

UNCLASSIFIED

Country Development Strategy Statement

FY 1986 Update



Lesotho

February 1984

Agency for International Development
Washington, D.C. 20523

BEST AVAILABLE

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PART I: ANALYSIS

(A) Development Setting/Economic Update

Despite an unusually high rate of growth in the 1970's the structure of the economy has not changed fundamentally. The country's productive base has not broadened or deepened and opportunities to increase the domestic resource base remain limited. The vast majority of the people remain dependent on workers' remittances and subsistence agriculture. Growth in the agriculture sector remains sluggish despite government efforts to reorient its programs away from large scale intensive production efforts. These efforts have not met expectations and have represented a financial and trained manpower drain from programs which are more cost effective and less financially demanding in terms of recurrent costs.

The immediate problem facing Lesotho is to restore the public sector's financial health. Measures introduced to curtail expenditures and increase revenues, described in the FY1985 CDSS, have yielded positive results but the public finance situation remains precarious. Effective expenditure control will require further improvements in the nation's accounting system, the halting of short term borrowing at prohibitive rates, continued control and curtailment of projects or elements of projects which impose high recurrent cost demands and/or do not produce benefits commensurate with cost

and restriction of growth in the public sector wage bill. The latter will be advanced by: continuing the freeze on employment, tightly controlling wage increases, and by increasing the efficiency of public sector institutions through reduction of non-essential positions, clarification of institutional responsibilities and functions and through reclassifying jobs and regrading positions to better reflect responsibilities and duties performed. These actions will take time to accomplish, however.

As anticipated by the FY1985 CDSS, economic performance in 1982/83 was poor although measures to curtail the growth of the budget deficit produced some success and the introduction of the sales tax in December 1982 produced increased revenues. The sales tax, which yielded M2.7 million in the last quarter of 1982/83 is expected to yield M12-15 million in 1983/84, thereby becoming a major domestic revenue source.

In 1983, negotiations for a revision to the revenue sharing formula of the Customs Union Agreement with South Africa were initiated. Sought was an overall increase in the revenues due Lesotho of roughly M33.0 Million per annum. Given Lesotho's financial difficulties, the negotiations of such a revised customs sharing formula was of considerable importance. An agreement was not concluded, however, and customs revenues in both GOL FY1982/83 and 1983/84 remained, according to Ministry of Finance sources, at approximately M109.0 million per annum. In 1984/85 revenues from the Customs Union will increase to an estimated M143.0 million; this does not, however, reflect any change in the agreement but is rather a customary adjustment which occurs

every third year when actual customs transactions are tabulated. Proceeds in subsequent years are expected to remain at the 1982/83 level unless negotiations for a revision to the formula are successful.

The 1982/83 revenue picture was also brightened by substantially increased miner remittances--reflecting prior year miner wage increases and politically related border crossing difficulties which led miners to make increased use of the formal remittance system.

While positive, this trend of increased miner remittances will likely be shortlived. No further major miner wage adjustments are expected and overall mine employment, as anticipated in the FY1985 CDSS, declined slightly in 1982/83. This is reportedly due to mine automation, RSA policies which give employment preference to citizens of South Africa and its "homelands", and the use of long-term employment contracts which stabilize skills and employment in the mine workforce.

In 1982/83, recurrent revenues amounted to M134.5 million - a substantial increase over the 1981/82 figure of M111.1 million. Expenditures, however, also grew reflecting increased security spending and the time required for expenditure controls to become effective. Recurrent expenditures in 1982/83 totalled M152.5 million. Capital expenditures amounted to M54.5 million, yielding an overall deficit of M72.5 million.

In 1983/84, the World Bank projects a deficit of M129.4 million -- an indication the financial crisis is far from over. Revenues, reflecting increased tax generations, are expected to total M166.4 million, expenditures

are estimated at M158.6 million and capital expenditures are projected at M137.2 million. It is unlikely that the Government will be able to carry out all of its capital program which stands at one and one-half times 1982/83 performance. With continued enforcement of financial discipline, the final outturn in 1983/84 may, however, be better than anticipated.

In November, 1983, the IMF was invited to Lesotho. Their report, which we understand includes conditions under which IMF assistance could be provided, is currently under review by the Government.

(B) Identification of the Poor and Their Current Status (Update)

While general conditions of the poor have not changed substantially from those described in the FY1985 CDSS, all of southern Africa, Lesotho included, has suffered in the last year from a severe drought. As a result, the situation of the poorest, particularly those without access to mine incomes, has deteriorated substantially. Nutrition and associated health problems are on the increase. In the third quarter of 1983, nutrition and nutritionally-related diseases increased 11% nationwide according to Ministry of Health Statistics. In particularly hard hit districts, such as Mphahle's Hoek and Qacha's Nek, protein-calorie malnutrition and related illnesses reportedly increased by 55%.

(C) GOL Objectives

1. National Goals: There are no changes from the goals and aims identified in the Third Five Year Plan (1980-85) and summarized in the FY1985 CDSS.

2. Progress and Commitment: Events of the past year, particularly the drought and the financial crisis, have strained the GOL's ability to maintain its developmental impetus. Positive steps, however, are being taken to spur recovery.

In all Ministries, projects, which previously were approved with little attention to financial and implementation issues, are now being carefully reviewed for recurrent cost implications, overall feasibility, human resource requirements and priority in terms of national need and objectives.

Significant shifts are also being made in policy. For example, there has been a shift away from the GOL's policy of placing highest priority on achievement of food self-sufficiency in grains. This policy disregarded certain basic laws of comparative advantage and underestimated the economic potential of crops such as beans, peas and certain fruits and vegetables which could be produced competitively by Basotho farmers for domestic and export markets. This policy shift, which also responds to donor concerns, recognizes that: (a) Lesotho has difficulty competing with RSA farmers who have strong agricultural institutional and marketing support systems and enjoy economies of size and scale which make the unit cost of grain production comparatively low; and (b) cereal grain production does not offer the same opportunities for employment and income growth as higher value, more labor intensive crops. While high value cash cropping and livestock production will be emphasized, grains will continue to be grown where soils and rainfall are sufficient to guarantee at least a minimum level of yield.

There is also a growing GOL awareness and desire to increase the role of the private sector. USAID supported studies which have identified opportunities for agro-industrial development related to horticulture production have found a receptive audience. The GOL is also attempting to build local private capabilities to undertake well drilling and road construction and maintenance. The importance of such capabilities cannot be overstressed since opportunities for significant private sector growth and participation exist generally and in connection with projects such as the Highland Water Scheme, a billion dollar hydroelectric project, which will provide water and power to Lesotho and parts of the RSA.

In Education, the GOL in June, 1983, formally accepted the recommendations set forth in the 1982 Education Sector Survey thereby making universal primary education a national priority. Ancillary goals include improving primary curriculum, teacher training and school management practices, and increasing the availability of effective instructional materials and appropriate school facilities, in rural as well as urban areas. In particular, the curriculum at all levels will include practical skills related to income-generation, agriculture, conservation of natural resources, home management and good health and sanitation practices.

The Mission strategy and our planned concentration in agriculture and education, as outlined in the FY1985 CDSS, is consistent with these changes in GOL strategy and policy and supportive of GOL objectives in these sectors.

(D) Constraints: The constraints identified in the FY1985 CDSS remain valid. While political unease and a low level of violence continues in Lesotho, the development program and the foreign community have not been affected. Relations between Lesotho and the Republic of South Africa (RSA) remain strained although some easing occurred in the aftermath of the December, 1982 raid with the departure of certain key members of the African National Congress (ANC) from Lesotho. The recent recognition of the Peoples Republic of China (PRC), the USSR, North Korea and other Communist countries and the opening of PRC, Russian and North Korean legations in Lesotho have introduced an added element of friction in relations between Pretoria and Maseru. China and North Korea have established small assistance programs in Lesotho.

PART II: STRATEGY

A. Summary of Mission Goals

The Mission strategy and goals, as presented in the FY 1985 CDSS, remain essentially unchanged. These goals are:

Primary Goal - To increase rural income and employment.

Sub-Goals:

- 1. To increase small farmer agricultural production and income through assistance to and strengthening of GOL policy and planning capability; institutional strengthening of the MOA, particularly in areas of research and the retraining of existing extension service workers; and direct production assistance to small farmers.

- 2. To strengthen education policies, institutional framework, and programs required to promote rural-based income and employment, focusing on those aspects of the education and training system that are most relevant;
- 3. To utilize and integrate more effectively food assistance resources to increase the efficiency and development impact of the existing food assistance program;
- 4. To support self-help efforts that increase the employment and employability of the lowest income group;
- 5. To alleviate hunger and malnutrition; and,
- 6. To stimulate and encourage the development of private enterprise.

B. Sector Strategies

Sector strategies also remain unchanged from those outlined in the FY1985 CDSS. In agriculture, the focus of the Mission strategy will center on increasing production of those crops where Lesotho enjoys some comparative advantage. As noted, this will not generally be cereal grains which South Africa, due to mechanization, technology and high level technological skills and management, can produce at lower cost. Rather, the emphasis will be on high value crops which offer some advantage to Lesotho and which have a market, whether internally, in neighboring countries, or overseas.

In accordance with the Mission strategy, institutional strengthening efforts targetted to agriculture research, planning and policy formulation and extension will continue and new initiatives started in extension worker

training and agriculture production. In all areas, increased but not exclusive attention will be directed to high value crops such as fruits, vegetables, seed beans, livestock, etc. Cereal grain related research, extension and policy development will be continued as cereal production remains an important and appropriate crop for certain selected areas of Lesotho and may be important for rotational, intercropping and double cropping applications.

The Mission strategy in education for the period 1984-88 remains directed, as outlined in the CDSS, to three basic areas: (1) a strengthened policy and institutional framework to support individual development and employment; (2) enhancement of the capacity and output in the basic education system; and (3) a strengthening of the education system's ability to educate and train persons in subjects that will provide the skills needed to improve rural income and employment.

In November 1983 the Mission submitted the Basic and Non-Formal Education Systems (BNFES) Project Paper to AID/W for ECPR review. It was reviewed in early December 1983, and is currently before the Administrator for approval. In April 1984, the USAID will finalize the Project Paper for the Lesotho Agriculture Production and Institutional Support (LAPIS) Project for submittal to AID/W for ECPR review. The BNFES and LAPIS Projects consolidate and build upon predecessor projects and AID investments and support high priority goals and policies of the GOL in both sectors.

With the approval and implementation of these two multi-component projects, the transition, outlined in the FY1985 CDSS, to a concentration in two sectors will be complete. While no additional bilateral projects are planned in other sectors during the period FY1984-88, the Mission will employ regional and central resources where appropriate to protect past investments and achieve overall foreign assistance objectives. Projects, such as the Lesotho Cooperative Credit Union League, the Combatting Childhood Communicable Disease and Energy Initiatives for Africa are all examples where central resources are being sought to strengthen past investments and further critical Mission objectives. Opportunities in population and private enterprise development are being closely monitored and will be exploited using such resources if possibilities for constructive and advantageous participation are identified.

In February 1984, the Mission, with the assistance of a regional (REDSO) population specialist and regional sociologist, undertook a preliminary review of population activities in Lesotho in response to a recommendation made during the review of the FY1985 CDSS. While the review remains to be completed, one recommendation has already resulted which has found common acceptance. This concerns the need for a broad scale evaluation of all population activities in Lesotho to determine the nature and coverage of existing programs and to identify areas for improving provision of existing services under these programs. It is anticipated the review and evaluation will assist in identifying opportunities for AID involvement and signify our willingness to support initiatives in this critical area. In the past year,

the USAID supported a workshop on natural family planning and plans are now under development for USAID support of a series of breastfeeding seminar/workshops to be held in all ten (10) districts of Lesotho in August 1984.

PART III: PROGRESS IN IMPLEMENTING MISSION STRATEGY

As requested in Ref B, the following developments have occurred in furtherance of the Mission Strategy as presented in the FY1985 CDSS:

A. Policy Framework: In agriculture, in addition to the GOL's newly articulated policy which stresses high value cash cropping and livestock production, a number of other positive policy papers, developed with USAID assistance, on agriculture credit, conservation, research and extension, have either been issued or are under consideration and review by the Ministry of Agriculture. Also, drafted with USAID Range Management and Planning Project Assistance and now under consideration by the GOL are (1) procedures which will permit the designation of certain areas for specific development purposes, (2) grazing control regulations which provide guidance and authority to the Tribal Chiefs to regulate grazing land use within specified land carrying capacities, (3) land leasing regulations, (4) legislative changes pertaining to grazing permits, fee collection and allocations and (5) new policies governing the role of Land Committees.

In education, policies have been adopted that provide the framework for reform of the management of the education system, such as those relating to personnel management, salary scales, and the like. Others link education to development, encouraging non-traditional methods of providing universal basic education, which is seen as a human right as well as a development necessity. Specific steps are also being taken for more directly involving the educational process in economic development.

(B) Private Sector: In addition to the developments identified in the Policy Framework and GOL Progress and Commitment sections, loan policies and marketing program guidelines have been developed to encourage the development of private sector capabilities related to USAID supported grazing association livestock production.

In the development of the new agricultural project, LAPIS support to ancillary private marketing, transport, storage and other production support systems is being designed into the project.

In 1984, using Energy Initiatives in Africa (EIA) regional funding, the spin off of technologies developed under the Renewable Energy Technology pilot project will be initiated. This includes the creation or strengthening of private enterprise capabilities to manufacture and disseminate RET developed technologies such as metal stoves, growholes, and stone paolas (stone stoves) which have found consumer acceptance in the rural areas of Lesotho.

(C) Technology Transfer and Research: Since the submittal of the FY1985 CDSS, the Mission has continued support to the Farming Systems Research (FSR) and Renewable Energy Technology (RET) Projects which are principally directed to technology research and development.

Under the Farming Systems Research Project, seven production technology packages designed to increase crop production have been developed and disseminated to Basotho farmers: a total of twenty-five such packages are scheduled for development and dissemination by the end of the project.

In range management, employing lessons learned under the Sehlabathebe Range Management Association, replication of the grazing association concept is occurring. Training concepts developed at the Sehlabathebe Range Management Training Center, as well, are being refined and form the basis for replication in the development of future range management centers.

The Mission continues to closely track current and future plans for the establishment of regional research efforts and possibilities with them for interaction and cooperation. Of most importance, potentially, to our program is the planned regional research program for sorghum grains to be located, according to present plan, in Botswana. Other activities which have the potential to assist in attainment of GOL goals in the agriculture sector include the SADOE program for soil and water conservation and management, which is Lesotho's particular responsibility.

In health, with USAID support, information systems in the Ministry of Health (MOH) have been substantially improved and data is now being tabulated by disease, health center, health service area, etc. This permits the more

efficient allocation and utilization of limited human and other resources. Efforts are now centered on the decentralizing of the collection of health data and the decentralization of MOH administrative and financial systems. In GOL FY1984/85 (begins April 1, 1984), for the first time, budget preparation began at the clinic and district level. Initial returns have been quite positive with the budgets reflecting much more adequately district needs and realities. Cost savings from this bottom-up budgetary process should be substantial.

Also, under the USAID Rural Health Development Project reference material has been incorporated in medical manuals which are now being distributed to all clinics and health centers throughout Lesotho. Accompanying manuals on continuing education and supervision were also completed in 1983 and distribution is underway.

To increase educational efficiency and increase access, the Lesotho Distance Teaching Center continues to develop and expand use of radio and print correspondence courses for out-of-school basic skills training (literacy, numeracy) as well as to prepare individuals for formal examinations (Junior and Senior Secondary certificate exams). The Instructional Materials Resource Center (IMRC) Project is assisting the National Teachers Training College (NTTC) to develop and print self-instructional modules to support teacher training efforts. The IMRC has provided the Ministry of Education with an expanded capability for developing radio, cassettes, slides and video instruction components, to serve both formal and non-formal education needs.

(D) Institutional Development: As noted in the FY1985 CDSS, institutional strengthening remains central to the Mission's development strategy. Efforts continue to strengthen key development Ministries; efforts which will be supported as well under the Basic and Non-Formal Education (BNFES) and Lesotho Agriculture and Institutional Support (LAPIS) projects scheduled for implementation in FYs 1984 and 1985, respectively.

Participant training is viewed as a key ingredient in this strengthening effort. In FY1983 a total of ninety-one USAID supported participants were engaged in long-term academic programs; in FY1984, over seventy participants will be supported. The benefits of this concentrated training effort are becoming visible. In policy and planning the output of the Ministry of Agriculture has substantially increased reflecting the fact that nine participants out of a total of fifteen have now completed long-term training. By the end of the Planning Project, all personnel at the division and section head level in the Planning Division of the MOA will have been trained to the BS or MS level.

In health, while the USAID has concentrated on the in-country training of nurse clinicians to handle increased responsibilities in the physician-poor country, selected long and short-term external training has been supported in specific areas and disciplines. The effect of this training is seen in an improved planning unit, the establishment of improved and expanded information systems and in the introduction of improvements in the areas of management and financial administration and control.

Pivotal education institutions have been strengthened, and in some instances established, through AID assistance, primarily by providing long-term training to individuals for key positions. Over seventy-two positions are now being held by Basotho trained by AID, in the Ministry of Education, the Extra-Mural Studies Unit, the National University of Lesotho, the Teacher Training College, and the College of Agriculture. In addition to those directly involved in educational activities, policy makers and administrators in the Ministries of Central Planning, Manpower Office, and Finance have been trained. Other institutions strengthened through training of key personnel are the Ministries of Water, Energy and Mining, Cooperatives and Rural Development, Works, Agriculture and Health. An overall positive impact is now being felt as these decision-makers press for reform and increased efficiency, outreach and impact.

A second key institutional strengthening ingredient is the Manpower Development and Training Project. Under this activity in FY1983, the USAID provided over 19 specialists who were assigned to specific and important line positions in key Ministries. These Ministries have been strengthened by these specialists who discharge essential development responsibilities while counterpart personnel undergo long-term, short-term and on-the-job training. The Manpower Development and Training Project has also enabled the Mission to train personnel essential to the successful launching of the new BNFES and LAPIS Projects in the critical areas of education and agriculture. With competent Basotho now in decision-making, implementation and management roles, real progress should be possible in these key sectors. The USAID plans to seek additional funds in FY1984 to continue this critically important project.

(E) PL480 As A Development Resource: Despite the severe drought which mandated that significant amounts of PVO time had to be allocated to drought relief efforts, the reorientation of the Mission's food assistance program to better serve infrastructure and production needs continues.

In FY1983 the implementation of the CRS Outreach grant commenced. Under this program additional storage is being built in remote areas which are susceptible to food shortages and drought. Under the Food for Work (FFW) program, approximately fifty percent of all FFW projects in the last twelve months have been inventoried and had work norms assigned. While further refinement of the work norms will be required, improvements in the quality of work being performed using FFW resources are being noted.

PART IV: RESOURCES REQUIRED

A. Staffing

In FY1984, USAID staffing will increase to 11 direct hire American employees, one PASA American employee from the Centers for Disease Control (CDC) and 10 foreign nationals. The CDC/PASA employee will be the technical officer in charge of implementing Combatting Childhood Communicable Disease Project country activities in Lesotho and Swaziland. Expenses of this officer are covered by CDC under a regionally funded project with AID.

The implementation in FY1984 and 1985 of two major projects in agriculture and education will place a severe burden on USAID resources and staff. To insure the orderly start up and implementation of these two important projects, the USAID intends to retain the agriculture position

which, per the FY1985 CDSS, was to be eliminated in favor of a Project Development Officer. Both positions, the second agriculture and project development officer, will be required to handle the significant workloads that will accompany the implementation of the multicomponent agriculture and education projects. The retention of the agriculture position and the addition of the project development officer to USAID staff was recommended in the FY1985 ABS review.

Lastly, the overall increase in USAID staff coupled with the start up and implementation of two major projects will increase overall management responsibilities. Accordingly, the Mission will retain the position of Deputy Director which the FY1985 CDSS identified for possible elimination in FY1985

The request for an increase in ceiling (staff) for the PASA employee has been approved by the Charge and has been forwarded to Washington for review and approval. A recent reporting cable from AID/W advises that the position of Project Development Officer has been established and recruitment is underway. A replacement for the agriculture officer has been identified and AID assignment actions are in process. Other staffing requirements remain as described in the FY1985 CDSS.

B. Background and Documents/Materials

Principal background documents/materials include:

- (1) Lesotho FY1985 Annual Budget Submission dated June 1983;

(2) Economic Memorandum on Lesotho: World Bank Document, October 25, 1983;

(3) Lesotho - Recent Economic Developments: International Monetary Fund (IMF) Document, August 10, 1983.

Copies of these documents should be available from the Lesotho Desk.