fund for Research and Investment for the Development of Africa) is another non-profit organization which markets local handicraft products in other parts of Africa and Europe. According to FRIDA staff members, the problems faced by Basotho entrepreneurs are pervasive: management, credit, working capital for under-capitalized firms who cannot purchase in bulk, inventory control, procurement, marketing and even the undeveloped transport infrastructure are problems faced by entrepreneurs encountered by FRIDA.

The prospects for developing the business sector in Lesotho appear to be considerable, not only in terms of displacing expatriate entrepreneurs, but also in terms of expanding local skills to meet the growing demand for services and goods throughout Lesotho. Demand appears to exist for many types of commercial and service enterprises, construction, manufacturing of many consumer products, and handicrafts. Lesotho could also promote considerable activity in the processing of its own resources, such as mohair, clay, etc.

d. Mining

Lesotho's known mineral endowment is sparse. The Letseng le Terau Diamond Mine, financed by the Anglo-American Corporation, began operations in 1977 with a staff of 657 Basotho and 90 expatriates, mostly South African. During its first year of operation, recoveries have not covered operating costs. But this could be dramatically changed by the discovery of a few large diamonds, which are characteristic of Lesotho's diamond deposits.

A geological survey is currently being carried out. A small diamond pipe has been identified and may be exploitable. There appear to be some prospects of coal deposits, uranium, and oil finds. Though the economic prospects for exploitation of minerals in Lesotho are not bright, they are potentially important to the country given its sparse resource endowment.

Lesotho's water resources are significant, and constitute an important potential source of export revenue. Discussions with South Africa, which is interested in importing water, have occurred periodically since independence.

e. Housing

The major urban centers of Lesotho are Maseru, the capital, Teyateyaneng, Maputswe and Mafeteng. Maseru, with an estimated 1978 population of 43,000, far exceeds the other towns in size and is growing at a rate of 12 percent per annum. All together, only 6 percent of the population lives in urban areas at present. However, there is every indication that the rural-urban drift is increasing and that problems of housing and provision of services, which have been neglected in the past, are mounting.

Based on a 1973 survey, the vast majority of housing in the urban areas consists of shelter built through self-help labor, which retains many of the characteristics of rural shelter, especially in the materials used for walls and floors. This kind of housing, mostly for lower income households, is seldom served by piped water and sewerage nor does it have access roads to any degree. Overcrowding is common, with 2.8 persons per room for lower income groups in Maseru in 1973. There has been little or no town planning and the results are reflected in the random growth of the towns.

Housing in rural and semi-rural areas usually consists of one or more round buildings made of stone or mud bricks with thatched roofs. Such buildings are built at a low cash cost since materials are gathered from natural local sources and no special tools or equipment are required.

Shelter problems in the rural areas are therefore not primarily those of housing. Rather, they consist of the lack of services associated with the building of small communities, services such as the water supply and sewerage disposal.

Specific urban shelter problems include the following:

1. absence of national housing policy
2. need to strengthen shelter institutions capable of meeting the demand for shelter now being exhibited
3. lack of availability of serviced urban areas
4. overcrowding of existing areas leading to slum-like conditions
5. dependency upon South Africa for building materials
6. need to support the recently created long-term mortgage financing institutions and to provide short-term credit for building materials for self-help housing.

Since 1975, the government, assisted by donor organizations, has played a more active role in this sector. Three quasi-governmental agencies, the Lesotho Housing Corporation, the Lower Income Housing Company and the Building Finance Company, have been established and a housing division within the Ministry of Interior has been created to coordinate shelter matters and to formulate a national housing policy. Several donors have provided or are providing capital financing for shelter projects, and technical assistance in policy matters.

f. Transport

Lesotho's road system consists of about 2,800 kilometers of primary, secondary and tertiary roads, of which about eight percent are paved and 50 percent are tracks. The remaining 32 percent are one- or two-lane gravel roads. The majority of the road system is located in the western lowlands with little access to the interior and southern-most parts of the country.

There are 13 road links currently under construction or being considered for donor financing. The main trunk road in the lowlands will soon be paved from Butha Buthe to Mt. Moorosi. Roads in the mountains will be upgraded to provide all weather access to areas which have hitherto been periodically inaccessible. With the completion of these links, Lesotho will have a circular perimeter road

and an interior mountain road linking western and eastern points on the perimeter road. A good farm access road network in the lowlands will also be completed.

Labor-intensive road construction units (now under experimentation) and food aid road construction units will carry out most secondary road construction in the mountains. With the completion of this basic road network in the near future, Lesotho must quickly upgrade its extremely limited road maintenance capacity using both capital and labor-intensive teams to prevent deterioration under increased traffic and Lesotho's adverse climate.

The country's telecommunications system is reasonably developed in the lowlands and a UHF radio system will be installed in the mountain centers of Qacha's Nek, Mokhotlong and Thaba Tseka in the early 1980's. All international calls presently go via South Africa and the GOL has begun discussions with donors concerning the feasibility of an Earth Station system linked with a Commonwealth country such as Kenya which the GOL believes would be cheaper and reduce total dependency on South Africa links to the outside world.

The operation of the road transport system has not been well-managed in the past. While previously the bulk of all freight traffic was handled by private traders for their own outlets and long distance hauling was virtually

non-existent, the government is now setting up a Freight Service Corporation. The GOL hopes the Corporation will provide more reliable service, especially to the southeast highland region, although the efficiency of such a government organization must yet be proven.

Lesotho's freight haulage system in international traffic is restricted by South African transport policy which is based on the extensive use of South African Railways, where rates in general have not been calculated on cost. Proposals made to South Africa in 1975 and 1976 sought liberal terms of regulation, but were rejected by South Africa. In 1977 South Africa modified some of its regulation policies and has agreed in principle to discuss existing problems with the Government of Lesotho. Although the only railroad in Lesotho stops a few kilometers inside the country at Maseru, main South African rail lines run through towns within a few kilometers of several major Lesotho border towns, providing easy access to Lesotho by truck.

In 1975, to expand, nationalize, and regularize bus transport services, and especially to remove foreign control, the GOL established the Lesotho National Bus Service Corporation, displacing many private operators. Many private operators have since purchased smaller vehicles not subject to the same degree of government control. These vehicles now both compete with and supplement the services of the government corporation. The GOL indicates it would be willing to consider divesting itself of the Corporation provided private successor interests operated the system according to previously agreed standards.

Air transport plays a vital role in the transport system by providing access to the remote and mountainous areas of Lesotho; thirty-one airfields in the country, of which two are paved, can

handle light and light-to-medium aircraft. Maseru Airport can handle only small transport aircraft and cannot be enlarged owing to altitude and access problems. A new airport, estimated to cost \$35 million, is being designed. The GOL has recently indicated that they have received substantial financing pledges towards the construction phase, although there is still a shortfall of approximately \$10 million.

g. Health

By most developing country standards, Lesotho is a relatively healthy country. Infant and early childhood mortality is comparatively low. There is virtually no malaria, schistosomiasis, sleeping sickness, or tetanus. Life expectancy at birth is more than 51 years. Population growth, which impacts greatly on health care services, is outpacing agricultural production and seriously taxing the carrying capacity of the land. The absence of a large proportion of the male working force creates new health hazards for women and children.

The principal health problems are venereal disease, gastroenteritis, measles, whooping cough, pulmonary tuberculosis, dysentery and typhoid. Tuberculosis, heart disease, hypertension, acute respiratory infections, typhoid, and gastro-intestinal diseases are the major hospital-reported causes of death. The underlying conditions of poor health

are environmental (water supplies polluted by human and animal waste); nutritional (especially chronic malnutrition among infants); and educational (lack of public understanding of venereal, tubercular, and other diseases, their cause and prevention).

Although the government's strategy has been recently changed to emphasize preventive health programs, the existing health structure remains largely curative in orientation. The 17 general hospitals and about 110 clinics and out-stations are not efficiently spaced to afford reasonable accessibility to a large portion of the populace. The mountainous topography and rudimentary road network effectively isolate many people from any formal health care. Development of an effective village health worker program, improved training and supervision of all health staff, aggressive health education, and expansion of current efforts to install rural water systems and encourage latrine use could significantly improve the nation's health without requiring a major increase in hospital facilities, although additional clinics would probably be needed in the mountain areas. The government is considering basic upgrading and limited expansion of the central referral hospital, which is seriously overcrowded, keeping in mind the effects such refurbishing will have on recurrent costs.

#### h. Education

Formal education has had a long and significant role in the history of Lesotho, with the first school opened in 1833. The number of schools and pupils grew progressively

over the last century as missionaries arrived in Basotholand. By independence in 1966, Lesotho had close to 1,060 operating primary schools and an adult basic literacy rate of over 50 percent. At present the country's 1,063 primary schools with 222,000 pupils are over-enrolled in relation to the relevant primary school age population. Primary school enrollment grows at the rate of 2.2 percent per annum. There are sixty-one secondary schools with a total enrollment of 17,500 pupils making up about 11 percent of the secondary school age group. The National University of Lesotho with a student body of approximately 600 is located in Roma. The one National Teacher Training College which prepares teachers for primary and junior secondary schools has a capacity for 1,200 teacher trainees. Several small vocational schools, the Lerotholi Technical Institute and the University at Roma complete the educational system in the country.

Despite the long tradition of primary and secondary education in Lesotho, the colonial administration-sponsored education did not prepare Basotho for the development tasks it now faces. The lack of skilled and semi-skilled Basotho manpower is an outgrowth of that educational system. The Government of Lesotho believes that there is need to modify the educational system to gear it to manpower and development needs of the country.

Until well after Independence, authority over Lesotho's educational system was not centralized, nor under the government's direction or supervision. The system developed without guidance and grew because of the intense competition among the missions for converts. Because the system was so large, and with so much autonomy among the different missionary sponsors, the government has faced a dual burden. It has had to redirect the emphasis of education and impose control over the autonomous and decentralized educational system.

The government has taken over a much larger share of the responsibility for the educational system. Unlike the past when the missions were able and willing to wholly finance the operations, the government must now give grants in aid to mission schools and pay the salaries of all qualified teachers to meet rising costs of education. Government expenditure on education absorbed about 6 percent of the GNP and 20 percent of the recurrent expenditure in 1977/78. The government has reduced the number of school enrollment years to control expansion of facilities in order to keep down costs which threaten to undermine other education programs. The primary school years have been reduced from eight to seven in an effort to curb what the GOL considers as necessary expenditures.

A major objective of government is to improve the quality of the formal education system. By 1980 the GOL expects to have 265,000 primary students but the percentage of unqualified teachers is expected to increase from 33.6 percent in 1976 to 45.5 percent in 1980. Government priorities at the primary level are to improve existing facilities through provision of basic furnishings (such as desks) and materials, curriculum development, upgrading teachers and improving their conditions of service.

At the secondary level, technical and vocational courses are being incorporated into the curriculum. Cambridge exam scores have dropped in recent years as enrollments have increased. Again there is a shortage of qualified teachers which will not be remedied until the late 1980's. The Government's education investment program includes support for university education, improvement and expansion of secondary, technical, vocational and teacher training. The plan also calls for expansion of existing primary school facilities to achieve better economies of scale and establishment of a nationwide rural and adult education scheme.

i. Tourism

Tourism constitutes one of Lesotho's key growth sectors. Its contribution to GDP has increased from 0.3 percent to 6.9 percent over the last decade. Its estimated contribution to Lesotho's balance of payments in 1977 was R 9.1 million, the equivalent of about 75 percent of Lesotho's total export earnings. Tourism to date has been primarily centered in Maseru, with its attractive climate and gambling facilities, and proximity to South African population concentration.

There is considerable further potential for tourism in the attractive mountain regions of Lesotho, which could develop in conjunction with transport infrastructure.

## 5. Government Policy

Government policy in Lesotho has been strongly development oriented with an emphasis on developing sectors which generate revenues for development, such as tourism and mining, as well as import-substitution activities in industry. The GOL has also placed a high priority on the development of transport and other infrastructure to establish a framework for rural development activities. The GOL has been sensitive to the high degree of expatriate activity in its commercial sector, and has faced difficult decisions with respect to the control and/or replacement of these expatriates.

Government policy in general has been guided by a perceived need to develop infrastructure at a rapid rate. The rural transport infrastructure is being rapidly developed with donor assistance. In the marketing, industrial, financial and transport service sectors, the predominate expatriate role and the lack of competition have led the government to conclude that the private sector is not necessarily responsive to the development needs of Lesotho. Government policy has thus taken the direction of public sector corporations to supplement these activities. The Lesotho National Development Bank and the Lesotho National Development Corporation have assumed leading roles in the development of the financial and industrial sectors. Similarly, the Produce Marketing Corporation, the Livestock Marketing Boards, and the Lesotho National Bus System have been absorbed in the public sector, primarily to replace the expatriate private sector.

The short-run results of the decision to nationalize marketing and transport have been to disrupt markets, to discourage local private activity in these areas, and to create the need for subsidies for these activities. A judicious mix of public and private sector activities in these areas could eliminate the need for subsidies while promoting other government policy objectives such as employment generation.

Government policy has not been as supportive of local enterprises as it might be. There has been little effort to promote local bidding for government contracts in design and construction of major buildings. With increased emphasis on local procurement, government expenditures would have the added benefit of promoting local entrepreneurs.

Similarly, the government has not stimulated overall activity in the private Basotho sector. Employment generation ranks as a high priority of the government, and the public sector has been the primary source of employment generation. Services such as commerce, transport, etc., are major sources of employment in developed countries, and could be promoted more actively by government, both to link rural and urban areas and to provide employment. In some instances such as transport, the private sector has been discouraged as a result of government intervention. If expatriate presence is a problem, other methods, such as restricting licenses issued to foreigners, can be utilized to achieve desired ends.

Government policy with respect to macro-economic factors has been dependent on regional forces. Lesotho's membership in the Rand Monetary Area and the South African Customs Union means that the government cannot have an independent policy for exchange rates, imports or prices. In these areas, Lesotho follows trends prevailing in South Africa. The free movements of funds and the interdependence of financial markets also limit the scope of an independent credit and interest rate policy. Lending rates in Lesotho have been 15 percent lower than in South Africa, owing to excess liquidity in comparison to demand.

Wage policies pose a dilemma for the GOL, since wages tend to be lower than in South Africa. This results in a loss of Lesotho's semi-skilled labor force to South Africa, especially mechanics and other technically skilled persons. A total of about 30,000 Basotho work in South Africa outside of the mining sector, including 6,500 in manufacturing and construction. Both job opportunities and salaries appear to attract Basotho to work in South Africa. There have been substantial wage adjustments in recent years for all classes of workers. Government employees received a 20 percent increase in April 1975, and a 20 percent to 27 percent increase in April 1977. Semi-skilled workers were awarded substantially higher rates than other classes of civil servants, resulting in a decline in migrations nonetheless. The minimum annual wage rate in Lesotho was set

at R 480 in 1978, as compared to R 819 for 1977 in South Africa. Thus overall wage rates continue to be substantially below those in South Africa.

### III. DESCRIPTION OF THE POOR MAJORITY

#### A. Major Characteristics

Lesotho is composed of a people from a single traditional ethnic group. There are no major cultural or linguistic differences. The culture is basically monarchical, as King Moshoeshoe II remains as the ceremonial head of state. Cultural values include democratic practices such as free speech and compromise. The traditional Basotho value structure is conservative and is reinforced in some aspects by the influence of Christianity. The traditional culture has been somewhat eroded by modern developments. Massive out-migration to South Africa has de-tribalized many Basotho, as they are exposed to modern cultures and alien values. Modern developments have resulted in the evolution of additional social groups and competing interests as in other developing countries.

About 94 percent of Basotho live in rural areas, and the majority of these derive a living from a combination of agriculture and mining in South Africa. Eighty-five percent of all rural households have access to some arable land. Most rural households have livestock which are grazed on communal rangeland. Land is divided relatively equitably in accordance with the traditional land tenure system, with an average of two hectares of cropland per family. The lowest 25 percent of

farm families are reported to have one hectare or less, while less than 10 percent of families have four hectares or more. Basotho farm sizes are often too small to support the crop production and livestock requirements of the typical farm family. Sharecropping arrangements have therefore proliferated with about 25 percent of total cultivation under sharecropping schemes. It is estimated that about 60 percent of sharecroppers are women. An estimated 68 percent of households are managed by women.

Cash incomes for rural households are derived from wages earned in mines (59 percent), other off-farm activities (21 percent), and from agriculture (20 percent), according to a recent survey in the Thaba Bosiu project area. There has been a marked trend toward purchasing more food, owing to the relatively low cost of maize within the South African Customs Union, the shortage of agricultural labor, and increased wage earnings from the mines. Livestock becomes increasingly important to rural families as altitudes rise in the mountainous areas.

The absence of men from the household in the majority of rural families means that women and children predominate in the agricultural labor force. Owing to extensive out-migration, women are beginning to make more decisions related to farm production, often in consultation with male relatives.

## B. Income Distribution

Income distribution is remarkably equitable in Lesotho, as is evident from Table 9, with small differences (only 33 percent) in income between the 8th decile and the lowest decile. The overall equality of distribution emerges from the predominant influence of the rural sector, where laborers tend to have equitable access to work in the South African mines.

Disparities between urban and rural incomes, and within the urban sector, are more significant. The GOL notes in the Second Five Year Plan that "Income inequality is most pronounced in the urban areas...where only one percent of the total income is received by the lowest 5 percent, and 26% by the highest 5 percent, reflecting the pay levels of the senior civil servants and expatriates." Since only six percent of the population is urban, the influence of urban inequality upon the overall distribution is not significant.

## C. Employment

The Lesotho labor force is estimated at 563,000, and has increased at a rate of 2.1 percent over the past decade. Three main components of the labor force can be identified: (1) A modern wage sector of about 32,000, comprising 6 percent of the total labor force. There is a shortage of managerial, technical and professional skills in this sector owing to the rapid increase in demand for these skills; (2) A migrant

segment variously estimated from 129,000 (official) to 200,000, which is mostly unskilled labor in the mining sector, and had a skilled component of perhaps 10,000 in 1976; and (3) The residual labor force of about 365,000 engaged primarily in subsistence agriculture and some handicrafts. (See Table 10)

The annual increment to the labor force is estimated at 10,000 to 12,000. Annual domestic employment creation ranges averaged 1000 between 1975 and 1978. The unemployment rate therefore depends on vicissitudes of demand for labor in South African mines. The outlook for migrant mining employment looks increasingly uncertain. In the first nine months of 1978, employment has dropped by 4 percent below the level in the first nine months of 1977 (i.e., drop of around 5,700 employees). Recruitment dropped by 17 percent over the same period, and there is evidence that the mines are becoming more selective in their recruitment. It is estimated that employment in 1978 will fall to around 123,000 compared with 128,518 in 1977 and 125,392 in 1976. Basic underground rates were increased by 11.32 percent in July 1978, barely keeping pace with inflation. Total mining earnings should therefore rise to a projected R147 million in 1978 compared with an estimated R138 million in 1977 (i.e., a rise in money terms of 6.5 percent). In real terms (assuming an inflation rate of 13 percent), total mining earnings will therefore fall by 6.5 percent in 1978.

It is too early to say whether this drop in employment marks the start of a downward trend, but given the expansion of recruitment from the homelands, any future growth in Basotho migration seems unlikely. The economic consequences of this in terms of employment, domestic purchasing power, and Customs Union revenue will be very significant given the dominant position of migration in the Lesotho economy.

Research fostered by the Government's stated policy to reduce labor migration has reinforced the interrelationship between migration and domestic agriculture. Rural economic conditions including population pressure and low agricultural productivity, coupled with lack of domestic wage employment opportunities, exert a push to migrate which is reinforced by the pull of employment options with substantial remunerations.

Employment in South Africa is significant outside of the mining sector as well. Although Table 11 (from IMF sources) is based on substantially different estimates than Table 10 (from World Bank sources) and Table \* (from GOL sources), <sup>1/</sup> it is illustrative, of the widespread incidence of Basotho employment in South Africa.

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<sup>1/</sup> The raw data for all these sources derive from GOL statistics, which have been variously interpreted and manipulated by experts. These differences illustrate to the reader the difficulty of working with inconsistent data from presumably authoritative sources.

#### D. Access to Basic Needs

Both the rural and the urban poor lack access to basic needs in terms of water, food, health services, adequate land, employment, energy supply and appropriate technologies which would improve access to these basic needs.

Water supply is inadequate for both the urban poor and the rural poor. Municipal water systems exist only in a few urban areas, and do not serve the poorer majority in these areas. Only 50 percent of all houses in Maseru in 1973 had private water taps, and public taps were not available in all areas. Most of the Kingdom's rural households have to carry water, sometimes over long distances, from a spring or well. Only a few villages have improved systems, and maintenance is a serious problem even in these villages. Thus water supplies are inadequate for needs arising from consumption, personal hygiene, sanitation, household use and gardening. Donor assisted government programs to address these inadequacies are underway, although behind schedule.

Nutrition. Lesotho may face a growing nutrition problem, especially among children, as its population increases and food production per capita declines. An estimated one-fifth of all children up to five years of age suffer chronic protein/calorie malnutrition, according to a 1976 National Nutrition Survey by UCLA. One quarter of children under five

are anemic. On the other hand, there appears to be some improvement of nutritional status of children from ages 2-5 since a 1956 study, possibly due in part to increased availability of food aid. Obesity is a major problem among females. Forty percent and 30 percent of urban and lowland mothers, respectively, were obese in 1976, indicating that calories are not lacking among most households in these regions.

Several trends suggest that the level of nutrition is extremely vulnerable to deterioration because food production is stagnating or declining as mine wages and food imports increase.

Health Services. Health services are generally inadequate in comparison to morbidity statistics. As noted in Section II.E.4.h., Lesotho's principal diseases continue to be gastro-enteritic disorders, venereal infections, measles, pulmonary tuberculosis, respiratory infections and typhoid. Major health problems are also associated with pregnancy/child-birth and protein/calorie deficiencies. With the exception of measles and tuberculosis, immunizable diseases do not appear to present serious hazards. The major diseases cited above are associated with the absence of potable water, sanitary waste disposal and health education, particularly for venereal diseases which often are transmitted through returning migrants from South Africa.

Health services are located in the nine district headquarters, and include eight mission hospitals and their satellite clinics. In the absence of coordinated planning, difficult terrain and poor transport linkages, there are serious regional imbalances. Health services favor the Maseru and Butha-Buthe Districts and are lacking in the mountain areas and more isolated urban centers. Difficult terrain and poor transportation require an average of seven hours on foot for half the population. More than 10 percent of the rural population have to walk over 14 hours to obtain health care. Furthermore, capacity utilization rates for hospitals and clinics are about 60 percent, suggesting an overcommitment to curative services.

Maternal child care appears to be widely available through clinics and CRS feeding programs. A larger proportion of women are recorded as availing themselves of medical care for child birth and a majority seek antenatal care.

Family planning has not gone beyond the child-spacing stage, since the actual population growth rate of 2.2 percent is not far from the GOL's stated goal of 2 percent. The GOL is presently preparing a new policy paper which will increase emphasis on what it calls "population regulation," since even a 2 percent growth rate implies a doubling of the population in 35 years, at a time of declining agricultural production and a rapidly growing population in neighboring South Africa.

Access to Land. The average farm of five acres is not sufficient to support the average Basotho family, particularly as declining soil fertility and erosion reduce yields. Thus 60% of rural families engage in sharecropping to take advantage of technological innovations which they cannot afford. Since less than 15 percent of Lesotho's land area is arable, and most of this area is already under cultivation, continued population pressure will worsen this already poor situation unless off-farm employment is generated at a significant rate in other sectors.

Employment. Underemployment is already rife in Lesotho, and open unemployment constitutes a real and growing phenomenon which threatens to explode if out-migration to South Africa were to cease abruptly. There is an annual deficit of about 9,000 jobs for young people entering the labor force. Thus employment in both rural and urban areas constitutes a very serious problem.

Energy/Fuel. With altitudes ranging from 5,000 to 12,000 feet, and cold winters with heavy snows in the mountains, energy and fuel shortages constitute a major health hazard for the poor majority. Firewood is diminishing in availability, and most homes are heated only from the fires used for food preparation.

Appropriate Technology. Appropriate technology is applicable to the provision of every basic need cited above.

Appropriate technology in the form of windmills, simple pumps, and the tapping of mountain streams could reduce the cost and facilitate the maintenance of rural water supply systems. In food production and range management, appropriate technology may facilitate increases in productivity at economic investment costs, and even reduce erosion with better seeding, etc. In health, an appropriate approach would be to reduce dependence on hospital-related technology, and to rely on more simple basic care, including preventive health. The government, assisted by donors, is implementing this approach. In employment, appropriate technology could expand employment per unit of investment and could make available simple consumer items at lower costs. Finally, appropriate technology could utilize solar energy for heating water and homes, and animal manure for generating methane gas for heating and cooking, among other possibilities.

#### E. Conclusion

Poverty in Lesotho is widespread and remarkably equitably distributed, with a per capita GNP at \$239 in the midst of high inflation. Rural incomes are low, and the large majority of urban dwellers are not significantly better off from an income standpoint. About 60 percent of rural incomes derive from miners' wages in South Africa, and are likely to be reduced with the passage of time as more South Africans are employed, and mines become more capital-intensive.

Poverty in Lesotho is primarily resource-related. Few developing countries experience paucity of resources to the extent that Lesotho does. This paucity is further complicated

by high transport costs characteristic of its landlocked geographic position and extreme economic dependence on South Africa, which not only encloses Lesotho geographically, but also dominates its trade and employment structure.

#### IV. Constraints To Economic Growth and Development

There are many types of constraints which operate against the economic development of Lesotho. While the GNP growth rate has been reasonably high in recent years, the source of approximately 77 percent of this growth was the opportunity for Basotho to work in South Africa. This high growth rate should not, therefore, be permitted to induce complacency among donors. This section assesses constraints to domestic economic growth and development. These constraints have been organized around the following factors: natural resources endowment; dependence on South Africa; structural weaknesses; institutional and manpower deficiencies; difficult policy decisions; and social constraints.

##### A. Natural Resource Endowment

Lesotho has been endowed with few known natural resources which could serve as a basis for development. Agriculture resources are limited to the lowlands and foothills for crop production (less than 15 percent of total land area), and to hilly pastures (75 percent of land area). Both types of land area suffer from erosion, which has never been effectively controlled in Lesotho. Nonetheless, livestock production, especially of mohair goats and sheep, may constitute a prime area in which Lesotho has comparative advantage. In addition to land limitations, the erratic nature of the rainfall frequently causes crop failures.

Soil erosion continues to diminish the existing land resource base. Programs to date have been inadequate to arrest soil erosion, although some progress has been made with terracing, buffer strips, dams and trees. Until the complex phenomenon of poor cultivation practices and overgrazing can be altered, soil erosion is likely to persist.

Mineral resources are virtually limited to diamonds, which have proven of limited profitability to date. Explorations are underway for coal, uranium and oil. There are no definite investment plans for any of these resources to date.

Water resources (mountain streams) constitute one potential resource which has not yet been substantially exploited. Tourism, based on Lesotho's scenic mountain topography and pleasant climb, can also be further developed.

#### B. Dependence on South Africa

Dependence on South Africa permeates almost every aspect of Lesotho's economy. The biggest single source of this dependence is employment for Basotho in South Africa, which generates nearly half of Lesotho's GNP. An abrupt change in this employment structure would have serious effects for the poor majority Basotho, as well as the overall economy.

Transport constitutes a fundamental area of dependence. Lesotho is completely surrounded by South Africa, and depends on South Africa for the transport of all imports and exports.

Without trade, there would be economic stagnation in Lesotho. Problems with South African Railways, including high costs, delays and lost consignments, constitute a fundamental cause for concern. Recent problems along Lesotho's border with Transkei demonstrate Lesotho's dependence on South Africa for transport from many parts of the country, and even for internal transport. Transport services are also constrained by South Africa, both in terms of domination of the sector by South African nationals, and in terms of regulations which allow one-way consignments only for Basotho firms.

Trade relations constitute another source of dependence on South Africa. About 90 percent of Lesotho's recorded import and export trade is with South Africa. Unrecorded trade along with mountain borders also constitutes a major factor.

The importance of expatriates in Lesotho's economic life is also a constraint, particularly in the development of industry, commerce, construction, marketing, and finance.

The Rand Monetary Area and the South African Customs Union (SACU) tie Lesotho's economy inextricably to that of South Africa. The dependence issue apart, there are both advantages and disadvantages to close monetary and trade relations. SACU, which provided 74 percent of government revenues in 1977, reduces the demand on the GOL bureaucracy to handle customs. However, favorable investment promotion policies in the homelands probably attract industry away from Lesotho, and the potential market in South Africa has

never been successfully tapped. It has been argued that the process for infant industry protection within SACU produces lengthy bureaucratic delays and provides South Africa with the necessary information to counter applications. Blanket manufacturing is a case in point. Thus, SACU does not necessarily promote industrial development, although it does provide a source of consumer and capital goods and maintenance for capital goods.

Finally, energy constitutes another vital area of dependence, as energy sources and fuel are imported from or through South Africa. When the long discussed highland hydro-electric dams are in place, the dependence will evolve toward interdependence.

#### C. Structural Causes

Structural weaknesses constitute a series of constraints which includes all the factors discussed under resource endowment and dependence above. Dependence can be expressed as a function of structural problems of employment, transport, trade relations, revenue source and importance of foreign remittances on GNP. Structurally, the Lesotho economy is weakened by limited resource endowments relative to population, and dependence on South Africa. Internal structural weaknesses which inhibit the optimal development of existing factor endowments also exist. Structural factors which inhibit

the development of industry include the small size of the domestic market; the scarcity of domestic resources including agriculture products for processing; and competition from the South African market as well as from RSA subsidies for investments in the homelands.

D. Institutional and Manpower

Institutional and manpower deficiencies affect every sector of the economy, and necessitates reliance on expatriates in both the public and private sectors. Institutions responsible for agricultural development, health, education, small business promotion, industrial development, construction, transport services, commerce, etc., are weak and cannot perform optimally. Unskilled and semi-skilled manpower is often attracted by higher wages to South Africa, even though there is a shortage of semi-skilled workers such as mechanics and construction workers in Lesotho. This weakness affects the ability of the government to deliver services, the administrative structure, parastatal firms and corporations, and the private sector. It even affects fundamental activities such as road and vehicle maintenance, rural water supply networks, and soil conservation.

The government has been faced with some difficult policy decisions since independence. The evolution of viable development strategies is not an easy task for a newly independent nation, especially one with few obvious resources on which to base a far-reaching development program. In

some instances, the government has taken policy decisions which alleviated some problems. The government has also made some decisions which may not represent the optimal allocation of resources in terms of fostering the development of the economy.

One area of difficult policy decisions has been with respect to the private sector. In areas such as marketing of food crops and livestock products, and transport, the government had good reason to suspect that the private sector was not sufficiently responsive to the development needs of the rural areas. Reasons for this include the predominant expatriate presence and the lack of competition, particularly in rural areas where the demand for marketing services and transport is erratic. The government decided to establish state corporations to provide marketing and bus transport services. Part of the rationale was that the producers deserve better prices, but the marketing and transport corporations have not been able to offer better prices to their clients. The short-term effect of these government policies has been to disrupt marketing; to eliminate private traders and transporters, thus decreasing employment; and to necessitate government subsidies in areas which were previously not the responsibility of government. Few nations in the world have efficient state-operated marketing or transport systems. In rural areas, where demand is sporadic, a local private sector could be encouraged to

develop. This type of private sector could operate with lower capital investment and operating costs, both marketing and transport. Such a system could also become competitive with time, thus lowering costs for the rural poor. A judicious blend of public and private sector presence in marketing and transport would generate additional local employment and decrease the government's burden of subsidizing these activities.

Similar motivation has prevailed in the industrial and tourist sectors. Owing to insufficient private incentive, the government has taken the initiative in establishing a number of industries, and in building a new luxury hotel. Some of these investments have not been profitable, and have become, or potentially could become, financial burdens for the government or its corporation. When development resources are scarce, as in Lesotho, investment costs should be carefully weighed against economic and social benefits. It is not apparent that such considerations have governed major investment decisions.

#### E. Social/Traditional Constraints

Social/traditional constraints exist in many spheres of Basotho life. Agricultural practices such as mono-cropping and excessive fragmentation of holdings have adverse effects on soil fertility and production. Land use practices for both crop production and livestock can be detrimental to the environment and aggravate already serious soil erosion problems. The GOL has now drafted a new land tenure act which may alleviate this constraint.

Social constraints also exist in terms of the role of women in farm management. Although women do much of the farm labor, they are only beginning to participate in farm management decisions. Another area where social constraints play a key role is family planning. Social constraints probably exist to some degree in any project oriented toward the rural poor; many of these constraints can be overcome with sensitive planning, particularly when local participation is elicited for the resolution of development projects.

Finally, certain traditions weigh against private entrepreneurial activity on the part of the Basotho. These include past patterns of communal decision making as well as traditional reluctance to undertake long term debts. The reluctance to borrow funds also poses obstacles to financing low cost housing schemes.

V. Progress and Commitment of Government

The Government of Lesotho has consistently placed substantial priority on sectors which directly affect the rural poor, such as agriculture, rural development, transport infrastructure, and health. Increasing priority has also been placed on housing and job creation for the urban poor, who in fact are members of the rural poor who have been attracted to urban areas, often because they could not make a living in rural areas.

Table 12 shows GOI capital and recurrent expenditure from 1974/75 to 1978/79 in selected sectors. The increases in both are remarkable and are due to major increases in revenue from the Customs Union, minor remittances, and donor funds. Capital expenditures grew about 19 percent annually from 1974/75 to 1977/78 and are projected to jump 79 percent from 1977/78 to 1978/79. Inflation at about 16 percent per annum reduced the real value of expenditures, but the proposed increase is nonetheless extraordinary in real terms. Much of this increase is focused on security related projects in the transport sector such as a new International Airport and on projects that are primarily in response to the Transkei border closure. These latter projects also provide substantial development benefits.

A second major area of capital expenditure increase is Agriculture which comprises about 35 percent of 1978/79 projected capital expenditure, compared to 8.7 percent in 1974/75.

Recurrent expenditures have increased at an extraordinary annual rate of 51 percent (35 percent in real terms) from 1974/75 to 1978/79. In general the distribution of recurrent funds among Ministries has not changed substantially during **this period**. The largest recipients are Education, Police,<sup>1/</sup> Agriculture, and Works.

#### VI. Host Country Development Plans

The Government of Lesotho's development planning efforts have taken the form of two plans: The National Development plan for 1970/71 to 1974/75 and the Second Five Year Development Plan for 1975/76 to 1979/80. A third plan should be finalized by the end of 1979 by the Central Planning and Development Office, whose professional staff has been strengthened in recent years.

The First Plan had a variety of goals including a 5 per cent per annum increase in GDP, increased agricultural production; promotion of small industries; creation of 10,000 to 15,000 jobs; preparation for exploitation of

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1/ Lesotho has no Army

water and mineral resources; restructuring education and training; restructuring public administration toward development needs and lower expenditures; Africanization of public sector; improvement in social services; self-sufficiency of recurrent budget; strengthening economic relations with other African countries.

The Plan was preparatory and exploratory. It intended to lay the foundation for future growth by emphasizing institutions and manpower. Activities were initiated in agriculture, small handicrafts and industries, small irrigation, and road studies. Table 13 shows actual and planned expenditures. Although expenditure targets were met, real growth was around 3 percent per annum, and only 6,000 new jobs were generated.

The very broad aims of the Second Development Plan are economic growth, social justice, maximum domestic employment, and economic independence. The Plan maintained the overall goals of the First Plan and added the encouragement of private investment in industry, creation of 30,000 jobs, localization of posts held by expatriates, and diversification of sources of external assistance. A total financial input (capital and recurrent) of about \$257 million (in 1975 prices) was planned.

In 1977, midway through the Second Plan period, the GOL decided that due to political events in Southern Africa region, a major revision in the Plan would be necessary. The creation of the Transkei "homeland" led to the obstruction of the movement of people and goods along Lesotho's southern and southeastern borders. Riots in Soweto resulted in an influx of young refugees from South Africa. Finally South Africa's decision to employ greater numbers of its own citizens in the Mines began to decrease the recruitment of Basotho for employment in South Africa.

These events also led to increased availability of donor funds as the region took on greater political importance in the West. The increased donor funds, when combined with major increases in Customs Union revenues (due to high import levels for Letseng Diamond Mine) increased mine wages and resulted in an extraordinary financial windfall for the GOL. Thus the GOL revised its Second Plan capital budget upwards from approximately \$128 million to \$260 million (in 1975 prices). The largest increases were allocated for economic infrastructure (\$23 million to \$77 million) and social infrastructure (\$15.6 million to \$44.8 million).

About 24 percent of total expenditure is budgeted for agriculture and rural development, with major area development projects and marketing as the primary focus. Smaller projects aimed at improving livestock herds and establishing livestock centers and a slaughter house in Maseru are also planned. Fisheries, pigs, poultry and garden vegetables are to be promoted.

About 20 percent of the Plan is directed at economic infrastructure, mostly a large-scale road building program aimed at unifying the country into a single economic entity and providing transport infrastructure. Eighteen percent of planned investment is allocated to social infrastructure, mainly health facilities and housing. Five percent of planned investments are allocated to the construction of Government offices.

Industry, commerce and tourism are to receive ten percent of investments, resulting in the creation of 7,250 new jobs. About 1,800 jobs had been created by the end of 1977.

Training and education are allocated about 10 percent of plan expenditures, primarily to upgrade vocational, technical and higher education, including managerial skills.

Mineral investments to date have been largely limited to the Letseng-la-Terai Diamond Mine, which opened in 1977. A multi million dollar scheme to build dams and pipe water to South Africa, with some water and hydro-electric power for Lesotho, is being studied. A pre-feasibility study is

scheduled for completion in March 1979.

The Second Plan represents slightly more emphasis on the public than the private sectors, with 64 percent public investment. It should be noted that planning the behaviour of the private sector is delicate and benefits much from hindsight. Recent large public investments in facilities such as new Hilton Hotel have been controversial. According to some observers, hotel sector investments can be left to the private sector if they have economic potential.

The priority placed on the rural sector demonstrates the GOL's commitment to the poor majority. This percentage allocation has changed only marginally since the First Plan. Economic infrastructure has received a larger share of the budget, in recognition of security requirements and the fact that a viable transport network constitutes a prerequisite to strong momentum in rural development. Social infrastructure, particularly in the form of rural health centers and housing, reinforces the GOL's commitment to the welfare of the rural poor and the urban poor.

The sectoral allocation of investments shows a high allocation of resources to the rural poor (at least 56 percent if roads are included) and a small percent for the urban poor in the form of housing and employment generation. Women should benefit from rural development and road transport, commensurately to their participation in rural activities. Rural health centers will probably

benefit women (and children) more than men. Thus, the Government's priorities appear to coincide substantially with the concerns of the U.S. Government.

The prospects for meeting revised Second Plan targets are difficult to assess. An assessment of the first 2 years of the Second Plan period, conducted as part of the plan revision exercise, indicated that actual investment had fallen short of plan targets, that agriculture had not achieved the productivity that was planned, and that overall economic growth had been sluggish.

The GOL recognizes that the revised Second Plan expenditure levels are overoptimistic and hopes to achieve an implementation rate of 60 percent.

Funds are not lacking. The GOL estimates that it has a "ten-year pipeline" of donor funds since donor commitments at present are ten times the GOL's past annual implementation rate. Thus it seems probable that the country will have difficulty effectively absorbing funds at the rate prescribed in the revised Second Plan and may well not even achieve its own 60 percent implementation objective. According to IBRD analysis, the annual growth rate is likely to be 6 percent rather than 8 percent. The generation of 30,000 jobs is highly optimistic given the rate of 1,000 domestic jobs created annually during 1975-8. However, the overall plan objectives are valid and compatible with AID's mandate to assist the poor majority.

## VII. Development Assistance Strategy

### A. Overall Development Assistance Strategy

An overall development strategy for Lesotho must take into account the natural resource limitations of the country and its extreme dependence on South Africa, particularly as a source of employment. Since the overwhelming majority of Basotho live in rural areas, and constitute the source of urban migration, the primary emphasis of this strategy must be based on a combination of new approaches to rural development and employment generation in both rural and urban areas. A secondary emphasis should be placed on the urban poor. The following strategy options have been developed with these primary emphases in mind.

The goals of a longer term development assistance strategy should be:

(1) To expand local productive and institutional capacity to meet basic human needs and enlarge local participation in the development process.

(2) To generate Basotho employment in all of Lesotho's sectors, particularly the private sector where a large number of expatriates currently fill in. These include construction, transport, commerce, and industry.

(3) To begin a process of altering the dependency relationship vis-a-vis South Africa. In particular, opportunities for expanding exports of higher value commodities

(including water) should be developed. The stronger Lesotho's economy, the more balanced and mutual the dependence with South Africa becomes.

(4) To preserve Lesotho's natural resources base by halting and possibly reversing erosion through conservation programs and the introduction of range management.

(5) To generate domestic revenues through the exploitation of Lesotho's limited resource base (water, power, tourism, livestock, particularly mohair).

(6) To foster opportunities for regional cooperation between Lesotho and other majority-ruled states in the southern African region.

The approach in the first phase (1980-1985) of the strategy should be to alleviate simultaneously, the most critical development problems which currently constitute constraints within the overall economy:

(1) Manpower, human resource capability and institutional capacity, which are closely related.

(2) Transport and communications to integrate the now separated geographic regions and sectors of the economy.

(3) Creation of economic incentives and a policy framework for new approaches to rural development whereby crops and livestock could be more profitably produced with less environmental degradation. A viable marketing system is probably the essential first step in this direction. Rural enterprises and agri-businesses are also critical. In

addition, livestock, which constitutes one of Lesotho's few comparative advantages, must be given a higher priority in an altered production system:

(4) Preservation of the country's fragile natural resource base with a sound program of conservation range management. New economic incentives and tax policies with cash transfers and food guarantees for Basotho participating in conservation programs.

The general guiding principles for assistance should be: (1) to provide aid at the level of the absorptive capacity of the local institutions and people; and (2) more emphasis on the long-range projects which include adequate funds for operation and maintenance of projects and provisions for training of local residents to continue the projects' activities.

## B. Sector Strategies

### 1. Education and Human Resource Development

One of Lesotho's most critical constraints to development is its limited human resource capability. This constraint affects every sector in the country's economy, and should constitute an integral component of all other programs which the GOL undertakes in coordination with donors. A particular aspect of the human resource constraint in Lesotho is that whereas basic literacy is widespread, vocational and development related skills are lacking. The poor quality of

education in primary and secondary schools has resulted in shortages of candidates qualified for further academic and skills training. In addition to program-specific training and upgrading of skills, the following activities merit attention from AID and/or other donors:

(a) Support to the Formal Educational System.

The formal educational system at the primary and secondary levels has inadequacies. Overcrowded and poorly equipped classrooms, untrained teachers, and irrelevant textbooks are the major weaknesses in the system. Thus, the formal education system should be strengthened through teacher training, curriculum development, and improvement and expansion of physical facilities.

(b) Adult Education and Vocational Training.

Non-formal adult education courses in a variety of disciplines with initial emphasis on functional literacy should be offered to compensate for the inadequacies of the formal education system. Courses in business, management, construction skills, machinery maintenance, food processing, cabinet making and other fields are required to train people to perform in both the private and public sectors.

(c) University Pre-Entry Courses. University pre-entry courses should be offered to increase the availability of entrants to the University of Lesotho and to foreign universities. These courses would alleviate the shortage of qualified students for higher education. Courses could be operated out of existing high school during evening

hours, until the quality of education is sufficient to eliminate the need for upgrading of basic skills.

(d) Graduate Training. Graduate training in technical and professional fields should continue to be carried out at foreign universities. Donors should continue to provide financial support to this end.

## 2. Rural Development and Agriculture

Rural development in Lesotho is a difficult proposition at best: the absence of the male labor force, the poor soils and worsening erosion, and the dearth of economic incentives make most rural development projects high risk ventures at best. Yet agriculture and related production must be enhanced and made part of an integrated national economy if even minimal economic resiliency is to be attained. The proposed strategy (in the first phase 1980-85) for rural development would focus primarily on the demand/pull aspects of rural development, to generate economic incentives which could approach net remunerations from mine wages, the chief source of employment for rural males. The second phase strategy would emphasize the long-term viability of the agricultural sector in terms of both resource conservation and economic returns. The elements of the longer term strategy should be incorporated into all relevant rural development activities in Lesotho to the maximum extent possible. Many elements have already been initiated in various geographic

areas and subsectors. Experience derived from existing activities should be applied on a large scale to other rural areas.

a. Phase I: 1980-85

The major element of a demand/pull strategy is marketing, in a broad sense of term. Marketing includes (1) transport; (2) an efficient marketing system in terms of efficient institutions; and (3) marketing outlets. This strategy could be summarized as follows:

(1) Objective: To expand the demand for agricultural products by improving marketing networks.

i) Marketing Outlets

a) Special attention to livestock products, particularly mohair and weel, in terms of B(a) and (c) above. Processing of mohair wool could generate significant employment.

b) Support to agri-business which cater to domestic demand, or can compete with South African market.

c) Support to rural enterprises, especially commercial ones which could serve as rural/urban marketing link.

d) Identification of crops which can compete with South Africa production.

ii) Marketing Institutions

a) Support the development of efficient marketing institutions, with wide-reaching network in rural areas. The system should include private traders, coops and government institutions in a complementary, efficient manner. Both crop and livestock marketing systems need attention.

b) Agricultural inputs and consumer goods should be available in rural areas. Support to coops and rural enterprises may be the most efficient approach to this need.

iii) Transport/Communications

a) Completion of the basic trunk road network including the links to and within the eastern mountain region.

b) Substantially strengthening the road maintenance capacity of the Ministry of Works throughout the country.

c) Construction of farm-to-market roads in the lowlands as an integral part of Basic Agricultural Services Program (BASP).

d) Increased experimentation with labor-intensive construction of feeder roads.

e) Up-grading airstrips, especially in the more remote mountainous areas.

f) Expansion of a basic telecommunications system into the mountains.

b. Phase II: 1985-1990

While recommended as a longer-term agricultural rural development strategy, many elements discussed below should start much sooner in the content of ongoing programs. The general guiding principles should be: (1) to provide aid only at the level of the absorptive capacity of the local institutions and people; and (2) more emphasis on the long-range projects which include adequate funds for operation and maintenance of projects and provisions for training of local residents to continue the projects activities.

Although the following is an element by element discussion, we would again emphasize the inter-relatedness of the various elements and the need for activity on all elements of the longer term strategy.

Element 1: Marginal Land to Grasses

The major assistance objective should be the continuation of the comprehensive soil conservation planning approach being used in the Thaba Bosiu Project. Continuation of this work, with emphasis on the extension function to encourage higher level management, is a prime requirement for completion of this pilot effort and the transfer of knowledge acquired in this project to other dryland regions of the nation.

However, as the grazing areas being to recover, nutritional level of livestock will increase. The following benefits will accrue if there are substantial

reductions in livestock numbers, more lowland areas converted to forage and level of management increased: (1) increased conception rates, (2) decrease in abortions and young animal death losses, (3) increase in weight gain for mature and young livestock, (4) decrease in disease for all classes of livestock, (5) increase in quality and quantity of wool and mohair. These benefits should increase net income to the producer in excess of net income under present practices. Also, with controlled livestock numbers and good management, net income should increase in the long term rather than continually drop which is inevitable unless overstocking and management are changed.

Element 2: Increase of Intensive Crop Production

As in element 1, many of the successes in the Thaba Bosiu Project should be continued and expanded to other regions with good soils. It is also important that the activities of BASP and PCM be coordinated with this activity to insure an adequate supply of production inputs and market outlets. Consistent with good use, increasing use of water resources for small-scale irrigation of higher value crops should be considered.

Another emphasis should be on program of technical assistance, training, extension-type activities and management schemes that insure adequate coordination of at least a skeleton marketing system for agricultural inputs and outputs.

Element 3: Changes in Livestock and Livestock Mix

As noted above, the major constraints to long-term increased production of livestock appear to be: (1) current overstocking and overgrazing, and (2) low-level livestock management. Massive amounts of land area have and are eroding, and inferior species of vegetation are present. Training and information programing should be designed to complement the altered crop and livestock production systems.

An effective extension service should be revitalized to increase the level of livestock management and explain to the village leaders and people the benefits of the program.

Assistance is needed in the education area to assist the government in making the hard decision to reduce cattle numbers. Capital investments in elementary marketing facilities may be required.

Element 4: Gardens and Poultry

Donor assistance programs should be designed to provide small-scale production inputs for production of home gardens. A program to provide seeds and other production inputs, as well as extension information on production techniques and in the area of home economics is needed. Also the availability, at the village level, of a rotor-tiller or perhaps a simpler device for ground preparation would be a useful project. Coordination with BASP on provision of these

machines and needed repair parts, plus availability of an expanded PMC would be needed to make the project effective.

A subsidized system of providing the starting nucleus of a farm poultry flock would seem to be a cost-effective program. It would be important to provide information on poultry production and disease control (especially Newcastle) with the main emphasis on the health and continuity of the flocks rather than attempting to attain maximum production levels.

Element 5: Small Irrigation and Domestic Water Supplies

A comprehensive study by Metcalf and Eddy has reviewed the potential for providing domestic water to the individual villages. Although not necessarily endorsing that report, it will be necessary to build on this work in an attempt to provide water supplies for domestic use as well as for livestock and supplemental irrigation for the gardens.

An active self-help program for supplying rural water supplies is in place and should be expanded. Direct donor assistance, in the form of education and new technologies, would be valuable in assuring long-term viability of the system -- a current major problem. Specifically, the potential for small-scale solar and wind powered equipment needs to be evaluated and perhaps implemented on a pilot basis.

The development of small earthen dams for village storage of water would seem to be a useful undertaking

in areas where adequate surface water is available. However, we suggest these impoundments should be an integral part of the overall comprehensive soil conservation plan, rather than a specific project.

Element 6: Agri-Business and Arts and Crafts

Substantial work is already being undertaken in this area, and specific donor programs should be designed to support the current on-going programs and develop new initiatives only when it can be shown that there is a specific need. For example, the current effort toward first-level processing of crops and animal products should be enlarged. Programs which tend to decrease the direct leakage of donor funds to firms outside Lesotho are to be encouraged. But again we emphasize the need is to follow through on the current efforts, rather than the development of new schemes.

Element 7: Fisheries and Forestry Development

The major donor projects would be more in the area of information, training, and market development in both sectors. Technical advice on fish species, especially as it relates to differences in seasonal production technologies, is an important need. Alternative marketing systems for exporting fish and fish products need to be explored with potential for coordination with the PMC activities.

Similar information and institutional building programs are needed to support an expanded forestry and reforestation in conjunction with conservation and energy efforts. Additionally, the potential of processing facilities for the production of charcoal and lumber, and potentially even pulp and paper production, need to be further investigated to determine economic feasibility.

Element 8: Taxation Schemes

Obviously, the focus of activities for this element of the plan is the requirement of highly expert technical assistance in the area of taxation and expenditures. Conceivably, tax policies could be designed to provide incentives to let marginal lands return to pasture and to provide disincentives to the retention of large numbers of livestock.

Element 9: Food Assistance

The strategy outlined above would probably result in a rather drastic reduction in agricultural production over Phase I (5 to 7 years) but the shift to higher value crops should offset declines in farm income over the longer run. Diets should be improved nutritionally by the increase in production of garden crops for home consumption. Carefully coordinated food imports (such as PL 480, Title III) could be sold locally to make up production losses, compensate for anticipated reductions in the customs union pool, and finance the agricultural reform and programs outlined in the proposed strategy.

### 3. Revenue - Generating Activities

Lesotho receives enormous amounts of financial and food aid from donor agencies and private and mission sources. The GOL's recent financial windfall due to the Customs Union import surcharge (now rescinded) and emergency donor aid in response to the Transkei crisis has led to an extraordinary expansion of its capital budget, the construction of new facilities and the development/enlarging of major social service programs. The long-run recurrent cost implications of this expansion are ominous. Unless revenue-generating activities are expanded quickly, Lesotho may well revert to its pre-1972 dependency on donors for financing of a portion of its recurrent budget and all of its development or capital budget.

Lesotho has limited resources to exploit to generate domestic tax revenues (and, of course, increased domestic production). However, it does have abundant water which can be exported to water-scarce regions of South Africa and/or can be translated into power for internal use and for export. The country's magnificent scenery can also be better exploited to attract tourists in increasing numbers. Increased mohair production, handicrafts, and the creation of agriculture-increasing industries can increase domestic value-added and, hence, domestic revenues.

Donors can play a supporting role in the development of Lesotho's water resources for its own use and for export through:

- Technical assistance to assist the GOL in central negotiations with the RSA and in evaluating the options for water use.
- Capital assistance in constructing infrastructures necessary to ensure the most productive domestic use of the water resources along side water-export infrastructure which would probably be financed by RSA.

Donors and governments can best support development of tourism in Lesotho by encouraging foreign and domestic private investment. The GOL's role should probably be limited to tourism promotion, provision of facilitating infrastructure, such as roads, and providing incentives for private investment.

#### 4. Energy

Energy constitutes a serious problem in the cold climate of Lesotho. Traditional methods of heating and cooking are based on firewood, and the supply is ever-diminishing. Lesotho needs assistance in traditional and renewable forms of low-cost energy such as methane gas from animal waste, solar heating, windpower for water pumps, etc. In addition, self-help conservation and fuel programs in villages should be encouraged with emphasis on preserving farmland, firewood research, and reforestation.

## 5. Industry and Manufacturing

The industrial sector of Lesotho has been growing rapidly, particularly when construction is included in the sector. This sector should be promoted, particularly through the local private sector, not only to increase Lesotho's margin of self-sufficiency, but also to generate employment opportunities for Basotho.

Objective: To increase Basotho participation in the industrial sector, and to generate employment opportunities.

- a. Support for short-term and on-the-job training for Basotho entrepreneurs in accounting, inventory, etc., including extension-type services.
- b. Training of high-level personnel in business skills.
- c. Strengthening credit system support for Basotho entrepreneurs.
- d. Appropriate technology for small and medium businesses. Technical assistance in choice of technology and procurement. Advice should be provided.
- e. Efficiency of parastatal industry. The apparent cause of inefficiency is shortage of trained personnel. High costs of production could also be a cause.

## 6. Housing and Urban Development

There is an extreme shortage of housing for the urban poor, and sanitary conditions for existing housing are inadequate (see Section II.E.5.e.).

Objective: To increase the availability and improve the quality of housing for the urban poor.

- a. Support construction of low-class urban housing through long-term financing.
- b. Support training of skilled workers for Basotho and/or repatriation of Basotho working in the South African construction industry through higher wages and/or other benefits.
- c. Support building materials industry.
- d. Support shelter and urban planning to ensure adequacy of housing provisions and avoidance of need for squatter settlements.
- e. Support water/sanitation infrastructure in urban areas.
- f. Support spatial development throughout Lesotho for commercial/industrial centers, including construction of commercial/industrial estates where demand is adequate.
- g. Employment generation through all development activities.

## 7. Health

The overall health status of Lesotho is good in comparison to many African countries. Hence, health has been assigned a low priority. Assistance is proposed as follows:

Objective: To improve health standards among the poor majority.

- a. Integrate the government and church mission health structure; place new facilities where they are most needed via coordinated government-church planning; centralize training; and improve terms of service for health workers.
- b. To emphasize promotive/preventive health through raising public consciousness on health issues, and adjusting the current health infrastructure to such an emphasis, especially in rural areas.
- c. To train para-professional health workers.
- d. To improve rural water supply and sanitation through improving capacity to construct and maintain facilities and a complementary health education program.
- e. To provide medical examinations for returning miners to detect and treat diseases, particularly venereal disease.

### C. Regional Development Strategy

Lesotho has limited possibilities for participation in region-wide projects since it has no common borders with other majority-ruled countries in southern Africa, and has no major trade possibilities with these countries. Thus, Lesotho cannot engage in regional transport or river basin development projects in the region. However, there are several areas identified below which constitute fruitful areas for regional cooperation.

Air transport and telecommunications is an area in which Lesotho would welcome regional cooperation. Direct air links with countries, other than South Africa, would reduce Lesotho's dependence of its neighbor. Regional training in civil aviation and telecommunications would also strengthen regional cooperation.

Lesotho's economic development problems bear many similarities to those of other southern African countries. Regional training and practical studies in areas, such as agricultural research, rural water systems, soil conservation, agricultural extension (particularly for livestock), mining, business, and technical fields, could constitute an important vehicle for eventual regional cooperation in some of these areas. In addition, field trips to countries where similar development activities have been undertaken can constitute a formidable learning technique.

## VIII. Role of Foreign Assistance

### A. Donors and Their Roles

Foreign assistance plays a substantial role in development expenditures in Lesotho. Projected development expenditures in 1978/79 are 66,443,367 Rand of which 70.8 percent is to be provided by donors. Of total expenditures of R37,103,670 projected for the last year, 77.2 percent were from donors (see Table 12).

### B. Donor Coordination

The relationship of other donor programs to U.S. objectives and strategy is generally quite close. The U.S. has coordinated its portions of its assistance with the World Bank, the United Kingdom, the Federal Republic of Germany, UNDP, and the European Development Fund (vis, the Basic Agricultural Services Project). Generally, donors' programs are designed to meet the development priorities of the GOL. These priorities coincide with U.S. objectives and strategy to a large extent.

Donor coordination is achieved primarily through conferences hosted by the GOL. A Pre-Plan Donor Conference was held in Maseru in April 1975 to enlist donor support for the second Development Plan. A Mid-Plan Donor Conference was held in October 1977 with 76 delegates from 39 donors. These conferences reflect the GOL's desire to maintain a realistic assessment of donor's interests and planned assis-

tance. The conferences also provide an opportunity for donors to review Lesotho's problems, progress and strategies.

Although donors often coordinate their efforts on major projects, such as the Basic Agricultural Services Project, overall coordination is primarily informal and erratic, apart from the GOL's donor conferences. Usually major donors working within the same sector are aware of each others' activities. Minor donors, particularly private organizations, have less access to high level decisions. There are monthly donor meetings but closer donor coordination could be facilitated by GOL initiative in encouraging multi-donor projects and programs.

### C. Absorptive Capacity

The absorptive capacity of the Lesotho Government and economy can be described along the lines of the constraints to development described in Section IV. A major additional constraint will be GOL's capacity to finance recurrent costs, especially for government services which do not directly generate additional revenue. Financing of recurrent costs has also been a problem for parastatals which have not been able to make a profit.

The dynamics of alleviating constraints and expanding absorptive capacity need to be investigated. These would include:

1. Investments in human resource development, and expanding institutional capacity for

training and for resource, and investment planning.

2. Improving transport and communications to integrate the disperse geographic regions and sectors of the country. This would include road maintenance and local employment creating construction industry.
3. Providing economic incentives, including a marketing framework, for crop and livestock production. New land tenure legislation should be passed and further measures considered if appropriate.
4. Measures to simultaneously expand revenue and establish disincentives for destructive forms of livestock and agricultural production. New livestock and land taxes should be considered and carefully designed to support strategy objectives.
5. Energy costs should be lowered, water availability assured, and means found to recover skilled labor in an effort to attract private investment in industry and commerce. The development of the highland water scheme might assist in this regard and expand the

revenue base if financing of the project  
and price paid is properly put together  
for a minimum debt burden.

See Section VII, "Development Assistance Strategy"  
for further details.

## IX. Issues

The Indicative Planning Allocation (IPA) given by AID/W for FY 1985 is \$14.5 million. For a standard technical assistance based program based on strict DA mandate concerns, this level would be more than sufficient, and the Mission would probably counter with a proposed level of \$10-12 million.

When the question of reduction of economic vulnerability and USG interest in expressing support for majority rule in Southern Africa are considered, however, the \$14.5 million level becomes too low. It in fact represents a reduction in current terms, and a much greater reduction in real terms, from the levels of 1978 (including the Southern Perimeter Road) and 1980 which do reflect these additional concerns.

Taking these economic support concerns of economic vulnerability and support for majority rule into consideration leads to a level in the \$17-20 million range which, in real terms, still represents a slight drop from FY 1980. The major new components reflected in the proposed level are support for the livestock, development of small scale enterprises, and support to an access road network which is especially needed in Lesotho because of the isolation of large numbers of people during the rainy season.

The problem of absorptive capacity, a recurrent theme of any development analysis or strategy for Lesotho, will be skirted in part through minimizing contributions that require expansion in the Ministries. That is, A.I.D. programs will be working directly with the populace on one hand and to the extent possible, through parastatal organizations with their own revenues on the other hand. Even so, absorptive capacity and recurrent costs will be a major problem throughout the five year period.

A breakdown of proposed A.I.D. contributions by sector and by year is given in the table below. Title II and Title III are additional, of course.

(Amounts in \$000)

	81	82	83	84	85
A. <u>Food and Nutrition</u>					
1. Pipelines for projects identified in FY 80 ABS	4579	2124	2211	140	-
2. Activities beginning 1981 or later	<u>300</u>	<u>1000</u>	<u>2000</u>	<u>3000</u>	<u>4000</u>
Total	4879	3124	4211	3140	4000
B. <u>Health/FP</u>					
1. Pipelines for projects identified in FY 80 ABS	3220	2600	2000	2000	2000
C. <u>Human Resources Dev.</u>					
1. Pipelines for projects identified in FY 80 ABS	4000	3100	2500	2000	2000
2. Activities beginning 1981 or later	<u>300</u>	<u>1000</u>	<u>2000</u>	<u>2000</u>	<u>3000</u>
Total	4300	4100	4500	4000	5000
D. <u>Spec. Dev. Problems</u>					
1. Pipelines for projects identified in FY 80 ABS	5400	4000	2700	1900	1000
2. Activities beginning 1981 or later	<u>1000</u>	<u>3000</u>	<u>5000</u>	<u>6000</u>	<u>7000</u>
Total	6400	7000	7700	7900	8000
E. Totals					
1. Pipelines for projects identified in FY 80 ABS	17,200	11,821	9,411	6,040	5,000
2. Activities beginning 1981 or later	<u>2,599</u>	<u>5,000</u>	<u>9,000</u>	<u>11,000</u>	<u>16,000</u>
Grand Total Bilateral	19,799	16,824	18,411	17,040	21,000

Table 1. Lesotho: Gross Domestic Product at Factor Cost,  
by Industrial Origin, 1973/74-1977/78

(In millions of rand, at current prices; and in per cent)

	1973/74	1974/75	1975/76	1976/77	1977/78	1967/68	1977/78
						Share in total G	
Agriculture	35.5	35.2	37.7	43.6	38.1	41.9	30.1
Crops	(19.3)	(17.1)	(18.9)	(24.5)	(18.0)	(25.1)	(14.2)
Livestock	(16.2)	(18.1)	(18.8)	(19.1)	(20.1)	(16.8)	(15.9)
Mining and quarrying	0.2	1.1	1.7	2.7	3.0	2.5	2.4
Manufacturing	1.8	3.2	3.6	3.8	2.6	2.1	2.1
Building and construction	1.7	1.0	2.6	5.3	13.1	2.2	10.4
Wholesale and retail	6.5	10.8	12.0	14.9	17.0	12.8	13.4
Catering	2.0	2.4	4.3	6.1	8.7	0.1	6.9
Transport and communication	1.7	2.1	2.1	2.9	3.6	1.4	2.8
Ownership of dwellings	7.6	8.6	8.8	10.9	15.0	15.3	11.8
Central government	6.6	6.3	9.3	11.5	18.7	16.3	14.8
Other <sup>2/</sup>	5.3	5.0	5.2	4.6	6.7	5.2	5.3
<b>Total</b>	<u>68.9</u>	<u>75.7</u>	<u>87.3</u>	<u>106.3</u>	<u>126.5</u>	<u>100.0</u>	<u>100.0</u>
Total in 1972 prices	64.6	62.3	66.0	69.3	72.3		

Sources: Kingdom of Lesotho, Bureau of Statistics, National Accounts 1974/75; data provided by the Lesotho authorities, and IMF estimates.

<sup>1/</sup> In per cent.

<sup>2/</sup> Includes electricity and water, finance, insurance and business, and other services.

Table 2. Lesotho: Selected Economic Aggregates, 1973/74-1977/78

	1973/74	1974/75	1975/76	1976/77	1977/78
	(In millions of rand; at current prices)				
Gross national product (market prices)	106.2	129.3	171.2	219.6	264.0
Gross domestic product (market prices)	76.3	85.5	102.5	130.9	162.9
Gross domestic product (factor cost)	(68.9)	(75.7)	(87.3)	(106.3)	(126.5)
Indirect taxes less subsidies	(7.4)	(9.8)	(15.2)	(24.6)	(36.4)
Gross national disposable funds <sup>1/</sup>	126.5	145.5	187.6	242.8	304.2
Savings from gross national disposable funds <sup>2/</sup>	21.1	6.4	11.8	2.6	2.9
	(Ratios to aggregate demand; in per cent)				
Total consumption	75.3	81.1	77.0	78.1	79.9
Gross domestic investment	11.5	6.9	12.4	11.3	11.0
Government capital formation	3.5	3.1	4.6	5.7	6.8
Private sector capital formation	3.9	2.4	7.0	6.3	3.0
Total exports (goods and services)	13.2	1.4	10.6	10.6	9.1
<u>Memorandum item:</u>					
Gross national product (in millions of rand; at 1972 prices) <sup>3/</sup>	99.6	106.4	129.5	143.2	150.8

Sources: Data provided by the Lesotho authorities; and IMF estimates.

<sup>1/</sup> Gross national product at current market prices plus net total transfers from rest of the world.

<sup>2/</sup> Gross national disposable funds less total consumption.

<sup>3/</sup> Deflated by the average index of consumer prices.

Table 3. Lesotho: Balance of Payments Estimates, 1974-77

(In millions of rand)

	1974	1975	1976	1977 Preliminary
Trade balance				
Exports, f.o.b.	<u>-64.2</u>	<u>-92.2</u>	<u>-132.6</u>	<u>-157.1</u>
Imports, c.i.f. <sup>1/</sup>	9.8	9.2	14.7	12.2
	<u>-74.0</u>	<u>-101.4</u>	<u>-147.3</u>	<u>-169.3</u>
Services, net				
Net earnings of Basotho abroad <sup>2/</sup>	<u>38.6</u>	<u>63.6</u>	<u>86.4</u>	<u>100.5</u>
Travel	37.3	63.1	85.6	98.6
Government services	4.9	5.3	6.8	9.1
Other services	-3.2	-4.4	-5.4	-6.5
	<u>-0.4</u>	<u>-0.4</u>	<u>-0.6</u>	<u>-0.7</u>
Balance on goods and services	<u>-25.6</u>	<u>-28.6</u>	<u>-46.2</u>	<u>-56.6</u>
Unrequited transfers, net				
Government	<u>19.7</u>	<u>18.6</u>	<u>22.8</u>	<u>39.6</u>
Private	14.6	14.2	16.3	31.4
	5.1	4.4	6.5	8.2
Current account balance	<u>-5.9</u>	<u>-10.0</u>	<u>-23.4</u>	<u>-17.0</u>
Capital account				
Direct investment	<u>11.9</u>	<u>7.8</u>	<u>15.5</u>	<u>12.2</u>
Government long-term capital	5.0	12.0	20.0	9.0
Government short-term capital <sup>3/</sup>	1.4	3.2	2.9	4.2
Deposit money banks' capital	1.7	-3.0	-11.9	-8.4
Net errors and omissions <sup>4/</sup>	0.7	-8.7	-3.1	-9.6
	3.1	4.3	7.6	17.0
Overall balance	<u>6.0</u>	<u>-2.2</u>	<u>-7.9</u>	<u>-4.8</u>
Movements of reserves and related items <sup>5/</sup>	-6.0	2.2	7.9	4.8

Sources: Data provided by the Lesotho authorities; and IMF estimates.

<sup>1/</sup> Recorded import data adjusted for duties and taxes and coverage.

<sup>2/</sup> For details, see Appendix Table XIII.

<sup>3/</sup> Includes a matching entry reflecting a reclassification adjustment of imports for the duty-content.

<sup>4/</sup> Includes all unrecorded private nonmonetary capital flows and changes in rand in circulation.

<sup>5/</sup> Comprises changes in Government's net position at banks in Lesotho and changes in Government's net balances abroad.

Table 5 Lesotho: Summary of Government Operations, 1973/74-1978/79

(In millions of rand)

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	1973/74 Actual	1974/75	1975/76 Estimated	1976/77 Actual	1977/78 Revised Budget estimates	1978/79 Budget estimates
Total revenue	21.4	29.4	29.3	30.1	53.7	77.4
of which: Customs	(14.6)	(17.3)	(15.5)	(16.5)	(32.8)	(56.1)
Current expenditure	15.9	18.6	26.2	32.3	45.1	52.7
Current surplus or deficit (-)	5.5	10.8	3.1	-2.2	8.6	24.7
Net lending	--	--	-0.3	-0.1	-0.1	--
Grants	3.3	3.1	3.2	0.6	12.5	31.5
Capital expenditure	4.9	6.6	12.1	15.0	25.7	66.4
Overall surplus or deficit (-)	3.9	7.3	-6.1	-16.7	-4.7	-10.2
Financing						
External (net)	0.5	1.4	3.8	2.6	4.7	14.1
IDA	(0.1)	(1.1)	(1.5)	(1.8)	(3.5)	(6.3)
UNDP	(0.1)	(0.4)	(0.4)	--	--	--
Arab League	--	--	(1.7)	(1.0)	--	--
Others	(0.3)	--	(0.5)	--	(1.3)	(8.3)
Amortization	--	(-0.1)	(-0.3)	(-0.2)	(-0.1)	(-0.5)
Domestic (net)	0.2	0.3	--	5.5	1.8	1.4
Commercial banks	--	(0.4)	--	(5.7)	(3.0)	(1.7)
Others	(0.2)	(0.2)	--	--	(0.9)	(1.2)
Amortization	--	(-0.3)	--	(-0.2)	(-2.1)	(-1.5)
Change in government balances (Increase -)	-4.6	-9.0	2.3	8.6	-1.8	-5.3
Errors and omissions (including items to be budgeted)	--	--	--	--	1.3	--
Change in Treasury balances (Increase -)	-4.6	-9.0	2.3	8.6	-0.5	-5.3

Source: Data provided by the Lesotho authorities.

Table 6 Lesotho: Area Planted, Production, Yield, and Value of Principal Crops, 1972/73-1976/77

	1972/73	1973/74	1974/75	1975/76	1976/77	1972/73- 1976/77 Average
<u>Area planted ('000 hectares)</u>						
Maize	120.0	129.7	107.8	115.5	92.6	113.1
Sorghum	70.0	83.3	54.8	55.4	46.8	62.1
Wheat	95.0	76.0	55.1	59.7	43.9	65.9
Beans	15.0	19.7	28.1	35.1	17.2	23.0
Peas	12.0	10.2	10.0	13.1	9.7	11.0
Total	312.0	318.9	255.8	278.8	210.2	275.1
<u>Production ('000 metric tons)</u>						
Maize	64.0	122.5	70.3	49.1	125.9	86.4
Sorghum	59.0	84.0	37.4	24.5	62.3	53.4
Wheat	57.0	57.1	45.3	44.6	53.1	51.4
Beans	3.4	7.5	13.4	8.7	14.7	9.5
Peas	3.8	7.2	5.8	5.8	7.0	5.9
<u>Average yield (kilogram per hectare)</u>						
Maize	533.0	944.0	652.0	577.0	1,577.0	854.6
Sorghum	843.0	1,008.0	682.0	591.0	1,466.0	918.0
Wheat	600.0	745.0	822.0	740.0	1,247.0	830.8
Beans	227.0	381.0	477.0	292.0	1,379.0	551.2
Peas	317.0	706.0	580.0	548.0	844.0	599.0
<u>Gross value of production (mils. of rand)</u>						
Maize	2.8	5.9	3.5	2.7	8.1	4.6
Sorghum	2.5	5.6	2.4	1.5	4.5	3.3
Wheat	3.2	3.3	2.7	3.4	5.6	3.6
Beans	0.5	1.7	3.9	3.3	4.3	2.7
Peas	0.4	0.9	1.0	1.1	1.2	0.9

Sources: Kingdom of Lesotho, Annual Statistical Bulletin 1977; and data provided by the Lesotho authorities.

Table 7 Lesotho: Livestock Population, 1973-77

(In thousands)

	1973	1974	1975	1976	1977 <sup>1/</sup>
Cattle	466	512	482	485	468
Sheep	1,557	1,585	1,364	1,128	1,000
Goats	962	885	808	617	...
Horses	114	115	93	104	93
Donkeys	97	102	88	88	88
Mules	3	2	18	18	18
Pigs	76	77	95	63	95
Chickens	579	874	686	752	...

Sources: Lesotho, Quarterly Statistical Bulletin, August 1976; Annual Statistical Bulletin, 1977; and data provided by the Lesotho authorities.

<sup>1/</sup> Preliminary.

Table 5. Lesotho: Volume and Value of Exports of Livestock and Related Products, 1973-77

	1973	1974	1975	1976	1977
	('000)				
Cattle	12.9	9.2	3.5	1.3	1.2
Sheep and goats	31.2	19.1	7.0	2.3	0.5
	('000 metric tons)				
Wool	4.8	4.0	2.6	1.7	2.8
Mohair	0.6	0.7	0.6	0.3	0.4
	(Value - million rand)				
Cattle	1.56	1.25	0.30	0.19	0.20
Sheep and goats	0.41	0.26	0.05	0.04	...
Wool	3.19	3.45	1.51	1.79	2.22 <sup>1/</sup>
Mohair	1.69	1.59	2.24	1.99	1.38 <sup>1/</sup>
Other	0.04	0.03	0.02	0.08	...
Total	<u>6.89</u>	<u>6.58</u>	<u>4.12</u>	<u>4.01</u>	...

Sources: Lesotho, Donor Conference Papers, September 1977; Annual Statistical Bulletin 1977; and data provided by the Lesotho authorities.

TABLE 8  
BUSINESS AND WAGE EMPLOYMENT IN LESOTHO - 1976

<u>Sector</u>	<u>No. of Firms</u>	<u>No. of Employees</u>	<u>Average Employees</u>	Small Firms (employing 20 persons or less)		
				<u>No. of Firms</u>	<u>Average Employees</u>	<u>Average Wage (Rands/Month)</u>
Manufacturing	42	2,496	59	11	11	159
Construction	18	1,703	97	5	11	62
Wholesale/Retail	201	4,196	21	159	8	59
Hotels/Restaurants	18	1,441	80	8	12	122
Transport	10	988	99	5	9	139
Financial/Business	26	482	19	20	7	183
Community and Personal Service	22	496	23	19	9	135
Non-Profit	43	955	22	31	9	50
TOTAL	380	12,757	34	258	8	105

Source: Employment Survey, June 1975 - March 1976, Bureau of Statistics.

Table 9  
National Income Distribution

<u>Population Group</u>	<u>% Total Income</u>	<u>% Total Income excl. Expatriates</u>
Lowest 20%	15	15
21% - 40%	15	16
41% - 60%	18	19
61% - 80%	19	20
81% - 100%	33	30
Lowest 5%	3	4
Highest 5%	16	11
Urban Income Distribution		
Lowest 5%	1	
Highest 5%	26	

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Source: 1970 Agricultural Census and 1972/73 Urban Household Budget, as reported in Second Five-Year Development Plan

TABLE 10: STRUCTURE OF EMPLOYMENT, 1977 <sup>1/</sup>

Modern Sector	<u>32,100</u>
Mining	550
Manufacturing	2,500
Construction	3,500
Government	11,000
Tourism	550
Other Services	14,000
Informal Sector and Handicrafts	<u>23,000</u>
Subsistence Agriculture	<u>342,900</u>
TOTAL Domestic Labor Force	398,000
Migration	165,000
TOTAL LABOR FORCE	563,000

<sup>1/</sup> Based on manpower data in National Development Plan:  
1975-80.

Source: World Bank estimates, 1978.

Table 11 Lesotho: Employment Status of Economically Active Population, 1976

	Numbers						Percentage distribution by Industry		
	Active population				In South Africa		Total active pop.	Domestic	In South Africa
	Total	Self-employed	Employed for wages	Unpaid family worker	Male	Female			
Agriculture, hunting, and forestry	94,624	18,465	4,195	71,964	419	133	23.1	33.5	0.4
Mining and quarrying	129,338	220	128,842	276	101,893	1,407	31.5	9.3	79.7
Manufacturing	10,960	4,066	6,582	312	2,751	588	2.7	2.7	2.6
Electricity, gas, and water	866	45	810	11	251	2	0.2	0.2	0.2
Construction	12,502	2,221	10,010	271	3,419	60	3.0	3.2	2.7
Wholesale and retail <sup>1/</sup>	8,498	2,502	5,809	187	547	498	2.1	2.7	0.8
Transport and communication	4,529	217	4,272	40	1,617	17	1.1	1.0	1.3
Finance, insurance, and real estate	262	7	251	4	57	2	0.1	0.1	--
Community and social services	78,448	3,124	44,036	31,288	2,954	7,382	19.1	24.2	8.0
Other	70,390	1,274	9,630	59,486	3,853	1,732	17.1	23.2	4.3
<b>Total</b>	<b>610,417</b>	<b>32,141</b>	<b>214,437</b>	<b>163,839</b>	<b>117,761</b>	<b>11,821</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: Data provided by the Lesotho authorities (based on the population census conducted in April 1976).

1/ Includes restaurants and hotels.

2/ Activities not adequately defined.

TABLE 12

GOVERNMENT OF LESOTHO

EXPENDITURE BY SECTOR (IN MILLION RAND)

I. RECURRENT EXPENDITURE

1974/75 Actual	1975/76 Revised Estimate	1976/77 Revised Estimate	1977/78 Revised Estimate	1978/79 Estimate
18.12	28.70	33.69	46.13	55.27

Percentage Growth over Previous Year

13.3	58.4	17.4	36.9	19.8
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Selected Ministries: 1978/79 Estimates

Agriculture ...	5.47	9.9%
Health ...	3.45	6.2%
Education	11.38	20.6%
Rural Development	0.77	1.4%
Transport & Comm.	1.58	2.9%
Police/Mobile Units	6.41	11.6%
Other ...	26.21	47.4%
<b>TOTAL ...</b>	<b>55.27</b>	<b>100.0%</b>

II. CAPITAL EXPENDITURE

	<u>1974/75</u> (percent)	<u>1977/78</u> (percent)	<u>1978/79</u> (projected) (percent)
Education ...	23.9	4.5	5.1
Administration ...	16.9	11.9	4.2
Transport/Comm: ...	9.5	27.8	28.0
Agriculture/RD ...	8.7	29.6	34.9
Health ...	6.9	2.1	1.0
Other ...	16.9	23.4	26.2
<b>TOTAL ...</b>	<b>100.0</b>	<b>100.0</b>	

(R23,520,000) (R37,103,670) (R66,443,367)

Percentage Growth Per Annum                      10.1%                      79.0%

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Source: Revenue and Expenditure of the Kingdom of Lesotho, 1978/79.

## COMPARISON OF PLANNED AND ACTUAL GOVERNMENT DEVELOPMENT BY SECTOR

## FIRST PLAN PERIOD

(In Thousands of Rand)

	<u>Planned Expenditure</u>	<u>%</u>	<u>Actual Expenditure</u>	<u>%</u>	<u>Planned Expenditure 1974/75 Prices</u>	<u>Actual Expenditure 1974/75 Prices</u>
Agriculture and Rural Development	6,540	23	9,111	31	9,880	10,890
Industry, Commerce and Tourism	1,713	6	4,009	14	2,600	5,257
Natural Resources	542	2	821	3	820	1,039
Economic Infrastructure	8,215	28	5,047	17	12,400	6,305
Education	4,314	15	3,779	13	6,500	4,699
Other Social Infrastructure	4,266	15	3,908	13	6,450	4,890
Government Services	3,212	11	2,548	9	4,350	3,145
TOTAL	<u>28,802</u>	<u>100</u>	<u>29,223</u>	<u>100</u>	<u>43,500</u>	<u>36,225</u>

Table 14. Lesotho: Planned Investment Under the Revised Second Plan, 1975/76-1979/80

(In millions of rand)

	1975/76	1976/77	1977/78	1978/79	1979/80	Total	% Total
Agriculture and rural development	9.2	11.6	22.8	26.1	27.0	96.7	23.7
Industry, commerce, and tourism	5.8	5.2	10.4	10.8	9.9	42.1	10.3
Water and mineral resources	14.1	21.1	6.0	2.8	1.3	45.3	11.1
Economic infrastructure	3.8	4.9	18.4	28.3	28.3	83.7	20.6
Education and training	3.5	7.1	9.9	11.7	10.8	43.0	10.6
Social infrastructure	6.4	8.1	15.4	21.0	23.7	74.6	18.3
Government service	2.7	3.9	2.9	6.1	6.2	21.8	5.4
Total	45.5	61.9	85.8	106.8	107.2	407.2	100.0
of which: Government capital expenditure	(16.4)	(23.1)	(60.2)	(80.2)	(80.6)	(260.5)	

Source: Data provided by the Lesotho authorities.

TABLE 15  
 FOREIGN ASSISTANCE TO LESOTHO<sup>1/</sup>  
 (In million U.S. \$)

	1976 (actual)	1977 (actual)	1978 (projected)	1979 (projected)	Major Sectors of Assistance
<u>Bilateral</u>	<u>32.7</u>	<u>32.0</u>	<u>26.3</u>	<u>43.3</u>	
United Kingdom	21.6	10.1	8.0	8.0	Agr., Training, Transport, T.A.
United States	6.2	7.7	31.5	10.0	Transport, Agr., Health, Training
Canada	1.2	3.3	4.0	4.5	Industry, Transport, Agr., Water
Germany	1.9	1.9	2.3	2.5	Transport, Agr., Soc. Infra.
Sweden		2.5	2.0	2.0	Industry, N/A
Denmark		1.0	1.8	1.2	N/A
Other	1.8	5.5	2.4	2.3	N/A
<u>Multilateral</u>	<u>11.2</u>	<u>16.5</u>	<u>21.4</u>	<u>25.3</u>	
IBRD/IDA	5.5	2.3	6.0	3.5	Agr., Industry, Education
UNDP	1.7	9.6	9.5	9.4	All sectors
ADB	2.5	1.2	2.0	3.2	N/A
EDF	1.5	1.2	2.5	7.5	N/A
OPEC		1.8	1.4	1.7	N/A
Other					
Total	43.9	48.56	75.0	56.9	

<sup>1/</sup> Based on data from UNDP, Development Assistance, Lesotho 1977, and updated as up-to-date information was available.